

### Steady as she goes - A business perspective on the NZ ETS amendments

By John Carnegie, Business NZ

On July 2, changes to the NZ ETS were announced. Key changes were the indefinite retention of the 50% unit 'discount' and \$25/t price cap, the indefinite deferral of the entry of biological emissions, not placing a limit on the amount of international units, not incorporating the forestry rule 'wins' at Durban into the domestic scheme, and the absence of any explicit move to link in light of uncertainty about the longevity of the Australian scheme and the stability of the EU ETS. Introduction of the power to auction NZUs survived the consultation process.

Other decisions were also made – see: <http://climatechange.govt.nz/emissions-trading-scheme/ets-amendments/index.html>.

There were various reactions to the changes. Businesses with surrender obligations breathed a sigh of relief that additional costs would not be imposed at a time of global economic fragility and international inaction. Exporting businesses under the threshold to receive allocation remained concerned. This includes food processors, some of New Zealand's largest exporters. Carbon farmers, green NGOs and others were generally indignant. Debate ensued about the level of 'subsidy' being provided to protect the international competitiveness of New Zealand businesses. Some complained that it would damage New Zealand's international environmental reputation, or depending on the argument, that we will alternatively be dragged into oblivion by the EU ETS, or we should simply do what Europe and Australia do. Foresters, free to export their own units, complained that emitters should be prevented from importing RMUs.

The reality is somewhat less colourful than the debate. The fundamentals of the original 2008 scheme remain. The core objective of the NZ ETS remains 'least-cost' compliance, the scheme remains linked to an international cap, and unfettered access to international units of sufficient environmental integrity is allowed. And the scheme, as designed in 2008, will continue to reflect the international price of carbon into

the domestic economy. But now, some parties argue these design features are no longer fit for purpose.

It is true that the current price is low - but the eventual correction of serious EU ETS design flaws will rectify this. It is also true that domestic demand will be flat - but New Zealand has a proportion of renewable electricity that most other countries can only dream of (~77% in 2011), the absence of Soviet-era technologies, and a biological emission profile most developing countries would be proud of. So it is unclear why New Zealand should impose a higher domestic price than that which is internationally traded. New Zealand is not Europe or Australia. Each is unique and there is no logic to each having the same price, at least not until there is a deep and liquid international carbon market. We are some way off that. The current low price also provides some useful information about the level of international (in)action. Business is pleased that the government was not spooked into taking action on low prices when none was warranted.

Business is not planning on the NZ ETS going away. And the expectation is that the carbon price will eventually be much higher than it is today. We should reflect on what's happening in Australia and on the stability of the NZETS - trying now to forge bilateral links with Australia (or any other jurisdiction) is a bit like trying to hit a moving target.

New Zealand business can be proud of its efforts to date and its international reputation remains intact.

Getting the design of an emissions trading scheme 'right' has to be one of the most fraught and complex policies to implement. Key to this is getting the balance right between those who face the cost of carbon, and those who might benefit from it. The NZ ETS remains the best tool to manage these complex trade-offs.

Complexity makes any scheme vulnerable to swings in policy positions. Hopefully the NZ ETS will now be given time to stabilise. Steady as she goes is the order of the day.