



Emissions Trading -- Harmonization with Australia: Issues and Options

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Outline

- The context: why Australia and New Zealand are both proposing emissions trading schemes
- The story so far
- Within this context, what are the reasons for pursuing harmonisation?
 - Compliance costs
 - Competitive neutrality
 - Leakage
- An alternative – linking
- Conclusions



ANZAC action only make sense as part of a global scheme

- We are too small to make a difference alone
- But if as OECD members we don't act, the BRIICs won't
- And if the BRIICs don't act, the USA won't
- And if the USA doesn't act, we will face unacceptable risks



Common objectives

*"Provide for the implementation, operation, and administration of a greenhouse gas emissions trading scheme in New Zealand that **supports and encourages global efforts to reduce greenhouse gas emissions** by assisting New Zealand to meet its international obligations under the Convention and the Protocol, and by **reducing New Zealand's net emissions below business-as-usual levels.**"*

Section 3, Climate Change Response Act 2002

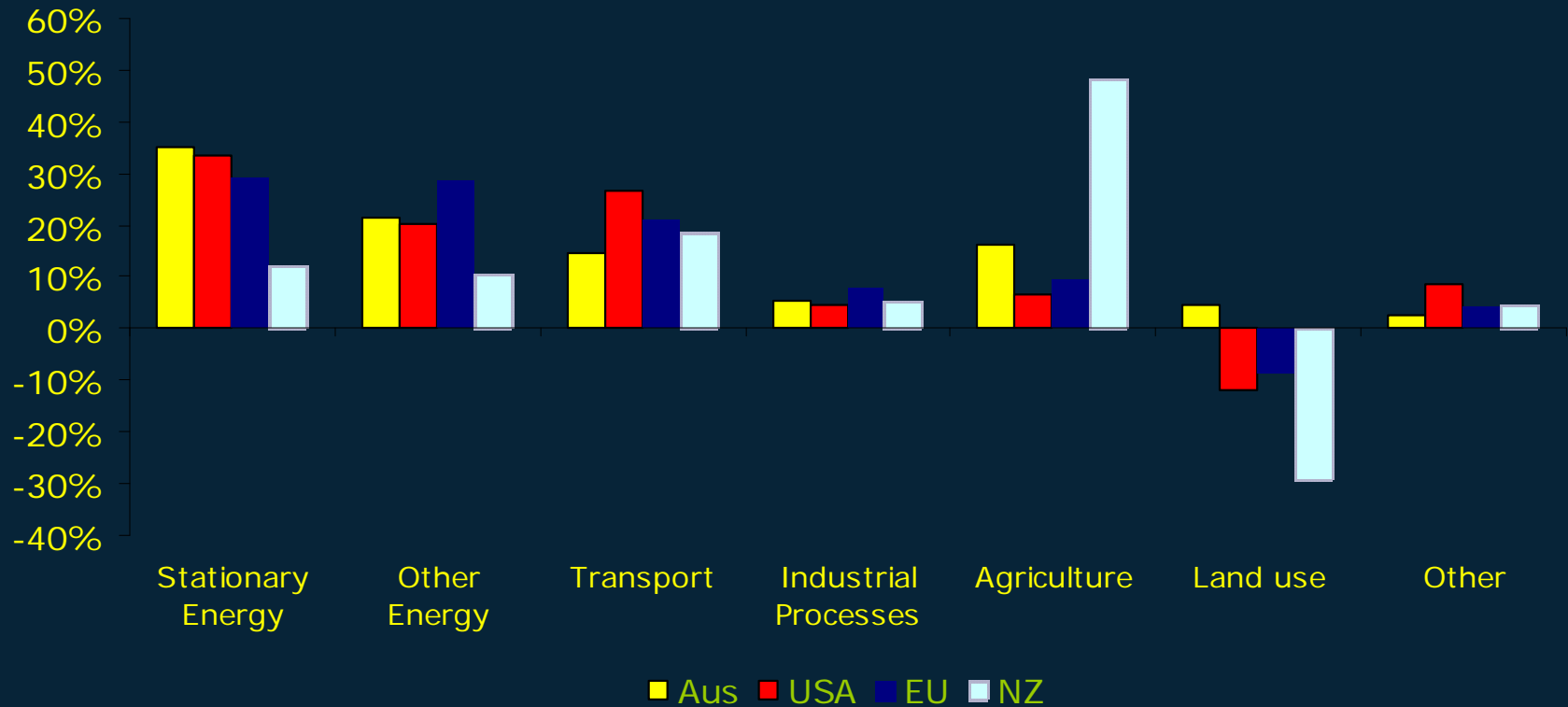
The first object of this Act is to give effect to Australia's obligations under the UNFCCC and the Kyoto Protocol.

*The second object of this Act is to **support the development of an effective global response to climate change.***

*The third object of this Act is to take action directed towards **meeting Australia's greenhouse gas emissions targets** in a flexible and cost-effective way*

Clause 3, Carbon Pollution Reduction Scheme Bill 2009

But different problems?



The story so far...

