Submission from Climate Justice Taranaki on Reforming industrial allocations in the New Zealand Emissions Trading Scheme, Sept 2021

1. Climate Justice Taranaki Inc. (CJT) is a community group dedicated to environmental sustainability and social justice. This includes issues of inter-generational equity, notably in relation to climate change, which will impact future generations' inalienable rights to safe water, food and shelter, crucial to sustaining livelihoods and quality of life. CJT became an incorporated society in 2015.
2. CJT has submitted on the ETS consultation back in 2016 and on the Climate Change Response (Emissions Trading Reform) Amendment Bill in January 2020[1]. The points we raised previously still hold, some of which are reiterated below in respect of the current consultation on industrial allocations.

Emissions leakage

3. From our background readings, we could not find any definitive cases whereby substantial emissions leakage was demonstrated because of not granting industrial allocations (IA). Moreover, the risks of emissions leakage are expected to decline as more and more countries implement the Paris Agreement and as the pressures from regulators, markets and consumers on producers and investors increase. Emissions leakage should therefore not be a criterion for assessing proposals in relation to IA (Question 1)
4. The government should not use public money to continue subsidising heavily polluting industries with allocations of free carbon credits for fear of potential emissions leakage. Industries that are currently rated as moderately intensive could be supported by other means to practically reduce their emissions. For example, offer assistance financially, technologically and/or in terms of market outreach to horticulture that burns coal to operate glasshouses, so they could switch to other heat processes such as electricity or change over to crops that better suit the local climates. Putting efforts into nurturing domestic markets rather than continue to prop up export-focussed industries would greatly reduce overall emissions as well, given that international transport emissions are often unaccounted for.
5. Another alternative to handing out free IA is putting in place a Carbon Border Adjustment Mechanism such as what's recently been adopted by the EU[2]. It puts a carbon price on imports of targeted products to level the price competitions and to encourage industries outside the EU to also take ambitious climate action. NZ should consider similar mechanisms rather than continuing IA.
6. Highly intensive emitting industries that are unable to reduce their emissions and unwilling to pay the full carbon price need to be phased out. We strongly agree with Motu's analysis that "*The closure of some industrial production in New Zealand and the redeployment of its labour and capital may be a necessary and ultimately beneficial part of the country's low-emission transition*" (Rontard and Leining, Sept 2021)[3]. As an example, Canadian owned Methanex uses Taranaki's natural gas extracted by fracking underneath our productive farmlands, to produce methanol for export. It has been profiting[4] from free IA[5] (1.18M units in 2020 alone)[6] and avoiding tax[7] while greenwashing its operation and product for far too long.

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[1] https://climatejusticetaranaki.files.wordpress.com/2020/01/cjt-submission-on-climate-change-response-ets-reform-17jan20-final.pdf

[2] https://ec.europa.eu/taxation_customs/green-taxation-0/carbon-border-adjustment-mechanism_en

[3] Rontard B. and C. Leining, September 2021. Future Options for Industrial Free Allocation in the NZ ETS. Motu Working Paper 21-13. https://www.motu.org.nz/our-research/environment-and-resources/emission-mitigation/emissions-trading/future-options-industrial-free-allocation-nz-ets/

[4] https://www.methanex.com/news/methanex-second-quarter-2021-results-demonstrate-favourable-methanol-industry-fundamentals-and

[5] https://www.stuff.co.nz/taranaki-daily-news/news/2900627/Methanex-to-escape-ETS-penalties

[6] https://www.epa.govt.nz/industry-areas/emissions-trading-scheme/industrial-allocations/decisions/

[7] https://www.nzherald.co.nz/business/top-multinationals-pay-almost-no-tax-in-new-zealand/MABUXPEGHISZWPEDKC3EWA7M6I/

7. Indeed, just transition to a low and ultimately zero carbon economy is only possible if we respect natural limits and reduce our overall energy consumption and economy, not just by increasing energy efficiencies or swapping fossil fuels with renewables[8].

Cap and phase out IAs

8. No new activities should be considered eligible for IA (Question 18). We should be setting a cap on IAs and phasing it out much more rapidly than the current pace.

Allocation calculations

9. If IA are retained, then the baselines should be updated (Question 2). Technologies have generally been improved and become more energy efficient so IA calculated from out-dated baselines lead to over allocations, further diminishing any incentives to transition out of fossil fuels[9]. We also now know that the NZ Aluminium Smelters plans to close after December 2024 and Refining NZ is on its way to cease refining oil and become a fuel import terminal. The old baselines also pre-dated the emergence of Covid-19.
10. If periodic reassessment is legislated, then it needs to be done annually because of fast changing market and regulatory pressures and technological advancements (Question 4).

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[8] https://climatejusticetaranaki.files.wordpress.com/2021/05/toitu-taranaki-2030-just-transition-community-strategy-apr21-web.pdf

[9] https://www.stuff.co.nz/environment/climate-news/126300406/how-big-polluters-profit-off-the-governments-outdated-maths