GRAYMONT

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New Zealand Productivity Commission
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Submission on the New Zealand Productivity Commission (2018) Low-emissions economy: Draft Report

Graymont would like to thank the Productivity Commission for the opportunity to present its views on the recently released Low-emissions economy: Draft Report.

In October 2017 Graymont made a submission on the Commission's Issues paper.[1] As set out in that submission:

- Graymont recognises the challenge climate change presents and supports New Zealand acting to mitigate its impacts.
- Graymont sustainably manufacture value-added lime[i] and limestone products to clean the water, air; improve soils for agriculture; stabilise soil for infrastructure and housing development; and support industrial processes vital to modern society.
- Lime is used for pollution abatement applications and reabsorbs CO_2 in significant quantities.
- Lime is one of the most trade exposed industries globally, and Graymont supports the ongoing use of free allocation to address "carbon leakage".
- Graymont has a significant presence in the regions that it operates, and provides for ongoing economic development in regional New Zealand (refer Annex 2).

In this submission Graymont focuses on points of clarification and matters warranting further consideration to strengthen the Final Report.

[1] https://www.productivity.govt.nz/sites/default/files/sub-low-emissions-33-graymont-308Kb.pdf

Graymont is therefore seeking an orderly and rational transition to a low emissions economy and will play its part in achieving this.

If there are any questions on this submission my contact details are provided below.

Yours sincerely,

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ANNEX 1 – Additional Submission Points

Chapter 4 - Emissions Pricing

Graymont supports the Commission's Recommendation R4.1 that the Government should retain and reform the New Zealand Emissions Trading Scheme rather than increase policy uncertainty by replacing it with a carbon tax.

Noting that lime is one of the most trade exposed industries globally and this is recognised locally through the NZ ETS where the production of burnt lime is an eligible activity for industrial allocation, Graymont thanks the Commission for its careful consideration and recognition that free allocation is an appropriate mechanism to address "carbon leakage" - Finding F4.3.

The ongoing short to medium term need for free allocation is recognised internationally, for example the European Commission's preliminary decision on industrial allocation in the EU ETS for the period 2021-2030, issued in early May. [2] Graymont would highlight that "intensity" or "output" based allocation is the basis for allocation in the majority of other trading schemes, including the EU ETS.

Chapter 13 – Heat and Industrial Process

Graymont is pleased that the key challenges in reducing emissions from manufacturing processes such as burnt lime production have been recognised by the Commission. Findings 13.1 to 13.5 are specifically relevant in this regard.

The use of lime both as a versatile industrial chemical for various modern applications and as a powerful tool to address environmental challenges, will prevail well beyond 2050. Today, it is used in municipal applications such as drinking water and waste water treatment, soil stabilisation and drying for residential developments and many other applications.[3] In many cases a portion of CO_2 released during the calcination of limestone is reabsorbed in its end use application (refer Figure 1), yet this reabsorption is not considered in current greenhouse gas scheme.

Finally, Graymont suggests the Commission should recommend that the Government adopts appropriate measures that take into account CO_2 reabsorption by lime. We believe the recent development of the new Harvested Wood Product (HWP) accounting rules gives a precedent for, and shows the benefit of continuing to develop accounting rules as scientific understanding progresses.

