

Prudent Course is to Delay ETS Implementation

Last week on these pages Phil O'Reilly of Business NZ called for urgent action to fix flaws in the phase of the emissions trading scheme that is due to come into effect on 1 July. His arguments are cogent.

There is wide support in the business community for New Zealand moving with other countries on climate change measures as a responsible international citizen and to protect our commercial interests. There is also support for using a market approach – an ETS or a carbon tax/subsidy regime.

But business has relied on the government's undertaking that it would not move ahead of international competitors, notably Australia. The government is now going back on this undertaking. Australia may not have an ETS in place until 2015 at the earliest. Many other countries have yet to move or are scaling back plans, including in Europe where climate change policies are one more burden on struggling economies.

Mr O'Reilly rightly pointed out that, as things stand, many businesses will find their competitiveness threatened, with risks of job losses and capital flight. SMEs and food processors like Fonterra are cases in point. Unfortunately his suggested remedies seem unworkable.

One is for the government to bypass parliament and use ministerial discretion under the ETS legislation to allocate more free carbon credits to trade-exposed firms.

Officials have confirmed that such discretion doesn't exist. Nor should it: the ETS is a tax ("a great big new tax on everything", as Australian opposition leader Tony Abbott argued), and only parliament should authorise taxes or tax concessions.

Any scheme must have integrity, not the rent-seeking and political favouritism previously associated with import licensing.

Moreover, larger free allocations would have potential fiscal costs, as would Mr O'Reilly's suggestion of a fund to assist disadvantaged firms, which would take time to set up.

Another suggestion, advancing the 2011 review, would be a meaningless sop to business and wouldn't solve the imminent problems. Damage can't be undone if investment and jobs migrate.

With the government unable to agree to Business NZ's demands, logic points to a simple temporary suspension of implementation, for which it would have enough time and support in parliament.

The government has fallen back on just two arguments for proceeding with the ETS now.

One is threats to our export trade, especially in Europe. These cannot be significant in the short term: New Zealand has an ETS on the books, and importing countries could hardly discriminate against New Zealand in favour of competing exporters like the United States and Australia which have no comparable policies. In any case, action by individual firms (eg product labelling for carbon content) is more important to consumers than official country policy.

The second argument is to honour commitments to foresters who stand to gain from carbon credits. But foresters could still sell credits offshore; the amount of additional planting encouraged by the ETS in recent years is quite small; forest rotations are 30-plus years so a temporary suspension would have limited implications; and genuine claims for compensation from foresters who could show they planted trees because of the ETS could be entertained by the government. These would not be large.

There is no need for precipitate action. New Zealand is on track to meet its Kyoto liabilities. Even if suspension contributed to a shortfall there is now real doubt that New Zealand would face costs: the argument that 'if industry doesn't pay taxpayers will have to' is looking increasingly spurious.

The most likely scenario post-2012 is coordinated 'best endeavours' international action, not Kyoto II. In its budget last month the Australian

government stated that it would not reintroduce ETS legislation at least until 2013, and “only when there is clarity on the actions of major economies, including the US, China and India.”

Proceeding with the ETS would do nothing for business certainty. There is no solid regulatory analysis underpinning the ETS and hence no cross-party support which would withstand a change of government; rules could change following the review; after 2012 there is no limit on carbon prices, which could be much higher; and the government is already talking about possible future modifications.

Some businesses such as renewable electricity generators, accounting firms and carbon traders will benefit from an ETS, but theirs is not a national interest perspective. Others are reconciled to coping with it as best they can.

But the government should be taking a broader view. The last thing New Zealand needs right now, with global economic vulnerabilities and a patchy and unbalanced recovery, is more cost burdens on firms and households on top of increases in GST, ACC levies, electricity prices and interest rates. The logic is inescapable: if an ETS is to change behaviour, it will hurt; if it doesn't, it is merely tokenism.

The present over-ambitious scheme and timetable carries political risks of botched implementation and malfeasance. The more prudent course is to stay engaged with international negotiations, suspend the ETS and move when other countries do – as the government said it would.

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