



Submission on the Emissions Trading Scheme Designing a Governance Framework and Industrial Allocation

September 2021

Parents for Climate Aotearoa is a group of largely parents and wider whānau, concerned with our families and particularly the future of our tamariki and mokopuna in a rapidly warming world. Our parents come from a range of backgrounds and experiences, including direct experience with the Emissions Trading Scheme (ETS). We are ordinary parents standing up for climate justice, to ensure all children have a safe climate and world to live in.

Introduction

Our Submission has four key themes, Enabling Rapid Emissions Reductions, Fairness, Rethink and Transparency. A summary of these themes are as follows:

Enabling Rapid Emissions Reductions

While we appreciate and support efforts being made to improve the system, we are continually frustrated by the lack of urgency. The purpose of the Emissions Trading Scheme (ETS) is to reduce emissions. The ETS has sadly not lived up to its promise and after much tinkering over the past 20 years our emissions continue to rise. It has not been successful. We wonder what position we would be in now if it had been set up for success and left to run? We appreciate that efforts are now being made to improve the system to enable it to support emissions reductions.

The focus of the ETS must be on a rapid reduction of emissions, rather than protecting Emissions Intensive, Trade Exposed (EITE) industries. There have been far too many free allocations and whole sectors excluded, making the system ineffectual. We need a laser focus on reducing emissions across all sectors and we do not see these amendments achieving this.

Given its history and recent changes, we have no confidence that the ETS is the best system to drive rapid emissions reductions. We note that there is little faith in the system from many users and extensive tinkering over the decades has undermined confidence in it. The system remains unbelievably complex and the fact that many participants in forestry are not in the ETS side and for those that are, many need to employ consultants to manage their obligations is a sign that the system is not fit for purpose. This lack of confidence both within and outside the scheme is slowing emissions reductions.

Fairness

The ETS needs to be grounded in fairness. EITE industries have received 20 years of free allocations while emissions have continued to rise. This is a policy failure. Too many free allocations have been given and too many of our emissions exempted to make the system

effective. New Zealand will need to change this if we are to bend the curve and get anywhere close to our commitments under the Paris Agreement. Money spent on continued corporate welfare through Industrial Allocation is money that cannot go to support communities who will be affected by climate change.

Rethink

We advocate for a rethink on how allocations are made. This rethink would look at what sustainable activities would be compatible with a safe climate, wellbeing economy and healthy communities. We are committed to supporting a just transition to a low carbon economy for communities and whānau. We are less concerned about the welfare of large international companies who run the majority of the EITE industries in New Zealand, who have had decades to plan and reduce their emissions. Free allocations impose a burden on the tax system and is money that cannot be spent on supporting that just transition.

We support a system that requires all emitters to rapidly reduce emissions, with government support to do so. There are industry practices that are simply not compatible with a liveable future for the planet. Agriculture can survive without fossil fuel fertilizers but this will require significant change in the current model. We can live with significantly less steel, as houses and even skyscrapers can be built of wood, a commodity that we are good at producing here in New Zealand. Winter tomatoes, cucumbers, eggplants and cut flowers grown with the support of coal and gas, are luxuries that we cannot afford in a climate emergency.

Transparency

Transparency, accountability and open reporting are essential to the future of the ETS. To date there has been too little easily accessible and understandable information available on the ETS. We need to know how many units companies hold, how their emissions are tracking and what support they are eligible for. Having this information publicly available will help to hold companies and the government accountable for emissions reduction. Our continually rising emissions and the opaque and complex nature of the current system makes it very difficult to tell if we are moving in the right direction or not.

Industrial Allocation

- Parents for Climate Aotearoa note that phase out of industrial allocations is out of scope of this review. However, we would submit that we need to phase these out as soon as possible. High emitting industries are not sustainable in a climate crisis and we must stop using taxpayer funds to support their continued operation
- These industries must take responsibility alongside the government for their past emissions and seriously examine their impacts on our children's future. We acknowledge that steeper reductions will be challenging to some industries and suggest the government work closely with them and support them as needed. However, these industries have had decades to plan for emission reductions. The potential consequences of steeper reductions need to be carefully monitored and support given to those affected, particularly our most vulnerable.

