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SUBMISSION OF THE NEW ZEALAND TAXPAYERS' UNION ON ZERO CARBON LEGISLATION

Introduction

1. This is a submission of the *New Zealand Taxpayers' Union* to the Environment Select Committee on the Climate Change Response (Zero Carbon) Amendment Bill.

2. We wish to appear before the Committee.

About the Submitter

3. Founded in 2013 by David Farrar and Jordan Williams, the Taxpayers' Union is New Zealand's largest taxpayer advocacy group, with more than 39,000 subscribed members and supporters.

4. The Taxpayers' Union's vision is a prosperous New Zealand, with efficient, transparent, and accountable Government. Our mission is lower taxes, less waste, and more transparency.

5. The Taxpayers' Union is a member of World Taxpayers Associations: the global network of more than 55 taxpayer protection groups representing more than two million supporters in some 40 countries working together for lower taxes, limited and accountable government, and taxpayer rights.

Summary

7. The science of climate change has been (and should be) accepted by the political establishment. It is now essential to analyse New Zealand's optimal response to evolving climate conditions.

8. Crucially, this analysis should consider:

   (a) the impact of domestic regulatory action on net global emissions; and

   (b) the size of any economic impacts on New Zealanders attributable to climate policy responses.

9. There is a danger in treating climate change as a moral rather than economic issue. The oil and gas ban announced by the Government last year was widely considered a failure because the Government was seen to take a moral stance on the issue, even though more detailed analysis indicated it would have no impact on global emissions – even while it damaged the economy. Oil and gas otherwise extracted in New Zealand will be replaced by overseas supplies or coal – at a net cost to the environment.

10. Where we can make an impact at reasonable cost we should act, but we should not treat the issue as a 'blank cheque'.

Emissions impact

11. Climate change is a global phenomenon. Any impacts on New Zealanders' wellbeing or the wellbeing of people living overseas to whom we might owe international obligations are purely determined by net global emissions levels, rather than any proportionate change in our domestic emissions profile.

12. New Zealand is tiny by global emissions standards. We contribute 0.17 percent of global emissions[1], in contrast to China (27.51 percent), the United States (14.75 percent), India (6.43), and Russia (4.86 percent). Any reduction in our emissions profile will have only a very small impact on global emissions levels.

13. Additionally, since New Zealand is a small open economy highly exposed to international trade, changes to our regulatory environment could merely cause emissions to leak abroad.

14. Clearly though, if the efforts of a number of small countries could be co-ordinated and leakages eliminated or minimised, contributions to global emissions reductions could be desirable. However, the net contribution to global emissions should also be weighed against the economic consequences to New Zealand and New Zealand taxpayers.

Agricultural emissions

15. Agricultural emissions comprise nearly half of New Zealand's emissions profile. Any meaningful effort to reduce our emissions profile will require efforts to reduce agricultural emissions.

16. Agricultural production is highly exposed to international markets. Approximately 87 percent of total domestic milk production was exported in 2017 and 51 percent of global butter exports in 2017 were

[1] IPCC, 2014a.

attributable to New Zealand. In short, domestic dairy production largely services international rather than domestic demand.

17. Imposing costs on domestic dairy production may have the effect of simply shifting production overseas to countries, which while currently uneconomic on the margins, may become economic in response to cost pressure on New Zealand producers.

18. While other jurisdictions *should* be imposing similar regulations on domestic agriculture in accordance with any Paris Agreement obligations, many countries:

    (a) have relatively weak Paris Agreement obligations (China and India);

    (b) may abandon, or have already abandoned, the Paris Agreement altogether (Brazil and the United States); or

    (c) have generally failed to meet international environmental obligations (China's flouting of rules regarding CFC use, for example).

19. If other jurisdictions fail to impose similar regulatory burdens domestic agriculture production, domestic emissions might fall in response to reduced production even while global emissions remain constant as production 'leaks' to other countries, like China, the United States, India, and Brazil.

20. It is therefore crucial to ensure other countries are imposing similar regulatory frameworks and are committed to meeting their Paris obligations before we impose heavy-handed regulation on agriculture.

Economic consequences

21. Analysing the economic consequences of taking action on climate change is essential. The comparative size of the New Zealand economy will impact our ability to mitigate the effects of climate change, contribute to climate change mitigation in other countries, and more generally impact the living standards and lifestyles of New Zealanders in the future.

22. In preparation for the Zero Carbon legislation, NZIER was commissioned to investigate the economic consequences of a range of emissions targets, including a net-zero carbon goal and a split-gas approach, where methane is treated differently to carbon. Ultimately the Government chose to adopt a split-gas approach. This approach is best captured by Options 2 and 3 in NZIER's economic modelling.

23. The total cost to output varies according to the specific policy approach and underlying assumptions. In general, each approach weakens economic growth causing future economic output to comparatively fall.

24. In 2050, adopting a split-gas approach will cause real GDP to be between $10.2 billion and $49 billion lower than in the world where the Government continues with our existing 2050 emissions target. For comparison, a 2017 NZIER report indicated the value of dairy to the economy was $7.8 billion, providing jobs for more than 40,000 people[2].

[2] NZIER (2017) "Dairy trade's economic contribution to New Zealand"

25. In comparison to taking no further action on climate change, NZIER's modelling "suggests that GDP will continue to grow but will be in the range of 10 per cent to 22 per cent less in 2050[3]".

26. Additionally, the economic costs of climate policy are expected to be inequitably distributed. Modelling from Infometrics for the NZIER report on the Zero Carbon legislation indicate that Quintile 1 and 2 households (the poorest 40 percent) will experience six times the economic harm as Quintile 5 households (the richest 20 percent). Greater economic redistribution (through additional taxation on capital and labour to fund transfer payments, for example) to respond to these inequities would be likely to further damage economic growth and future economic output – with taxpayers additionally burdened.

27. The Ministry for the Environment (MfE) adds two caveats to this economic modelling in a Regulatory Impact Statement prepared on the Zero Carbon legislation.

28. Firstly, MfE argues that the NZIER modelling "ignores the impact of a changing climate on New Zealand's economy[4]". This is a bad criticism. Any net change in global emissions (which determines the scope of climate change) from changes to New Zealand's tax and regulatory regimes will be very small by virtue of New Zealand's very small share of global emissions (0.17 percent), even if we ignore any risks of emissions leakages.

29. Secondly, MfE argues that NZIER ignores "the economic impact of New Zealand remaining a high emissions economy while trading partners transition towards lower emissions." This is also bad analysis - MfE's criticism seems to rely on the notion that businesses can only change their production systems in response to state regulation. If New Zealand's trading partners change their regulatory regimes and it becomes sub-optimal to maintain a carbon-intensive economy, it will be in the best interests of the business (and more specifically, export) sector to adjust their production processes to take advantage of the new global business environment – in absence of any domestic policy adjustments.

30. MfE then argues that "[doing] nothing could also damage the economy", but again fails to specifically analyse the marginal effect of domestic action on climate change as a global phenomenon. It's highly unlikely that climate action from New Zealand will make any difference either way on climate change.

31. Stimulating innovation is also raised by MfE as a potential economic benefit. However, if that innovation only becomes economic in response to heavy-handed regulation, the economy has not actually improved. For example, innovation in some sectors might be expected to spike in response to tariffs and extended trade wars, but that does not make tariffs and trade wars economically desirable.

Yours faithfully,
New Zealand Taxpayers' Union Inc.

[3] Ministry for the Environment (2018) "Our Climate Your Say: Consultation on the Zero Carbon Bill"
[4] Ministry for the Environment (2018) "Zero Carbon Bill Regulatory Impact Statement"