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COMMENTS BY Marta Fisch, Bob Lawton

SUSTAINABLE FUTURE

Lower bar for subsidies for carbon polluters

The eligibility change wasn't consulted on and came only after big emitters asked for it, Marc Daalder reports

A last-minute change to reforms to New Zealand's carbon market that were meant to cut government subsidies for polluters by $60 million will see the effort

weakened significantly.

The tweak could result in some $15 million worth of subsidy preserved, according to Cabinet documents released last week, through making more carbon-intensive

industries eligible for free carbon credits.

Climate Change Minister James Shaw said the eligibility changes would still be "far outweighed" by the rest of the reforms. According to one Cabinet paper,

the net savings to the Crown would even out to $45 million, or 600,000 carbon units each year.

The unexpected nature of the eligibility change, which wasn't consulted on like the rest of the proposal and came only after big emitters asked for it,

still has one climate policy expert concerned.

READ MORE:

\* Emissions Trading Scheme: NZ’s carbon market explained

\* Fletcher Building gets $5m too much in carbon subsidy

As it stands, industries that are emissions-intensive and which trade overseas receive "industrial allocation" within the Emissions Trading Scheme (ETS)

- free units up to a certain percentage of their expected emissions. This ensures the carbon cost doesn't harm their ability to compete in foreign markets

with businesses that don't have to pay a price on emissions.

Baseline emissions from industries were set in 2010 using the data that was most recently available but haven't been updated since. Many industries that have

reduced their pollution since 2010 now receive more credits as free allocation than they need to cover their annual emissions, representing a windfall

gain of approximately $60 million across the entire carbon market.

Last year the Government consulted on changes to the scheme, which would see the baseline emissions updated periodically. This would retain the incentive

to cut emissions and avoid unnecessarily subsidising big polluters. Any credits not allocated would instead be auctioned off, so over-allocation also carries

a fiscal cost to the Government.

#comment-container

Shaw introduced legislation to implement the changes on December 2, but the bill also contains changes that weren't consulted on.

To determine whether an industry is "emissions intensive", it had to on average release at least 800 tonnes of greenhouse gas per $1 million in revenue.

Such firms would receive 60 percent of their emissions as free allocation, and "highly intensive" industries that produced 1600 tonnes per $1m would get

90 percent allocation.

These numbers were chosen to align with settings in the abortive Australian emissions trading scheme and to represent 2 and 4 percent of revenue going

to carbon costs, respectively, if the emissions price was $25.

As the carbon price has since risen to around $83, these thresholds now represent 6.6 and 13.2 percent of revenue, respectively. Shaw's legislation would

readjust these thresholds in line with the rising carbon price, dropping them by at least 60 percent to no more than 296 and 591 tonnes of greenhouse gas

per $1m revenue, respectively.

The change came after submitters on the reforms complained that updating the baselines but keeping the same eligibility thresholds could reduce access

to industrial allocation.

"Some submitters (predominantly industry - Pan Pac, WPI, WPMA, Evonik Peroxide, and Ballance Agri-Nutrients) wanted to see any new emissions intensity

thresholds updated to consider increases in the cost of carbon," the regulatory impact statement on the change reported.

The changes will likely see all industries in the 60 percent bracket move up to the "highly intensive" 90 percent group, as long as their emissions haven't

fallen by more than 27 percent since the ETS began. At a carbon price of $75, Newsroom analysis suggests this could result in up to $16.7 million in additional

free credits provided to these industries, undercutting the subsidy-busting impact of the allocation reforms.

Fonterra alone could receive an additional $2.2 million in free credits for its lactose and whey powder production being reclassified as highly intensive.

That could be partially offset when the emissions baselines for those activities are also reset.

The $16.7m figure doesn't even account for the potential impact of industries that weren't eligible for allocation under the old thresholds signing up

under the new ones. Shaw said the Government had no sense of how large this would be but did intend to add extra criteria for any new industries wanting

to receive free allocation.

Climate policy consultant Christina Hood is concerned the idea of linking eligibility thresholds to the rising carbon price wasn’t consulted on.

"It would put us in the absurd position that as the carbon prices rises over time, more and more companies get ETS allowances for free. We need to be phasing

out free allocation, not increasing it," she said.

The ETS legislation will also reduce the penalty for small-scale deforestation of less than 35 hectares.

Currently, landowners who don't turn in an emissions unit for each tonne of CO2 released through deforestation have to pay an additional fee worth three

times the price of each unpaid unit, on top of still having to surrender those units. Small landowners who release less than 25,000 tonnes through deforestation

have been exempt from the scheme amidst concerns it could place too much financial hardship on them.

The bill will reduce the additional penalty faced by these landowners to a fee just half the price of unpaid units for deforestation of trees planted from

1990 onward and a quarter of the price for harvesting trees planted before 1990.

"Had the transitional arrangement for small forestry participants not been extended before the end of the year, the 'three to one penalty' would have applied

to small forestry participants who fail to pay units by the due date," Shaw said.

"Set at three times the price of carbon, which is now trading around the $80 mark, with no ability to be reduced or waived by the regulator, this penalty

was not considered proportionate for small forestry participants."

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Marta Fisch

12 December 2022

How would the public know this if Marc Daalder hadn’t investigated? And now that we know it, what can we do?

Replying to Marta Fisch

Bob Lawton

16 December 2022

A very good point Marta. No wonder the general population don't trust MPs (per latest survey). If we can't trust James Shaw who can we trust. Are the cabinet

a pack of "patsies'" who bow and scape to big business (both local and international) and who are these people? What or who are they threatening if our

government doesn't give them what they want? This sort of weak behaviour I would have accepted from a National Government but when it happens to a Labour

led government, I really have to question what sort of "democracy" we have.

Unless someone in the media can unearth the reasoning behind this decision and whether the pressure/advice came upon the legislature or the executive we

will never know. "Government for the people by the people". I can't see it.

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