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Windfall Profits To Our Power Companies And Govt Because Of NZ's ETS

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Ladies and Gentlemen, thank you for the opportunity to address your AGM this morning.

To President Les Howard, and your executive, I sincerely appreciate your adjusting your programme to accommodate me and the very important issue of power prices and the New Zealand Emissions Trading Scheme.

Before turning to the ETS may I briefly acknowledge your former President, the late Graham Stairmand. I had the pleasure of working with Graham when he joined me, on behalf of Grey Power, in my legal challenge against the previous government's Electoral Finance Bill. In the short time I knew Graham, he struck me as a man of principle and integrity who was committed to fighting for the interests of Grey Power and its members. I know that Graham was very concerned about electricity prices, so it is fitting that I am speaking on that subject this morning. Graham's passing was a great loss to Grey Power and New Zealand.

Let's turn now to the Emissions Trading Scheme:

In just under three months time, on 1 July, New Zealand's ETS is to be extended across most sectors of our economy:

The ETS is deliberately intended to make energy - both electricity and petrol - more expensive and Treasury forecast its immediate impact will result in a five percent increase in the price of electricity and a four cents per litre increase in the price of petrol and double again in 2013.

These increases will be paid by all New Zealanders and as a consequence of the way our electricity and carbon markets work, the result will be both windfall profits to the power companies, and windfall tax gains to the government.

New Zealand will be the first and only country in the world to have such a comprehensive ETS tax.

Unlike Europe, where the ETS operates as a tax on only the larger emitters, and even excludes petrol, here in New Zealand everyone will pay.

This will make our exporters and farmers less competitive and cost jobs at a time when New Zealand is still recovering from the recession.

How did this happen?

Why is the government introducing this new tax?

And why is it doing so in the middle of winter when already far too many elderly New Zealanders turn off their heaters and go to bed early to save on their power bills?

Well, the ETS is one of the Government's responses to the hypothesis that human activity contributes to 'climate change' or 'global warming.'

Many people believe that by burning coal, gas and other fossil fuels, greenhouse gases are given off and that this contributes to the warming of the world as the heat given off by the sun's rays is trapped underneath a layer of cloud, as if it was trapped in a greenhouse, or glasshouse.

The ETS is intended to make energy more expensive so that consumers such as you will use less of it, in the hope that less carbon will be emitted into the atmosphere from the burning of coal and gas used to make electricity. So when you turn off your heaters this winter and go to bed early to reduce your electricity usage and your electricity bill, you are behaving exactly as the Government wants you to.

Sadly, what the Government hasn't told you is that most of what you pay extra in electricity will go to the electricity generators as windfall profits. This is because of the way the New Zealand electricity market works, where the wholesale price is the same for all the generators and is set by the cost of the most expensive generator.

Genesis, the owner of the coal and gas fired Huntly power station sets the wholesale price over 80 percent of the time. From 1 July, Genesis will have to pay for its emissions of carbon dioxide from that coal and gas.

Imagine, for example, that Genesis was able to offer electricity for, say, 10 cents per unit currently but was to face a carbon cost of an extra one cent a unit from 1 July. Genesis would now need to charge not ten, but eleven cents for that unit of electricity. This higher price now becomes the market or equilibrium price and all generators will receive eleven cents and not ten cents as they do now.

Companies such as Meridian which generate electricity from renewable sources - such as hydro and wind will have the benefit of the higher price, while they incur no extra costs for carbon emissions. Meridian consumers will be paying the 'carbon costs' even though the energy they consume comes from renewable resources.

The effect of this will be massive windfall profits from renewable generation, and operators such as Meridian, Mighty River Power, Contact, TrustPower and indeed Genesis will all make windfall profits – many hundreds of millions – from you.

So while you will be paying more for your electricity, it is quite likely it will still be coming from the same totally renewable source. These electricity price increases will have widespread impacts throughout our economy. Those who can pass these costs on to you will do so - be it the manufacturer of your bread or the transport company who incurs extra petrol costs to deliver your milk.

You will pay.

I wonder how many of you realised before now that the ETS will result in such major windfall profits to the power companies and the government. Why hasn't the opposition been raising this issue?

Well the answer is simple. Labour proposed its own ETS, but rather than a 5 percent electricity increase, electricity would have already risen by 10 percent from January 1st this year.

National argue that because its ETS is only half as bad as Labour's, this somehow makes it acceptable. ACT disagrees.

