

# Submission on NZPC's Draft report on Low-Emissions Economy

Jonathan Boston

School of Government

Victoria University of Wellington

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## Overall comments

I think your draft report is an impressive document. It demonstrates a deep and comprehensive understanding of the economic, scientific, technical, social, institutional and political issues surrounding climate change; it is very well written, clearly structured and highly accessible; its findings are clear and, as far as I am aware, generally robust; and I find myself in broad agreement with the draft Report's recommendations. Hence, may I congratulate the team that prepared the document for the high quality of their work and their significant contribution to the policy debate surrounding climate change mitigation. My only regret is that we did not have a Report of such rigour, clarity and vision many years ago.

## Specific comments

1. I agree with all the recommendations in Chapters 4, 5, 6, and 7, I am inclined to favour R8.1, I agree with all the recommendations in Chapters 10 and 11. I am less certain about some of the recommendations in the Chapter 12-15 (not least because of my lack of relevant expertise), but they generally seem reasonable.
2. I am concerned about the political viability (especially over the short-to-medium term) of a decarbonisation/emissions reduction strategy which relies very heavily on the ETS (however extended or modified) and related price increases for fossil fuels (and other sources of GHG emissions). With oil prices currently relatively high and new fuel taxes about to be introduced, I suspect that there will be increasing political sensitivity regarding, and public resistance to, further increases in fuel prices.

The draft report states that 'a key message ... is that an effective system of emissions pricing should form the centrepiece of a strategy to reduce emissions' (p.106); and 'Emissions pricing should be the central lever to incentivize business and individuals to lower their GHG emissions' (p.108). In principle, I agree with these statements. But I rather fear that it will be very difficult politically to secure an 'effective system of emissions pricing'. In short, given New Zealand's experience over several decades, as well as that of many other democracies, I suspect that there is a high chance of continued 'government failure' (i.e. an ongoing unwillingness to use the price mechanism to achieve efficient and relatively rapid emissions reductions).

If my expectations are correct, there will be no alternative but to implement 'an effective package of complementary measures' (p.106). But the policy role and duration of these complementary measures will need to be greater than the ideal.

Accordingly, I think it would be helpful if the final report (in Chapter 16) were to give rather more attention to the political economy of emissions reductions and, to this end, to include, at

least as one option, an overarching and integrated strategy which takes full account of the likely political constraints on a largely price-based approach. While such an option could be presented as a second-best approach, it may well in practice be the only viable approach. It thus deserves proper attention. As part of this alternative strategy, there may be merit in incorporating mechanisms that will deliver gradual, incremental price increases for fossil fuels over an extended period (e.g. 10-15 years), together with a wide range of complementary measures, some of which could be readily phased out as relative price changes eventually begin to bite.

Among such complementary measures, I would give particular attention in the short-term to those designed to transform the vehicle fleet (as discussed in Chapter 11). These could include, as outlined in the draft report, a well-designed (but temporary) ‘feebate’ scheme, public funding support for EV infrastructure, and an explicit date for the phase out of new (and second-hand imports of) vehicles with internal combustion engines (e.g. 2030).

3. I was impressed to see that a whole chapter in the draft report was dedicated to policies for an inclusive transition to a low-emissions economy (Chapter 9). For the final report, however, I think consideration should be given to the inclusion of explicit recommendations which urge the government to ensure that its climate change mitigation policies are properly integrated and synchronize with its current work programmes and reviews in the social policy arena. Relevant work programmes and reviews include:

- a. taxation reform;
- b. welfare system reform – including the design of the benefit system, family assistance, and housing assistance; the indexation of various forms of social assistance; the provision of winter energy payments, etc.;
- c. legislation aimed at reducing rates of child poverty, which includes a requirement for a Child Wellbeing Strategy (the first of which is being drafted); and
- d. the development of an overarching wellbeing framework and strategy for the 2019 Budget; and
- e. the reframing of the social investment approach (relabelled as ‘investing for social wellbeing’).

There is a potentially unique opportunity over the next 12-18 months to integrate a wide range of policy initiatives in ways that: a) reduce possible political opposition to climate mitigation initiatives; and b) assist those groups who may be most adversely affected by such initiatives. Careful attention needs to be given to the best mix and sequencing of policies so as to achieve multiple goals. This will require detailed analysis (e.g. by the Just Transitions Unit in MBIE and analysts in the Treasury, MfE and MSD).