



# MAJOR ELECTRICITY USERS' GROUP

29 June 2009

Hon Peter Dunne  
Chairman  
Emissions Trading Scheme Review Committee  
c/- Steven Mitchell  
Clerk to the Committee  
Parliament

By email to [steven.mitchell@parliament.govt.nz](mailto:steven.mitchell@parliament.govt.nz)

Dear Mr Dunne

## Supplementary submission on the Emissions Trading Scheme Review

1. This is a supplementary submission<sup>1</sup> by the Major Electricity Users' Group (MEUG) to the Emissions Trading Scheme Review Committee (the "Committee") in respect of:
  - a) The NZIER and Infometrics report<sup>2</sup> to the Ministry for the Environment "*Economic modelling of NZ climate change policy*" dated 20<sup>th</sup> May 2009. This report was posted on the Ministry web site on 19<sup>th</sup> June 2009. The report summarises the results of the separate NZIER and Infometrics Computable General Equilibrium (CGE) models and makes recommendations; and
  - b) The Terms of Reference<sup>3</sup> for the Committee that "*Require a high quality, quantified regulatory impact analysis (RIA) to be produced to identify the net benefits or costs to New Zealand of any policy action, including international relations and commercial benefits and costs.*"
2. MEUG submit that the NZIER and Infometrics report does not satisfy the requirement of a high quality, quantified regulatory impact analysis of the Emissions Trading Scheme (ETS).
3. There are material risks to the economy and consumers if policy decisions are made without the benefit of a robust RIA. Therefore it is essential that the best analytical tools are used particularly when there is a need to compare options.
4. The balance of this submission sets out specific concerns and suggests how a robust RIA could be achieved. This supplementary submission draws extensively on the report by Castalia<sup>4</sup> for the Greenhouse Policy Coalition "*Peer Review of Economic Analysis prepared for the Regulatory Impact Statement on the Emissions Trading Scheme*" 25<sup>th</sup> June 2009.

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<sup>1</sup> Refer MEUG original submission of 27<sup>th</sup> February 2009 <http://www.meug.co.nz/includes/download.aspx?ID=101117>

<sup>2</sup> Refer <http://www.climatechange.govt.nz/documents/economic-modelling-of-new-zealand-climate-change-policy/>

<sup>3</sup> Refer [http://www.parliament.nz/en-NZ/PB/SC/Details/EmissionsTrading/9/b/e/00SCETS\\_TOR\\_1-Terms-of-reference-of-the-Emissions-Trading-Scheme-Review.htm](http://www.parliament.nz/en-NZ/PB/SC/Details/EmissionsTrading/9/b/e/00SCETS_TOR_1-Terms-of-reference-of-the-Emissions-Trading-Scheme-Review.htm)

<sup>4</sup> Refer [http://www.gpcnz.co.nz/Site/News\\_Releases/Peer\\_Review.aspx](http://www.gpcnz.co.nz/Site/News_Releases/Peer_Review.aspx)

5. A summary of aspects of the NZIER and Infometrics analysis that fall short of a robust RIA and suggestions on how those might be closed follow:

Gap between CGE models and a robust RIA	Suggestions to achieve a robust RIA
<p>Computable General Equilibrium (CGE) models useful for considering broad suite of policy options but too coarse to compare complex options in detail.</p> <p>E.g. Castalia note the NZIER and Infometrics CGE models cannot distinguish between C-tax and ETS and yet subtle differences between the two need to be understood and analysed.</p>	<p>Sectoral cost-benefit-analysis of options is needed. This is resource intensive and the models would have to be custom built. However the cost and delay in timing to undertake this would outweigh the risk of making poor policy decisions.</p>
<p>Policy options not reasonably represented in CGE models.</p> <p>E.g. Castalia note the CGE models have not been set to model the option that the Government can purchase C-credits at lower cost than private companies even though the models have that capability.</p>	<p>Better defined scenarios using the CGE models could be run; however those will not overcome the problem identified above that CGE models are still too coarse a tool compared to sectoral cost-benefit analysis.</p>
<p>CGE model results differ from some sectoral analysis and therefore robustness of results questionable.</p> <p>E.g. Castalia note forestry sector specific analysis has indicated modest C costs could induce over 1 million hectares of additional planting whereas the CGE models forecast only 90,000 hectares of new plantings at \$25/t CO<sub>2</sub>.</p>	<p>As noted above, CGE models are useful for considering broad policy options, but inferior to sector specific cost-benefit-analysis.</p>
<p>NZIER and Infometrics conclusions inconsistent with analysis.</p> <p>E.g. the analysis shows up to 2012 the "Government pays" option is least cost. The conclusion in the text is for an ETS excluding agriculture if measurements are too expensive with free allocations to competitiveness-at-risk sectors. There is no quantitative analysis that bridges the gap between the CGE model runs and the conclusion in the text apart from (as noted by Castalia) a passing opinion on page 45 on purported net benefits of early signalling of carbon pricing and loss of credibility at international negotiations.</p>	<p>The Committee should be careful in separating evidence and analysis from observations.</p> <p>The Committee terms of reference require costs and benefits to be quantified. MEUG has no issue with the pros and cons of introducing a C price signal into the economy being considered in a RIA. But it must be a robust discussion and not just an opinion.</p> <p>Similarly the risk of New Zealand losing an opportunity to influence international negotiations needs to be carefully analysed; although we have seen little evidence New Zealand has much sway. It would be unlikely other countries would take notice of our views if we failed to conduct a robust RIA of the effects on our own economy.</p>

6. In conclusion MEUG suggest first, a sectoral cost-benefit-analysis of options is needed to achieve a robust RIA. Second, the Committee carefully assess and provide some quantitative boundaries to the qualitative factors NZIER and Infometrics relied upon in reaching their conclusions for least cost up to 2012, ie the pros and cons of getting a C price into the economy as early as possible and New Zealand's ability to influence international negotiations.

Yours sincerely



Ralph Matthes  
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