



17-19 Gladding Place
P O Box 76 134, Manukau City
Auckland, New Zealand
Tel: +64-9-262 4846
Fax: +64-9-262 2856
Email: ceo@metals.org.nz
Web site: www.metals.org.nz

Metals New Zealand Submission to the proposed changes to New Zealand's Emissions Trading Scheme, September 2018.

Metals New Zealand congratulates the leadership of the Coalition Government in acting to bring into effect the Carbon Zero Bill, the steps to establish a Climate Change Commission and review the Emissions Trading Scheme (ETS). All will become key components for New Zealand to meet our global commitments to the Paris Agreement on Climate Change.

Metals New Zealand has chosen not to specifically comment on the the detailed questions on the coordinated decision-making proposals, auctioning mechanisms, price ceiling and international units.

Metals New Zealand will comment specifically on the industrial allocation phase down proposals which will affect the future viability our members, the people who they employ and the communities in which they are located and potentially the future use of metals in the manufacturing and construction sectors.

However, given the magnitude of the challenge to achieve a net zero emissions economy Metals New Zealand makes the following comments.

For New Zealand to achieve the 2050 target is a complex challenge. What is being proposed in the discussion document appears to be a very simplistic framework which could potentially be setting itself up to fail.

Adopting unrealistically short time frames to establish decision-making frameworks.

Proposing what is akin to a financial market without any of the controls which govern New Zealand's financial markets.

The purpose of the Carbon Zero Bill is to provide New Zealand business with certainty allowing them to plan and invest in transitioning to a low emissions economy. By contrast, the ETS proposals appear to have no connection with the broader New Zealand economy and society and

in particular Treasury’s emerging Four Capitals / Living Standards framework, which the Minister of Finance tells us will be the basis for future New Zealand budgets.

Proposed changes to the ETS must provide certainty for New Zealand business. And they must ensure that added costs of the ETS do not further undermine the ability of New Zealand manufacturers to compete with exporters from our major trading partners whose products do not attract an ETS charge and may potentially have significantly higher embodied carbon, a lack of data regarding production processes and transport of raw material / finished product. We have little accurate data on their energy sources, environmental practices, ethical employment practices and health and safety record – all of which are a requirement for New Zealand businesses.

New Zealand’s Metals Industry

“The Metals industry is making a significant contribution to wellbeing in New Zealand. The manufacturing component of the industry currently provides almost 30,000 full-time equivalent (FTE) jobs and generates around \$3.3 billion in gross domestic product (GDP) each year. The non-manufacturing component of the industry, which includes diverse activities such as research, consultancy and other services that support manufacturing, cannot be measured in the same way, but it adds significantly to the contribution”.¹

The recent report from BERL – “M4KING SENSE of THE NUMBERS: *New Zealand Metals Industry – a strong contributor to living standards*”², illustrates that the Metals Industry helps develop and sustain New Zealand’s Financial and Physical capital through the supply of vital goods and services used in investments in transport infrastructure, construction and building. Beyond their volume or value, the industry adds to the quality of the investments by increasing the resilience of the built environment and by enhancing the performance of structures and buildings.

The Metals Industry helps to safeguard Natural capital by working to reduce raw material inputs and harmful emissions, promoting and adhering to environmental standards, and conserving air and water quality. Perhaps most conspicuously, the industry safeguards Natural capital because the principal metals it produces and uses can be recycled over and over again, without degradation.

The industry also makes a diverse contribution to Human capital. Beyond providing tens of thousands of livelihoods, the industry contributes to the development of skills and knowledge in the workforce through the provision of traineeships and apprenticeships, and through ongoing training and development for employees in subsequent stages of their careers.

¹ Dixon, Stokes, Cox & Schulze, BERL Report M4KING SENSE of THE NUMBERS: *New Zealand Metals Industry – a strong contributor to living standards*. August 2018

² Ibid page i.

