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### **Climate Change Policy is Becoming a Shambles**

This week the wheels fell off the government's climate change juggernaut – yet again.

No end is in sight to this sorry saga of grandiose plans foundering on practical realities.

First, National signed the Kyoto Protocol without any idea of how the benefits of the decision stacked up against the costs.

Then we had former climate change minister Pete Hodgson arguing that New Zealand would make money from it because of our forestry sinks: “Would you burn a cheque for \$500 million?”

He rubbished New Zealand Institute for Economic Research findings that the calculation was wrong. Now, partly due to misguided Kyoto forestry policy, the cheque has turned into a liability of the same order or more.

Next the government sought to impose a methane levy for agricultural research. It failed for lack of political support, as did a proposed carbon tax after the 2005 election.

Companies were put to much cost and effort negotiating voluntary agreements to cut emissions, which were then abandoned.

Recently the Parliamentary Commissioner for the Environment rightly criticised planned legislation on biofuels of the kind that has contributed to the global food price crisis.

Now the government has announced that transport fuels are not to enter the emissions trading scheme (ETS) until 2011 (instead of 2009) and that trade-exposed industries (like steel, cement and aluminium) will be protected by free allocation of permits until 2018.

But does the backdown have a coherent rationale, or is it more ad hoc political expediency, as some have suggested?

The government has rationalised it on the basis that high oil prices are doing the job of the ETS in reducing emissions.

But if the argument for a carbon tax or an ETS (which is like a tax) is that there is a global 'tragedy of the commons' problem – that emitters do not face the true costs of their emissions – then the market price of oil is irrelevant.

Whatever it is, it is too low without the tax.

Moreover, oil price increases are not confined to New Zealand. Is the government, which was formerly wanting to 'lead the world' towards carbon neutrality, now wanting to give a lead to other countries to slow down emissions reductions efforts?

And why would the government have backed off if it was confident that its arguments for an ETS were robust? Surely if households were persuaded that the benefits of the ETS exceed the costs, they would be happy to pay higher electricity, gas and petrol prices?

The reality is that the government has consistently failed to put before the public an intelligent, reasoned case about the costs households should be willing to incur to protect New Zealand's interests over global warming. It has been pretending that proposed actions towards grandiose goals are more or less pain-free. Only last week it was dismissing another NZIER report which concluded that the ETS might cost around 22,000 jobs and \$3000 per household.

What's more, the NZIER estimate was understated because it was not based on the government's stated 'top priority' goal of raising New Zealand's annual rate of economic growth to 4% or more. The Business Roundtable has been pointing out that, on present policy settings, the goals for growth and for carbon neutrality are inconsistent in the time frames the government is proposing.

The government's leading economic advisor, the Treasury, hasn't helped. It appears to have done no rigorous assessment of the case for the current course of action, and has recently been implying that New Zealand could avoid stringent domestic emissions reductions efforts by meeting its Kyoto obligation through purchasing credits internationally.

Yet only last year it was advising the government that to have credibility, its "overarching goal of carbon neutrality would necessarily involve strong domestic emissions reductions."

The irony in all this is that most business organisations have been saying that it would be reasonable for New Zealand to take careful steps to reduce emissions now that Australia is considering similar plans. The Business Roundtable has suggested an initial carbon tax of perhaps \$10/tonne or an ETS capped at that level.

However, there are many features of the government's plans that have still not been thought through, and many that make no sense at all, such as the ban on new thermal generation.

As this week's events demonstrate, no policy will be politically sustainable unless it is well-designed and properly justified to those who will bear the costs. The current uncertainty impedes business decision making and does nothing for environmental goals.

Will the government learn lessons from the latest fiasco? Only if it moves decision-making to a slower track in line with Australia, listens to valid criticisms of its policy proposals, and puts before the public a detailed, properly costed analysis of the case for action that New Zealanders can buy into.

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