

# Comments and discussion on Environmental and Behavioural Taxes

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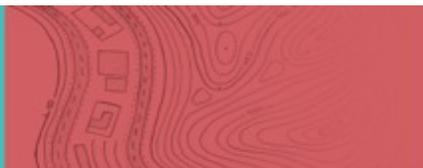


# Environmental taxes (pricing) responses to a strong report

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NOT interim Climate Change Commission

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# Be careful with re-use of revenue

If revenue is used on the margin to subsidise the damaging activity, it is not efficient

It encourages too much of the activity even if the activity is now cleaner than it would have been

Example: using fuel taxes to build roads



# Not a 'positive externality'

“For example, changes in farm practice may lead to downstream improvements in water quality that increase the production of ecosystem services.”

This is the reduction of a negative externality

The difference matters for perception and efficiency.

It could be misinterpreted to suggest that for efficiency reasons farmers should be subsidized for reduced impact, rather than taxed for pollution – rather than arguing to protect farmers for equity reasons

If the farm is not bearing the full cost of land-use choices they may be making the wrong land-use decision (for society).



# ETS and revenue

It's good to see the big numbers associated with ETS.  
Very large gains from removing free allocation outside agriculture sector

Over the 2020s - NZ\$4.3-7.2 billion under auction at \$30-50 per unit

Is emissions leakage really such a great risk now?

If yes, are there cheaper ways to address it?

Are there still significant pre 2008 stranded assets?



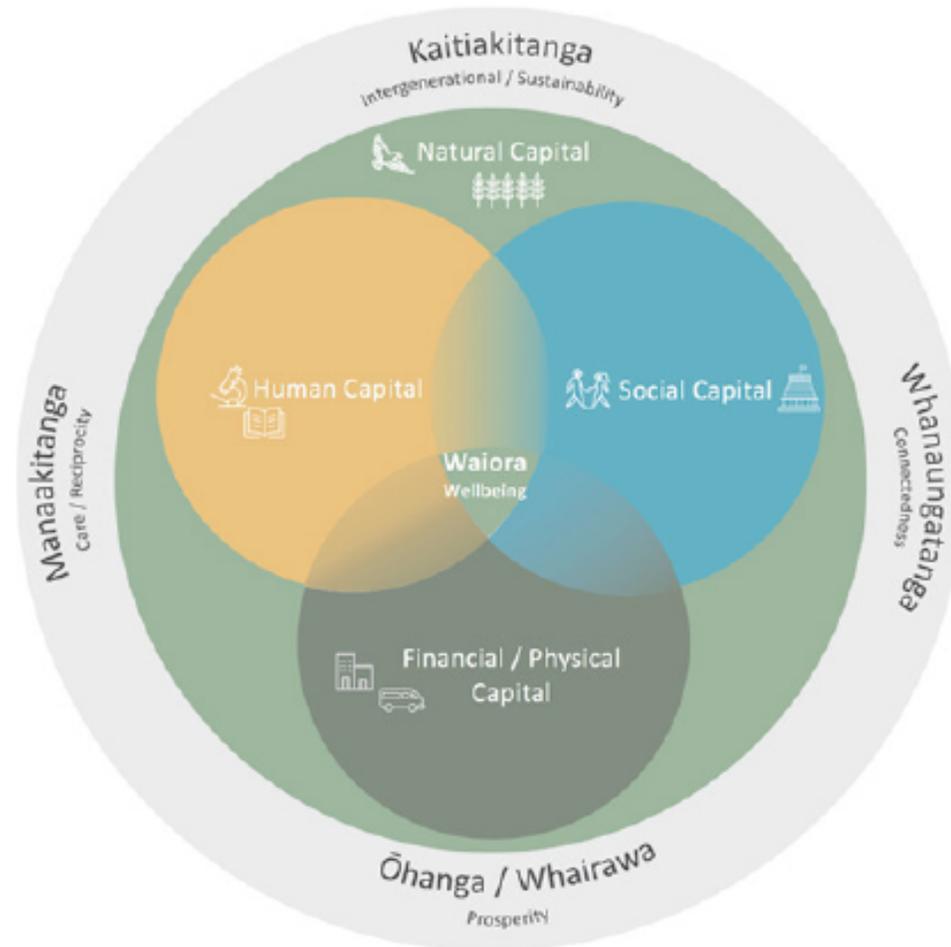
# Other thoughts to consider

- Allow local councils to receive income from environmental pricing?
- Make ETS work well – would address large chunks of the water quality issue as well.
- Congestion pricing in Auckland is almost certainly a winner now.
- Waste disposal levy doesn't target GHGs from waste well – based on disposal not management of stock.



# Biological emissions from agriculture: a good 'tax' base?

1. Influence behaviour
2. Efficient source of revenue
3. Fair



# Can we efficiently influence behaviour?

Land-use change is a major mitigation option  
and is, slowly, price responsive  
on-farm behaviour is less clear

Do we just push activity offshore – emissions  
leakage?

what will the new land use in NZ be?

