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Cool Heads Still Needed on Global Warming

This year a cooler approach to climate change policy has gradually taken shape.

For a time, it looked as though the government might make the same mistakes as its predecessor and take rushed, flawed decisions.

Initially, the parliamentary select committee set up to review the emissions trading legislation was to report in March.

Sensibly, it has extended its deliberations and is now not expected to report until next month.

The committee and the government still have much work to do.

A regulatory impact analysis assessing the case for government action and the form it should take has not yet been completed.

This is fundamental to sound decision making and establishing public and political support for durable policy.

Voters need to see evidence that the benefits of policy action exceed the costs. Without buy-in there will be ongoing policy reversals and instability, which would be damaging to both business and environmental interests.

A recent study by the New Zealand Institute of Economic Research and Infometrics investigated the cost side of the equation as an input into a regulatory impact analysis. (The benefit side – essentially the international relations and commercial benefits – has yet to be evaluated.)

Using economic modelling, the study found that the possible costs of an ETS could lie between 1% and 3.5% of GDP (strictly speaking, real gross national disposable income) by 2025, depending on the assumptions used.

This estimate is conservative in that it assumes the rest of the world will take similar action, omits transitional costs, and models the ETS as though it were a carbon tax (an ETS might be more costly because of the uncertainty for business decision making caused by volatile prices).

Another important element of policy that has not been developed concerns institutional arrangements to administer an ETS.

Large sums of money would be associated with carbon trading, with resultant risks of rent-seeking and fraud, as EU experience (and New Zealand's earlier experience with import quotas) demonstrates.

If New Zealand proceeds with an ETS, it is vital that it is administered by an independent regulator, as envisaged in Australia.

A new agency would be costly, however, which is one reason why the Business Roundtable has preferred a low carbon tax, which would be subject to IRD administration and existing tax law.

A current issue facing the government is the emissions reduction target it takes to the UN conference in Copenhagen in December.

The Sign-on campaign led by Stephen Tindall and Greenpeace are urging the government to accept a target of reducing emission levels by 40% below 1990 levels by 2020.

This is absurd to the point of irresponsibility. If it could be achieved it would be at the expense of entire firms and industries and would cost households thousands of dollars annually in higher electricity, petrol and other costs.

We should regard Australia's target (in the range of -4% to -14%) as a benchmark and consider a lower range on the grounds that New Zealand is a less wealthy and industrialised country.

It also makes sense for the government to await the outcome of the Copenhagen meeting and final Australian decisions before finalising its policy.

A concrete international agreement to replace the failed Kyoto Protocol after 2012 is looking increasingly unlikely, despite the fact that the United States and Australia are on board, at least in principle.

Russia, and possibly Canada, have declined even to accept a developed country goal of emissions reductions of 80% by 2050.

China, now the world's largest emitter, and India have both made it plain that they will not put climate change action ahead of their goals of raising millions of their citizens out of poverty.

Without the participation of these countries, action by others is ineffectual.

For their part, most developed countries are struggling to emerge from recession, and polls indicate that large numbers of voters are sceptical of claims that human-induced global warming is occurring.

None of this indicates that global warming is receding as a potential environmental threat, or that New Zealand, as a responsible international citizen, should not play its part in policy action.

The Business Roundtable remains of the view that if the Australian government succeeds in getting senate approval to implement an initial A$10/tonne fixed carbon price as part of an ETS, New Zealand would do best to begin with a simple $5-10/tonne carbon tax, coupled with an equivalent subsidy to forestry sinks and cuts to other taxes.

It could transition to an ETS if a substantial international carbon trading market develops. This is not in prospect at present.

More haste, less speed, should remain the maxim in developing policy.

Global warming is a long-term issue. If scientific assessments that it could occur at dangerous levels are confirmed, the only feasible approach to mitigation is concerted action by all major emitters as new and lower-cost emissions reductions technologies emerge.

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