- Industrial allocations could be replaced by grants to immediately decarbonize high emitting industries. This will help our national emissions reduction efforts permanently.
- In the introduction, the Minister of Climate Change states that the Emissions Trading Scheme has been a success. A successful scheme would be able to show measurable bending down of our emissions. However, emissions in NZ continue to rise unabated. It is time to make some difficult decisions about what industries can afford to be given taxpayer subsidies to continue to pollute. In order to ensure a liveable planet for our tamariki, we need to stop our high emitting activities in short order and replace these with more sustainable options. We need a rethink. For example, let's promote seasonally appropriate horticulture, rather than supporting coal burning to keep South Island greenhouses warm in winter. Let us move back to wooden piles and framing for houses, rather than unsustainable steel. Let's reduce concrete use by encouraging impermeable surfaces that reduce water run-off in our increasing high rainfall events. Rather than give millions of taxpayer dollars to fertilizer companies whose products pollute our waterways and aquifers, let's support regenerative agriculture and phase out fossil fuel based fertilizer use permanently.
- Our companies need clearer signals that some activities will not be supported unless they can be decarbonised, fit with a wellbeing economy. These activities cannot be continued to be allowed to offset.
- EITE industries are predominantly overseas owned companies. New Zealand needs to seriously examine the role of these companies from a NZ-Inc perspective. What return do they provide to NZ, what jobs are provided and where (do they import overseas labour, are there other work options available, what are the broader environmental impacts of their activities). If it is determined that these companies provide a net benefit to NZ, then the next step should be determining what ETS support they receive. There may well be industries that do not provide net benefits (once environmental impacts are fully accounted for) and that we may be better off without them in our country.
- EITE industries have had 20 years of government subsidy to work on reducing their emissions intensity. They have received enough support and now need to take responsibility for rapidly decarbonizing. We would like companies to commit to climate action, without ongoing taxpayer handouts. Those funds are needed by families and communities who will need to adapt to a climate disrupted future and to support low carbon jobs.
- Much emphasis has been placed throughout the consultation document on the need to provide certainty for industries. Parents for Climate Aotearoa have been calling for clear communications from government with all sectors and parts of the community on the climate crisis. We believe that many don't yet grasp the urgency or wide ranging implications of the crisis. We are yet to see widespread commitment to the kinds of actions that are required to secure a stable climate for our children. We believe the Government could provide certainty to industry by

communicating unequivocally that we are in a climate crisis, that all emissions that are fueling this crisis must be reduced in short order and that all and any policies that support the polluting status quo must be subject to change. In short, if you are polluting you need to stop, and quickly. Coupled with support for activities that hasten the transition to low emissions technologies, we think this approach would give certainty that ongoing subsidies for pollution cannot be guaranteed and business models need to be reviewed on this basis.

Our response to consultation questions:

Q1. We agree with the five criteria used to assess the proposals but suggest one is missing around fairness and climate justice. Is it appropriate to continue to subsidise businesses who have received funding under this system for the past 20 years but not meaningfully reduced their emissions intensity? Is this the best use of climate related taxpayer funds? We do not think so. We think the Government would be better to provide one off grants to adopt low emissions technologies that would prevent further payments into the future?

Q2. If we are to continue with industrial allocations, we urgently need to review allocative baselines. Over allocation is a waste of taxpayer funds and is a subsidy to polluting industries. This needs to be stopped immediately.

Q3. These allocative baselines need to be reviewed annually. It is unacceptable in a climate emergency to allow polluting companies to carry on with a baseline for a decade. We need escalating emissions reduction ambition. And yes, this will require resources from both government and industry to report and monitor but it is essential that we do not provide unneeded taxpayer subsidies. We need to provide certainty to highly emitting industries that they need to rapidly reduce emissions. We need to provide grants for rapid adoption of lower emissions technologies. It is a complete failure of policy that we have continued to pay taxpayer subsidies for high emitting industries at inflated rates for over a decade. This is precisely the reason why we have failed to bend our emissions curve downwards. We prefer short review periods, with a sharply declining industrial allocation that sees no industrial allocations being provided after 2030. Government can provide certainty to industry, certainty that unless they drastically reduce emissions, they have no future. Our planet relies on us acting courageously.

