



Parliamentary Commissioner  
for the **Environment**  
Te Kaitiaki Taiao a Te Whare Pāremata

**Advice to the  
Emissions Trading Scheme Review Select Committee:  
Recommendations  
Dr Jan Wright**

---

1.

I recommend that a comprehensive study be undertaken that systematically identifies and assesses existing and potential complementary measures.

2.

I recommend that the Auditor-General report annually on the number of carbon credits (NZUs) that are allocated to different sectors of the economy at the expense of the taxpayer.

3.

I recommend the establishment of an ongoing farm advisory programme to support farmers to reduce greenhouse gas emissions, to deal with the administration requirements of the ETS, and potentially to provide a wide range of assistance on other matters.

4.

I recommend that a Computable General Equilibrium model of the New Zealand economy be developed, and that it be dynamic, able to deal adequately with land use, and held in the public domain.

5.

I recommend the establishment of independent climate change research capability that integrates science, economics, and policy, so that significant and complex issues like the global warming potential of methane can be addressed.

## 1 Complementary Measures

Pricing carbon, via an ETS, will nudge New Zealand towards a low carbon economy. But for many reasons, an ETS alone will not be sufficient. Complementary measures, also called non-priced based measures, are necessary and should be being considered now.

We need a systematic review of what measures do, or could, complement our ETS, and likewise those that undermine the ETS. This could be similar to the Wilkins Report prepared for the Australian government last year, but on a New Zealand scale.

### **Recommendation 1**

I recommend that a comprehensive study be undertaken that systematically identifies and assesses existing and potential complementary measures.

## 2 Allocation Reporting

Free allocations transfer the cost of greenhouse gas emissions from the polluter to the taxpayer. These transfers involve significant amounts of money. For example, freely allocating 90% of agricultural emissions will cost the taxpayer about \$800 million/yr. There will be continuing resistance to the phase out of free allocations.

The New Zealand public need to know the size of the subsidy paid by taxpayers to polluters. This reporting should be performed by an independent agent to ensure transparency and accountability.

The Auditor-General, an existing independent agent, could be given this task.

### **Recommendation 2**

I recommend that the Auditor-General report annually on the number of carbon credits (NZUs) that are allocated to different sectors of the economy at the expense of the taxpayer.

### 3 Agriculture

Introducing an ETS will require farmers to do something new and quite foreign. This will be challenging for many. Farmers are also under pressure to reduce other impacts on the environment.

A new generation farm adviser could support farmers by giving on-the-farm advice on:

- Methane and nitrous oxide reduction.
- Administration requirements of the ETS.
- Validation of emission reduction practice.
- Transfer of new technology and methods.
- Carbon credits from tree planting, and eligibility for grants.
- Help with related environmental issues, e.g. soil erosion.

A farm advisory service could be run by MAF in partnership with existing industry groups such as Meat and Wool NZ and Dairy NZ, and/or through existing independent farm advisors. Such a programme should provide training and accreditation of farm advisors.

#### **Recommendation 3**

I recommend the establishment of an ongoing farm advisory programme to support farmers to reduce greenhouse gas emissions, to deal with the administration requirements of the ETS, and potentially to provide a wide range of assistance on other matters.

### 4 Economic Modelling

Two Computable General Equilibrium Models (CGEs), owned by the consultancies NZIER and Infometrics, are used to assess the future economic impact of the ETS. A notable failure of both of these CGEs is that they do not model land use. This leads to significant uncertainties and brings into question the validity of relying on their findings for New Zealand policy development.

New Zealand needs a CGE model of the NZ economy that includes land use change, is dynamic, and is continuously improved based on the best data available.

A further problem is that the answer from these models depends on how the question is framed and that can depend on who is asking it. To ensure the provision of robust transparent

analysis, the CGE itself and the results generated from it should be open to peer review. The model should be in the public domain so it is freely available to accredited researchers.

#### **Recommendation 4**

I recommend that a Computable General Equilibrium model of the New Zealand economy be developed, and that it be dynamic, able to deal adequately with land use, and held in the public domain.

## **5 Climate Change Research**

New Zealand's emission profile is unlike that of other developed countries. To design the best climate change policy there are a number of hard questions that need a New Zealand-specific answer. Currently, understanding required to create sound international and domestic policy is lacking. New Zealand needs to establish and support research capability integrating science, economics and policy to address this problem.

Examples of research needs include:

- Global warming potential of methane.
- The dynamic CGE model, including land-use, recommended in section 4.
- The impact of changing international conditions on New Zealand, for example the impact of immigration driven by climate change.

When meeting this need, it will be important that:

- It is not delivered through FORST.
- It is not carried out by officials or consultants. This research must be transparent and the analysis must be subject to rigorous criticism.
- The hub is based in a university.
- Seed funding is provided to build initial capability.
- Dedicated long term funding is provided to attract and retain very good people.

#### **Recommendation 5**

I recommend the establishment of independent climate change research capability that integrates science, economics, and policy, so that significant and complex issues like the global warming potential of methane can be addressed.