

## **Households and SMEs Pay 90% of Emissions-related Charges**

*Media Statement – 30 April 2008*

The proposed rules for the Emissions Trading Scheme (ETS) will involve huge transfers of wealth but make very little difference to New Zealand's greenhouse gas emissions in the next five years, says a Sustainability Council report released today.

Households, road users, and small and medium enterprises (SMEs), that generate a third of the nation's greenhouse gas emissions, will meet 90% of the payments required before 2013 as a result of the ETS.

Prior to 2013, the ETS fully exempts agricultural producers, and large industrial emitters are heavily exempted and rebated. Households, road users and SMEs will be billed for \$4 billion of total net payments of \$4.4 billion resulting from the ETS up to 2012 (based on the current world price for carbon credits of about \$30 per tonne). As the great bulk of transport fuel charges are paid directly or indirectly by SMEs and households, it is these groups that will carry the ETS.

Of the \$4 billion in payments by these groups, \$2.8 billion covers charges on emissions while the remaining \$1.2 billion pays for windfall profits to generators of renewable electricity. Large emitters are fully rebated their additional payments for renewable electricity. Overall, renewable electricity generators secure windfall profits totalling \$1.8 billion.

Compared to what the agriculture sector would pay if charges were set in proportion to actual emissions (with Kyoto forest owners fully credited for carbon absorbed), agriculture receives a net subsidy of \$1.31 billion up to 2012, after account is taken of the charges it pays on electricity and fuels.

New Zealand's emissions are projected to far exceed the country's Kyoto Protocol target. The Government must acquire carbon credits to offset excess emissions. As no Parliamentary party is proposing to withdraw from the Protocol, the question is how to use it to respond to the carbon challenge – the reshaping of the economy to recognise the costs of greenhouse gas emissions.

The ETS can be easily retooled to help achieve this. Its central mechanism of a charge that is automatically indexed to the world price for carbon is well worth keeping and building on. It is the unnecessary creation of a new carbon currency (the NZU) that enables the massive transfers of wealth to take place off the Government's balance sheet and out of clear sight.

Instead of creating a new carbon currency, the ETS could simply use the existing international carbon currencies that have been established under the Protocol.

Rather than offering blanket subsidies to agriculture and major industries, all emitters would pay the carbon charge on the same proportion of their emissions. If spread equally in this way, the cost of the Kyoto bill would be covered if all emitters paid the

world price on about a third of their emissions from 2008 to 2012. The cost would be less if emissions are reduced below expected levels.

If individual emitters face difficulties as a result, and if there are benefits to the nation in providing transitional assistance, the required subsidies could be paid transparently from the Government's accounts.

A key benefit from sharing the Kyoto bill equally across the whole economy is that this would incentivise agriculture – especially dairy farmers - to reduce emissions. A preliminary study completed for the Government has estimated that agriculture holds over 60% of the total volume of emission reductions available in New Zealand for \$30/t or less. All these potential emission reductions in agriculture were estimated to be available at a profit. If this potential can be exploited, then the Kyoto bill can be significantly reduced, while the abatement technologies could form the basis of new export industries.

At the same time, New Zealand could lead in advocating a new approach to carbon accounting that would make final consumers (and hence their governments) responsible for emissions arising from their consumption of imported products. A comprehensive international accounting framework on this basis would allow pastoral products to be exported from New Zealand with no carbon charge to the farmer. Volumes would be constrained only by the willingness of overseas purchasers to use their “carbon budgets” to buy foods from pastoral farms in preference to the alternatives.

Without a change of direction, New Zealand will be looking down from the top of an emissions cliff when it gets a new target for emission reductions after 2012. The current ETS rules will deliver less than a 2% reduction in gross emissions during the next five years, leaving New Zealand's gross emissions about 30% above its Kyoto target over the period to 2012.

After 2012 a new target will apply. Even if this turns out to be at the low end of what is being proposed internationally (25% below the current target), then that opens up a 55% gap. The growing assumption in Government is that somehow New Zealand is going to get a very soft target, but this will be hard to argue if the country has failed to exploit its least-cost abatement opportunities in the first commitment period.

By pricing all emissions to the same extent at all times, costs would be shared fairly and the country could advance a sustainable strategy for addressing its global environmental responsibilities.

The report, *The Carbon Challenge: Response, Responsibility, and the Emissions Trading Scheme*, was written for the Sustainability Council by Geoff Bertram and Simon Terry.

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