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An Open Letter from the New Zealand Business Community

On Thursday 18 April you jointly announced your respective parties' electricity policy to take into the next election. We respect your right to announce new policy at any time. However, the timing and nature of the announcement has deeply troubled the New Zealand business community.

Business shares your concerns about constantly rising power prices and their impact on our global competitiveness. Businesses and consumers work hard every day to minimise their spending on electricity in order to stay in business and to make their household budgets stretch further.

However, we do not think that electricity policies based on subsidies and greater state control are the right answers. Such policies have been tried in the past and have been shown to be incapable of meeting the challenges of a modern economy with a complex, real-time electricity market.

Putting aside the sheer complexity of their implementation, policies that protect businesses from the full costs of the inputs they use ultimately dull the incentive to innovate and make them less, not more internationally competitive. Reducing retail prices below the full marginal cost of production encourages households to use more than they should.

Of particular concern with the policies announced is their chilling effect on investment across the entire economy.

We are especially concerned at investment analyst reports noting the potential for \$1.4 billion of shareholder value to be wiped off the books of the private power companies. A similar amount, if not more, will come off the value of the public power companies.

Capital destruction on such a scale will severely undermine business confidence. It sends signals to investors, on whom the New Zealand economy relies, that their wealth and the benefits it provides are not welcome. Investment plans and job creation opportunities are foregone.

Rather than remote and intangible, this dampening of investment intentions will have a direct and real economic impact on those of all walks of life who seek to accumulate wealth by working hard to save, invest and grow. It causes interest rates to rise, depletes retirement savings held in KiwiSaver accounts and means that other economic opportunities such as first homes are foregone and new business ventures as savings are unexpectedly reduced. Individuals are less well-off as a result.

With the good of all New Zealanders in mind we ask you to withdraw these damaging policies. We offer to work with you in increasing public understanding of the operation of the electricity market and in ensuring consumers, both small and large, have better choice from one of the increasingly competitive electricity markets in the world.

Yours sincerely,

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