

Action needed on ETS improvements

Phil O'Reilly

Resentment is rising in the business community over lack of action to improve the ETS.

New Zealand has gone through a tortuous path to achieve an emissions trading scheme.

Many businesses have supported the ETS for various reasons including the principle that putting a price on carbon is a reasonable response to New Zealand's climate change responsibilities.

But many of them will find their competitiveness threatened while not being eligible for free carbon credits to compensate.

This must be fixed as soon as possible.

This is something that BusinessNZ has consistently advocated - we have supported the idea of an ETS from the beginning but have stressed that its design must not cause job loss or capital flight.

Unfortunately in its current form both these outcomes are becoming more possible, and there has been no real indication yet that the Government has come to grips with the problem.

If the flaws in the ETS are not fixed soon, then we face the risk of a scheme that is not fit for purpose.

The Government must be aware that the balance of business support for the ETS is dependent on changes being made to fix it and that timely action is required to ensure good New Zealand businesses aren't competitively disadvantaged.

So why the delay in fixing the bugs?

Certainly the Government would not want to return any ETS issues to Parliament this year as obduracy on the part of Labour, the Greens and ACT, with their differing agendas, could very possibly prevent any useful improvements from being made.

But fixing some of the problems doesn't require going back to Parliament.

Minister Nick Smith has discretion under the Act to prevent a lot of incipient problems.

He has discretion to provide greater assistance to trade-exposed businesses (for example by allocating more free carbon credits) to avoid job losses and capital flight.

Doing so would go a long way towards turning round the negative sentiments by many in the business community.

There is a large group of businesses for which this is relevant – they make export products or they compete with imports, but they don't qualify for free carbon credits because their activities don't qualify as "sufficiently carbon intensive".

These businesses, for example iron casters and plastics and other manufacturers, will be competing against overseas firms that do not have the competitive disadvantage of higher energy prices.

Dr Smith has had plenty of advice about this and should take action now.

This is probably the simplest problem to solve and it would fix the problems for the largest group of affected businesses.

Another simple thing the Minister could do, without having to go back to Parliament, would be to get the ETS review under way quicker.

Under the ETS legislation the Government has the power to initiate a review at any time – so it doesn't have to wait till 2011 to do it.

Waiting till 2011 (or 2012 by the time the review reported back) would mean firms currently ineligible for compensation would have to trade at a disadvantage until that time.

The Government should set the terms of reference for the review now and get the review under way well before the end of this year.

Significant improvements could be made following the review, including setting the intensity threshold (which determines which businesses get compensatory credits) at a more realistic level.

It's crazy, for example, that our major export company, Fonterra, currently fails the threshold test and faces millions of dollars of additional costs from higher energy prices without compensation.

Other food processors, both dairy and meat, face a similar situation.

The intensity threshold was introduced to make our ETS more compatible with Australia's. Having a threshold is still a good idea, even though Australia has delayed introducing its ETS, but the threshold needs to be set at a more realistic level – one that reflects New Zealand business conditions, not Australian.

Another option open to the Government is to set up a fund similar to the proposed Australian Climate Change Action Fund to provide assistance to those who stand to be disadvantaged and who do not otherwise qualify under the ETS rules.

And there are a number of technical changes within the Government's power to make, without recourse to Parliament, which could also be progressed quickly.

The simplest way to head off ETS discontent is to deal with these wrinkles as soon as possible.

Despite the need for 'fixes', let's not forget that the benefits of a sound, well constructed emissions trading scheme are significant.

It will prompt businesses and individuals along a less polluting path.

It sets up incentives for doing low carbon business and gives New Zealand companies a head start in working towards profitable low carbon techniques.

It is a defence against some looming threats that could sabotage New Zealand's commercial interests, for example from the large supermarket chains and others in the UK, Europe and the US that increasingly buy from suppliers - or not - on the basis of their carbon footprint.

New Zealand is already hindered by remoteness and the thousands of kilometres our goods must travel to market - being penalised for long haul transport emissions is New Zealand's particular disadvantage.

We need to offset the harm that arises from perceptions around our freight emissions by adopting policies that will reduce our emissions here at home.

We are an export-dependent nation and we must take all possible steps to safeguard our export interests.

Hence the ETS.

We've come a long way in the last four years.

Voters rejected the previous Labour-Greens ETS which was narrowly focused on presenting us as a 'green' world leader but which would have crippled our economy.

We now have an ETS with a better balance between our environmental and commercial needs – but it's not yet fit for purpose.

We need a system that helps New Zealand businesses compete internationally with low carbon goods and services, to the benefit of the whole New Zealand economy and every New Zealander.

We have a system that has the potential to get us on the road to a low carbon economy, but there are still some parts of it that need improving – and they need fixing now.

Business wants action on ETS improvements.

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