NEW ZEALAND BUSINESS ROUNDTABLE

Submission on the Review of the Emissions Trading Scheme

February 2009

1. Introduction

1.1 This submission to the Review of the Emissions Trading Scheme is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall national interests.

1.2 On 19 December 2008 the Business Roundtable and 12 other representative business organisations wrote to the chairman of the Emissions Trading Scheme Review requesting that the regulatory impact analysis required by the select committee's terms of reference be prepared and made available before interested parties were asked to make submissions. Once it was available, we requested three weeks to make submissions. As our letter said:

> This group has no desire to delay progress on implementing a policy solution in New Zealand, but we are concerned that a rushed process that is not informed by a rigorous regulatory impact statement will see New Zealand repeat the chaotic policy process we experienced with the introduction of the emissions trading legislation.

1.3 This process has not been followed. Indeed we understand from the Ministry for the Environment that no substantive work on a regulatory impact analysis has been set in train. It is of paramount importance in evaluating possible climate change policies to know whether the costs to New Zealand are likely to be in the order of, say, $50 million, $500 million or $5,000 million annually, and similarly the order of magnitude of the benefits. Legislators cannot possibly reach informed conclusions without such analysis, nor can submitters offer well-considered views. The regulatory impact statement accompanying the Emissions Trading Scheme (ETS) legislation contained no such analysis and was recognised as being woefully deficient, including by current officials**. Accordingly the most important request we make in this submission is to have the opportunity to assess the regulatory impact analysis when it is available and appear before the Committee again to present our views on it.**

2. General approach

2.1 The rushed process being followed is all the more regrettable in that, in our view, there should be a good chance of achieving a level of political and public consensus on a sensible and durable approach to climate change. Most business organisations are saying that now that Australia, and perhaps the United States, are planning to put a price on carbon in some way, New Zealand should do likewise. But the issue is a political one, given that all New Zealanders will ultimately bear the costs of policy action. The relevant question is: what costs will voters be prepared to incur to secure benefits associated with international solidarity on this issue? If voters do not give their assent to such costs, governments will be voted out of office and policy will be unstable. This serves neither economic nor environmental interests.

2.2 In our view, past New Zealand governments have done a poor job in framing the climate change issue for the public. They have presented one-sided and misleading arguments that over-sold the case for action. As a result, no enduring basis for policy has taken shape, as evidenced by the failure of the carbon tax proposal after the 2005 election and the current review following the 2008 election (occasioned by the National Party and ACT voting against the ETS legislation). Among the dubious arguments we would list the following:

- *the notion that New Zealand might 'lead the world' on carbon neutrality.* This is a fanciful goal whose achievement would have no demonstrable benefit for the average New Zealander, and which could only be achieved in the foreseeable future at huge cost to the economy and households.

- *the proposition that significant emissions reductions could be achieved without sacrificing economic growth.* This is spurious: significant reductions mean significant sacrifices. The current government's top priority economic goal is to close the income gap with Australia by 2025. This will require sustained growth rates in

real GDP in the order of 4 percent or more a year. It is implausible to believe such growth rates can be achieved in that timeframe without significant increases in emissions.

- *the argument that 'green' industries and jobs will be created as a result of climate change policies and benefit the economy.* By the same logic, banning all motor vehicles would benefit the economy by creating 'green' transport jobs. Economists refer to such propositions as the 'broken window' fallacy. (This is the proposition that breaking windows benefits the economy by creating additional jobs for glaziers and others.) The error arises from the failure to consider the national interest – ie how the same resources could have been otherwise better deployed. Import licensing created jobs in protected industries but led to a misallocation of resources that harmed the economy.

- *the suggestion by the Treasury that New Zealand could, if necessary, meet all its Kyoto obligations by purchasing credits offshore.* This is not internationally credible as a long-term policy, as the Green Party and others have pointed out. The spirit of the Kyoto Protocol is that all parties should reduce their gross emissions to some extent. Such purchases would also mean a loss of income to New Zealand.

- *the earlier assertion that New Zealand would benefit financially from forestry sinks and the current proposition that it will incur a financial liability if it fails to meet its Kyoto targets.* Both ideas are questionable in our view, despite the apparent legal basis for them. Canada has indicated that it won't meet its Kyoto targets and that it doesn't recognise any legal liability to pay. A Canadian court has upheld that view. The Treasury's argument that New Zealand should implement an ETS scheme unilaterally, accepting the loss of trade-exposed industries on the grounds that their departure would reduce the fiscal cost of anticipated post-Kyoto liabilities, is dubious on this and other grounds.

