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## Business could get greenhouse emissions 'practice run' says economist

11:45AM Tuesday May 12, 2009

New Zealand businesses could benefit from having a practice run at emissions trading while the Government sets a temporary "ceiling" on the price that can be paid for carbon credits, a Parliamentary select committee was told yesterday.

Economist Suzi Kerr, of Motu Economic and Public Policy Research, made the last submission to the committee, noting there "may be value in (a) temporary price ceiling".

Setting a limit on the prices at which New Zealand emission units could be traded would enable businesses to learn as they began trading.

But Kerr noted constraints on the price would require limits on forward trading, and "banking" units for later use.

Similar issues would arise across the Tasman, where Australia announced it has delayed the start of its scheme to July 2011, and said its first year of trading would have a fixed carbon permit price of A\$10 (\$12.76) a tonne.

Kerr told the select committee that if Australia and New Zealand accepted the same sovereign emissions units -- Assigned Amount Units, or AAUs -- which are traded internationally by governments there would be no need for formal harmonisation of the trading schemes on each side of the Tasman.

But if New Zealand set a price ceiling on its NZU credits, there would be complications in terms of exchanging them internationally.

Kerr said free allocation of units to industries could be expensive to the taxpayer, and if the handout was linked to historical emissions rather than continuing output, the recipients would gain wealth without necessarily having to change their behaviour.

The committee will be expected to report back to Parliament on what changes should be made to the ETS. The Government has said it wants to have a scheme sorted out by 2010: New Zealand is already committed to keeping its emissions between 2008 and 2012 to 1990 levels.

Carbon credits for forestry are keeping emissions around that mark, even though industry and farming



The Huntly Power Station, New Zealand's largest thermal power station. Photo / Amos Chapple

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are generating about 23 per cent more greenhouse gases than in 1990.

Yesterday Air New Zealand deputy chief executive Norm Thompson told the committee that as the scheme now stands, his company faces an annual liability of between \$13.8 million and \$27.5m from January 2011, depending on whether the NZUs cost \$25 or \$50.

He complained that airlines and other transport companies would have to surrender emissions units for all their greenhouse gases from fossil fuels, and said the nation could not afford such an export of funds.

Thompson suggested it would be simpler for the Government to buy all the units necessary for NZ industry, and to raise the cash through a carbon tax rather than emissions trading.

"Air New Zealand's strong preference is that the NZ ETS be abandoned at this stage," he said. The airline would prefer to pay a carbon tax to the Government which could partly be used to create emissions-reducing projects -- and jobs within New Zealand.

The levels of cost Australia was imposing on industry would be a good benchmark, because that would help the airline remain in step with key competitors.

Thompson said that the domestic legs of long-haul international flights channelled through Auckland would attract a carbon charge, while if those flights were instead taken through Sydney they would not be subject to a carbon cost. This could potentially cost the company passengers.

The committee also spoke to two Australian bureaucrats involved with emissions trading (Barry Sterland) and climate change modelling (Meghan Quinn).

- NZPA