

Two Stones For One Bird

It goes without saying that every true environmentalist will aim to avoid senseless waste. Scarce resources should never be squandered.

In most fields of endeavour, there is only one best practice approach and many flawed alternatives. The task of accelerating the “global peaking” of CO₂ emissions is no different.

The new Climate Commission will establish and publish a yardstick marginal (economic) cost for the most efficient way for New Zealand to eliminate a metric tonne of global CO₂ or its equivalent. All available resources should then be channelled to this cost-effective method. Other channels should not be pursued unless it can be shown that any one of them is of equal merit to the yardstick. Every sub-optimal method is a foregone opportunity and a waste of limited resources.

All inefficient or wasteful methods must be strongly discouraged by the Commission and the Government – if only because there is an obvious ceiling to the public’s appetite for economic pain in pursuit of climate policy. There are also competing demands that have equal or higher priority, such as the reduction of child poverty and homelessness.

Cap-and-trade

The framework [envisaged by](#) the Zero Carbon Bill is that the Commission and Minister, working together, will develop a five-year budget and a plan to reduce emissions and will then, almost automatically, implement those levels by changing ETS settings accordingly.

Our ETS scheme is a cap-and-trade mechanism. The Minister (i.e., the Cabinet), on the advice of the Commission, decides upon the level of the cap from time to time. Just as the Reserve Bank determines the level of national inflation by use of its single pricing instrument – the overnight cash rate (OCR) – so the Climate Change Minister and Commission will determine the level of national emissions by using a single pricing instrument – the cost of a NZU under the ETS.

No doubt there will be much pain and upset as this unfamiliar instrument is trialled. But the entire theoretical underpinning of the Bill states that a ‘right price’ WILL be found to deliver the desired outcome. The Productivity Commission and the NZIER have made their own guesses but the eventual answer will come from trial and error¹.

ETS rules!

The New Zealand Initiative has strongly criticized the suggestion at the recent Local Government New Zealand (LGNZ) Conference that the RMA be amended to force Councils to take account of emissions in consenting decisions. Economist Eric Crampton [says](#):

“All this is entirely and utterly pointless where consented activities already fall under the Emissions Trading Scheme. Under a binding ETS cap, every blocked development will just provide room for someone else’s emissions.”

¹ I will abstain from comment on the long track record of other central planners who have sought to calculate ‘right prices’.

The point being made is that the only thing that secondary or alternative policies can achieve is to move the burden from one group or sector to another. These policies cannot impact the *aggregate* level of New Zealand emissions because the Minister and Commission have the final control of that outcome. The Minister has [his foot^{\[RTI\]}](#) on the only brake, and all other well-meaning efforts have no more effect than flailing arms and loud speeches.

Auckland City has decided that it will require a climate change impact report with every consenting application. While this will add copious red tape, expense and delay to the consenting process, it will contribute nothing to the common aim of accelerating “global peaking” of greenhouse gas emissions. As to adaptation goals, the application should merely certify its compliance with the Minister’s current plan.

What about the market?

The *raison d’être* of “putting a price on carbon” is that, once the externality has been priced in, we can rely upon normal market forces to efficiently distribute the effects so as to impose the least possible cost to overall productivity and economic growth. In other words, the whole point of using an ETS is that it allows the market to work its usual magic. It harnesses capitalism to deliver the requisite results at least cost.

But this theoretically rigorous system is confounded if the waters are muddied by dozens of other non-market-related interventions occurring at the same time.

A hail of stones — one bird

As I point out in *The United Kingdom Precedent*, this has been a major flaw in that country’s scheme. Oxford’s [Professor Dieter Helm](#) was appointed by the UK Government to review the compliance costs of the 2008 Act. The findings of the “*Cost of Energy Review*” are summarised on Professor Helm’s [website](#). His central point is that the inconsistency of current interventions that have accumulated from a sequence of ad hoc policies is a major source of inefficiency and has created excessive costs.

In the words of OECD economist Nick Johnstone, ‘using “two stones to kill one bird” is not usually a sensible policy prescription’.² In a 2003 report, Johnstone concluded that:

“In many cases the use of a mix of policies will be at best redundant and at worst counter-productive. If a particular instrument is an economically efficient and environmentally effective means of meeting a given environmental objective, there is little sense in introducing an additional instrument.”³

Where more than one instrument is used, Johnstone warns that:

- the objective of each instrument must be clearly defined, and the relationship between the two instruments must be properly understood.
- each must meet a legitimate policy objective which cannot be met more efficiently through the tradeable permit system.

² N Johnstone, *Efficient and Effective Use of Tradable Permits in Combination with other Policy Instruments*, OECD (2003), p. 4.

³ N Johnstone, *The Use of Tradeable Permits in Combination with Other Environmental Policy Instruments*, OECD (7 July 2003), p. 4.

Scattergun approach

The most expensive and therefore lowest-scoring way to reduce national emissions would be a scattergun approach under which scores of officials attempt to contribute to the savings pool on the basis of good intentions rather than accurate measurements and full knowledge.

For that reason, it is important that the draft Clause 5ZK be amended by striking out the words “*the 2050 budget or an emissions budget*” and substituting “*an emissions reduction plan published under [section 5ZF]*”.

Similarly, the draft Clause 5ZL(1) should be amended as follows:

The responsible Minister may issue guidance for departments on how to take a published emissions reduction plan into account in the performance of their functions, powers, and duties.

It would also be helpful if the Bill were to contain wording aimed at discouraging Local Authority politicians, Crown Agencies, and other enthusiastic amateurs from imposing on their stakeholders any material costs for the purpose of mitigating global warming without first consulting the Commission, through the responsible Minister, regarding the cost-effectiveness of their proposals. Above all, there must be a widespread understanding that the mitigation effort is a co-ordinated *supra-national* enterprise – not a regional, local or individual responsibility.

Such a caution might also assist in deterring uncostered political promises whose sole merit is as a retweetable sound bite. A case in point is the recent proposal to seek leadership by setting a domestic target to achieve 100% renewable electricity. Another was the oil and gas exploration ban.