

# **New Zealand Emissions Trading system**

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Key points/prompts for questions

- 1 Trade-exposure because some countries not covered by Kyoto
  - Some economic activity will move/not arrive – not clear how much
  - This will raise global emissions because, for example, China will have emissions above ‘business as usual’ – environmental leakage
  - Some jobs will be lost in New Zealand
  - Very hard to identify what will move (and more importantly) not arrive
  - Even if activity doesn’t move, trade exposure has equity impacts because producers can’t pass costs on internationally.
  - Even countries covered by Kyoto will not necessarily pass costs on to their sectors (e.g. agriculture). There is no environmental leakage in this case but economic and equity effects will occur.
- 2 Free allocation of units
  - Costly to taxpayer
  - Primary effect is to increase the wealth of the recipient if not linked to ongoing output – they don’t have to do anything to get the wealth (except exist) so don’t change their behaviour.
  - If not linked to output in trade exposed process, will have limited impact on competitiveness issues or environmental leakage.
  - Unclear that we should subsidise to protect against competitive disadvantage – firms may make better decisions than government about future potential
  - Border adjustments rebates/taxes are a more efficient instrument to address trade exposure
- 3 Price Risk
  - High price uncertainty and possible lack of access to units in short term
  - May be value in temporary price ceiling
  - Requires limits on banking and sale
- 4 Harmonise with Australia?
  - If we trade the same units (AAUs etc.) we don’t need to formally harmonise.
  - If Australia accepts NZ units while they have a price ceiling, we will have to limit our international sales and banking.
  - No need to harmonise wealth transfers based on historic data.
  - Some value in harmonising trade-exposure protection / border adjustments.