

Business|NZ

BUSINESS NEW ZEALAND

AND

THE KYOTO PROTOCOL

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Summary

The Government is shortly expected to make public its policies for the implementation of the Kyoto Protocol that it has suggested will be a key part of a wider package of 'sustainable development' policies that it wishes to present to a global audience at Johannesburg in September.

Significant business opposition to New Zealand ratification of the Protocol at this time cannot have been productive for the Government's timetable. Nor would the proximity of a General Election have escaped its notice. The content of the implementation policy package may therefore be more general and less detailed than originally suggested.

Business and industry are, however, looking for as much certainty as possible on issues that are of greater economic than environmental significance for the medium to long term. Uncertainty and equivocation will not attract investment or reinvestment. Nor are they conducive to a balanced growth strategy that would enable quality environmental policies, including climate change policies.

Business New Zealand believes that the Kyoto Protocol should not be ratified at this time and that there are effective alternative policies that should be vigorously pursued. These policies would be compatible with a balanced growth strategy and the environmental policies of our major trading partners and competitors.

Introduction

Rightly or wrongly, climate change is regarded as one of the most significant environmental issues facing the planet. This is despite continued uncertainty about the exact extent of global warming and to what influence human behaviour has had on the degree of any warming. However, the fact that governments around the world, including New Zealand's, are taking climate change so seriously means that the business community must do so as well.

Business New Zealand is not in a position to debate the science of climate change and does not wish to do so. We have and will, however, vigorously debate the economics of proposed actions to deal with climate change, most notably ratification of the Kyoto Protocol. To date, climate change has been regarded as being 'just another environmental issue', but we are heartened that, in common with a number of other countries, New Zealand has more recently recognised that it is an issue that has critical economic ramifications. The capacity of the Protocol to achieve its stated outcomes against its likely cost is also a matter of serious concern.

Business New Zealand's key goal is for the implementation of policies that would increase this country's sustainable rate of economic growth to a level that would result in per capita incomes returning to the top 10 of the OECD in the medium term. We see this goal as being fundamental to improving New Zealand's contribution to environmental sustainability. For example, achieving a significant lift in New Zealand's rate of per capita economic growth and higher incomes will clearly require strong productivity growth and much more efficient use of existing resources. It will

also require a significant improvement in both management and employee skills levels to ensure a better understanding of the long-term impacts of business decisions. Only wealthy countries can afford to maintain clean environments.

The Government's assessment to date is that whilst the costs of climate change are potentially large, the overall economic costs to New Zealand of implementing the Kyoto Protocol are likely to be relatively small and, taking into account forest sink credits, could possibly even be mildly beneficial. The precise economic impact will depend on domestic policies for implementing the Protocol. However, New Zealand's unique characteristics mean that the burden of ratification could be particularly heavy for this country.

Why New Zealand Should Not Ratify the Kyoto Protocol

Ratification of the Kyoto Protocol at this time would not be consistent with any credible growth strategy. Our concerns are primarily related to the implications for New Zealand's international competitiveness:

- Energy is a key input in New Zealand, and low cost, abundant energy is one of New Zealand's few competitive advantages. Increasing the cost of emissions will reduce our economic growth prospects more than other, less energy intensive economies. This will hamper New Zealand's efforts to improve our OECD rankings;
- The choice of 1990 as a benchmark year is particularly disadvantageous for New Zealand. New Zealand was in the depths of a severe recession in 1990, so emissions were at a particularly low ebb in that year, and over the past decade New Zealand's energy intensity has increased due to the increase in energy intensive industries such as dairying;
- New Zealand industries are particularly vulnerable to competition from countries that will be outside the Protocol or which will refuse to ratify. More so than European countries, for example, our commodity based primary exports compete against those from Australia, the United States, and particularly developing countries. Any increase in production costs will adversely impact on New Zealand's international competitiveness;
- New Zealand's geography puts us at a disadvantage. We have high transport costs per unit of GDP and energy intensive industries are at risk of relocation to lower-cost developing countries closer to our main markets. These developing countries will not be subject to the cost increases New Zealand would face from implementing the Protocol;
- New Zealand's growing population makes achieving any emissions reduction targets particularly difficult. It is no coincidence that those European countries most enthusiastic about the Protocol have static or declining populations; and
- Forest sinks offer only limited potential to offset abatement costs and there are complex and significant issues about the property rights of forest owners and forests planted prior to 1990.

For all these reasons, New Zealand should take full account of developments and decisions made by our significant trading partners, particularly Australia, Canada, Japan, and the United States. While European markets are important to New Zealand, we have more in common with Asian and Latin American economies, which will not be subject to Kyoto obligations.