The Metal Industry's contribution to Social capital includes businesses supporting their local communities, such as sports sponsorship and philanthropic contributions. In addition, the industry promotes trust within the industry, and on the part of its customers and the general public, through the development and implementation of standards.

New Zealand metals manufacture is a key provider to building, construction and manufacturing sectors which deliver key solutions to build resilience in New Zealand's infrastructure and buildings enabling New Zealand to meet the challenges of climate change and other naturally occurring events. For example, the seismic performance of structural steel, and its ability to withstand seismic loading with little or no structural damage, means that buildings are more resilient to seismic events, leading to fewer buildings needing to be demolished. This in itself means that, given buildings are not 100 percent recyclable, less waste is generated following a seismic event, and fewer raw materials are needed to rebuild the buildings.

Phasing down of Industrial Allocation and avoiding emissions leakage

14. How do you think decisions on a phase-down of industrial allocation should be made?
Select all that apply.

- make an up-front decision to phase-down industrial allocation from 2021
- set a test or condition that would trigger a phase-down
- establish a decision-making process to determine industrial allocation rates over time
- other process (please explain).

As the purpose of the industrial allocation is to mitigate the risk of emissions leakage – i.e. where New Zealand production (which attracts a carbon price), is supplanted by imports (which do not attract a carbon cost in their country of manufacture): Metals New Zealand suggest that:

- With respect to option 1, to make an upfront decision in less than three years, which may be a simple approach for the regulator, is totally unrealistic for industry. A test or condition to trigger phase down could be linked to carbon pricing being applied across our trading partners or the application of a tariff on imported (non-carbon taxed goods) to the equivalent value of the carbon tax applied to local manufacture. Finally, a decision-making process, developed in partnership with New Zealand manufacturers may be a more appropriate tool.

Government needs to acknowledge not only the value Metals contributes to New Zealand economy and society but recognise that carbon emissions are the result of the chemical process inherent in steel making. Alternative technologies currently do not exist to remove carbon from the steel

making process. Development of alternative processes with lower or zero carbon emissions will take time and their adoption will most likely be in new plants first. The retrofitting of new technologies, (if those lower emission technologies can be developed), into existing production plants are likely to be decades off, rather than years. Government needs to consider these time horizons.

Business needs certainty, particularly where future technology is uncertain and significant investment may be required. A potential failure by government not to provide that certainty will not only threaten the viability of New Zealand's primary steel and other metal producers, it may threaten the viability of the nearly 30,000 jobs of New Zealanders who are employed in downstream processing of primary metal production into fabricated steel structures, roofing / cladding products, window and façade systems – the very fabric of New Zealand's built environment.

15. If a decision-making process for industrial allocation is implemented, which of the following factors should the decision-maker taken into account? (Select all that apply).

- New Zealand's emission budgets
- the risk of emission leakage, with the aim of avoiding leakage driven by differential emission pricing policies, and based on economic analysis of the markets for EITE activities and their products
- other sources of supply into the NZ ETS

- the availability of low-emissions technologies
- New Zealand's international obligations
- other (please explain).

Clearly the decision-making process needs to take into account New Zealand's International obligations, emission budgets and risk of emission leakage.

We have already commented above on the current lack of alternative technologies which reinforces our argument that the timelines for phase down needs to allow for technology development and realistic adoption into existing businesses.

16. If a phase-down is initiated in future, which of the following rates for phasing-down industrial allocation should be considered?

- 0.01 per year
- 0.02 per year
- 0.03 per year
- Other (please explain).

The proposed phase-down rate needs to be developed in partnership with industry and must realistically reflect available technologies and businesses' ability to adopt those technologies... rather than set rates which may bear no relationship to available low emission technologies or industry's ability to adapt.

17. What impact would changes to the levels of industrial allocation from 2021 have on your investment or business decisions?

