



## Office of Hon Dr Nick Smith

**MP for Nelson**

Minister for the Environment

Minister for Climate Change Issues

Minister for ACC

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CC 3498

Neil Harrap  
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Dear Mr Harrap

Thank you for your email of 14 June 2010 regarding the implementation of the New Zealand Emissions Trading Scheme (NZ ETS).

I acknowledge your misgivings; 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 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.

The NZ ETS differs considerably from the carbon tax proposed by the previous government. The carbon tax policy was based on imposing a fixed levy on emissions, whereas the NZ ETS allows firms to trade emission units. Emissions trading provides flexibility in how participants in the scheme comply with their obligations, enabling them to choose the least-cost way to reduce their emissions.

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 have not yet been included in the scheme. 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 also conscious of concerns specific to New Zealand's economic resilience, namely, the high value consumer markets where issues of carbon footprint pose a long term risk to our key export industries. We need to do our fair share as a developed nation. We must also recognise that New Zealand is a nation that trades on its clean, green credentials.

The government has implemented 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. I can assure you that it is government policy to formally review the NZ 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**