- *perhaps most importantly, the impression governments have given that New Zealand actions can help reduce any global warming trend.* They can't: New Zealand is far too small an economy for its emissions path to have any detectable effect.

2.3 Instead, we consider a case can be made for New Zealand to take modest action on two different grounds:

- the case for joining other countries to reduce the threat of possibly dangerous global warming – the international relations case, and

- the case for protecting New Zealand's commercial interests against possible actions by other governments, such as penalising 'food miles' or taxing long-distance air travel.

However, in respect of these two arguments the extent of potential benefits needs to be quantified in a credible way, and then compared with estimates of the costs of policy action.

2.4 A further overriding issue is the present financial and economic crisis. This is likely to delay action by other countries and make early action by New Zealand both less desirable economically and more difficult politically. In our view, the government should not plan to implement any measures until it is clear that a sustainable international and domestic economic recovery is firmly in train.

2.5 We consider that the Committee's terms of reference provide a good framework for undertaking its review. In the next section we comment on each of them.

3. Terms of reference

3.1 ***Identify the central/benchmark projections which are being used as the motivation for international agreements to combat climate change; and consider the uncertainties and risks surrounding those projections.***

3.1.1 This goes to the science of climate change. It is simply not credible to claim, as past ministers have done, that "the science is settled". Scientific hypotheses are never settled but rather accepted until

disproved. There are still enormous uncertainties about climate change science, which are likely to persist for many years. Most scientists accept the existence of a 'greenhouse effect' from CO_2 emissions and that global temperatures rose slightly (about 0.6^0C) last century. However, much is still unknown about natural variability due to both external factors (eg the sun) and internal factors (the climate system is never in equilibrium); feedback mechanisms (water vapour, ocean currents and thermal effects more generally); and the masking effects of aerosols. Because of these problems of attribution, the likely *amount* of future temperature increases associated with increased concentrations of greenhouse gases is still hotly debated, given the diminishing impact on temperature of further CO_2 emissions.

3.1.2 In New Zealand's case the temperature record shows no statistically significant warming at least since 1970. It matters greatly for the welfare of New Zealanders whether possible future increases are likely to be small and beneficial or potentially large and harmful. Moreover, New Zealand temperature increases are considered likely to be only around two thirds the level of any global increases. Official government documents acknowledge that moderate warming (say of the order of 2^0C) in New Zealand would have net benefits in terms of health, energy consumption, agriculture, tourism and other factors for many decades. While we acknowledge the case for New Zealand to play its part in dealing with a possible global problem, it must be recognised that New Zealanders are being asked to incur costs and forgo the benefits of possible moderate warming by doing so, at least for some generations. This is not an easy political 'sell'.

3.1.3 In our view there is no point in turning a blind eye to the scientific debates: the public is aware that they exist. A recent poll in the United States found that 44 percent of US voters do not believe that global temperature trends are due to human activity. This illustrates the scale of the political problem. The proper case to be made is that a large number of scientists consider human-induced warming is occurring, and that it could be harmful for human welfare. It is

reasonable for the international community to take out some 'insurance' to mitigate the risks of dangerous trends if paying the insurance 'premium' can reduce those risks (otherwise adaptation is the only effective response). Action could be ramped up over time if the evolving science confirms the likelihood of dangerous warming and lower-cost ways of reducing emissions emerge with advances in technology. Alternatively, it could be ramped down if neither occurs.

3.1.4 At the same time, it is important not to overstate the case for action. As Bjorn Lomborg has pointed out, 95 percent of the emissions cuts envisaged by Kyoto have not happened, and even if it were fully implemented throughout this century it would on present evidence reduce temperatures by an insignificant 0.2^0C at great economic cost. It does not make sense to ask current generations to make large sacrifices in the interests of future, likely much richer, generations; nor is it in the interests of future generations for current generations to make material sacrifices of potential economic growth and bequeath them a lower capital stock for little or no discernible reduction in the global warming risk. Lomborg argues that Kyoto is a "bad deal" compared with many other economic and environmental priorities to which resources could be allocated.