An Alternative International Approach

For all the reasons set out above, the Government should delay ratifying the Kyoto Protocol at this time. However, doing nothing is not an option. Instead, New Zealand should be looking carefully at what other countries, particularly our significant trading partners, are doing to address climate change.

The United States has taken a strong leadership role in this regard. It has decided that for now at least Kyoto is not a credible way forward and it has announced a set of unilateral measures that it believes will reduce greenhouse gas emissions without harming its economy. Australia has recently entered into a climate change 'partnership' with the United States, and Canada is also exploring a similar approach. New Zealand should be looking very closely at these developments in order to ascertain the scope for partnership and the capacity to influence policies that would impact on some of the largest and wealthiest global economies whose emissions policies are critical to effective global action.

Domestic Policies

Business New Zealand acknowledges that, with or without ratification of the Kyoto Protocol, new domestic policies are required to address climate change.

Climate change policies must, however, complement a growth strategy that has a goal of returning New Zealand to the top 10 of OECD countries in the medium term. In view of this, such policies must be consistent with the following overarching principles:

- Long term and gradualist – while a carbon free economy may one day be possible, it will take decades rather than years to achieve without severe economic and social dislocation;
- Enhancement or at the very least preservation of New Zealand's international competitiveness – policies must take full account of those of our significant trading partners;
- Equity – policies should be fairly and consistently implemented across all sectors of the economy and society;
- Avoidance of carbon-leakage – emission-intensive industries must not be driven overseas; and
- Environmental integrity at low cost – New Zealand emissions should be reduced, or at least stabilised, on a per capita basis.

Business New Zealand sees the following specific policy measures as having potential to effectively reduce emissions on a basis that New Zealand could afford on a long-term, consistent and credible basis.

Fiscal and Monetary Policy

- An improved depreciation regime for plant and machinery to encourage the replacement of outdated technology that is often less energy efficient and dirtier. In addition to direct application at an enterprise level, there are also strong infrastructure arguments for accelerating change. For example, outdated thermal electricity generation capacity is not being replaced. New technology gas turbine plants produce the same amount of electricity with half the gas of the older plants.
- The ability to change behaviour through specific taxes is debatable (e.g., due to inelasticity of demand for petrol, the level of increase in petrol excise tax needed to impact on the level of consumption is estimated to be excessively large) but, if attempted, taxes intended to alter energy usage should be instituted only as a last resort and only if accompanied by a countervailing reduction in corporate and personal tax rates so that the net impost is fiscally neutral.

Microeconomic Reform

- Reform of the Resource Management Act is needed to encourage renewable, including distributed (i.e. localised and often relatively small-scale), generation. The RMA currently presents barriers to the development of small-scale hydro and wind generation. This has seen over recent years a marked decline in consents for new hydro and geothermal generation.

Infrastructure

- Obstacles to improved electricity transmission infrastructure need to be urgently addressed. Failure to do so will hamper the development of new and innovative distributed generation opportunities and limit the most efficient use of hydro resources.
- Substantial reform of road, pricing, funding, investment and management would significantly improve efficiency in the road transport sector. Some modelling has already been done on the GDP benefits of investment in better roads and given the continuing decline of rail alternatives, better roads will be increasingly important for transport emission reductions. The recent roading announcements were positive for the commercial road transport sector but the lift in funding for increased road construction is insufficient if New Zealand is to achieve the targeted increase in economic growth.

Trade and Exports

- The United States-Australia climate change pact (and the reality of European Union implementation) needs to be carefully monitored and New Zealand involvement sought. Now that Canada has entered into a similar pact with the US heightens the importance of this facet of policy. These three countries are major trading partners and New Zealand's environmental policies should be broadly

compatible. Direct involvement in such pacts may offer significant export opportunities for new developments in energy technologies and renewables programmes.

- Policy options developed and implemented by other trading partners and competitors should also be monitored. New Zealand needs to work to ensure that developing (non-Annex 1) countries face meaningful requirements to reduce their very significant and rapidly growing emissions sooner rather than later.

Fostering Innovation and Growing the Skills

- It is critical that there be accelerated promotion of efficient energy technologies and R&D programmes with a particular emphasis on small to medium enterprises (SME's).

Smarter and Better Businesses:

- The Government should actively promote, in partnership with business and industry associations, understanding of the issues surrounding climate change to the SME sector.
- Benchmarking tools and best practice guidelines in energy efficiency should be developed, with a particular focus on SME's.