

Pull Up! Pull Up! on ETS

Once again we are seeing an unseemly rush to enact climate change legislation.

When will we learn that more haste often means less speed?

It is not as though there is any serious opposition, including within the business community, to New Zealand's taking additional action now that Australia and the United States have come to the Kyoto party.

What business wants, however, are well-designed, broadly supported measures that are not unduly burdensome to households and industry and are not implemented ahead of comparable action by our trading partners.

Such an outcome is not in prospect. In reporting on the bill amending the previous government's emissions trading scheme, every political party represented on the select committee, apart from the National Party, declined for various reasons to support it. All complained of a chaotic process, the number of unresolved issues, and many aspects of the scheme's design.

However, the government seems intent on passing the bill under urgency while introducing numerous amendments on which affected businesses will have no opportunity to comment.

Earlier this year in its report on New Zealand, the OECD – a supporter of the Kyoto process – commended a more measured approach.

It pointed out that badly designed policy had the potential to hinder economic growth and quash New Zealanders' aspirations to close the prosperity gap with other countries.

The OECD said that New Zealand's emissions profile made it difficult to reduce emissions quickly, that no nation had demonstrated a willingness to

address climate change at a high economic cost, and that such a policy would not be politically sustainable.

It suggested New Zealand make action contingent on action by other countries and on whether New Zealand would be able to link with other carbon markets.

To its credit, the government has moderated aspects of the ETS. However, the minister for climate change Dr Nick Smith has given three reasons for wanting to push on with the bill. None is compelling.

The first is that the stationary energy and transport sectors would be affected by existing legislation on 1 January 2010. This is no longer feasible anyway and a simple amendment to change the date could easily be passed.

The second is that New Zealand must take legislated policy to the UN conference in Copenhagen next month. However, many countries, including the United States and possibly Australia, will not be doing so and no firm decisions are expected at Copenhagen. International action post-2012 will ultimately come down to whether the world's largest emitters, the United States and China, reach some agreement. New Zealand is likely to have almost zero influence on the outcome.

The third argument is that without legislation there is a risk of further deforestation. However, the rush to convert land was largely brought on by the ETS legislation itself and is likely to abate. Paradoxically, delaying the introduction of agriculture into the ETS may give it some ongoing impetus. However, there are no good grounds for preventing changes in land use and no case for applying different carbon prices to forestry and other sectors.

Also overstated is the argument that industries will be 'subsidised' by taxpayers if emission-reduction measures are not imposed.

As the OECD noted, purchasing international credits is likely to be a least-cost way of meeting some of New Zealand's obligations and households,

not industries, will ultimately carry most of the burden of any measures as costs are passed on.

In addition, our liabilities up to 2012 may well be covered by forestry planting and it is unclear whether they will ever be called up. Beyond 2012, Kyoto-type rules may not apply.

At the eleventh hour of the select committee hearings, the Treasury produced a radically revised estimate of the fiscal costs of the scheme. This fiasco could have been avoided if a proper regulatory impact analysis of the costs and benefits of the scheme had been done. The Treasury itself certified that the RIA in the bill was inadequate.

We still have no understanding of the size of benefits that might compare with the costs of an ETS. The fact that Fonterra, whose commercial interests may be most at stake, considers the \$115 million annual cost that it will face by 2015 to be unjustified suggests it does not consider the commercial benefits are worth that much.

All this suggests that the sensible response to the heated debate should be 'cool it'. It is unacceptable that parliament has not even seen the treaty that is proposed at Copenhagen.

New Zealand should await the Copenhagen outcome and Australian and US decisions, do proper analysis, and then take action that reflects the fact that we are a less wealthy country.

A better starting point might be a low, revenue-neutral carbon tax (or even a simple tax on energy) instead of a complex ETS that may be economically and politically damaging.

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