

Submission

By

Business|NZ

to the

Ministry for the Environment

on the

**Measures to reduce greenhouse gas
emissions in New Zealand post-2012 –
discussion paper**

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**MEASURES TO REDUCE GREENHOUSE GAS EMISSIONS IN NEW
ZEALAND POST-2102
SUBMISSION BY BUSINESS NEW ZEALAND
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1 INTRODUCTION

- 1.1 This is a submission by Business NZ on the discussion paper on 'Measures to reduce greenhouse gas emissions in New Zealand post-2102, published by the Ministry for the Environment on December 11, 2006.
- 1.2 The following suite of documents has also been considered:
- 1.2.1 *'Draft New Zealand Energy Strategy to 2050: Powering our future – towards a sustainable low emissions energy system'*
- 1.2.2 *'Transitional measures – Options to move towards low emissions electricity and stationary energy supply and to facilitate a transition to greenhouse gas pricing in the future,'* published jointly by the Ministry for Economic Development and Ministry for the Environment on December 11, 2006.
- 1.2.3 *'Draft New Zealand Energy Efficiency and Conservation Strategy'* released for consultation by the Hon David Parker, Minister of Energy and Jeanette Fitzsimons, Government spokesperson – Energy Efficiency and Conservation, on December 14, 2006.
- 1.2.4 *'Sustainable Land Management and Climate Change – Options for a Plan of Action,'* published jointly by the Minister of Agriculture and Forestry and the Minister Responsible for Climate Change Issues.

2 BACKGROUND

- 2.1 Business NZ accepts from the currently available scientific research that climate change is a serious long-term global issue, but wants to ensure no pre-emptive action is taken that may harm the economy of New Zealand without reducing the impact of global greenhouse gas emissions.
- 2.2 On this basis we are concerned that government perceives proposed climate change policies to have only a moderate cost on the economy and there is consideration of bold goals and objectives without adequate evidence that cost benefit analysis has been undertaken.

- 2.3 While this paper focuses on actions Post-2012 the date is somewhat arbitrary and simply relates to the year at which existing Kyoto commitments expire. Without a clear indication as to the level of global commitment beyond the first period it is difficult to agree on what the New Zealand position should be.
- 2.4 In addition New Zealand is unique in the developed world as it already has a high percentage of renewable generation. More than 50% of its emissions are from the agricultural sector, only 25% of its emissions are from the industrial and electricity generation sector and it has a significant proportion of plantation forests.
- 2.5 Regardless Business NZ supports the goal of promoting an internationally agreed emissions trading market as part of the second commitment period in line with the NZIER report on this subject (copy attached).

3 CLIMATE CHANGE RISKS

- 3.1 The Post-2012 document states that climate change is a serious global problem, probably the most serious challenge our planet faces in the 21st century. However it does not offer any substantiation for this conclusion or explain how it compares with other serious challenges such as poverty and starvation.
- 3.2 There is a real risk that international action will see the progressive destruction of eco systems in developing countries such as Brazil, where native forests are being clear felled to allow the planting of crops for bio-fuel production.
- 3.3 It should not be inferred from this that Business New Zealand does not view climate change as a serious problem, but it is clear that there is uncertainty regarding the science behind it, and that leads to uncertainty in forecasting future effects on the global environment. This risk can be managed since the science is supported by computer simulations that get better with every additional year of data. On this basis it is prudent to take small steps in line with the flow of verifiable information.
- 3.4 The issue is further complicated by the fact that the ultimate solution is technology, but the time frame and cost are indeterminate and regardless of any future action we are faced with at least 30 years of progressive climate change for which we need to adapt.

- 3.5 There is a real risk that the perceived need for political action internationally and the gross exaggerations of likely future scenarios by some factions will create more problems than they solve.
- 3.6 Climate change is a serious long-term global issue not only because of the predicted outcomes to weather patterns but also because poorly co-ordinated international actions may harm the global economy. It is possible that as a part of this New Zealand may implement policies that harm our economy without making any difference to global greenhouse gas emissions.
- 3.7 The Prime Minister's recent call for New Zealand to become the first carbon neutral economy is a prime example of the potential risk of promoting policies even though no cost benefit analysis of that policy has been undertaken. We are being asked to submit comments on the draft New Zealand Energy Strategy and discussion documents where there is absolutely no mention of a carbon neutral goal yet it appears that this is now policy.
- 3.8 This is not the time for knee jerk actions as the bigger the perceived problem, the greater the importance of analysing the problem, considering all options and choosing policies that are of least cost and enhance our overall welfare.

