

Submission

by

Business|NZ

to the

**Foreign Affairs, Defence and Trade
Select Committee**

on the

**National Interest Analysis and Ratification of
the Kyoto Protocol to the
United Nations Framework Convention on
Climate Change**

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1. INTRODUCTION

- 1.1 This submission is made on behalf of Business New Zealand, incorporating regional employers' and manufacturers' organisations. The regional organisations consist of the Employers and Manufacturers Association (Northern), Employers and Manufacturers' Association (Central), Canterbury Manufacturers' Association, Canterbury Employers' Chambers of Commerce, and the Otago-Southland Employers' Association. Business New Zealand represents business and employer interests in all matters affecting those sectors.
- 1.2 One of Business New Zealand's key goals is to see the implementation of policies that would see New Zealand retain a first world national income and to regain a place in the top ten of the OECD in per capita GDP terms. This is a goal that is shared by the Government. It is widely acknowledged that consistent, sustainable growth in real GDP per capita of well in excess of 4% per annum (and probably closer to 7-8%) would be required to achieve this goal. Continued growth of around 2% (our long-run average) would only continue New Zealand's relative decline.
- 1.3 The health of the economy also influences the ability of a nation to deliver on the desirable social and environmental outcomes that we all want. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.
- 1.4 Business New Zealand believes climate change is an important issue and the business community wishes to participate in and contribute to the discussion on what role New Zealand plays in responding to climate change.

2. THE NATIONAL INTEREST ANALYSIS

- 2.1 The National Interest Analysis (NIA) has considered a number of matters relevant to ratification of the Kyoto Protocol, identified potential advantages and clear disadvantages and concluded that it is in New Zealand's national interest to ratify the Kyoto Protocol¹.
- 2.2 Business New Zealand submits that this conclusion is not justified by the analysis presented:
 - there is a clear need for further analysis and evaluation of the economic, social and environmental outcomes once the preferred policy options are known;
 - the NIA, as currently presented and in the absence of firm policy, is inadequate to determine whether or not ratification is in the national interest;

¹ "National Interest Analysis – Kyoto Protocol to the UN Framework Convention on Climate Change", NZ Climate Change Project, 13 February 2002, p50.

- does not identify what difference implementation of the Protocol would or would not make to the effects of climate change on New Zealand; and
- while identifying a number of significant risks associated with ratification it fails to assess the management of those risks through deferral of ratification.

2.3 Business New Zealand recommends that the Foreign Affairs, Defence and Trade Select Committee:

- advise the Government that the current NIA has failed to make a convincing case for ratification at this time;
- recommend that the Government formulates detailed policies to address New Zealand's obligations under the Protocol and subject those policies to robust economic, social and environmental analysis; and
- invites the Government to resubmit an NIA that takes full account of this analysis in its recommendation on the timing of ratification and the implementation of policy measures.

3. POLICY DEVELOPMENT

3.1. Business New Zealand also recommends that the Committee advise the Government of the importance of developing policies that are consistent with a growing and sustainable economy and that include full consideration of:

- the critical need to maintain international competitiveness for all sectors of the economy;
- the urgent requirement to promote growth and innovation opportunities for New Zealand enterprises;
- the dynamic of the productive sector of the economy with the high predominance of small to medium enterprises (SME's);
- the role large regional manufacturing sites have on local employment and social aspirations and the need to ensure climate change policies do not negatively impact on those sites; and
- the need to ensure that distortionary effects do not result between sectors or regions.

3.2 Given the uncertainties and long-term nature of the potential effects of climate change, Business New Zealand believes it is of critical importance that policy makers take a precautionary approach that avoids "quick fix" solutions.

- 3.3 Transforming the global economy, or even a significant part of it, to “carbon free” status may well be a desirable and possibly achievable goal. If, however, such a transformation is to occur it will take place not over years but over decades.
- 3.4 New Zealand’s policy development in regard to climate change needs to recognise this fact and, rather than focussing on short-term emission reductions based on questionable premises (“...climate change presents a significant risk to our way of life”²), serious consideration needs to be given to how New Zealand could assist and participate in this transformation. Business New Zealand would welcome the opportunity to participate in such policy development
- 3.5 We note that the only part of the NIA that seems to recognise the value of such an approach is contained within the discussion on “goals and principles for the choice of policies” (pp 29-30). The principles discussed here have not, to date, been reflected in the rushed policy consultation process.
- 3.6 Business New Zealand submits that the principles discussed in this section of the NIA should be reflected in any and all policy intended to address global climate change. In particular, the following principles are worthy of further examination:
- avoid carbon leakage.....;
 - development will be incremental, building from low cost policies now to policies that expose emitters to the full emissions price....and as countries currently without emissions targets take on targets and expose their economies to the international price of carbon;
 - therefore will be adaptable and flexible, recognising the need for businesses and other stakeholders to accept and respond to policy changes. They should allow for a transitional staged approach to give affected emitters time to adjust;
 - must be simple and comprehensible in order to effect the necessary behavioural changes;
 - will be increasingly globally focussed;
 - will be developed in close consultation with stakeholders and will include processes for partnership and co-operation with affected stakeholders;
 - will recognise that competitiveness now and tomorrow is important for all our industries (including new entrants); and
 - should avoid inappropriate distortionary effects on investment ³

² ibid p50

³ ibid pp29-30

- 3.7 Business New Zealand recommends that the Committee also gives attention to the difficulties inherent in developing policy that is required to offer an effective pathway to addressing a very long-term problem. This involves careful consideration of numerous uncertainties and difficult inter-generational cost and benefit issues. The NIA alludes to such issues (p13) but does not expand on them.
- 3.8 We believe that it would be more productive to focus attention on the longer term view. Given the small size of our economy and our very small impact in terms of emissions it would seem that we could better serve the global commons by attempting to formulate policies and investigate technologies that offer innovative and transferable methods of moving to a less carbon dependent economy.
- 3.9 The current focus on emission reductions in the short term and the repeated references to fiscal measures are, in our view, not the way to sustainably grow the economy or most effectively address the climate change issue.
- 3.10 Business New Zealand requests the opportunity to be heard in support of this submission.

4. SUMMARY OF RECOMMENDATIONS

- 4.1 Business New Zealand recommends that the Committee:
- advises the Government that the current National Interest Analysis has failed to make a convincing case for ratification at this time;
 - recommend to the Government that it formulate detailed policies to address New Zealand's obligations under the Protocol and subject those policies to robust economic, social and environmental analysis;
 - invites the Government to resubmit a National Interest Analysis that takes full account of this analysis in its recommendation on the timing of ratification and the implementation of policy measures;
 - reports on the importance of developing policies that are consistent with a growing and sustainable economy that address:
 - o the critical need to maintain international competitiveness for all sectors of the economy;
 - o the urgent requirement to promote growth and innovation opportunities for New Zealand enterprises;
 - o the dynamic of the productive sector of the economy with the high predominance of small to medium enterprises (SME's);

- o the role large regional manufacturing sites have on local employment and social aspirations and the need to ensure climate change policies do not negatively impact on those sites; and
 - o the need to ensure that distortionary effects do not result between sectors or regions; and
- highlights in its report the difficulties inherent in developing policy that is required to offer an effective pathway to addressing a very long-term problem involving numerous uncertainties and difficult inter-generational cost and benefit issues.