3.1.5 In summary, we think it would be counter-productive for the Committee to ignore the professional debate on the scientific issues. Legislatures around the world have held hearings on them. Voters will not be keen to pay higher energy prices and are likely to take a refusal by the Committee to hear open debate as a sign that politicians are not levelling with them. This would sell democracy in New Zealand short. For all the above reasons, we suggest that the Committee should acknowledge the existence of the significant scientific uncertainties surrounding this enormously complex issue. It would not be credible for it to assert that "the science is settled".

3.2 ***Hear views from trade and diplomatic experts on the international relations aspects of this issue.***

3.2.1 We interpret this task as being to assess the two grounds for action, international relations benefits and commercial benefits, that we identified earlier. We consider these are genuine but should not be overstated.

3.2.2 With respect to international relations benefits, we think that New Zealand could not expect to have influence in ongoing climate change forums if it were not prepared to indicate a willingness to implement emissions reductions policies. Such a stance might also have wider consequences for our international relations. On the other hand, New Zealand is a minor player in climate change forums. It is pretentious to claim we 'punch above our weight', and for all practical purposes larger countries will determine the international agenda. As a small country, New Zealand benefits from a rules-based international order and should work to ensure it is seen as a responsible international citizen. Now that Australia and possibly the United States are committed to Kyoto-type action, we do not believe it is credible for New Zealand to stand apart. However, these countries and others such as Canada, Singapore and South Korea do not seem to have suffered international ostracism for their respective stances on Kyoto issues, nor does New Zealand appear to have benefited from its former 'lead the world' stance. We doubt that there is a case for New Zealand to incur large economic costs on this ground.

3.2.3 As regards protection of commercial interests, New Zealand firms can take action themselves to mitigate such risks and are best placed to assess them. We are not aware that firms in countries such as Australia, the United States, Canada, Singapore and South Korea have lost out commercially because of their governments' Kyoto policies. International consumers of goods and services produced in New Zealand are, on the whole, more likely to be influenced in their buying decisions by factors such as price and quality than by official climate change policies. Again we are sceptical that this benefit is large, but it should be quantified.

3.3 ***Consider the prospects for an international agreement on climate change post Kyoto I, and the form such an agreement might take.***

3.3.1 The Poznan meeting in December 2008 made limited progress towards a post-2012 agreement. For most countries the ongoing financial and economic crisis is overshadowing all else. Governments in the European Union are drawing back from past commitments and indicating less willingness to take on new ones. The United States may be a more active player with the change in administration, but public and Congressional opinion may not support significant action in the absence of comparable commitments by China and India. These countries are making it clear that economic development remains their paramount goal. The Rudd government in Australia has already backed off some of its earlier plans and may water them down further.

3.3.2 We do not regard ourselves as experts in this field, but we doubt whether the Copenhagen conference in December this year will reach agreement on ambitious post-2012 commitments. On the other hand, governments are unlikely to let it be regarded as a failure, both because of the importance of the issue and because of domestic political constituencies. There will be an agreement to keep on talking. Concrete commitments, however, may be limited in scope, and some observers think that at most they may take the form of 'separate but different' statements of intent which might be loosely coordinated over time, rather than top-down Kyoto-type emissions reduction undertakings. This has implications for the choice of policy instrument (an ETS versus a carbon tax) – see below.

3.4 ***Require a high quality, quantified, regulatory impact analysis to be produced to identify the net benefits or costs to New Zealand of any policy action, including international relations and commercial benefits and costs.***

3.4.1 This is the crux of the Committee's work. It should precede any substantive deliberations. Submitters should be given the opportunity to resubmit when an RIA is available.

3.4.2 The key elements of a net benefit analysis, namely the possible international relations and commercial benefits, and the economic costs of policy action, are correctly identified. Other benefits of action, such as a reduction in New Zealand's Kyoto liability, are dubious for the reasons observed. Other possible costs of action, such as a New Zealand contribution to developing country measures, as proposed by the European Union, should be identified.

3.4.3 We acknowledge the difficulty of making precise estimates of benefits and costs but the Ministry for the Environment, working with agencies like the Ministry of Trade and Foreign Affairs and Trade and Enterprise New Zealand, and with industries like dairy, meat, forestry and tourism, can reasonably be expected to come up with plausible ranges of benefits. On the costs side, there are many forms of economic modelling that can be undertaken or drawn upon. Discount rate issues should be considered. The Regulatory Impact Analysis Unit of Treasury should certify the quality of work.

3.4.4 As required by the Cabinet Manual, the analysis must also consider alternative means of achieving a policy goal. In this context this will require, in particular, an examination of the least-cost way of meeting any Kyoto liability that may exist, an evaluation of mitigation versus adaptation options, and consideration of the relative merits of an ETS, carbon tax and regulatory approaches (see below).

