

NZ Political Party Leaders
NZ Members of Parliament

25 June 2008

**Pan Industry Request to Leaders of all Political Parties
& Members of Parliament**

Dear Political Leaders and Members of Parliament

The undersigned are writing to you to express on behalf of our collective memberships, and in the national interest, our concern at the process underway to introduce an emissions trading scheme via the Climate Change (Emissions Trading and Renewable Preference) Bill.

We request that a further round of public comment on the Bill be permitted, given the large number of changes made recently to it in select committee.

The Bill as reported back from the Select Committee has not taken heed of the serious concerns raised by those in the productive sectors of the economy, the sectors that generate the export receipts and employment in New Zealand.

In what is one of the most far reaching economic reforms New Zealand has ever attempted, many submitters to the Select Committee were given only 10-15 minutes to present on their concerns, while the Select Committee considered over 60 reports in 12 hours, and had three days to consider over 1000 amendments to the Bill. The Departmental Report on the Bill is longer than the Bill itself. This is a very rushed process for a matter of such great economic significance to New Zealand.

The complexity inherent in the introduction of an emissions trading scheme is immense, even more so when it is the most comprehensive scheme in the world. A scheme including all sectors and all gases is something that no other government in the world has yet attempted, and there is no precedent to follow. A comparison of the only other mandatory emissions trading scheme, the European Union ETS, shows that the New Zealand scheme (because it is much more comprehensive and there are proportionally less free allocations) is five times more expensive than the EU scheme on a per unit basis and 10 times more expensive on a population basis (see attached appendix).

A combination of the emissions trading scheme and the heavy restrictions on new thermal electricity generation are expected to increase the price of electricity by up to 40%. The costs of the scheme will be ultimately borne by households as business will reflect the cost in their prices or be forced to down-size or relocate.

All the economic analysis undertaken (Castalia, Infometrics, NZIER, Motu, CAENZ) indicates the impact on the economy, on jobs and wages will be severe, particularly if other countries choose not to follow New Zealand's ambitious lead.

As it is drafted, the effect of the Bill will be the loss of industry and agricultural production to other parts of the world where they do not face a cost on carbon, because the Bill fails to adequately address the loss of international competitiveness of our productive sectors.

There will be a transfer of wealth to developing countries as industry and agriculture are forced to buy units from international brokers to cover their emissions, and investment in New Zealand will become less competitive once an additional cost of carbon is factored in.

The reported back Bill fails to provide any safety valve to protect against a high and volatile price of carbon, in an international carbon market that lacks liquidity and where the price of carbon reflects political decisions made in Europe, rather than the least cost emissions abatement.

New Zealand business and agriculture are supportive of the need to take action to contribute to the global effort to address climate change and are prepared to take action. Indeed, many large industrials in New Zealand have already reduced their emissions below 1990 levels. We would be supportive of an emissions trading scheme that puts a marginal price on greenhouse gas emissions and would send a price signal to incentivise on-going improvements in emissions intensity.


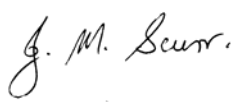



If the Bill is passed in its current form, economic analysis shows the result will be increasing global emissions as our productive capacity progressively exits New Zealand, a wealth transfer from New Zealand to developing countries through the purchase of units on international carbon markets, fewer jobs, lower wages, higher electricity, fuel and food bills.

There is too much of importance in the Bill being left to regulation, which is constitutionally bad practice and likely to result in poor policy outcomes. We believe policy of this magnitude should have the scrutiny of the whole of Parliament. In addition, the administration of the scheme is to be put in the hands of Ministers and Officials. We believe a better approach would be an independent regulator, such as mooted for Australia.

We urge all political parties to act in the best interest of New Zealand Inc and take the time to get this complex matter right.

We respectfully request that public submissions now be invited on the reported back Bill.

Yours sincerely,

<p>Catherine Beard Greenhouse Policy Coalition</p>  <p>0274633212</p>	<p>Frank Brenmuhl Federated Farmers</p>  <p>04 473 7269</p>	<p>Tony Friedlander Road Transport Forum</p>  <p>04 472 3877</p>	<p>Ralph Matthes Major Electricity Users Group</p>  <p>04 494 0996</p>
<p>Roger Kerr NZ Business Roundtable</p>  <p>04 499 0790</p>	<p>Doug Gordon NZ Minerals Industry Assn</p>  <p>04 382 8530</p>	<p>Charles Finny NZ Chambers of Commerce</p>  <p>04 914 6517</p>	<p>Peter Bodeker Wood Processors Assn of NZ</p>  <p>04 473 9220</p>
<p>John Pfahlert Petroleum Exploration & Production Assn</p>  <p>04 472 1993</p>	<p>John Scurr Deer Industry NZ</p>  <p>04 473 4500</p>	<p>Phil O'Reilly Business NZ</p>  <p>04 496 6552 021 711 866</p>	<p>Owen Symmans Seafood Industry Assn</p>  <p>04 802 1513 0274 948 984</p>
<p>Tim Richie Meat Industry Assn</p>  <p>04 495 8380</p>	<p>Mike Petersen Meat & Wool NZ</p>  <p>021 243 7344</p>		