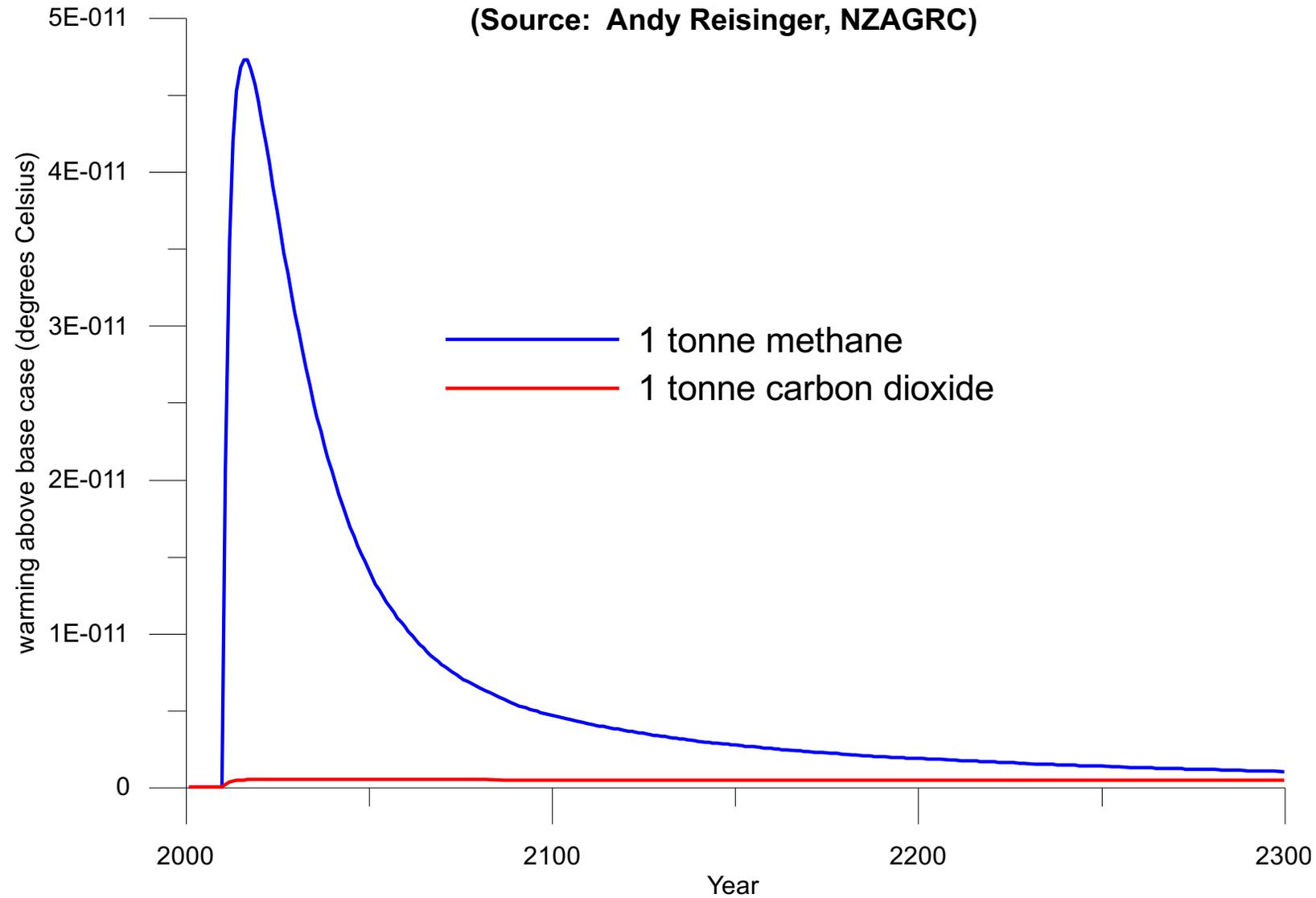
But many gases cause the same problem -  
radiative forcing that leads to climate change.

Do we have the prices right across these gases?



# Modelled warming caused by 1 tonne of emissions

(Source: Andy Reisinger, NZAGRC)



# Short- and long-term climate outcomes: do we have the weights right?

Not just a science question – expectations and ethics

When will damages to humans be greatest?

How rapidly can humanity adapt?

Will new adaptation technologies be found in the long term?

Will negative emission technologies allow us to reduce temperature in the very long term?

How much do we focus on the wellbeing of people this century versus in later centuries?



Would including biological emissions in the ETS be an efficient way to raise revenue?

The usual answer with externality taxes is yes – no unwanted distortion in behaviour.

But what if pricing leads to rapid land-use change and rural communities can't adjust so costs are very high and social capital is lost?

- social externalities are inefficient

Price below the full cost during a transition?



# Can putting biological emissions in the ETS be 'fair'?

Who is the 'polluter' – the farmer or the consumer?

Should around 23,000 farming families bear the cost of half our emissions?

Some farmers are wealthy but many are not.

Farmers need to act, but do they need to pay?

How could we reduce the impact on households, communities and farm balance sheets?



# Environmental taxes for revenue?

Yes for ETS – including through reduced free allocation

Yes for local government?

Yes for congestion pricing – though amount of revenue is unclear.

Limited for biological emissions

