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Forging a credible ETS: why the Select Committee's report matters

The Special Select Committee reviewing the Emissions Trading Scheme (ETS) delivered its report last week. The report stated the obvious on some issues (the science is sound and we need to do something), but its conclusions on modifying the ETS were a welter of conflicting views. As the Government engages in climate change negotiations in the run-up to Copenhagen in December, it needs to have a credible ETS sorted out, as well as a strategic vision of how to deliver on its stated long-term goals on climate change while lifting New Zealand's productivity and prosperity.

Not all bad but some flaws

The Select committee report is not all bad. For example, it recognises that sheltering business from a price on carbon comes at the cost of slower adaptation to a carbon-constrained world, and that competitiveness concerns are often overstated. And it recommends that agricultural emissions be retained within the ETS. These conclusions make sense. But there are major flaws in the report.

Many of the Committee's recommendations would weaken the ETS. Pushing back the timeframes for sector entry (with no date for agriculture) would weaken New Zealand's incentives to innovate in agriculture, invest in renewable energy, or change personal consumption patterns to cut emissions.

The ETS would also be severely weakened by adopting intensity targets. Allowing producers to emit more, as long as their emissions grow less fast than their output, is a recipe for emissions growth and administrative complexity. Taxpayers would have to pick up the tab for international credit purchases, effectively subsidising polluting businesses. An intensity target approach has been rejected in both the EU and the US (the Waxman-Markey bill).

Introducing a cap on the price of carbon would also negatively affect the incentives for the forestry sector to plant trees. It would reduce the value the forestry sector receives for carbon and thus be a disincentive for carbon sequestration. Rapid forest planting is vital if New Zealand is to be able to meet targets coming out of Copenhagen, to give us some breathing space to reduce agricultural emissions at low cost and decarbonise our energy sector.

The ETS matters for Copenhagen and beyond

At Copenhagen, New Zealand needs to be seen as a serious negotiator making a real effort to support an outcome that has environmental integrity. With a workable ETS in place, and strong supporting policies, we would also be able to speak up on forestry and land use issues, where getting the next agreement 'right' will be vitally important for New Zealand.

Beyond Copenhagen, much depends on New Zealand adopting a strong ETS. Our national brand, our reputation for being engaged constructive players in multilateral processes, and the incentives on our emitters to invest in finding more efficient production methods all depend on us not weakening the ETS.

Why delaying and weakening the ETS would be a strategic mistake

There are two strategic reasons not to delay or weaken the ETS. First, the writing is on the wall concerning the need to cut carbon emissions. The Intergovernmental Panel on Climate Change said in 2007 that developed country cuts of 80-95% by 2050 were needed to give us

an even chance of avoiding 2 degrees of warming (the widely accepted guardrail beyond which lies increasingly dangerous climate change).

More recent science has reinforced that assessment, with a series of scientific reports warning that the window of opportunity to achieve such long-term targets is closing rapidly. Further delays in emission reductions will make achieving 2°C impossible even if emissions are reduced rapidly later. New Zealand has 'signed up' to the 2 degree goal, although its commitment to 50% reductions by 2050 is much less than the 80-95% required. Whatever the goal, it is very likely to get tougher in future. A weak ETS would not help New Zealand adapt to that future.

New Zealand on its own will of course not prevent dangerous global climate change. But there are also vital business reasons for cutting emissions. Our business sector is at risk of falling further behind other countries if we adopt a 'slow follower' stance, and investors don't face the right price incentives to adapt to a low-carbon world.

Foreign companies, such as Vestas, the Danish wind turbine makers, are selling us technology and running some of our wind farms when we might have done this ourselves. In the 1980s and 1990s, we went through painful economic catch-up because we had failed to keep up to date during the seventies. Today, our business sector needs clear ETS price signals to stay up to date with the global adjustment process, and to take advantage of opportunities that will arise in that new environment.

Forging a credible ETS

In the short term, inter-party negotiators will have a difficult time using the Select Committee's report to forge an ETS that has integrity. It is critical for New Zealand not to take a weak offering to Copenhagen, and a robust ETS is needed as a part of the package we put on the table. The Government and indeed all parties trying to hammer out the details of an ETS deal over coming days need to look to the bigger picture, consider the benefits as well as the costs of cutting emissions now, and look to the increasingly carbon-constrained future.

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