



## Office of Hon Dr Nick Smith

**MP for Nelson**

Minister for the Environment

Minister for Climate Change Issues

Minister for ACC

18 JUN 2010

CC 2731

Wayne Muntz  
w.muntz@xnet.co.nz

Dear Mr Muntz

Thank you for your email of 28 April 2010 regarding the New Zealand Emissions Trading Scheme (NZ ETS).

You are correct that I was a critic of the scheme that was introduced by the previous government. However, I would like to take this opportunity to 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 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.

I would also like to clarify that an emissions trading scheme is different from a carbon tax referred to in my 2005 article. The carbon tax policy proposed by the previous government was based on imposing a fixed levy on emissions, whereas the NZ ETS is based on restricting the total volume of emissions and allowing firms to trade emission units that entitle the emission of greenhouse gases. The government's position is that the NZ ETS should be fiscally neutral rather than providing windfall gains to the government at the expense of businesses and households.

Under the NZ ETS, part of New Zealand's international obligation to reduce emissions is passed down to the participants that emit greenhouse gases or supply products that create emissions when used by consumers (for example, electricity and fuel companies). By requiring participants to pay for their emissions (via the purchasing of units to offset them), the NZ ETS will shift the cost of meeting our international obligations from the general taxpayer to the people that create the emissions. In the absence of the NZ ETS, the cost of our international obligations would be borne by taxpayers, which is not the government's preference. The attached diagram shows how the NZ ETS could work.

This policy initiative is driven by a strong scientific evidence base of human-caused climate change. This government has investigated various sources of evidence on climate change and is satisfied that the risks justify action.

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.

Yours sincerely

Hon Dr Nick Smith  
**Minister for Climate Change Issues**

# New Zealand's Emissions Trading Scheme (ETS)

The ETS is based on units, which must be obtained to cover emissions. These units can be bought and sold.

