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New Zealand Chambers of Commerce and Industry

Submission

Emissions Trading Scheme Review Committee

Review of the Emissions Trading Scheme

February 2009

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand. We welcome this opportunity to make comments on the proposed Emissions Trading Scheme (ETS).

We would appreciate an opportunity to speak to our submission at the Select Committee hearing.

Submission

NZCCI welcomes this review of the Emissions Trading Scheme (ETS). We are unhappy with the ETS as it is currently designed and we were unhappy with the process followed in passing the legislation last year.

We hope that this year's review can both improve policy in this area and achieve a general consensus between the major political parties.

Business needs certainty for planning and investment. Without a consensus there is a risk that significant changes in policy will occur as early as the next election. This need for policy certainty also argues for us to be mindful of the international process. The Kyoto agreement expires in 2012 and the chances are that there will be a replacement agreement negotiated. This will probably have different rules associated with it to those (often deeply flawed) rules that were negotiated for the original Kyoto agreement.

Given that 2013 is fast approaching we don't think it sensible for us to be designing an elaborate ETS that is consistent with the Kyoto rules, when it is likely that a new set of rules

is likely to emerge for the longer term. This suggests to us that the most sensible policy approach is to reach a consensus on a policy pathway which allows now for the likely changes that will be agreed internationally.

It is useful to set out the principles that policy in this area should conform to. NZCCI believes these to be the following:

- Policy should try and effect behavioural change in those areas where mitigating technology exists;
- It should help fund research in those areas where mitigating technology does not yet exist;
- It should fund the Kyoto liability;
- It should ensure that it allows us to meet those reduction targets that are agreed as part of the current international negotiations; there are no reduction targets agreed! We have agreed to take responsibility for 100% of 1990 emissions and you have covered this in bullet 3
- It should be fiscally neutral;
- It should be as similar (in terms of the price impact, and/or to enable policies to merge over time) as possible to that adopted by our major trading partners – Australia, US, Japan, Korea and the EU;
- It must be WTO consistent;
- It should not harm the international competitiveness of New Zealand companies.

The current policy pretty much fails to meet all of these principles:

- Mitigating technology just doesn't exist for some of the gases and sectors that the policy is covering;
- It was unclear whether it would fund research into mitigating technologies;
- It was unclear as to whether it could actually fund our full Kyoto liability;
- It did allow for a review once the international negotiations are complete although the criteria for this review were not specific and did not in themselves provide much confidence for business.;
- It was not fiscally neutral (indeed it would have greatly increased Government revenue);
- It was more ambitious than any scheme in existence or contemplated by any of our trading partners;
- There is uncertainty over the WTO consistency of the policy;
- It would have harmed the export competitiveness of pretty much every sector.

Our proposed policy in contrast is fully consistent with our desired principles:

- We propose that the policy would apply to only two greenhouse gases (CO₂ and), the two gases for which mitigating technologies exists. There would be no industry or sectoral exclusions from this policy
- That there be a substantial increase in New Zealand's research into mitigation technologies for the other four gases;
- That the Government move now to secure options over credits that will allow us to meet our liability under Kyoto;
- Once we know the cost of the credits that we have purchased options for, we set a tax on emissions of CO₂ and (insert name of gas) sufficient to cover the cost of these credits and the agreed level of new research into mitigation technologies [if the consensus is that we have a trading regime instead of a tax the above strategy should still be followed. A cap would need to be set at a level that would allow us to meet the cost of the credits purchased and the research expenditure upgrade. The

net effect of such a trading scheme would be pretty much identical to a carbon tax]; I think you need to leave out this bracketed piece because the Government gets little or no revenue in this stage of an ETS – unless they auction units to TE firms rather than provide free allocation.

- That policy be subject to ongoing regular and independent review, and that in particular a full review be carried out once a sufficient number of countries ratify the outcome of the current international negotiations. Our policy would then, consistent with the principles stated above, be aligned to the new international regime and the domestic policies adopted by Australia, US, Japan, China, and the EU (our major trading partners). Our expectation would be that this regime would be based around emissions trading;
- Once all major parties are convinced that mitigation technology is available for those gases initially excluded from the New Zealand tax/trading regime then they should be brought into the regime so long as our trading partners similarly include them in their regimes.

We note that the above policy would be WTO consistent and would not reduce our international competitiveness.