

13 July 2009

Hon Peter Dunne
Chair
Emissions Trading Scheme Review Committee
Parliament Buildings
WELLINGTON

Dear Mr Dunne

Supplementary Submission: the NZIER/Infometrics Report on Climate Change Policy

NZIER and Infometrics have prepared a report for the Ministry for the Environment dated 20th May 2009 entitled "Economic modelling of NZ climate change policy" ('the Report').¹ The Report summarises the results of the separate NZIER and Infometrics Computable General Equilibrium (CGE) models. Several recommendations flow from it.

While viewing the Report as a net addition to the conversation, Business New Zealand has some residual concerns regarding its purpose and the use to which it may be put by the Select Committee. While indicative, the Report cannot be seen in any sense as determinative.

Fundamentally, Business New Zealand's concerns lead it to conclude that a linear relationship cannot be drawn by policy makers between the Report and the outcome sought from the Select Committee's Terms of Reference.

The Terms of Reference for the Committee required:

".....a high quality, quantified regulatory impact analysis (RIA) to be produced to identify the net benefits or costs to New Zealand of any policy action, including international relations and commercial benefits and costs."²

But the Report is not a RIA. As such the Report is not helpful for reaching conclusions on the net public benefits of an emission trading scheme (or of any other type of response to addressing climate change problems for that matter).

¹ See <http://www.climatechange.govt.nz/documents/economic-modelling-of-new-zealand-climate-change-policy/>

² See http://www.parliament.nz/en-NZ/PB/SC/Details/EmissionsTrading/9/b/e/00SCETS_TOR_1-Terms-of-reference-of-the-Emissions-Trading-Scheme-Review.htm

At an absolute minimum, a robust RIA would need to:

- a. define alternative policy pathways rather than one-off scenarios;
- b. acknowledge uncertainty. Rather than trying to make specific forecasts 20 years out, it is important to figure out under each policy pathway how we would deal with the inevitable surprises. For example:
 - how would the system respond if leakage is greater than expected?
 - how would we respond to unpredictable actions by other trading partners?

We need to know the option value of each pathway and the possible regrets;

- c. have the analysis at sector level, and to focus on adjustment and transitional issues; and

Finally, the analysis will ideally require:

- d. a mix of quantitative and qualitative analysis, and will draw on various quantitative techniques (including CGE modelling).

As a matter of good public policy, a robust RIA incorporating the above facets should be developed. However, we do not see that its absence should, at this juncture, further delay the work of the Select Committee. We base this view on the simple observation that the RIA needs to be done on the final package of changes to the scheme, and that this is not within the purview of the Select Committee.

In light of this, we ask the Select Committee, as a part of its final report, to recommend that the Government complete a more comprehensive RIA once the final shape of the scheme has been developed.

Kind Regards

A handwritten signature in black ink, appearing to read 'P. O'Reilly', with a long horizontal stroke extending to the right.

Phil O'Reilly
Chief Executive