

NZ and Australian carbon schemes not apples with apples

Phil O'Reilly and John Carnegie

With the dust settling following the Australian Government's unveiling of its Clean Energy Future Plan, including a carbon price, it's time to bring a more informed perspective to the discussion.

Since the Australian announcement, some have criticised New Zealand's Emissions Trading Scheme (NZETS) because it has a lower price on carbon. Others have argued that the schemes should be linked.

All other things being equal, this could be the case. But the fact is, all other things are not equal.

While the NZETS was born in the expectation of an Australian emissions trading scheme, it's been tailored to largely address New Zealand's circumstances. With some notable exceptions such as food processors, the NZETS broadly protects our trade-exposed businesses.

It generally strikes the right balance between the government, businesses and consumers in who pays for what emissions.

Now that Australia is proposing a carbon pricing scheme, there's a natural reaction to look at ours. Some would say the timing is perfect as the Government is reviewing the New Zealand scheme.

However, it's not that simple. We are not comparing apples with apples here.

Yes under the proposed Australian scheme the \$A23 fixed price of carbon for the first three years seems higher than ours, but the Australian scheme is narrow in coverage and highly compensated.

When you account for the generous compensation packages provided to those having to pay for carbon, the cost to many Australian businesses and nearly all households looks less than in New Zealand.

This is true even when you take into account that the New Zealand government has accepted legal responsibility for half of businesses emissions, halving the cost impact on consumers.

The Australian scheme changes tax and fuel excise rates to soften, and in some cases completely ameliorate, the effects of the scheme on consumers. It deadens their incentive to change behaviour.

The complexity of the Australian scheme, combined with pressure to protect Australian jobs, makes hasty comparisons of changes in relative competitiveness inappropriate.

In fact, as far as the effects on all businesses are concerned it's too soon to draw definitive conclusions.

The NZETS is designed to be a wide coverage scheme that can take advantage of purchasing international carbon credits if they are lower than the \$NZ25 price cap.

This makes sense in an economy with over 70 percent renewable electricity and nearly 50 percent of emissions from agriculture.

These differences don't make either scheme better or worse, they're just different.

The dangers of hasty comparisons of scheme stringency based on carbon price alone are supported by an independent report carried out for BusinessNZ by Frazer Lindstrom, Wellington, and Castalia Strategic Advisors, Sydney, entitled '*Australia's carbon pricing policy – what does it mean for New Zealand business?*'

There are also a number of crucial factors when considering the prospect of linking the schemes. The realities make the prospect of linking slim in the medium term – as outlined in the report.

Linking with Australia would expose New Zealand businesses and consumers to the very risks they are protected from thanks to the moderating features of the NZETS.

While the Australian scheme is welcome, it won't eliminate the risk to New Zealand of losing investors to Asia and other countries that do not price carbon. Mobile capital is, after all, mobile.

Linking shouldn't mean copying features of the Australian scheme. We've tried this before to our detriment with Australia's previously proposed scheme - the Carbon Pollution Reduction Scheme. That scheme was shelved in 2010.

The future of this latest incarnation is on shaky ground too and New Zealand needs to be cautious about changing crucial policy to fit in with a moving target.

A more helpful way of linking would be the ability to buy and sell each other's carbon credits. Australian carbon credits created under the Carbon Farming Initiative can be exported in its fixed price phase. New Zealand businesses should be allowed to import these as soon as possible. Australia will accept forestry carbon credits after 2015, which would provide our foresters with another market in which to sell.

But open borders need to be balanced with an acceptable level of economic burden.

The Australian Government has put aside A\$10 billion for clean energy investment and New Zealand expertise in the development of renewable energy could be rewarded.

However, New Zealand businesses and consumers risk being exposed to price volatility and significant upward price pressure, without the compensation afforded to their Australian counterparts. We'd need to retain appropriate price safety valves to avoid entrenching a competitive disadvantage.

We are perhaps jumping the gun by assuming the schemes will be aligned.

Australia and New Zealand are two different countries, with different economies, different emissions profiles and therefore different schemes. Let's accept these differences rather than jumping to conclusions that may not be in New Zealand's best interests.

Today sees the start of the Australia-New Zealand Climate Change and Business Conference in Wellington. Understanding the Australian scheme and how the two markets can interact will be a

key focus. We, along with many of New Zealand's top businesses and officials, will be actively engaged in this discussion.

But we shouldn't need reminding that New Zealand's apples are not like Australia's.

The report: ***'Australia's Carbon Pricing Policy – what does it mean for New Zealand business?'*** is available on www.businessnz.org.nz