B E Brill

Barry Edward Brill OBE, JP, LL.M, M.Com Law, OPM (Harv)
Barrister & Solicitor

[redacted]
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SUBMISSION RE PRIORITY ISSUES
2016 ETS REVIEW

My submission is confined to **The Context and Drivers for the Review**

The Government should be considering the following additional factors:

A. **The Paris Agreement** ought not to be a factor in this 2016 review, given that:

(i) It has not yet been signed
(ii) It has not been ratified (by any country)
(iii) If signed and ratified, it will not come into effect until 2020
(iv) The US policy proposal ('Clean Power') that formed the cornerstone of the consensus between major emitters has now been suspended by order of the US Supreme Court. An incoming Republican administration is committed to withdrawal from the Agreement. Whether the major developing companies (eg China, India) will ratify the agreement is now in doubt.

Unlike the Kyoto Protocol, the Paris Agreement imposes no legally binding emission targets on any participant. Whether it remains politically persuasive to developed and developing countries is dependent upon a number of factors, including world economic growth and future global temperature levels.

In the short term, a key factor will be IPCC progress in identifying the 'most likely' extent of climate sensitivity (particularly the transient climate response (TCR)). Most recent research indicates that the TCR has been substantially over-estimated in the CMIP5 models that provide projections for 2050 global temperatures. If the temperature 'pause' resumes following the current El Nino, this issue is likely to dominate the next Assessment Report.

B. New Zealand's "fair share" of the pain imposed by climate policy needs to be assessed by quantifying the policy effects in comparable OECD countries. This was attempted by Treasury for the target-setting exercise prior to COP15 in Copenhagen. The Australian Productivity Commission produced a broad quantification report prior to the 2011 ETS Review.

Most of the INDCs presented prior to COP21 were obviously BAU forecasts (best guesses) rather than promises to endure self-harm. A clear example was China – the largest emitter.

Despite all the rhetoric, New Zealand remains the only country anywhere that has adopted a national cap-and-trade scheme. It might also be the only country to earnestly double the avoidable economic costs of climate policy during the interregnum between Kyoto and Paris.

C. The regressive effect of taxing basic energy needs. Clearly, the ETS will never have the effect of reducing global temperatures by any measurable amount. It will not even reduce New Zealand's measured emissions, unless it prices carbon-based energy out of the range of a sufficient percentage of the population. Those priced out will inevitably comprise the poorest section, commencing with beneficiaries and super-annuitants.

The discussion paper suggests that the cost of proposed ETS changes will be about $1 billion during 2016-2020. The Reserve Bank's 2009 advice of a 2.5 multiplier presumably still applies, meaning that New Zealanders will face over $2 billion of self-imposed costs during the next four years. This is not bagatelle. ETS Reviewers are accountable for showing that a comparable or greater level of benefit will accrue to the poorer sections (eg children in poverty) of the New Zealand community.

D. Projections of Global Energy Prices ought to dominate the assumptions used in modeling the effectiveness of the proposals for amending the ETS. Price elasticity of demand will operate very differently at motor fuel prices based on crude costing $90/bl rather than $30/bl.

If this Review were to double the price burden imposed by the ETS and oil prices moved to obliterate that effect, then no behavioral change would be effected. On the other hand, if oil prices moved to magnify the ETS doubling then the overall economic impact would be much greater than planned. In either case, the ineptness of the Government's tinkering will be apparent.

E. Projections of Global Wood Prices will determine the perceived profitability of the forestry sector which will in turn govern the level of New Zealand tree-planting. As with energy, movements in global prices can and will annihilate the puny effects of altering ETS settings.

In this field, marginal cost effects are likely to be marginal. Poorly targeted policy settings cannot be justified by sweeping assertions that "every little helps".

Yours faithfully

Barry Brill
Mob: [redacted]
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