Q5 & 6. We support using most recent years (19/20 and 20/21) for baselines with weightings added to avoid distortions caused by COVID. It makes sense to work with the most up to date information available. Low emissions technologies have been increasingly introduced, so earlier years are not suitable for baselines.

- We support developing New Zealand specific baselines. New Zealand industry tends to be different to overseas operations and we want to ensure that we are not using inefficient, subsidized overseas operations as our baselines.
- Q7. We support reassessment of eligibility based on new baselines. The fewer industries covered by Industry Allocations, the better.
- We support development of New Zealand specific thresholds. There is significant work required to do this, but if the ETS is the tool we are

committing to using to address industrial emissions, we should put maximum effort to ensure that we have the best information possible to achieve the best outcomes (ie falling emissions)

Q11 We support using the New Zealand EAF. It is outrageous that additional allocations have been given because we have equated New Zealand's emissions profiles with those of Australia, which has a significantly worse electricity emissions profile than us. This represents an overpayment to polluting industries. From a justice and fairness perspective, we would question whether oversubsidised industries deserve any additional subsidy in future, given the multitude of other pressing needs.

Q12 We support periodic review of eligibility based on updates of New Zealand's EAF. Reducing the number of eligible businesses over time should be an explicit aim of the ETS in line with our desire to reduce our emissions intensity.

Q13 The trade exposure test should be changed to rigorously assess the eligibility of businesses. Simply having products traded overseas is insufficient. Businesses must be able to prove that they will be adversely affected by NZ's ETS. As other jurisdictions adopt carbon reduction policies, it will become increasingly unnecessary to provide subsidies, as emissions leakage will become much less likely.

Q14 If the onus is shifted to industry to prove their trade exposure, this will reduce the administrative burden for government. The requirement will also mean it may not be worth it for small businesses to claim eligibility. The fewer eligible businesses, the better for New Zealand's emissions budgets.

Q15 We support the proposal to simplify the updating of allocative baselines. It is essential that the industrial allocation process be made as simple and agile as possible to enable us to ratchet up our ambition as required to meet our commitments under the Paris Agreement. Any government processes that are overly burdensome and time consuming need urgent attention so that we can make faster progress on emissions reduction.

Q17/18/19 We need to be very cautious about adding additional high emitting industries to New Zealand. These need to be given the highest level of scrutiny. We cannot be encouraging new high emitting businesses, unless these will be a direct replacement for even higher emitting businesses. We suggest these should be considered on a case by case basis. Given the climate emergency, we need to cap and seek to actively reduce the number of firms receiving industrial allocations. New businesses must not have an automatic right to receive free allocations and this needs to be clearly communicated to industry. The onus must be on the industry to provide evidence of environmental benefit before free allocations can be considered and this must be a rare and closely examined case, possibly requiring the agreement of the Minister for Climate Change.

Q20 Companies receiving industrial allocations should be required to report annually on their emissions, revenue and production data. We need to ensure that their emissions intensity is reducing over time and that the system is working to reduce emissions over time.

Q21 We support mandatory reporting rather than voluntary reporting. These companies are receiving significant amounts of tax payer subsidies and should be accounting for these. This reporting is essential to keep a close eye on the success of the system in reducing

emissions and without company reporting, the onus will be on government officials to attempt to monitor performance through indirect means, which is inefficient. We also suggest that to be eligible for industrial allocations, companies must submit plans of how they intend to reduce the emissions intensity of their operations over time.

Q22 The five year transition period for changes to eligibility is far too long. While we would like to abolish the transition period to prevent costly overallocation, we accept a one year transition period might be needed to make the change less abrupt for businesses. We are not sure why the 10 year period is provided as an option as this is outrageously generous and a complete waste of taxpayer money.

