

The New Zealand ETS

a broader business perspective

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Snapshot

- **The good** - changing investment signals
- **The bad** - global inaction
- **The ugly** - harmonisation & thresholds
- **What next?** - 2011 review



Road paved with good intentions

- Climate change policy landscape littered with corpses
- ETS has emerged as principal means of shifting the NZ economy on to a lower carbon pathway



A duck designed by a committee?

- Perfect design?
 - no, but architecture, costs & opportunities fairly well balanced
 - a more measured transition into a full trading environment
- Business wants to do its fair share
 - consistent with NZ values: integrity, commitment to environment
 - many firms already operating at world best practice or at, or below, 1990 emission levels



Will it fix the problem?

- A journey, not a race
 - about evolution not revolution



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Will it fix the problem?

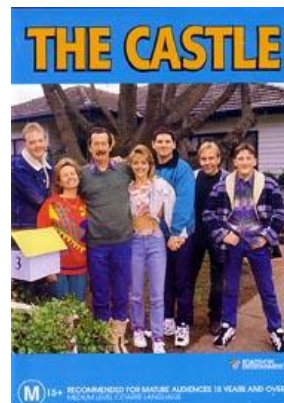
- A journey, not a race
 - about evolution not revolution
- Future carbon price uncertainty, but
 - ETS gives relatively clear long-term investment framework
 - broad political support for trading approach
- Gets NZ firms on to lower carbon-intensity pathway



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Or are we dreamin'?

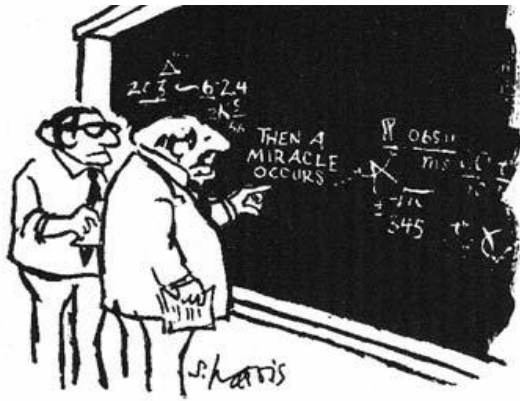
- Next tranche of abatement likely to be modest, driven by
 - technology availability
 - re-investment cycles
- Opportunity to grow capability in fairly low risk environment
 - can 'hot-house' new, low-carbon technologies before rest of world
 - may make new technologies more economic, sooner



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All was not well in state of Denmark

- Expectations got adjusted
- Were some good outcomes
- But no clear framework for binding reduction targets & carbon pricing
- International progress slow, but some commitment to schemes



"I think you should be more explicit here in step two."

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So where the bloody hell are we?

- Some concerns
 - transitional protection of firms
 - disadvantage to otherwise competitive businesses
- ETS must suit NZ circumstances - regardless of what's happening internationally
 - emission profile
 - reduction targets
 - economic sovereignty



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NZ – the unlucky country?

- Design of the NZ allocation regime drawn heavily on the CPRS
- NZ allocative baselines
 - use different baseline years
 - use revenue (not value-added) metric
- Likely outcome: trade-exposed, low carbon but energy intensive firms left without compensation
- NZ firms with CPRS activities tend to be more carbon & energy efficient = lower levels of protection than Aust counterparts



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Stuffed before we start?

- No – but shouldn't import policies that solve problems that don't exist in NZ
 - design improvements can be made
 - needs to be fit-for-purpose
- It's not about the circumstances being similar enough - but different enough
 - same objectives doesn't mean same problems or solutions
- Harmonisation good long-term goal but doesn't require identical detail



Phar Lap, NZ-born thoroughbred, Victoria Museum

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Flawed, or just some split enz?

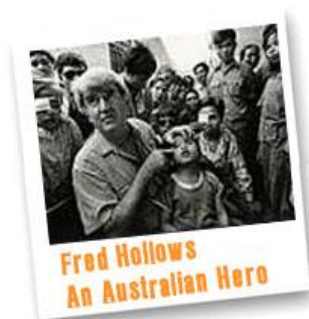
- Trading framework gives policy stability but not certainty of impact
- ETS is work-in-progress
- Want to avoid policy flip-flops of early 2000's, wait & see:
 - how allocation regime works out
 - impact on trade-exposed firms who get no compensation
 - what happens internationally over next 12 - 18 months
- Other factors driving decarbonisation



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Is the end in sight?

- Review by end of 2011
 - should draw on lessons from overseas
 - needs strong linkages between policy approach & economic & emissions fundamentals
- Slow progress on global agreement
 - leakage, competitiveness issues likely to remain
- Impact on firms & consumers
 - shouldn't be disproportionate to others' responses



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