

15 July 2009

Hon Dr Nick Smith
Minister for Climate Change Issues
Hon Tim Groser, Associate Minister for Climate Change Issues (international negotiations)
Cc John Key, Prime Minister; Bill English, Minister of Finance; Gerry Brownlee, Minister for Economic Development.

Dear Ministers

The undersigned are writing to you to urge the utmost caution in setting a near term target for emission reductions as part of any future international climate change negotiations.

We are alarmed at the totally unrealistic figures that are being promoted by environmental groups, such as Greenpeace, for a 40% emission reduction target from 1990 levels by 2020.

Economic modeling by well respected economic consultancy Infometrics has calculated that such a target would require a very high price of carbon, but that even at \$500/tonne we would fail to reach a 40% emission reduction and would be forced to buy 8.7 Mt of carbon on international carbon markets. The price is very high

irrespective of whether the target is a purely domestic one or we have to buy credits internationally to cover the shortfall.

In addition, at \$500/tonne real gross national disposable income per person reduces by \$3,200, and wholesale prices for petrol, gas and electricity double. (On other plausible assumptions, the costs could be higher.) At these sorts of prices, companies would close down completely rather than just reduce production, agricultural output would plummet and it is hard to see how we would avoid economic collapse. In addition, New Zealanders would be living in energy poverty.

We are sure you are aware that the cost of such an ambitious target for New Zealand is due to our unusual emissions profile, our already high percentage of renewable generation in the electricity system and the fact that within eleven years, new low carbon technology solutions will not have had time to be developed or widely deployed.

We are also sure that you are aware that no other country is setting such an ambitious near term emission reduction target due to growing concerns about the economic impacts, and it is highly unlikely any other country will price agricultural emissions.

We would not expect New Zealand to set a target as high as Australia's, given that it is a larger, wealthier and more industrialized economy, with a greater potential for lower cost abatement domestically.

We expect that any target set for New Zealand would need to be conditional on all major emitters taking comparable action and a satisfactory resolution of UN rules for Land Use, Land Use Change and Forestry (LULUCF), given this would have a significant impact on the cost of taking action.

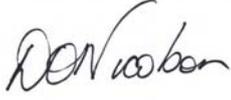
The setting of a near term emission reduction target for New Zealand should be done in a consultation process that includes some analysis of the costs of various targets. In order to properly weigh up the benefits of a near term target (emission reductions and international reputation) against the costs (income, jobs, energy, reputation in the event of failure to meet a target) it is necessary for the public to see a cost benefit analysis of various short term targets.

Once we see that analysis and have a better informed debate, we are confident New Zealand can find the appropriate position and do our fair share. It is critical that New Zealand goes into any future commitments with a good understanding of how much it will cost.

We note that this communication does not prejudice individual submissions on this issue from the signatories below.

Yours sincerely

Catherine Beard, Executive Director, Greenhouse Policy Coalition.	Phil O Reilly, Chief Executive, Business New Zealand	Tony Friedlander, Chief Executive Officer, Road Transport Forum	Ralph Matthes, Executive Director, Major Electricity Users Group
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