The future of industrial allocation should be grounded in approaches that achieve fastest emissions reduction. We should learn from overseas experience, but not be slowed down by the inevitable glacial pace at which international co-operation happens. Low emissions industry is not only good for our climate future, it is better for our collective health and promotes sustainable business models that value more than just profit. We encourage investigating alternative models for reducing industrial emissions. The current system is opaque and complex and hasn't yet succeeded in driving down emissions. We welcome any new approaches that will materially reduce emissions in the short to medium term (ie before 2030). We need to be clear that drastic system changes across all NZ sectors are needed to bend our emissions curve towards our Paris commitments. The health of our planet and the future of our children and grandchildren depends not on the promises we make, but on the actions that we take.

Designing a Governance Framework

As stated earlier, we are unsure whether the ETS can support the rapid decarbonization of all sectors of New Zealand society in line with our commitments to the Paris Agreement. It is a system that is devilishly complex, worryingly opaque and seems to be roundly loathed by those participating in it. However, in the interests of supporting all efforts to improve New Zealand's climate actions, we will share our thoughts on the proposals outlined in this consultation. Our key recommendations are as follow:

- We support all efforts to educate ETS users so they can make informed decisions. We believe the system isn't sufficiently transparent and this puts users, Government and the NZ public at a significant disadvantage.
- Full transparency is essential to ensure that everyone can judge if the ETS system is working and have confidence that it will reduce New Zealand's emissions rapidly in line with the Paris Agreement.
- The system needs to be able to respond quickly to new standards and systems developed internationally. It is essential that the system can be rapidly changed to align with international best practice and not bogged down in time consuming bureaucratic delays.

Section 3: Governance of Advice

- If the ETS is to be the main mechanism to reduce NZ's emissions, we need to ensure that the system is as transparent and robust as possible.
- We support education and information provision to help ETS users make informed decisions.
- We support a code of conduct, licensing and registration of advisers. The ETS remains an unwieldy, complex and opaque system, with most users relying on paid consultants to navigate the process. First, we recommend the Government invest more in making the system much more user friendly, to eliminate the need for costly advice. However, until such time as the system is improved, it is essential that advisors are regulated to ensure that participants are fairly treated. Unwitting participants have been duped out of thousands of dollars by unscrupulous advisors and the system needs amendment to prevent this. We support a rigorous system to manage advisors to help protect the integrity of the system and perhaps to restore some of the faith that has been lost.

Section 4: Governance of Trading

- The current system lacks transparency and that undermines confidence in it. We support exchange based trading, with full disclosure of participant positions.
- We also support position and purchase limits to restrict market powers. There are no benefits to allowing unfettered purchasing of NZU's and market dominance will hamper NZ's ability to manage its emissions budgets.
- We also support full transaction detail reporting so the regulator and the public have a clear view of the market and what is happening.

Section 5: Governance of market conduct

- Transparency, once again, is key. Having full information available to the regulator, ETS parties and the public will provide confidence in the system and enable identification of fraudulent activities.
- We support position and purchase limits to prevent market dominance by any one party.
- We support full transaction detail reporting to enable transparency, to ensure the market is operating as it should and to prevent fraud.

Section 5: Appointing a regulator

- If New Zealand is to rely on the ETS as its primary mechanism to reduce emissions, it is imperative that it appoints a strong regulator, which sufficient powers to collect the information it needs, and to amend the system as required to align with international obligations.
- We support the strongest regulatory body offered in the consultation (a market design regulator). While it will be costly to establish, failure of the ETS to achieve reduction in emissions due to insufficient regulatory oversight is a much higher risk in our opinion.

- We anticipate that appointing a regulator will help to increase confidence in the system, as it has a clear owner, and a pathway of improvement to follow.

Overall, we support the option that offers the most control of the system. If the ETS is to be one of the key means by which we ratchet up climate ambition, we need it to be responsive, agile and able to make changes without cumbersome legislative requirements that take years to progress. The climate emergency requires us to set up a system that can move quickly, is open and transparent and regularly reports on its progress in a publicly accessible way.

Thank you for considering our submission

Sonya Bissmire & Olivia Hyatt
Parents for Climate Aotearoa