



Cabinet Economic Policy Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Progressing Updates to Industrial Allocation in the Emissions Trading Scheme

Portfolio Climate Change

On 25 September 2024, the Cabinet Economic Policy Committee:

Allocative baseline updates

- 1 **agreed** that the Government will continue to make New Zealand Emissions Trading Scheme (NZ ETS) policy decisions that will prioritise price stability and credibility in the market;
- 2 **noted** that industrial allocation baseline settings, i.e. emissions per product unit, have not been updated since they were first set in 2010 and consequently are out of date;
- 3 **noted** that data has been collected from all recipients of industrial allocation to update allocative baselines;
- 4 **authorised** the Minister of Climate Change to make decisions and issue drafting instructions to the Parliamentary Counsel Office for amendment regulations to the Climate Change (Eligible Industrial Activities) Regulations 2010 in accordance with the emissions information obtained and the decisions under ECO-24-SUB-0201;
- 5 **noted** that the new baselines set out in the amendment regulations will be the result of applying methods set out in the Climate Change Response Act 2002 and will not involve policy decisions;
- 6 **agreed** that the authority referred to in paragraph 4 above includes making decisions and issuing drafting instructions for technical amendments to the activity definitions of the production of carbamide (urea), and the production of protein meal;

New Zealand Steel Development Ltd (NZ Steel) matters

- 7 **noted** that NZ Steel has been receiving an industrial allocation for consuming electricity using the general electricity allocation factor (EAF);
- 8 **noted** that a large amount of NZ Steel's electricity demand is supplied under contract with Alinta Energy Ltd until near the end of 2026 through an on-site cogeneration plant;
- 9 **noted** that an independent review has found that that almost all of this cogenerated electricity is not affected by emissions pricing;

- 10 **agreed** that the Minister of Climate Change can determine a unique EAF for NZ Steel each year from data on the amount of electricity consumed at the site, the electricity generated by the cogeneration plant, and the quantity of natural gas used by the cogeneration plant;
- 11 **agreed** that the emissions that can be counted towards NZ Steel's EAF are those from any natural gas used by the cogeneration plant at a rate of 0.5618 tonnes of carbon dioxide equivalent per megawatt hour and from any grid-based electricity;

Timing matters

- 12 **agreed** that the amended regulations for all updates, including for NZ Steel's cogeneration use, will take effect from 1 January 2024;

Ongoing delegation to make future updates

- 13 **noted** that updates to all allocative baselines in regulations will be needed each year due to annual updates to the general EAF and other components of allocative baselines;
- 14 **agreed** to delegate an ongoing power to the Minister of Climate Change to make decisions and issue drafting instructions for amendment regulations to the Climate Change (Eligible Industrial Activities) Regulations 2010 in accordance with annual data updates;
- 15 **noted** that, regardless of the above general ongoing delegation, the Minister of Climate Change will ensure that Cabinet is informed prior to the promulgation of regulations that are expected to have significant impacts on firms;

Next steps

- 16 **invited** the Minister of Climate Change to seek Cabinet approval for amendment regulations to update allocative baselines before the end of 2024.

Rachel Clarke
Committee Secretary

Present:

Hon David Seymour
Hon Chris Bishop (Chair)
Hon Shane Jones
Hon Brooke van Velden
Hon Simeon Brown
Hon Louise Upston
Hon Todd McClay
Hon Tama Potaka
Hon Matt Doocey
Hon Simon Watts
Hon Melissa Lee
Hon Andrew Bayly
Hon Andrew Hoggard
Hon Mark Patterson
Simon Court MP

Officials present from:

Office of the Prime Minister
Office of Hon Simon Watts
Officials Committee for ECO