

(The following article by Prof Martin Manning appeared in the Dominion Post, 21 May 2008, page B6)

BETTER EMISSIONS PROCESS NEEDED

Which would you prefer? To pay 6c more per litre of petrol or to have the maximum speed limit reduced by 10 kph?

Soon after government announced a two-year delay in applying the emissions trading scheme (ETS) to transport fuels, officials were reported to be considering a reduction in the speed limit as a way of reducing greenhouse gas emissions.

Associate Transport Minister Judith Tizard quickly ruled out speed limit changes, but the two options provide some insight into the nature of the choices that our rising greenhouse gas emissions force on us. What are the roles for markets and for regulation and how do we balance these?

Analyses by economists and other experts should provide guidance here, but a lack of agreement on principles, and comparability of approaches is not helping. For example, a recent economic study by the NZ Institute for Economic Research (NZIER) suggests that the cheapest way of meeting the costs of our Kyoto Protocol and future commitments would be for government to buy all necessary credits offshore and pass their costs directly to taxpayers.

This would avoid, or significantly defer, any role for the market and move us towards reliance on a regulatory approach. The National Party has not stated its preferred timetable for implementing an ETS creating further uncertainty.

International analyses of the costs of reducing carbon emissions assume that regulation covers things like standards for vehicle and building efficiency, and targets for urban design and infrastructure. But markets are seen to play an essential role in transformational change. This requires that a price is set on carbon emissions to recognise legitimate environmental concerns and that businesses and individuals then make their own choices on how to operate with those prices. Why should New Zealand be different?

The NZIER study is important because it is one of only a few that try to pin down figures to the effects of the ETS and carbon prices. But it is more pessimistic than earlier work by Infometrics, and its approach can be questioned. In particular, its results are likely to reflect its somewhat obsolete assumption that no other countries would operate an ETS or comparable policy for many years.

Submissions to the select committee considering the ETS have made the point that relevant analyses have not been well resourced. The NZIER study likewise acknowledges limitations flowing from the type of model used and that available econometric data was five years old.

Clearly we need better analytical capabilities. But we also need a better process such as an expert assessment to inform policymakers. The value of such a process would come from: authoritative authorship, uniform coverage of a range of plausible assumptions about the future, meaningful comparisons of different models and approaches, a transparent and open expert review process, and key results given as ranges acknowledging uncertainties.

The aim should be to identify areas of agreement among experts as well as the factors behind differences in views.

In the meantime we have delayed climate policy for transport fuels, hoping that escalating fuel prices will lead to a similar reduction in emissions. But, international analyses show that, fuel price rises alone will not keep global warming below 2°C. This is the limit that many governments regard as the tolerable maximum and it can only be achieved by introduction of policies that lead to more comprehensive cuts in emissions.

It remains to be seen where international negotiations will set targets for future emission reductions. But so far New Zealand is one of the worst performing countries with commitments under the Kyoto Protocol. We appear to need structural change towards new technologies more than others, and delays in accepting this are likely to lead to more abrupt and costly dislocation in future.

We should not underestimate the difficulties of achieving the required reductions. Nor should we underestimate the consequences of failing to do so. Translating international climate change requirements into domestic policy must accept the reality of global change and become more professional in response. Far more is at stake than 6c per litre of petrol or 10 kph off the speed limit.