

Sustainability Alert

Assistance for emissions intensive trade exposed industries



Introduction

The Climate Change Response (Moderated Emissions Trading) Amendment (CCRA) Act was passed into law on 8 December 2009. One of the main objectives of the Act was to better address the impacts of the Emissions Trading Scheme on the competitiveness of trade exposed New Zealand industries. This is to be achieved by the introduction of government assistance to “emissions intensive, trade exposed” industries.

Assistance is provided in the form of an allocation of New Zealand Units (NZUs) in respect of eligible specific “activities”.

On December 16 the Ministry for the Environment issued a Consultation Document on the development of Industrial Allocation regulations (available from www.climatechange.govt.nz) and is seeking feedback on proposed activity definitions and to identify further activities which may be eligible for assistance.

As the impact of the ETS will become a reality from 1 July 2010, the Government is working to a tight timeframe for the drafting and consultation process on the regulations. The activity definition process requires industry to provide information on proposed emissions intensive activities, which will include emissions, output and revenue information, including proposed activity definitions. If a company does not participate in the provision of information for defining new activities, that company will not be entitled to assistance. Therefore it is critical that all companies consider whether their industry has activities which are potentially eligible for assistance.

What is an eligible activity?

Broadly, an eligible activity is one that is:

- Emissions intensive; and
- Trade exposed.

There are two emissions intensity thresholds:

- a moderately intensive threshold of 800 tonnes of CO₂e per \$1m of revenue; and
- a highly emissions intensive threshold of 1,600 tonnes per \$1m revenue.

The trade exposure test is that generally all activities will be assumed to be trade exposed, unless

- the activity is electricity generation; or
- there is no international trade of the output across oceans, or it is not economically viable to import or export the output of the activity

The concept of an activity

It is important to note that the approach to granting free allocation of units is based on eligible activities rather than on the basis of firms, facilities or sectors. An activity is the process that produces the trade exposed output.

Emissions, revenue and output information must be collated and presented for each activity and this will require activity boundaries to be clearly defined. The start point is where a tradable commodity is input and the end point is a tradable output. Further processing is excluded, unless it is a discrete emissions intensive trade exposed activity, which would mean that information needs to be collected specifically for that further processing activity.

Many companies will not have previously collected emissions information in this form.

Likely eligible activities

The initial intention of the Amendment Act was to align the ETS with the Australian CPRS under which a number of activity definitions have already been developed. The intention of the Minister is to consult on the activity definitions that have already been developed in Australia and seek feedback from New Zealand companies on other potentially eligible activities.

Activities eligible for allocation or are in the data collection process in Australia include:

- carbon black production
- glass containers production
- bulk flat glass production
- methanol production
- newsprint manufacturing
- silicon production
- white titanium dioxide pigment production
- zinc smelting
- carton board manufacturing
- packaging and industrial paper manufacturing
- integrated lead and zinc production
- printing and writing paper manufacturing
- high purity ethanol production
- dry pulp manufacturing
- magnesia production
- aluminium smelting

Other activities that may meet the criteria and are subject to further data collection in Australia include urea, carbon steel, clinker, lime, integrated iron and steel and tissue paper.

How is the assistance calculated?

If an activity meets the eligibility test then the information collected from industry is used to calculate a "baseline" level of emissions intensity for that activity. This baseline will most likely be based on historical industry average emissions intensity.

The annual allocation that each eligible person will receive will be made in advance ('a provisional allocation') based on their previous year's output, with a reconciliation mechanism (i.e. a true-up payment) to be used once the actual output is known.

The assistance is calculated based on the following formula:

Volume of production * allocative baseline * percentage of assistance

As there is a 2 for 1 unit allocation process until 2012, the level of assistance will also be halved over that period.

What happens next?

The allocation consultation document has been released. The process from here is that:

- the government will review the feedback on the activity definitions included in the consultation document and issue Gazette notices calling for information from industry; and
- the information provided will be used to determine the activity eligibility and develop a regulation that sets out the allocative baseline.

The government is also seeking feedback on other activities which may meet the eligibility test. Where it appears there is a case that these other activities will meet the test, then further Gazette notices will be issued, calling for detailed information from industry.

The information is likely to be called for in March and April 2010 with a view to finalising regulations from May 2010.

The information required will comprise emissions data relating to specific activities, financial data relating to revenue associated with the production of outputs arising from specific activities and production data. Specific rules will be set out in the Gazette notice in relation to the calculation methodologies, inclusions and exclusions for emissions sources and defining revenue and outputs. Proposed rules have been included in the consultation document.

Penalties and verification

Data integrity is absolutely key to ensuring that appropriate decisions are made in respect of eligibility of activities and proposed baselines. However, the proposed rules do not include any mandatory verification requirements.

There is however significant penalty regimes that apply in respect of the provision of altered, false, incomplete or misleading information.

In Summary

- The allocation provisions require each activity seeking assistance to be defined. Eligible activities already approved in Australia provide useful information in respect of which industries may be eligible in New Zealand. However, other activities may also meet the eligibility criteria. It is therefore important to collect and consider emissions intensity information as soon as possible in order to meet the government's timeframe.
- Companies that do not provide information in respect of determining the eligibility of an activity and to develop baselines will not be eligible for allocation
- The information being sought by the government may be time consuming to collect and you should be collecting this information now

How Deloitte can help?

In Australia we have already advised or provided assurance under the proposed Australian activity definitions for the following industries:

- Pulp manufacturing
- Tissue manufacturing
- Glass container manufacturing
- Particle and fibreboard manufacturing
- Liquefied natural gas (LNG) production
- Synthetic rutile production
- Titanium dioxide production
- Silicon production

In addition, our NZ Climate Change and Sustainability team includes a mix of engineering and accounting practitioners. This mix of skills means they are ideally suited to assist you in meeting your obligations and taking advantage of the opportunities for assistance offered under the assistance programme. Our local team has experience with emissions measurement across a wide variety of industries.

We can help you with:

- Considering emissions intensity thresholds and activity eligibility
- Drafting activity definitions
- Assistance with compilation of the required information
- Assurance in respect of data collection

Deloitte New Zealand brings together more than 900 specialists providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's more than 168,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/nz/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms.