



Office of Hon Dr Nick Smith

MP for Nelson

Minister for the Environment

Minister for Climate Change Issues

Minister for ACC

- 5 AUG 2010

John Schnackenberg
694 State Highway 2
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Dear Mr Schnackenberg

Thank you for your letter of 13 June 2010 regarding the New Zealand Emissions Trading Scheme (NZ ETS) to the Prime Minister. I respond on his behalf as the matters are my responsibility as Minister for Climate Change Issues.

The Intergovernmental Panel on Climate Change (IPCC) has received recent media attention over concerns surrounding a few sources of evidence on the impacts of climate change cited in their Fourth Assessment Report. The concerns do not undermine the reality, based on multiple lines of scientific evidence, that climate change is happening, and humankind's emissions of greenhouse gases are very likely the cause. While the government stands by the robustness of the IPCC report's key conclusions, the government supports the decision by the IPCC to establish an independent review of their processes and procedures to address these concerns.

I note your concern over the leaked emails from the University of East Anglia, which you suggest question the reliability of climate change science. However, a careful review of the content of the emails shows that they do not undermine the scientific case that climate change is real, nor do they refute the case that human activities are almost certainly the cause.

Absolute scientific consensus is most improbable, however, given that an overwhelming majority of the science is from non-biased, peer reviewed sources and states that human activities are very likely the cause of exacerbated climate change, it is appropriate to view the issue as one of risk management. After all, consider the uncertainties that remain in the science of earthquakes. Regardless of probable cause, the prudent approach is to take steps to reduce the risks and mitigate the effects. The government is also conscious of concerns specific to New Zealand's economic resilience, namely, the high value consumer markets where issues of carbon footprint pose a long term risk to our key export industries. We need to do our fair share as a developed nation. We must also recognise that New Zealand is a nation that trades on its clean, green credentials.

You suggest that deferring the NZ ETS is a no cost option. This is not the case. New Zealand has international obligations under the Kyoto Protocol and the prospect of additional future obligations. Without the price signal created by the NZ ETS (or an equivalent instrument), the economic cost of meeting our international obligations will increase. New Zealand is currently forecast to be in credit under Kyoto, this is largely due to the positive impact of the NZ ETS on the forestry sector. There is no option that allows New Zealand to escape the cost of our international obligations. Delaying the NZ ETS will shift the cost of meeting these obligations away from those responsible for emissions and onto the taxpayer. This is not the government's preference.

In the context of meeting international climate change obligations, whether or not other countries introduce emissions trading is irrelevant to New Zealand's decision to implement the NZ ETS. Each country is free to pursue policies that meet their circumstances. Many countries have substantial other measures in place to reduce emissions. For example, countries including

Norway, the Netherlands, Switzerland and Germany have environmental fuel taxes in place, Japan has laws for industrial and consumer energy efficiency and Australia has a federal renewable energy target, which creates requirements for 45,000 gigawatt hours of renewable energy generation per year by 2020. However, extensive analysis has shown that an emissions trading scheme is the best way for New Zealand to meet our obligations, in our circumstances.

Regarding your comparison of the NZ ETS and the European Emissions Trading Scheme (the EU ETS); there are good reasons for the differences between the schemes. The NZ ETS has been designed to suit New Zealand's unique circumstances, including our unusual emissions profile. Our circumstances demand different treatment (for example the ability of foresters to earn credits for the carbon they sequester).

I do not agree that the NZ ETS is more stringent than the EU ETS. The National government's 2009 amendments to the NZ ETS significantly moderated its impact, providing a fixed-price option, generous protection for our emissions-intensive trade-exposed industries and halving the price of emissions by requiring only one unit to be surrendered for every two tonnes of emissions. The price increases that result from the scheme are expected to be modest. Petrol is expected to go up 3.1c a litre and electricity by about 1c/kWh. To give you a sense of the size of price increases, for the average household, this means an expected increase of about \$3 per week. In comparison, I understand that the EU ETS has been estimated to increase electricity prices by 10-30 percent compared to prices before emissions trading.

The government is proceeding with implementation of the NZ ETS because the issue of climate change requires a consistent and steady approach. The scheme will provide strong financial incentives for planting trees, investing in renewable energy and making the transition to more efficient technologies. It is in New Zealand's long term interests to start making that transition now.

You are correct to point out that the NZ ETS is flexible and can be scaled up or down to reflect changing circumstances and I can assure you that it is government policy to formally review the NZ ETS in 2011. We will not proceed with additional sectors or removal of the half-obligation and fixed price options unless other countries - particularly our major trading partners - make progress.

Yours sincerely



Hon Dr Nick Smith
Minister for Climate Change Issues