



- 2 JUN 2010

Office of Hon Dr Nick Smith

MP for Nelson

Minister for the Environment

Minister for Climate Change Issues

Minister for ACC

CC 2921

Neil Henderson
doonhill@farmside.co.nz

Dear Mr Henderson

Thank you for your email to the Prime Minister regarding the implementation of the New Zealand Emissions Trading Scheme (NZ ETS), which is planned for 1 July 2010. I am responding on his behalf as the issues that you raise fall within my portfolio responsibilities as the Minister for Climate Change Issues.

I note that you wrote to me on 8 March 2010 regarding the science of climate change and temperature trends. Allow me to further clarify the government's position - Firstly, National's development and implementation of the NZ ETS is in line with our 2008 election policy; namely, that we would continue implementation of the scheme in 2010 but would pass legislation to soften its impact. The legislated changes in 2009 more than halved the costs that consumers and businesses would have faced under the scheme that was introduced by the previous government on 1 January 2008. The revisions significantly slow the pace of New Zealand's scheme, by deferring agriculture until 2015 and providing for more generous phase out of allocations for trade-exposed industries.

New Zealand is certainly not attempting to lead the world by taking this action. In fact, of the 38 countries facing obligations under the Kyoto Protocol, 29 (that is to say, more than three quarters) have already implemented an emissions trading scheme of some sort. Most introduced their schemes in 2005. I would also like to clarify that these schemes do not only apply to industry. Most of the schemes in other countries include some kind of coverage of petrol, diesel and electricity generation, all of which have an overarching impact on consumers and businesses. It is misleading to claim that New Zealand's scheme is world-leading because it includes all sectors and all gases. Most of our emissions will not be included in the scheme that is introduced on 1 July 2010. The government has made it quite clear that other sectors and gases will not be added to the NZ ETS until such time as other countries make significant and effective progress.

It is also not correct to describe the NZ ETS as a tax. The scheme does not generate revenue for the government. In the 2010/11 year, the cost to consumers and businesses of \$350 million will be surpassed by the payments to foresters of more than \$1100 million.

The government is proceeding with implementation of the NZ ETS because the issue of climate change requires a consistent and steady approach. The scheme will provide strong financial incentives for planting trees, investing in renewable energy and making the transition to more efficient technologies. It is in New Zealand's long term interests to start making that transition now.

However, I can assure you that it is government policy to formally review the ETS in 2011. We will not proceed with additional sectors or removal of the half-obligation and fixed price options unless other countries - particularly our major trading partners - make progress.

Yours sincerely

Hon Dr Nick Smith
Minister for Climate Change Issues