



# MAJOR ELECTRICITY USERS' GROUP

22 May 2008

Hon David Parker  
Minister responsible for Climate Change Issues  
Parliament

By email to [David.Parker@parliament.govt.nz](mailto:David.Parker@parliament.govt.nz)

Dear David

## **Request for information regarding advice received prior to comments in Parliament on analysis by NZIER on the impact of the proposed ETS on New Zealand's economy**

On 30<sup>th</sup> April 2008 the New Zealand Institute for Economic Research (NZIER) published a report<sup>1</sup> "The impact of the proposed Emissions Trading Scheme on New Zealand's economy." Hansard<sup>2</sup> records your answers to questions in the House on 15<sup>th</sup> May as follows. I have underlined parts of the text for emphasis:

*"But, more important, I would note that this is the first time that the New Zealand Institute of Economic Research model has been used in New Zealand, and it is increasingly clear that there are problems with it. I have been advised, and the New Zealand Institute of Economic Research now confirms, that the model predicts as a general proposition that if subsidies were provided to agriculture, then New Zealand's overall GDP would increase. This flies in the face of general economic theory internationally and in the face of New Zealand's economic history and settled economic theory for New Zealand, but it probably explains why the New Zealand Institute of Economic Research model came up with a answer that was not only counter-intuitive but also diametrically opposed to the modelling done by and for Treasury using models that had been tried and tested in New Zealand for many years."*

Later you stated:

*"Further, the New Zealand Institute of Economic Research model did come up with a conclusion that was counter-intuitive, and everyone was scratching their heads as to why. It is actually pretty clear now that there is a fundamental flaw in it."*

And,

*"No, it is not true, at all, even if the member does not understand the fundamental flaw in the New Zealand Institute of Economic Research study, which has now been exposed as being the assumption that subsidies increase overall net welfare for our country. That is not just in respect of carbon policy but generally in respect of all economic policy. It is a point that I am sure Mr English well understands. That is the problem in the study."*

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<sup>1</sup> Refer [http://www.nzier.org.nz/Site/Publications/NZIER\\_reports\\_working\\_papers.aspx](http://www.nzier.org.nz/Site/Publications/NZIER_reports_working_papers.aspx)

<sup>2</sup> Refer [http://www.parliament.nz/en-NZ/PB/Debates/Debates/e/8/9/48HansD\\_20080515\\_00000071-Questions-for-Oral-Answer-Questions-to-Ministers.htm](http://www.parliament.nz/en-NZ/PB/Debates/Debates/e/8/9/48HansD_20080515_00000071-Questions-for-Oral-Answer-Questions-to-Ministers.htm)

On 20<sup>th</sup> May NZIER published a peer review by Dr Adolf Stroombergen of Infometrics Ltd of the methodology followed by NZIER in the report published 30<sup>th</sup> April. Amongst other observations, Dr Stroombergen notes:

*"The report's conclusions follow logically from the modelling results."*

*"In summary the NZIER analysis presents a useful contribution to economic analysis of the options for meeting New Zealand's international emissions reduction obligations."*

MEUG expect and value having robust debate on the economic analysis that underpins any important piece of legislation such as the Climate Change (Emissions Trading and Renewables Preference) Bill. When a Minister makes a statement in Parliament that a piece of analysis by a well respected economic commentator has fundamental flaws then that is beyond the point of being robust; it is dismissive. MEUG is very interested to sight the advice you received to make such a claim.

Accordingly MEUG requests, in terms of the Official Information Act 1992, copies of all advice or a record of any verbal advice you received from Departments or any other person or entity external to government that commented on the NZIER report of 30<sup>th</sup> April 2008 up to and including the time you made your remarks to the House on 15<sup>th</sup> May.

Yours sincerely



Ralph Matthes  
Executive Director

cc Pat Martin, Office of Hon David Parker  
John Whitehead, Secretary to the Treasury  
Geoff Dangerfield, Chief Executive, Ministry of Economic Development  
Howard Fancy, Acting Secretary for the Environment