

Climate change and the fishing industry

Liquid fossil fuels become part of the New Zealand Emissions Trading Scheme on 1 July 2010, and the fishing industry, as a large consumer of liquid fossil fuels, will be affected. The ETS will be costed into the New Zealand economy, and while fishing vessel operators will not need to directly trade in carbon, fuel companies will be liable and will pass the cost on in the fuel bill.



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ALLOCATION OF UNITS

The recent Amendment Act, passed late last year, made several changes to how the fishing industry will be affected by the ETS, including with respect to free allocations of New Zealand Units (NZUs).

NZUs must be surrendered by participants in the ETS to offset emissions they produce. Fuel suppliers, as participants in the ETS, will be required to buy emission units to cover the emissions they are responsible for from 1 July 2010. The Government has allocated free units to various sectors, but units are not allocated to fuel suppliers because they can pass on the costs of the scheme to their customers, which limits the impact on their profits. These customers include the fishing industry.

To try and minimise the impact on the fishing sector, it will receive a free allocation of units during the transition phase (July 2010 to December 2012) for the fossil fuel industry. As the fishing sector is not a participant in the ETS there is no requirement for these allocated units to be surrendered to match emissions. Therefore, these units are available to be sold and the profit used to counter the increase in the cost of fuel.

Who initially gets allocated these units was a controversial aspect of the Amendment Act: quota or vessel owners? A submission by the NZ Federation of Commercial Fisherman Inc sought that vessel owners should receive any benefits as the emissions are caused by their vessels and they are the ones paying higher fuel costs. The submission noted there is no guarantee provided or assumption that encourages quota owners to transfer any government assistance to fishermen.

In the end, rather than registered fishing vessel operators obtaining the free NZUs as was the case pre amendment, the Government allocated the units to quota owners, apparently because the owners of the assets whose value is being impacted should receive compensation - and also to avoid units being allocated to foreign fishing vessels. The Amendment Act contains a formula that sets out the basis on which allocation will be made to each quota owner. Essentially, quota owners will receive a free allocation in proportion to the amount of quota weight equivalent that they own.

The Amendment Act increases the total number of units

that will be made available to the fishing industry from 50% of 2005 emission levels for three years to 90% of 2005 emission levels for two and a half years (i.e. the transmission phase). The Ministry of Fisheries has estimated that fisheries fuel consumption in 2005 was 216 million litres, which equates to an allocation of 700,000 NZUs.

The Act specifies that a fishing allocation plan must be prepared by the Ministry for the Environment to provide for this allocation. This has been simplified for the fishing sector through the inclusion of a specific number (700,000 NZUs) in the legislation and the inclusion of a formula for determining the allocation. A draft fishing allocation plan is proposed to be released for public consultation in the first half of 2010. The level of detail already specified in the legislation means the consultation will focus on matters such as the type of information that must be provided when an application is made for a share of the allocation.

THE FUEL ISSUE

In the fishing industry, all fuel sold to fishing vessels in New Zealand, irrespective of where they fish, will include the increased costs of the Emissions Trading Scheme. However, some vessels may fish in New Zealand waters using fuel that is purchased outside New Zealand and thus not including any carbon costs. To rectify this issue, the ETS sets up a process to consider the potential inclusion of two sources of fuel that are otherwise excluded from the scheme:

- Fuel used by international cargo carriers on domestic legs where domestic cargo is carried;
- Fuel used while fishing in the exclusive economic zone but where the fuel was not purchased in New Zealand.

This will mean some international carriers and some fishing vessel owners will become participants in the ETS in addition to fuel suppliers.

In our experience, many companies are struggling to fully understand the Emissions Trading Scheme. Increasing regulation is leaving operators perplexed and sometimes ill-prepared, but the timeframes are nearing for more and more sectors of the economy to come within the ETS. Contact our specialist Climate Change group to see what it all means.

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Duncan Cotterill has a specialist Climate Change group, which can help you come to grips with what the Emissions Trading Scheme means for you.

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