DEER INDUSTRY
NEW ZEALAND



Table 1 : Emissions Trading Scheme Effective Unit Cost Comparison in 2011

ETS	Parameter	Units	Forecast Emissions	Free Allocation	Auctioning (-5%)	Internal Abatement	CDM/JI Purchase
EU ETS	Emissions Covered	million tCO ₂ e	2,171	1,979	104	69	20
	Unit Price	€/tCO ₂ e		-	€ 24	€ 29	€ 19
	Cost by Category	million €		-	€ 2,500	€ 2,001	€ 380
	Total Cost	million €					€ 4,881
	Effective Unit Cost	€/tCO ₂ e					€ 2.25
NZ ETS	Emissions Covered	million tCO ₂ e	40	18	-	5	17
	Unit Price	€/tCO ₂ e		-	-	€ 19	€ 19
	Cost by Category	million €		-	-	€ 95	€ 323
	Total Cost	million €					€ 418
	Effective Unit Cost	€/tCO ₂ e					€ 10.45

Notes

- 1 EU ETS data from World Bank and Deutsche Bank
- 2 NZ ETS data from NZ Government Emissions Trading Group
- 3 EU ETS Internal Abatement Prices = EUA11 price 6 June 08
- 4 CDM-JI Price = sCER08-12 Strip price 6 June 08
- 5 EU Auctioning = mid point of EU ETS and CDM/JI Price
- 6 EU ETS Internal Abatement Prices = CDM/JI Price

Expanded Notes

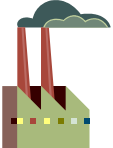
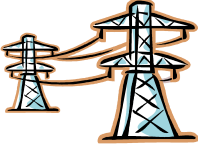




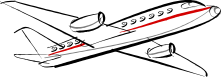



- 1a) Emissions forecast are based on Figure 6 of Deutsche Bank's carbon Emissions Report dated 30 May 2008
<http://www.reutersinteractive.com/Carbon/documents/download/?FsId=78d713db-bb1e-43c4-af5f-63fe8c7798d9>
- 1b) The auction level of 5% was taken from p11 of States and Trends of the Carbon Market 2008 issued by the World Bank
<http://siteresources.worldbank.org/NEWS/Resources/State&Trendsformatted06May10pm.pdf>
- 1c) The CDM/JI purchase level was taken from Deutsche bank forecast in Table 3 on p9 of States and Trends of the Carbon Market 2008
- 2) NZ ETS data was drawn from table presented at
<http://www.climatechange.govt.nz/nz-solutions/climate-change-leaders-forum/supply-demand-nz-units.shtml>
Of pre 1990 Forestry allocation 3MTp.a. is assumed to come to market
Industry allocation is 15MTpa
Total emissions covered = 40MT
The split between internal abatement and external is judgemental based on forestry unit release
- note does not affect outcome as common price for internal and cdm/ji
- 3 & 4 Reuters prices
<http://www.reutersinteractive.com/Carbonprices>

Table 2 : Emissions Trading Scheme Exposure per Capita in 2011

Parameter	Units	EU 27	New Zealand
Population	million	493	4.23
Emissions Covered	million tCO ₂ e	2,171	40
Emissions covered per head	tCO ₂ e/capita	4.40	9.46
Effective Unit Cost	€/tCO ₂ e	€ 2.25	€ 10.45
Effective Cost per Capita	€/capita	€ 9.90	€ 98.82

Note 1 population data for 2006

Source for population data www.statistics.govt.nz
http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090_30070682_1090_33076576&_dad=portal&_schema=PORTAL

Sector		NZ ETS	EU ETS
Industry		<p>\$\$ 2010 >90% 2005 level free allocation</p>	<p>€ ~95-100% forecast level free allocation + new entrants</p>
Electricity Generation		<p>\$\$\$ 2010 no free allocation</p>	<p>€€ ~70-90% free allocation + new entrants</p>
Forestry		<p>\$\$ 2008 all pre-1990 >21Mt</p>	-
Agriculture (CH ₄ , N ₂ O)		<p>\$\$ 2013 >90% 2005 level free allocation</p>	-
Fishing		<p>\$\$\$ 2011 all</p>	-
Small / Medium Business		<p>\$\$\$ 2010 all fuels+electricity</p>	<p>€ electricity only</p>
Aviation		<p>\$\$\$ 2011 all domestic</p>	<p>€€ 2012?</p>
Trucking		<p>\$\$\$ 2011 all</p>	-
Cars		<p>\$\$\$ 2011 all)</p>	-
Home Heating (lpg, gas, coal, electricity)		<p>\$\$\$ 2010 all fuels+electricity</p>	<p>€ electricity only</p>