3.5 ***Consider the impact on the New Zealand economy and New Zealand households of any climate change policies, having regard to the weak state of the economy, the need to safeguard New Zealand's international competitiveness, the position of trade-exposed industries, and the actions of competing countries.***

3.5.1 The New Zealand economy is not in a position to bear additional regulatory burdens. Excessive government spending and regulation have contributed to the slump in productivity growth, the loss of international competitiveness and the onset of recession last year well before the financial crisis emerged. To achieve its goal of income parity with Australia by 2025, the government must reduce

regulatory burdens, not add to them. Policies aimed at 'carbon neutrality' would have devastating economic consequences.

3.5.2 As regards New Zealand households, there is plausible polling evidence that they are unwilling to bear large costs in the name of mitigating climate change. Indeed a robust case needs to be made to ask them to incur any costs. Ignoring public opinion is likely to backfire. The result would be further political and policy stalemate and reversals.

3.5.3 The issue of trade-exposed industries is well understood: there is no economic or environmental gain in having production in New Zealand contract if other countries are not taking comparable action and if production migrates to countries with less efficient industries. This problem applies to industries such as steel, cement and aluminium, and to much of agriculture. Such industries should be shielded from the impact of climate change policies in the absence of level playing fields internationally. One possible solution to these problems is the application of measures to domestic consumption rather than domestic production, as advocated by respected economist Geoff Carmody in Australia. We are aware that he is making a submission to the Committee. To our knowledge this approach has not been carefully evaluated in New Zealand – another gap in official analysis.

3.6 ***Examine the relative merits of a mitigation or adaptation approach to climate change for New Zealand.***

3.6.1 The world has adapted to climate change for millennia, and will continue to do so regardless of mitigation measures.

3.6.2 For the most part, adaptation occurs spontaneously, without any need for government intervention. Farmers, for example, have adapted to climatic changes just as they have adapted to changes in technology and the relative prices for their products. It is very important to maintain land use flexibility. Offsets should be allowed in forestry because there is no point in requiring replanting on existing land if equivalent planting occurs elsewhere in New Zealand, and measures

such as the Resource Management Act which impede land use flexibility and adaptation should be addressed.

3.6.3 In some cases, particularly where public goods are involved, the government should stand ready to facilitate adaptation. Examples are public good research and sea and flood defences. More market-based methods of water allocation should be pursued (regardless of whether climate change is likely to add to water scarcity).

3.7 ***Consider the case for increasing resources devoted to New Zealand-specific climate change research.***

3.7.1 Only research and new technology can give rise to lower-cost means of reducing emissions. For most technology, New Zealand will be dependent on advances abroad. However, in areas like agriculture and forestry, New Zealand-specific public good research may well be justified.

3.7.2 We consider the Committee should go to some lengths to seek expert opinion on this issue and make appropriate recommendations. As with adaptation, we think too little attention has been given to R & D possibilities relative to the focus on emissions reductions.

3.8 ***Examine the relative merits of an emissions trading scheme or a tax on carbon or energy as a New Zealand response to climate change.***

3.8.1 We think the regulatory impact analysis should seriously consider the arguments for adopting a carbon tax rather than an ETS, at least as a transitional measure. Earlier work by the Treasury favoured a carbon tax, as did the McLeod Tax Review in its 2001 report. The overwhelming weight of opinion among leading economists favours a tax. The relative merits of the two approaches were not properly considered in the lead-up to the ETS legislation.

3.8.2 Suggestions have been made that it is inconsistent to show interest in a carbon tax now when many business organisations opposed it in 2005. At least as far as the Business Roundtable is concerned, such suggestions have no validity. In 2005 we were opposed to *any*

additional climate change action by New Zealand (beyond voluntary action by firms) on the grounds that the United States and, particularly, Australia had not ratified Kyoto and were not taking similar action. That situation has changed; we now think it is reasonable for New Zealand to do more, and in that context the relative merits of alternative approaches should be rigorously evaluated.

3.8.3 The carbon tax proposal which we think should be considered would take the following form:

- its base should be as broad as is practicable, that is to say it should not be applied to emissions which are difficult or excessively costly to measure. (Indeed, if emissions cannot be measured to an acceptable degree of accuracy, a specific energy tax might be a preferable proxy.)