Business needs certainty in policy settings for the long term, particularly where future technology is uncertain and significant investment may be required. Changes to allocation need to be developed in partnership with business and not be developed to solely meet the requirement of government.



17-19 Gladding Place
P O Box 76 134, Manukau City
Auckland, New Zealand
Tel: +64-9-262 4846
Fax: +64-9-262 2856
Email: ceo@metals.org.nz
Web site: www.metals.org.nz

Metals member organisations

HEAVY ENGINEERING RESEARCH ASSOCIATION

The New Zealand Heavy Engineering Research Association (HERA) was established in 1979 as a non-profit research organisation dedicated to serving the needs of the metals-based industries in New Zealand. Its membership consists of approximately 600 companies representing metals-based fabrication and manufacturing companies, the associated design and consulting industry, related education providers, and the supporting material supply and services industry.

HERA is base funded through an industry generated R&D contribution in the form of a levy on heavy steel and welding consumables administered by the Heavy Engineering Research Levy (HERL) Act. HERA's current research is in the areas of steel construction, general heavy engineering industry development and welding fabrication innovation. HERA works with other research providers such as universities, independent research organisations and CRIs to deliver its programmes.

www.hera.org.nz

STEEL CONSTRUCTION NEW ZEALAND

Steel Construction New Zealand Inc. (SCNZ) aims to advance the interests of New Zealand's diverse steel construction industry by promoting the benefits of steel solutions in building and infrastructure projects. Members include manufacturers of structural steel and steel products, distributors, fabricators, designers, detailers, galvanisers, and paint and building supply companies. SCNZ provides its members with technical advice on the latest in steel design trends and standards, networking opportunities, and a representative voice with key industry and Government decision-makers.

www.scnz.org

CASTING TECHNOLOGY NEW ZEALAND

Casting Technology New Zealand (CTNZ) aims to be a major contributor to the success and prosperity of the metal casting industry. The organisation is an advocate for maintaining high industry standards and encourages members to participate in quality training programmes. It provides a network for technical and business activities among its membership at national and international levels. At a Government level, CTNZ keeps abreast of legislation relevant to the metal casting industry and, importantly, represents the industry's position on issues affecting the sector.

www.castingtechnologynz.org

GALVANIZING ASSOCIATION OF NEW ZEALAND

The Galvanizing Association of New Zealand (GANZ) represents the core of New Zealand's galvanising specialists. Its mission is to promote the environmental sustainability of its product and to maintain the highest standards of quality and service in support of New Zealand construction and engineering industries through its international affiliations.

www.galvanizing.org.nz

NEW ZEALAND METAL ROOFING MANUFACTURERS ASSOCIATION

The New Zealand Metal Roofing Manufacturers Association Inc. (NZMRM) represents companies that roll-form steel and other metals for roofing and cladding purposes. Commonly known as 'Rollformers', NZMRM has 30 member companies. Members are involved in producing a wide range of profiled product, both painted and unpainted. The Association is active in the development and promotion of industry standards, and in conducting research that promotes the use of metal roofing and cladding.

www.metalroofing.org.nz

NATIONAL ASSOCIATION OF STEEL-FRAMED HOUSING

Formed in New Zealand and Australia in 1982, the National Association of Steel-Framed Housing (NASH) is an advocate for all forms of low-rise steel-framed construction. NASH represents the interests of suppliers, practitioners and customers of steel-framing systems, and provides a representative voice for the sector at Government level.

www.nashnz.org.nz

NEW ZEALAND STAINLESS STEEL DEVELOPMENT ASSOCIATION

The New Zealand Stainless Steel Development Association (NZSSDA) was formed in 1998 to promote and develop the stainless steel market in New Zealand. Its members include engineers, architects, fabricators, merchants and end-users with an interest in the supply or application of stainless steels. NZSSDA supports and encourages technical excellence in the industry and provides specialised training courses on stainless steel for the New Zealand market.

www.nzssda.org.nz



A United Industry Voice