Sadly, one group of people who will not be able to pass these costs on will be our exporters and our farmers. In a competitive market, these people receive the world wide price for their product. The world price for milk is the world price, and farmers get what is left over after processing costs.

From 1 July our farmers will be the first in the world to feel the heat of the ETS. Meat and Wool New Zealand has calculated that the ETS tax cost for the average dairy farmer will be just over \$10,000 pa. Now you may have heard Prime Minister John Key say that agriculture doesn't come into the ETS until 2015 and it is correct to say that farmers don't have to account and pay for the methane given off by their animals when they burp or the nitrous oxide from fertiliser, until 2015. However, for the average dairy farmer these costs represent less than a quarter of their total ETS bill. By far the largest cost faced by a dairy farmer is the extra costs of the petrol and electricity on the farm, and of the costs incurred by the dairy factory – and these costs start in less than three months.

In fact of the estimated profit of 25 cents per kg of milk solids, the ETS will cost over 7 cents per kg, or a quarter of the farmer's profit by 2015.

For struggling beef farmers, who receive less today for their animals than they did twenty years ago, it is even worse.

The plight of our farmers was made even worse by the Government's decision last September to base our ETS on what they thought would be Australia's. Time and time again our Climate Change Minister Hon Dr Nick Smith told Parliament that Australia would have an ETS and New Zealand would copy it. However, Australia didn't pass an ETS last November as expected and doesn't look like getting one in the immediate future. The former leader of the Australian opposition, Malcolm Turnbull, even lost his job over it.

As a consequence, the New Zealand Government will increase electricity and petrol for all of our exporters, at a time when their Australian competitors will not be facing a carbon charge.

And, because the criteria for receiving an allocation of carbon units is based on Australia's criteria for its heavy industry, most of our manufacturers will not receive any relief. In particular, Fonterra faces a bill of \$40 million pa from 1 July for its emissions – a bill passed down to farmers and a straight windfall for the government.

Ladies and gentlemen, much has happened on the international scene since the Government introduced its amending legislation last September.

1. Neither Australia nor the US passed ETS legislation as expected and nor do they look like doing so. Certainly China isn't.
2. The Copenhagen Climate talks broke down without reaching agreement on a successor to the Kyoto Protocol and most commentators no longer expect any agreement which might give rise to an ongoing financial obligation by New Zealand; so the carbon tax the government wants to collect to meet what they initially thought would be their post 2012 Kyoto liability can now be retained as a windfall tax grab; and finally
3. Climate gate and other UN IPCC irregularities have increased public scepticism of the human induced global warming theory.

ACT, and only ACT, believes that regardless of whether man made warming is a fact or not, New Zealand is crazy to be proceeding with an ETS tax at this time.

We believe enough has changed in the international environment for the government to be delaying the introduction of the ETS until at least our major trading partners have caught up.

John Key promised you and all New Zealanders he would be a fast follower, but not a world leader on a climate change tax. And when the legislation was introduced into Parliament that was quite reasonably what he was expecting to be – a fast follower.

Instead, over the last six months, events have changed and New Zealand has

now been catapulted into world leadership. Mr Key could not have predicted that.

When facts change, intelligent people change their mind, and ACT believes that this is one such instance where the facts have changed sufficiently for the Prime Minister to change his mind. For example, just three weeks ago President Sarkozy abandoned France's proposed carbon tax on petrol when Germany, Italy and the other countries of Europe refused to follow him.

New Zealand can do a lot if it wishes to play a leading role in climate change research and the Global Agricultural Alliance is one such step. What we don't need to do is to have across the board electricity and petrol increases when no-one else is following.

The Prime Minister listens to public opinion and I urge you and your individual associations to speak up before you start paying an extra five percent a year for your electricity this winter.

Grey Power is a powerful lobby group and politicians of all parties listen to you. If Grey Power was to get behind ACT's campaign to push for the deferment of the ETS, and its massive windfall profits I believe the Government will listen. I have come to Christchurch today to try to enlist your support, not only on your own behalf but on behalf of your families and all other New Zealanders.

Please write to the Prime Minister and ask him to defer the commencement date of this massive experiment until our major trading partners catch up to us.

I believe this is a very important issue. Thank you for your time. I would welcome not only questions now, but the opportunity to speak at your individual association meetings over the next three months.

ENDS

A handout detailing the key points of this speech is available on the ACT website. Visit www.act.org.nz to download a copy.