



FletcherBuilding

17 April 2008

Alternative Proposal for Phase-out of Free Allocation

Proposed Phase Out

Treasury has proposed a possible alternative option to that proposed by the Bill :

- *Free allocation of 90% of 2005 continues until 2018;*
- *Move to zero free allocation in 2025 or 2030;*
- *Review every five years;*
- *Clear review criteria and process.*

Proposed Phase Out

We support the alternative proposal from Treasury. We believe the phase out provisions should align with the objective for free allocation which should be to minimise reduced current or future output from trade-exposed firms without reducing their marginal incentive to reduce emissions.

Proposed Phase Out

We believe.

- *The Phase out should be subject to review, preferably by an independent body. The Garnaut Report (Australia) has proposed an independent body to review allocation to trade-exposed firms.*
- *Clear review criteria and process should be set.*
- *Free allocation should continue at 2013 levels until 2020, (These are the same time-frames as the EU scheme).*
- *We should retain the INTENT to move to zero free allocation by 2025, but subject to sector-specific reviews.*

Review of phase out

Criteria for the reviews should include both economic and environmental considerations. For example:

- *The emissions pricing policies of New Zealand's major trading partners.*
- *The implications of any future international obligations with respect to its emissions and removals that New Zealand had undertaken.*
- *Significant changes in emissions mitigation technology.*
- *Fairness between business sectors, taxpayers and consumers.*
- *Ensuring the environmental integrity of the Emissions Trading Scheme is maintained.*
- *That the Government will not allocate more units than it receives under any post-Kyoto obligation.*

Benefits of this Proposal are:

- Provides greater flexibility to accelerate phase-out if there are international policy developments such as sectoral agreements.
- Ensures that phase out can be refined based on future international obligations.
- Ensures that the emissions pricing policies of New Zealand's major trading partners and their effects on competing (or substitute) product prices, are taken into account.
- Provides certainty to firms when making investment decisions that overseas developments will be taken into consideration in determining the phase out path.
- Ensures that firms receive clear signals about both the short-term (still face the marginal price of emissions) and the long-term, (ultimately they will face a full price of carbon).
- Retains the international credibility of the ETS.

Conclusion

This approach significantly reduces the risk of leakage that could occur through reductions in production, plant closure and reduced investment in New Zealand. It improves the environmental integrity of the New Zealand ETS.