SUBMISSION TO THE ENVIRONMENT SELECT COMMITTEE: CLIMATE CHANGE RESPONSE (LATE PAYMENT PENALTIES AND INDUSTRIAL ALLOCATION) AMENDMENT BILL

Submitter Details

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Date	6 April 2023

1 Introduction

1.1 This is a submission to the Environment Select Committee in relation to the *Climate Change Response (Late Payment Penalties and Industrial Allocation) Bill* (**Bill**).

1.2 The Environmental Defence Society (**EDS**) is a not-for-profit, non-government national environmental organisation. It was established in 1971 with the objective of bringing together the disciplines of law, science, and planning to promote better environmental outcomes in resource management.

2 Comments

2.1 EDS supports the concerns and recommendations set out by Dr Christina Hood in her submission on the Bill.[1]

2.2 In particular, we:

(a) Agree there should be correction for overallocation;

(b) Agree there should be no free allocation eligibility for new activities;

[1] Dr Hood, Submission to the Environment Select Committee: Climate Change Response (Late Payment Penalties and Industrial Allocation) Bill, 2 April 2023.

(c) Agree that emissions intensity thresholds to determine eligibility should **not** be updated to account for increasing emissions pricing (Clause 15). This would have the effect of lowering the eligibility threshold, thereby increasing both the number of companies eligible for free allocations, as well as the volume of free allocations for which some companies would qualify. Both outcomes undermine the purpose and expected effect of emissions pricing, which is to catalyse - not further *delay* - transition to low emissions technologies and processes (to reduce exposure to increasing carbon costs). And as Dr Hood observes, "[a] rising carbon price was part of the thinking when these thresholds were set",[2] and protection from this expressly designed as a *transitional* policy;[3]

(d) Observe that the risks to competitiveness, and of emissions leakage, are likely overstated in light of widespread international commitments that actively drive and support the transition of emissions-intensive industries to low-carbon technologies and processes, and are outweighed by the significant risk of stymying the pursuit of gross emissions reduction consistent with our emissions reductions targets;

(e) Agree that the default phase out rate for free allocations does not align with the emissions budgets to 2035, exposing the Government to the prospect of a substantial free allocations liability to meet through the purchase of additional forestry or international offsets; and

(f) Agree that the total level of free allocations should be capped and the default phase-out rates increased to achieve full phase-out by 2030, or at least so as to align with Aotearoa New Zealand's 2050 net-zero emissions reduction target.

3 Conclusion

3.1 The ramifications of the proposal to effectively lower emissions intensity thresholds (as a function of an increasing carbon price) on New Zealand's ability to meet its emissions targets are potentially very significant. It is unacceptable that a legislative change with such far-reaching consequences should not have been subject to public consultation.

3.2 New Zealand's industrial allocation system is not aligned with approaches in comparable jurisdictions, giving rise to reputational risks and jeopardising our ability to meet our climate targets. Indeed:[4]

> "[the] ETS free allocation framework actually **reduces the incentive for companies to transition** because **it subsidises and locks in existing high-emissions activities**. It is set up to protect the competitiveness of status quo activities (with improvements at the margin) **not to support transition to low-emission alternatives**."

Its settings need to be properly revisited.

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[2] Ibid, at 10.
[3] Ibid.
[4] Ibid, at 3.