- Both countries proposing to “price carbon”
- “Cap and trade”, but without the cap
- Calculate and report emissions, surrender units
- Open registries



Core provisions similar

- New Zealand ETS (enacted)
 - All gases
 - stationary energy (2010), transport (2011), industrial processes (2010), waste (2013), **agriculture(2013)**, **forestry** (2008)
 - ~100% of emissions; 200 + 10,000 (forestry) + 15,000 (farms) entities
 - **Up-stream point of obligation**
 - Open to (most) Kyoto Units
 - **International prices**
 - **Transitional assistance: fixed pool, 12 year phase-out**
- Australian NGERs/CPRS (proposed)
 - All gases
 - stationary energy, transport, industrial processes, waste, **fugitive emissions, reforestation** (all 2011)
 - ~75% of emissions; ~ 1,000 entities
 - **Mixed upstream and downstream point of obligation**
 - Open to (most) Kyoto Units, eventually
 - **Fixed price, then capped price, then international prices**
 - **Transitional assistance: growing pool, 1.3% phase-out**

Why harmonise?

- Reduce compliance costs for trans-Tasman firms
- Remove any competitive disadvantage by providing a level playing field
- Avoid leakage



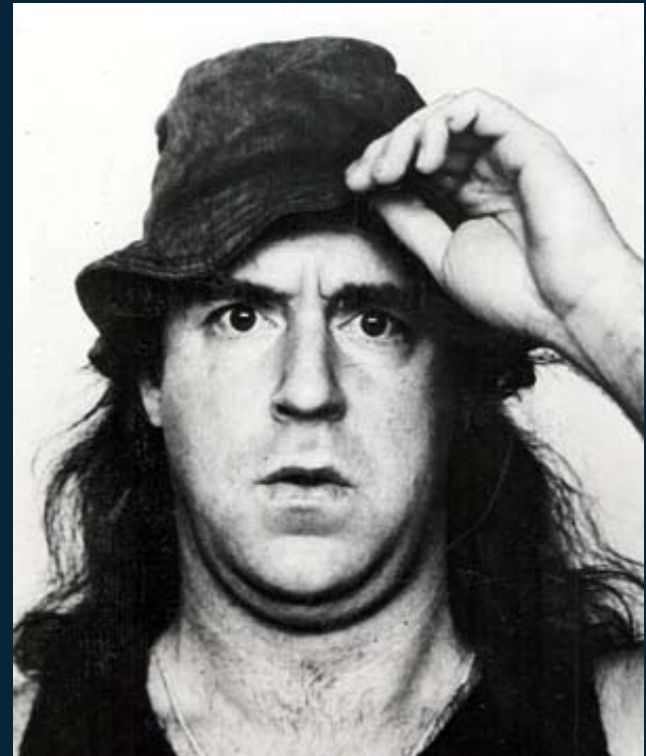
Reducing compliance costs

- Both the Australian and New Zealand schemes have few participants, due to “upstream” points of obligation
- Unlikely to be many firms with compliance obligations in both countries
- How can we be confident that the harmonised rules will be simpler?



Removing competitive disadvantage

- The economic case for protecting firms from policy differences between countries is weak.
- In an ETS, it is the price of units that drives competitiveness, and that is set by the world market.



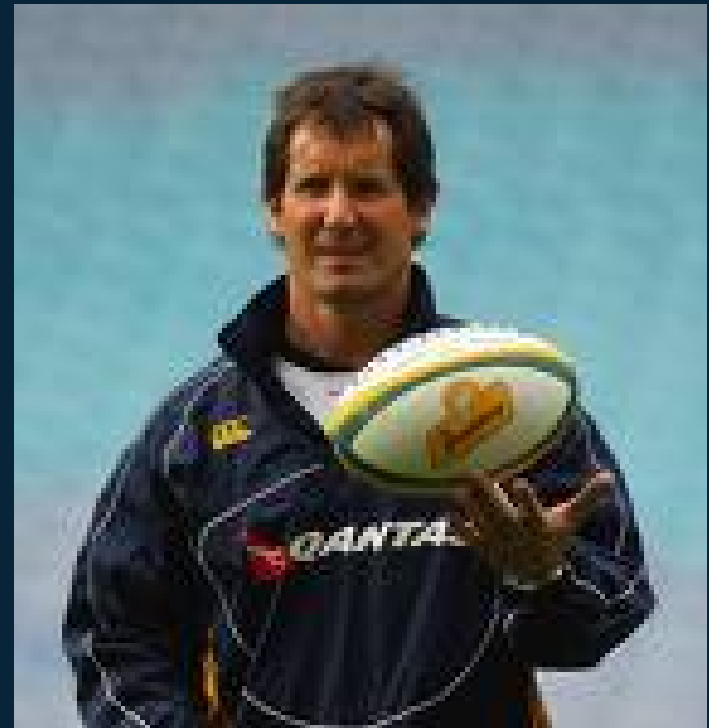
Leakage

- Production shifting to a country with no or less stringent carbon pricing
- Little global environmental gain
- But GDP shifts
- Applies in a few highly mobile sectors



Linking– all the benefits, none of the cost?

- Allow free trade in emission units
- Prices will converge
- Provide bigger pool
- A step towards wider linking: EU, US



Conclusion

- Case for harmonisation looks weak
- A triumph of geography over analysis?
- An act of political expediency?

