Business NZ recommendations to incoming Government:

Emissions Trading & Energy

While agreeing that New Zealand needs to contribute to the global mitigation of climate change and that an emissions trading scheme (ETS) is the preferred means, there are concerns with the design recently legislated for.

In targeting an absolute reduction in emission levels the scheme exposes our export sectors to unfair competition from countries that have no mitigation policy or have ensured their policy offers absolute protection to their export sectors.

The design of our scheme imposes a liability and cost on our economy beyond our Kyoto commitment, possibly seven times our Kyoto liability as estimated by Treasury.

The Australian government is committed to do nothing that will impact negatively on their export sector or economy as a whole. Their proposed scheme is modelled on the EU scheme which has given 100% protection to its export sectors. By limiting their scheme to stationary energy and industrial processes and requiring the mitigation of CO_2 only, they have minimised harm to their economies.

An important factor in the EU and proposed Australian schemes is the decoupling of the Allocated Amount Units (AAU's) provided to each participant under Kyoto (to cover their 1990 emission levels for all six greenhouse gases) from the unit of trade adopted for their internal emissions trading scheme. By doing this the EU and Australia can give away or auction their internal units thereby capping the price for participants. This is a major difference from that proposed for New Zealand which will be the only country allowing AAU's to be traded off-shore by individual participants while effectively forcing participants to buy Kyoto compliant credits off-shore where the price is high and volatile. In all other countries AAU's are held by the government and will only be traded government to government. The requirement in New Zealand to trade only Kyoto compliant units will put us out on a limb internationally while harming our export sector and economy.

To align with our trading partners our ETS must be adjusted to ensure that it imposes Kyoto CP1 costs only on the sectors participating prior to 1 January 2013. This requires decoupling our AAU allocation from our internal trading units and setting a price cap that ensures that the sale of New Zealand Units (NZU's) only recovers enough to meet our Kyoto CP1 liability.

This would mean NZU's could only be traded domestically but Kyoto compliant units could be purchased internationally by individual companies if they cost less than NZU's. To ensure that we move to become more carbon efficient the scheme should ensure all stationary energy and industrial process emissions have a negotiated downward path based on emissions intensity.

This would ensure New Zealand was on a mitigation pathway and would allow for a transitional allocation if the price of carbon rose to a level that caused our businesses to become trade exposed during 2012 – 2020. An ETS is just a way of introducing a price on carbon and by itself does not guarantee reduced emissions, so there will need to be measures for the SME and transport sectors to ensure these are also on an emission reduction pathway.

The international market for carbon is likely to begin to mature around 2020, and our ETS could operate as a one way, price-capped market through that period.

Over time there will need to be some adjustment to the reserve price at auction to ensure that the government remains fiscally neutral. By 2020 most corporates will have developed their trading skills and should have implemented mitigation programmes in anticipation of a more stringent international regime.

It is also likely that new technologies will have been developed over the next twelve years in carbon capture and storage and that post 2020 the major developing countries will be Kyoto participants.

Post 2012 negotiations

The base year against which future targets are set will likely remain fluid until developed countries become more aware of the economic impact of a price on carbon. Experience with attempting to achieve a 5% reduction against 1990 levels and the fact that there is a desire to include the USA in any post 2012 agreement means a more recent base year could be possible.

The fact that none of the major developing countries will make a commitment to reduce emission levels post 2012 because they perceive that the developed countries have failed to meet their CP1 obligations will also encourage the adoption of a more recent base year.

The most recent OECD analysis assumes 2005 as the base year for emission levels. This aligns with our current ETS base year.

If a post 2012 agreement accepts a base year of 2005 and agrees an overall target of 20% reduction in emissions by 2020, then (assuming there is no technology to deal with agricultural emissions) our target should be at the most 10% below our 2005 level of emissions.

It will be a major part of our international negotiations to ensure that we are not committed to levels of reductions that are unattainable through lack of technology in the second commitment period 2012 – 2020.

Our negotiators need to establish that a certified measuring and monitoring programme will be an acceptable method for reporting our agricultural emissions as opposed to a stock head count and an arbitrary volume per head of methane. Unless this is accepted there is no incentive to continue research to reduce agricultural emissions or to implement new technology.

Our negotiators will also need to avoid the outcome of deforestation in our rotational plantation forests. Accepting that carbon remains sequestered when a tree is harvested and will not be released until the timber is burnt or buried in a landfill must be an essential part of our negotiations. Timber is the only source of carbon that remains with the country of origin; all other sources such as oil, coal or gas are the responsibility of the consumer not the supplier.

It is also essential that we research the mitigation potential in sectors other than agriculture. Existing estimates by Ministry for the Environment, undertaken with little consultation, overstate the mitigation potential of most sectors. The use of flawed research by our negotiators would be of serious concern.

Renewable energy preference

Secure, reasonably priced electricity is necessary for our economy to grow but the proposed 10-year base load thermal restriction will hinder this. Inadequate supply of hydro electricity in recent dry years sends a warning against over-reliance on renewable generation.

Arguments for a level playing field between renewable and non-renewable generation do not take into account the increased cost to consumers of the intermittent nature of hydro and wind and the fact that the transmission grid requires significant additional expenditure to cope with the peak output of renewable generation, its distance from the load and the impact on system frequency. If these costs were taken account of, it is unlikely that renewables would be competitive in the foreseeable future.

By legislating one form of generation out of the equation and setting a target of 90% renewable generation it is guaranteed that our only coal fired plant will still be generating in 15 years time. Not only will the cost of electricity from renewable sources be greater but there will be an artificially higher price of carbon in the electricity sector. Consumers will also have to pay for thermal plant to be kept available to compensate for low rainfall or lack of wind. In effect there will be cost increases from three separate sources rather than a single price increase related to the price for carbon.

Compared to other countries we have a very high level of renewable electricity generation. While other countries are setting targets of 20% or less it is unnecessary for New Zealand to move to 90% in the immediate future.

Business NZ recommendations:

1. Ensure the ETS only imposes the cost of our Kyoto liability in CP1 on the sectors participating prior to January 1, 2013 to align with our trading partners.

2. Ensure all stationary energy and industrial process emissions have a negotiated downward path based on emissions intensity

3. Ensure the SME and transport sectors are on an emission reduction pathway

4. In post-2012 negotiations ensure that a certified measuring and monitoring programme will be acceptable for reporting agricultural emissions as opposed to a stock head count and arbitrary volume per head of methane

5. In post-2012 negotiations ensure acceptance that carbon remains sequestered when a tree is harvested and not released until the timber is burnt or buried in a landfill

6. Research mitigation potential in sectors other than agriculture

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