- the rate should be low, at least initially – we have suggested $5-10/tonne CO_2

- there should be exemptions for trade-exposed industries unless and until countries which compete with New Zealand apply similar measures

- it should be accompanied by a subsidy (at the same rate) for carbon sinks. (For a given tax/subsidy rate, foresters would receive the same benefit as they would for equivalent ETS credits; the argument that they would be disadvantaged by a tax relative to an ETS is invalid.)

- any net tax receipts from the regime would be applied to reductions in income tax.

3.8.4 It needs to be understood that taxes and tradable permits are both market-based interventions. Some commentators such as Julia Hoare of PricewaterhouseCoopers have not grasped this key point. In a December client newsletter, Ms Hoare wrote, “The market based nature of an ETS was a major factor in the 2005 rejection of a carbon

tax in favour of an ETS". This is incorrect. Both taxes and permits (if they are auctioned) are market-conforming interventions (as distinct from regulations which are not). They are analogous to the choice of tariffs and quotas (import licensing) to protect domestic industries. In the case of a tax or tariff the government sets the price and the market determines the quantity. In the case of a permit or quota the government sets the quantity and the market determines the price. Economists prefer tariffs to quotas for a number of reasons, one of which is that they are less prone to industry rent-seeking and government favouritism. An analogy here is with vested interests such as the NZX or carbon traders favouring an ETS because it would generate business for them. Policy should be based on public interest grounds.

3.8.5 An ETS has attracted some support on the grounds that its quantitative basis ties in with the Kyoto approach of quantitative reductions in carbon emissions. However, this argument is less compelling if post-2012 arrangements take a looser form, perhaps accommodating a variety of approaches. More importantly, it is in any case weak because climate change is a long-term issue. There are no serious grounds for regret if emissions reductions do not follow a precise path. With a tax/subsidy regime, adjustments can be made periodically (say every 5 or 10 years) to influence the quantity of emissions in a desired direction. The risk of price volatility, such as has occurred with the EU scheme, is a much greater risk than variations in quantity over such periods of time. Competitiveness-at-risk industries could be destroyed, perhaps irreversibly, with volatility. A tax provides much more certainty for business and investment decisions, which is crucial for long-term planning. In the long term it can have the same effect on emissions levels as an ETS.

3.8.6 There are other advantages of a carbon tax/subsidy regime relative to an ETS:

- *It is transparent, in that it is subject to parliamentary oversight and facilitates clear accountability to voters.* Changes to the regime

must be explicitly determined rather than concealed through adjustments to allocations. An ETS regime is potentially much more open to political favouritism and abuse, as demonstrated by EU experience. It is also attractive to politicians in some other countries because it imposes a tax by stealth.

- *It is likely to be simpler and less costly to administer and comply with.* It would benefit from all the advantages of tax system administration: an existing institution (Inland Revenue), tax determinations independent of politicians, and the possibility of appeals to the courts. The ETS as presently set up would be administered by ministers and bureaucrats. This runs all the risks of import licensing abuses over again. If an ETS is adopted, it should be run by an independent regulator, as proposed in Australia. The previous government acknowledged this argument but did nothing to respond to it. The Committee must not make the same mistake: it should consider the independent institutional arrangements necessary to run an ETS. However, the expense of setting up and running a new institution would be considerable relative to the already established IRD.

- *It eliminates long-term supply contract difficulties* (eg for energy suppliers) because contracts can be adjusted to pass on higher carbon taxes (this is unlikely or at least uncertain with an ETS).

- *It could easily be transitioned into an ETS if a deep international carbon trading market developed.* All the underlying infrastructure of the two regimes – measuring, reporting, auditing etc – would be the same. This is the approach recommended by the Productivity Commission in Australia. However, at this stage there is no sign of such a market developing – the United States, for example, is likely to adopt an ETS based on trading in its domestic market only if it goes down this path. (President Obama, incidentally, has not ruled out the adoption of a carbon tax.)

- *With a tax/subsidy regime as proposed, no international transfers of resources are involved.* New Zealand firms or the government

would not be writing cheques to parties in, say, Russia. Political considerations could make such transfers untenable in the long run (and are one reason why the United States is likely to adopt a domestic-only trading regime).

- *A major advantage of a tax/subsidy regime is political.* Firms and, particularly, households know the costs they will face. If set at an initially low level, a tax is much more likely to be politically acceptable and durable than an ETS with its uncertain and potentially volatile transmission of prices into the budgets of firms and households.