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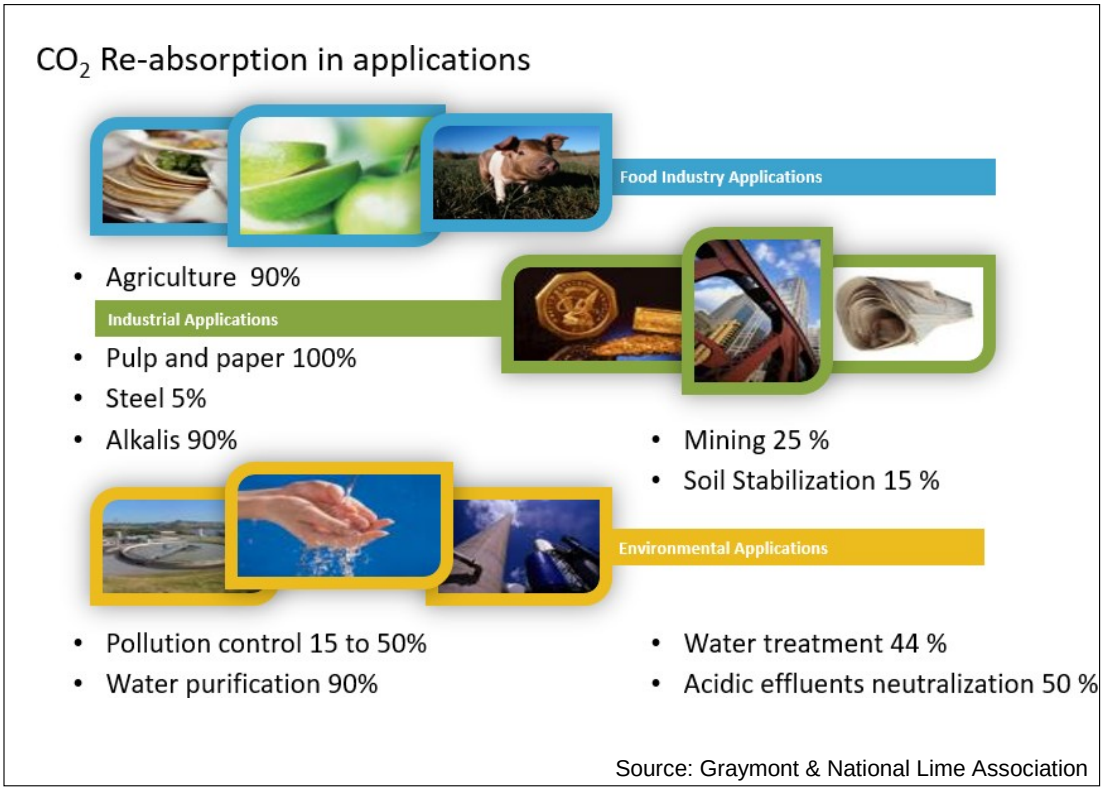
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOC_2018_162_R_000e1&from=EN

[3] Other applications where Graymont New Zealand's products are currently used include reduction of biowaste (drying), sugar refining, pulp and paper production, steel making, production of mortar and plaster and in mining for pH control and acid drainage treatment both during and post mine closure.

Figure 1- CO_2 Re-absorption in Lime Applications



Chapter 15 – The built environment

The Draft Report Finding 15.1 states:

> "*Increasing the price of emissions in the New Zealand Emissions Trading Scheme is the most effective way to incentivise a transition toward the construction of buildings with lower embodied emissions.*"

Graymont recommends that this finding be revised to account for import substitution, where imported goods do not incorporate a cost of carbon as is the case until we see wider international carbon pricing. In the current and short to medium term situation, increasing the price of emissions in the NZ ETS makes domestic producers less competitive while the signal to transition to lower embodied emissions products is absent. This matter has potential significant negative impacts across various industries and encompasses more than the construction of buildings and infrastructure.

Modelling Studies and Chapter 3 – Mitigation Pathways

Graymont is concerned that the initial findings of the Commission's Low Emission Economy study are too focused on the "technical feasibility" of meeting targets of net zero or 25MtCO_2e emissions in 2050.

Graymont believes that more consultation with industry on the input assumptions would result in a clearer understanding of the impacts and of the abatement options available for meeting proposed significant CO_2 reduction targets by 2050.

For example, while the focus of the Draft Report is on domestic mitigation, it would seem appropriate to include a case where New Zealand utilises Internationally Transferrable Mitigation Options (ITMOs) under the Paris Agreement to offset a portion of its emissions.

Annex 2 - Graymont Profile

An emerging global leader in the supply of lime and limestone products, Graymont serves major markets throughout North America and has extended its reach into the Asia-Pacific region. Graymont also has a significant investment in Grupo Calidra, the largest lime producer in Mexico. Professionally managed and family owned, the company has roots stretching back more than 65 years.

On the 1st of July 2015, Graymont purchased the assets of New Zealand's McDonald's Lime and Taylor's Lime. These operations are located at Otorohanga and Te Kuiti in the North Island and Dunback, Otago in the South Island. Through this acquisition Graymont became a participant in the New Zealand Emissions Trading Scheme (NZ ETS) for the production of burnt lime.

Graymont is committed to a long-term future in New Zealand, with operations across 4 sites and direct employment for close to 80 employees. Total spend in the local economy is ~$40 million per annum.

ENDS

[i] Lime is the manufactured product primarily made up of calcium oxide. Burnt lime is another term for lime, and is used interchangeably in this document.