4 LACK OF ANALYSIS

- 4.1 The post-2012 paper states changing business-as-usual practices to reduce emissions will impose a moderate economic cost, as well as generating economic and other opportunities. It also states that Cabinet has invited Ministers to consider 'bold goals or objectives' as part of their ongoing sectoral work programme responsibilities.
- 4.2 Business NZ notes that government has not undertaken any cost benefit analysis of available options before making the above comments or issuing direction to Ministers. Therefore Business NZ has concerns that government appears to perceive the proposed climate change policies as only having a moderate cost on the economy when no cost benefit analysis has been presented to substantiate this.
- 4.3 It is essential that government undertakes robust cost benefit analysis of all options and ranks them in priority by Net Present Value before making final decisions for post-2012 policies or speculating what the outcome of this analysis might be.

- 4.4 A cost benefit analysis of the proposed intervention in the electricity sector during the period 2008-2012 undertaken by Law and Economic Consulting Group on behalf of the Greenhouse Policy Coalition clearly demonstrates the need for robust cost benefit analysis. Treasury regularly calculates the government liability for the first Kyoto commitment period and most recently adopted a value of approximately NZ\$13/tonne CO₂. The Transitional Measures paper suggests that existing thermal generators would progressively face the full cost of carbon in the period 2008-2012 and the recent announcement by the Green party would have thermal generators face the full cost carbon from January 2008. If the proposal in the Transitional Measures was implemented LECG calculate the cost/tonne CO₂ would be NZ\$124 and if the Green Party proposal was implemented the cost would be NZ165. Under the circumstances it is clear that it would be more cost effective for New Zealand to buy carbon credits internationally.
- 4.5 Although Business NZ welcomes the Post 2012 Discussion Paper as the beginning of a conversation, it is abundantly clear that there must be robust analysis of every proposed measure before the conversation can progress sensibly and well before any decision is made to implement policy.

5. CONCLUSION

- 5.1 Business NZ supports the goal of promoting internationally agreed market measures post-2012 as New Zealand is likely to be a net purchaser of credits rather than a seller until such time as new technology in the agricultural sector is freely available at low cost.
- 5.2 On the surface, the option of a broad based carbon charge has been seen as being politically unpalatable since the government decided not to apply a carbon charge in late 2005 hence the Post-2012 paper (and the transitional paper) has tended to focus on trading mechanisms.
- 5.3 Of greater import however, is the need to have a common and transparent international system. It would be unlikely that international agreement could be reached on a consistent level of taxation to reflect the cost of carbon, therefore the emissions trading option is the only viable way of setting a single international price for carbon.
- 5.4 While Business NZ agrees with the preference of Ministers to implement measures that are consistent with New Zealand's economic and sustainable development interests and the longer-term international climate change policy framework, New Zealand cannot

assume that other countries will adopt similar measures. We will therefore need to monitor the policies of other countries to ensure our measures are consistent.

- 5.5 Business NZ prefers market mechanisms over regulatory interventions unless there is significant market failure which precludes the desired outcome. The post-2012 paper considers two possible regulatory interventions designed to facilitate a more rapid uptake of renewable generation. This assumes that renewable generation is not competitive, that new renewable generation will displace thermal plant and that the Resource Management Act as originally intended has failed. These issues aside, it is not clear why there needs to be such focus on a sector of the economy that contributes so little to our climate change liability.
- 5.6 The Post-2012 Paper states that the government would introduce a broad price-based measure for New Zealand at some date not earlier than 2012 and when international conditions were appropriate. Business NZ agrees with this approach and has sponsored a significant piece of research conducted by the New Zealand Institute of Economic Research with technical input from Frazer Lindstrom and Holcim Cement, funded by Genesis Energy, Mighty River Power, Contact Energy, Solid Energy, Fonterra, New Zealand Steel, Fletcher Building, Rio Tinto Aluminium (copies attached). This report examines operational emission trading schemes as well as those under consideration and develops a proposal for a New Zealand scheme, including the initial allocation methodologies. This proposal has the general support of all the participants but will need to undergo detailed cost benefit analysis before any of the proposals, in particular the allocation methodologies, are implemented. None the less this report should form a basis for further development as the international scene becomes clearer.
- 5.7 To this end, Business NZ recommends keeping all options open and to only proceed with detailed design once international arrangements start to materialise rather than attempting to predict that outcome and commence detailed design now. This would not preclude the adoption of the allocation methodologies proposed, subject to detailed cost benefit analysis, and coupled with voluntary agreements through 2008-2012, this would be likely to deliver a better outcome than sector specific regulation.

APPENDIX

6 ABOUT BUSINESS NZ

- 6.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 64-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 6.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 6.3 Business NZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.