3.8.7 If an ETS is adopted, it should include a cap on prices to avoid the risks of price volatility. The present ETS does not have this feature. Some people regard a capped ETS as much the same as a tax/subsidy regime. However, it is better thought of as an expensive tax collection mechanism, involving as it does a whole new administrative apparatus. Moreover, if prices fall below the capped level it does not provide a consistent signal to firms and households to adjust their behaviour.

3.8.8 If Australia stays with its plan to adopt an ETS which would permit one-way trading only (ie the purchase by Australian firms of approved international units but not the sale of units supplied by the government at the capped price), that would not appear to pose problems for New Zealand. For example, owners of credits from forestry sinks would still be able to sell into an Australian carbon market.

3.8.9 We have no objection to the Committee working to improve the design of the current ETS by incorporating a price cap and making the many other desirable modifications that submitters will be proposing. This could establish a scheme to be implemented if serious international trading develops. However, this could be a long way off, and in the meantime we believe New Zealand would be better served by a tax/subsidy regime of the kind outlined above at a low rate of $5-10/tonne CO_2. This would already be a significant

burden for some industries. Accompanied by a cut in income taxes, however, it would not be a significant burden to the economy as a whole. From an economic point of view, it could be thought of as a shift from a reasonably non-distorting income and consumption-based tax system to one that is slightly, but not markedly, more distorting.

3.9 ***Consider the need for any additional regulatory interventions to combat climate change if a price mechanism (an ETS or a tax) is introduced*.**

3.9.1 We doubt whether there is any economic case for supplementary interventions. They are inevitably more distorting – in effect they introduce an array of carbon prices rather than a single price into the economy. This is economically costly. We believe the government is right to scrap measures such as the thermal generation ban and the biofuels mandate.

3.9.2 The Treasury has taken a similar view, arguing that regulations should only be considered in cases of demonstrated market failure. To our knowledge it has not identified any such cases. Similarly, the Shergold and Garnaut reviews in Australia recommended that regulatory measures should generally be scrapped if market-based interventions were adopted.

3.10 ***Consider the timing of introduction of any New Zealand measures, with particular reference to the outcome of the December Copenhagen meeting, the position of the United States and the timetable for decisions and their implementation of the Australian government.***

3.10.1 We think final *decisions* on any New Zealand measures should await the results of the Copenhagen meeting and final Australian decisions. New Zealand should then take less stringent measures than Australia because New Zealand is a less wealthy country and less able to sustain economic costs. We are not opposed to framework decisions (eg on an ETS or a carbon tax) being made earlier, perhaps in line with the government's goal of decisions by September, although we see this as arbitrary and it may prove better to take more time. However, we do not favour parameters (eg the level of a carbon tax)

being set until after the Copenhagen meeting and the parameters of an Australian scheme are known.

3.10.2 As regards *implementation*, the present financial and economic crisis warrants, in our view, the deferment of measures currently planned for implementation from 2010. Not until an economic recovery is firmly established should industries and households be exposed to higher costs. Part of the reason is economic but part is political, as we have emphasised throughout this submission. It is important that the introduction of measures is cautious and limited in scope so that confidence in the policy is built up. Modifications can, if necessary, be introduced over time.

4. Conclusion

4.1 We think the Committee's terms of reference are sound and that if it works in a professional and unhurried way it could provide a basis for sound government decisions and an end to the disruptive and unsuccessful policy making in this area in recent years.

4.2 The key to success is the preparation of a "high quality, quantified, regulatory impact analysis" as required by the Committee's terms of reference. It is disappointing that officials have not yet provided such an analysis, including analysis of the net benefits and costs of policy action, the least-cost ways of meeting any Kyoto liability, the relative merits of measures such as a tax/subsidy regime and an ETS, and adaptation versus mitigation options. It is also unfortunate that the Committee has called for submissions before such an analysis is available. **Our key request is to have the opportunity to review the analysis when it is produced and to make further submissions to the Committee.**

4.3 We note that the National-ACT Confidence and Supply Agreement provided for the establishment of a group drawn from both the private and public sectors to advise the *government* and the *select committee* on the review of the ETS (emphasis added). To our knowledge such a group has not been formally established. On the

basis of past experience we have reason to doubt the quality of much official advice on climate change issues. The establishment of a private sector group to advise on amendments to the Resource Management Act was, in our view, a very successful initiative and a model for work on climate change. We would be happy to suggest names for membership of such a group.