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**Saskia Patton**

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**From:** Peter Brunt  
**Sent:** Wednesday, 16 May 2012 11:14 a.m.  
**To:** 'george.riddell@parliament.govt.nz'; Ngaio Fletcher  
**Cc:** Stuart Calman; Bertrand Ngai; Libby Masterton; Regan Brash  
**Subject:** Fiscals One-Pager  
**Attachments:** Industrial Allocation Fiscals.doc

George/ Ngaio,

With great thanks to Bertrand and Regan - as requested, here is 'one pager' with all of the fiscals. Note the caveats and further work needed in some instances.

On the option of 'extending the benefits of the 2:1 to 2015 just for EITEs (i.e. a 95% and 80% starting allocation) – we've revised this cost down slightly on the assumption that this would be a temporary 'top up' for allocation that would be automatically withdrawn at the end of 2015 (in which case we would revert in 2016 to the levels of allocation expected under status quo for the 2016 compliance year). Let me know if we have got this wrong.

Just repeating my message from yesterday:

- from an analytical perspective, if Ministers wanted to offer more protection from ETS costs in the short term, we would recommend a targeted approach at Emissions Intensive, Trade Exposed sectors (that are likely to be most impacted by the ETS) rather than a blanket extension of the 2:1 (which will raise very significant fiscal impacts to reduce costs for segments of the economy on whom the ETS will have a negligible impact); and
- our first best advice would be to find mechanisms that encourage investments in lower carbon options that reduce emissions and liabilities for both NZ and companies over the longer term; rather than extending the 2:1 or increasing allocation as a short term fix.

Hope this helps,

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## Fiscal Costs of Options for Extending the 2:1 and Industrial Allocations Settings

**GENERAL NOTE:** All fiscal costs are relative to current settings and are based on a carbon price of \$10.41 plus AR2 Global Warming Potentials.

**Phasing out the 2:1 surrender obligation as recommended by the ETS Review Panel:**  
67% surrender obligation in 2013 and 83% surrender obligation in 2014

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	34.3	80.6	32.9	0	147.7

**Extending the 2:1 surrender obligation until 2015**

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	51.9	146.5	146.6	96.2	441.3

**Maintaining the benefits of the 2:1 for industrial allocation recipients until 2015.**

Increasing level of assistance to highly EITE activities to 95%, 94% and 93% in 2013, 2014 and 2015, and to moderately EITE activities to 80%, 79% and 78% in 2013, 2014 and 2015.

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	5.5	5.8	6.1	0	17.4

*NOTE assumes reversion to projected allocation level under current settings in 2016.*

**Not phasing out industrial allocation**

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	0.8	1.7	2.7	3.8	9.0

**Increasing allocation to coal users by amending the coal factor used in industrial allocation to cover costs associated with fugitive coal seam methane emissions**

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	2.4	2.4	2.4	2.4	9.6

*Note: Indicative estimate based on expectation that New Zealand Steel and some horticultural businesses will receive an increased allocation. Risk that some new activities may unexpectedly become eligible (which would increase costs). More work is also needed to determine which horticultural growers use coal from underground mines.*

**Including stationary energy use of liquid fossil fuels as an emission source eligible for industrial allocation**

A rough ballpark estimate of the fiscal cost is \$7 million per annum or below (ie \$28m or below across the forecast period).

*NOTE: more work needed to determine how many businesses are using liquid fossil fuels as a stationary energy source. This will determine whether new industrial activities will become eligible, and level of increase in allocation to existing eligible industrial activities.*

**Adopting the Australian approach to industrial allocation for the activity "manufacture of carbon steel from cold ferrous feed".** Classifying this activity as a highly EITE activity

\$ million	2012/13	2013/14	2014/15	2015/16	Total across forecast period to 2015/16
Fiscal cost	0.4	0.4	0.4	0.4	1.6