



Macro-economic reasons for delayed entry of liquid fossil fuels

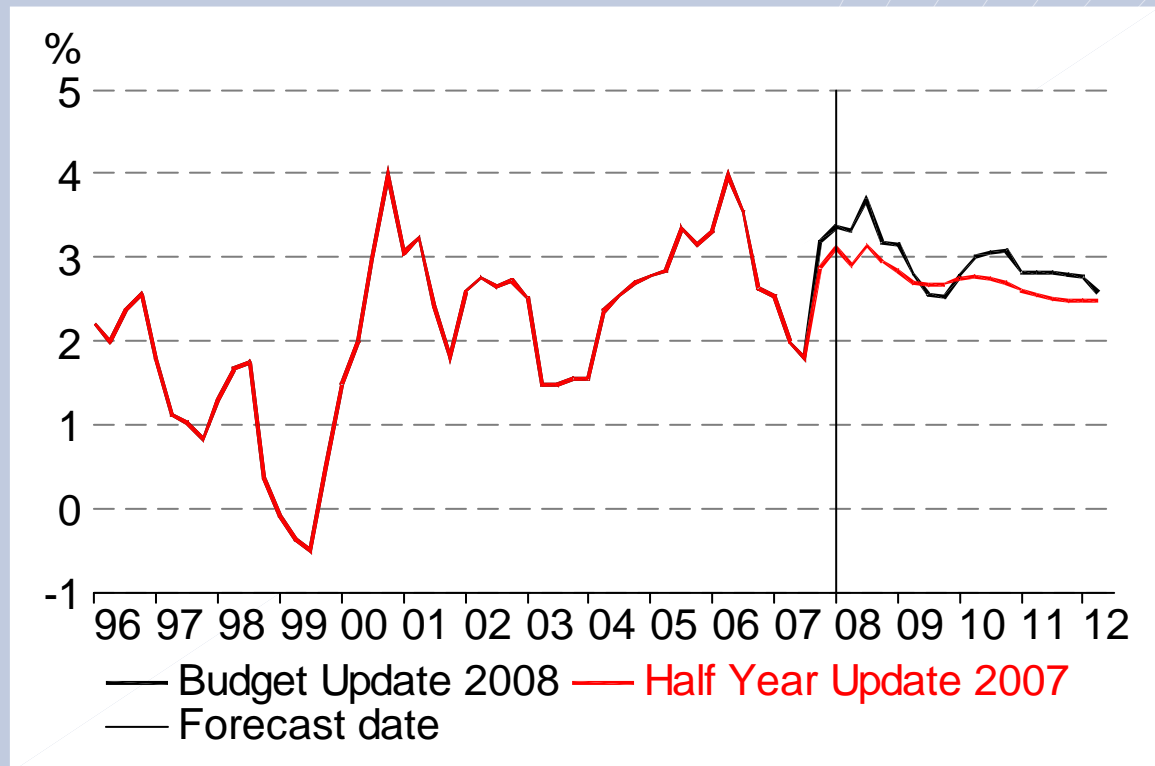
Delayed entry of liquid fossil fuels

- A delay of two years to the entry of liquid fossil fuels into the ETS has been proposed to FEC.
- This decision is based on:
 - macro-economic considerations
 - effects on household finances
 - already high oil prices reducing emissions
- It is not considered to detract from the overall principle of the ETS - all sectors and all gases.

Inflationary Pressures

- Introduction of liquid fossil fuels into the ETS is estimated to contribute 0.4% to annual CPI inflation.
- A combination of factors is seeing very strong inflation pressures.
- There was concern introducing fossil fuels into the ETS next year would add to these, risking a breach of the Policy Targets Agreement in the absence of tighter monetary policy.
- The economic costs in terms of additional pressure on the exchange rate and potential damage to the tradeables sector of even tighter monetary policy were seen as particularly acute at the current time.
- The delay reduces these risks.

High Inflation





Revenue implications of the NZ ETS

Revenue implications of the ETS – sale of units

In CP1:

- the government is unlikely to receive a significant number of surplus units from the ETS (although this is subject to uncertainty)
- the government is likely to be required to fund the cost of meeting New Zealand's Kyoto liability from general taxpayer revenue

Revenue implications of the ETS – sale of units

In the medium term:

- relatively little net revenue will be created by the ETS
- net government revenue from the ETS may not go above \$500m per annum before 2022
- this only represents around 0.20% of GDP, tax revenue currently represents 31.2% of GDP
- there are a large number of uncertainties around these numbers

Revenue implications of the ETS – increased SOE revenue

- The introduction of a price of carbon will have a beneficial effect on the revenue of renewable generators
- As an example, this could lead to a possible increase in SOE revenue of around \$140m in 2012
- How much of this increase in revenue will result in a subsequent increase in profit and then potentially increased SOE dividends or tax revenue to the Crown is difficult to determine as investment and dividend policy is a decision for each SOE board