



Revised draft of Cabinet paper - Proposed Consultation on Industrial Allocation Policy

Date Submitted:	3 June 2021	Tracking #:	BRF-152
Security Level	In-Confidence	MfE Priority:	Non-Urgent

	Action sought:	Response by:
To Hon James Shaw, Minister of Climate Change	Provide feedback on revised Cabinet paper and discussion document	8 June 2021

Actions for Minister's Office Staff	Return the signed report to MfE.
Number of appendices and attachments #2	<ol style="list-style-type: none"> Revised Cabinet paper: Approval to consult on proposals from the review of industrial allocation policy Revised discussion document: Reforming Industrial Allocation Policy for a Low Emissions New Zealand

Ministry for the Environment contacts

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Revised draft of Cabinet paper - Proposed Consultation on Industrial Allocation Policy

1. This briefing provides you with a revised industrial allocation Cabinet paper and discussion document for you feedback by 8 June 2021. We will provide you with an updated version reflecting your feedback the same day to begin Ministerial consultation.
2. We have made updates to the Cabinet paper and discussion document to reflect your feedback. We have also made some additions to the discussion document that are described below. Track changes versions have been provided to show where substantive changes have been made.
3. Agency consultation has been completed and feedback has been incorporated. No major concerns were raised.
4. This briefing also seeks your agreement for us to continue to make editorial changes to the documents until we provide you with final drafts on 23 June 2021.
5. As previously communicated, assessment of the discussion document by the Ministry's Regulatory Impact Assessment Panel (RIAP) will occur during Ministerial consultation. Editing will also occur during this period and final edits and formatting will be completed before consultation begins.

Changes to the draft Cabinet paper

6. Content added to the Cabinet paper:
 - a. paragraph on agency consultation
 - b. sentence on policy intent of industrial allocation (in executive summary)
 - c. sentence on how the Marsden Point Refinery's possible change to an import model will impact allocations.

Additional content still to be added

7. The Regulatory Impact Statement will be added once the RIAP have reviewed the discussion document.
8. A paragraph on alignment with the Climate Change Commission's final report will be added in to the Cabinet paper next week.

Changes to the draft discussion document

9. Based on your feedback at the official's meeting on 31 May we have added an option to update allocative baselines each year to set allocations on actual emissions rather than historical emissions. A worked example of the investment signal problem is provided below.
10. The secondary scope section of the discussion document has been revised to better align the discussion with the terms of reference for the review.
11. Analysis of the Te Tiriti o Waitangi implications and impacts on Māori of the proposals has been added to the impacts section.
12. We have made some technical wording changes to the discussion document for correctness and clarity. These edits do not change the narrative of the document.

Additional content still to be added

13. The Technical Advisory Group (TAG) is still trying to reach consensus on some policy issues. They have indicated to us that they intend to provide commentary and analysis of

the discussion document after you've received this draft. We will ensure that any changes from the TAG are in the final draft that goes for Ministerial consultation.

14. We recommend allowing us to continue to refine the discussion document for brevity, clarity, and technical edits until we provide you with a final draft on 23 June.

Impacts on investments from linking allocations to emissions

15. Consider two firms with emissions cost of \$100 per year, one of which receives 90% allocation. Both firms make the same investment to reduce emissions costs by \$20 per year. For the firm receiving an allocation, the government responds by reducing its allocation by \$18 to maintain the 90% allocation policy. The return on investment is consequently just \$2 for that firm, but \$20 for the other.

Costs per year	Firm A	Firm B
Emissions cost	\$100	\$100
Allocation (90% of emissions costs)		\$90
Reduction in emissions costs from investment	\$20	\$20
Net emissions costs	\$80	\$80
Adjusted allocation (90% of costs)		\$72
Reduction in allocation		\$18
Net investment return	\$20	\$2

16. There are several issues that relate to this scenario: the timing of the allocation adjustment could be periodic instead of annual, however this will impact investment decisions close to the scheduled reassessment. Additionally, we do not have any evidence of the investment support necessity of current over-allocations. Instead, over-allocations have resulted from business-as-usual improvements and structural intra-industry change.
17. The discussion document provides further detail on this important consideration and invites submissions on it.

Next steps

18. The following table sets out the steps needed to progress the Cabinet paper.

Date	Step
Tuesday 8 June	Your feedback to be provided to officials for incorporation into the final draft prior to Ministerial consultation
Tuesday 8 to Tuesday 22 June	Ministerial consultation
Wednesday 23 June	Officials will provide you with a final version of the Cabinet paper
Thursday 24 June	Lodgement
Thursday 1 July	Cabinet Environment, Energy and Climate Change Committee (ENV) consideration
Monday 5 July	Cabinet consideration
Thursday 8 July to Friday 17 September	Proposed publication of discussion document and start of ten-week consultation period (exact date to be confirmed)

Recommendations

19. We recommend that you:

a. **Provide** feedback on the attached revised Cabinet paper and discussion document by Tuesday, 8 June 2021

Yes/No

b. **Allow** officials to make tracked technical and editorial changes to the discussion document until 23 June 2021.

Yes/No

c. **Agree** that this briefing and appendices can be released proactively on the Ministry for the Environment's website once consultation has begun.

Yes/No

Signature

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Hon James Shaw
Minister of Climate Change

Date

Appendix 1: Revised Cabinet paper: Approval to consult on proposals from the review of industrial allocation policy

Proactively released

Appendix 2: Revised discussion document – Reforming Industrial Allocation Policy for a Low Emissions New Zealand

Proactively released