



The Sustainable Energy Forum Inc.

February 2006

SEF Submission to Minister for Climate Change Issues regarding the Review of Climate Change Policies and subsequent government decisions

Introduction

The Sustainable Energy Forum Inc. (SEF) is a network including many experienced researchers and consultants in the field of sustainable energy. Its aim is to promote the transition towards sustainable energy in New Zealand. It has a great interest in climate change policies due to the close connection between sustainable energy outcomes and climate change policies that reduce the NZ economy's dependence on imported and domestic fossil fuel sources of energy services.

SEF is strongly of the opinion that the government should not have made decisions to change the central part of the NZ climate change policy prior to any substantive public discussion on the Review of Climate Change Policies. The Review has made several assumptions about the policy that have rendered the advice problematic as a basis for government decisions.

The following submission provides a considered view on the assumptions underlying the advice to government on the climate change review, and the impacts of the recent government decision on climate change policy, especially as it relates to a transition to a sustainable energy future for New Zealand that is less carbon intensive. The submission also makes some suggestions for a way forward that would enable the dialogue that is needed for the NZ community to buy into the policies necessary for significant reductions in greenhouse gas emissions, and (in an appendix) suggests specific actions that can be taken in the transport field.

Assumptions of the Review of Climate Change Policies

1. That the internal goal of “gross emissions being set towards a permanent downward path by 2012 is ‘unrealistic’”.

SEF views the advice that the current internal goal is “unrealistic” as being dangerously wrong in the light of many distinguished climate scientists' and studies' warnings that we have as little as ten years to embark on severe reductions to GHG emissions or risk a much greater chance of abrupt climate change.¹

¹ See, for example, the Arctic Climate Impact Assessment (2004), prepared by the Arctic Council and presented at the Fourth Arctic Council Ministerial Meeting, Reykjavik, 24 November 2004, made available at <http://www.acia.uaf.edu/>, and *Avoiding Dangerous Climate Change* (30 January 2006), proceedings of the symposium of the same name held in Exeter, UK from 1-3 February 2005, made available at <http://www.defra.gov.uk/environment/climatechange/internat/dangerous-cc.htm>

1. This internal goal has been interpreted in the Review and Cabinet Paper as meaning that total emissions will be “decreasing” by 2012. We understand that the current internal goal was intended to mean that, by 2012, policies will have been set in place that would lead to a decrease in emissions, but that total emissions may not have started to decrease by 2012. This interpretation makes the current internal goal more realistic.
2. The signal the current goal gives is one of urgency to take action sooner rather than later.

To decide now that the internal goal is unrealistic would signal that, as a country, we can seek a less challenging goal and so make ourselves feel better by achieving it. In addition, resiling from a real challenge to make a difference to our rising emissions liability in this way will affect our international standing as a country that takes climate change very seriously as global citizens. New Zealand must turn its rising emissions trend around, and do it soon.

The assumption underlying the advice of officials appears to be that to achieve such a goal will result in unacceptably “significant reductions in economic growth”, and that paying for emission reductions offshore would be less damaging to the NZ economy. The analysis in the Review document does not, however, support this conclusion. Neither the potential avoided costs of climate change impacts, nor the potential costs and risks associated with paying for emissions reductions offshore, have been factored into the advice given. This shows that the advice is based on short-term considerations. Elsewhere in the Review, the importance of the long term is highlighted. The Review is, therefore, providing inconsistent advice to Ministers.

2. That the carbon charge and NGA policy is unsustainable over time.

This may well be the case. However, it is unrealistic to expect *any* policy decision to be sustainable over time — social welfare and tax policies are good examples of areas in which the government regularly makes changes to achieve the desired outcomes, sometimes by quite fundamental changes in direction. It is the proper role of governments to change policy settings, either to meet changed expectations, or to respond to changed circumstances.

Why officials should place such a high policy expectation on climate change policy is a mystery, especially since it is one of the most complex areas to “get it right.” Business players in NZ might want bullet-proof certainty, but the world is never that clear — for example, providing for exchange rate changes is a normal part of business planning.

3. That the carbon tax is expected to reduce our emissions in CP1 by approximately 13 million tonnes CO₂e, and that replacement policies could reasonably be expected to be at least partially effective in reducing emissions.

The carbon tax, as set out in the government’s 2002 policy decisions, was never designed to reduce emissions by a particular amount. It was designed to provide a market signal that reductions were necessary and that the government would be able

to move to a carbon trading system in future, once the international carbon price was clear and the market had developed. Neither was it designed to be the only measure to reduce emissions, so the policy was to put in place a tax *and* other measures.

Therefore, to suggest that the other measures without the tax would at least partially reduce some of the emissions that a tax may have effected, is to remove the double effect of a tax and other measures. We could have had the estimated 13 million tonnes reduction in emissions *and* further reductions from other measures. Adopting the Review proposals now means that we would lose the 13 million tonnes of carbon reduction (less whatever partial reductions can be achieved through other, as yet unspecified measures) and have a reduction in revenue for the crown accounts, and additional compensatory savings that would have to come off the crown accounts to make up the loss. Will these come from education and health? There will be a high social cost if it does.

Elsewhere, the Review highlights the importance of an economy-wide carbon charge, even if at a lower level. The significance of this signal and the offsetting potential tax relief through recycling of the tax revenue seems to be lost in the assumption above. The value of a market signal has now been lost by the government's decision not to proceed with a carbon tax and to remove the NGA policy.

4. That the NGA firms are close to world's best practice anyway, and therefore that the NGA is unlikely to reduce emissions, since they are based on intensity of activity.

The decision in 2002 to go for NGAs with a carbon tax was made for two reasons: to deal with competitiveness-at-risk issues arising from the carbon tax and to ensure that world best practice in emissions was actually achieved. Previous voluntary agreements were reviewed and found to be ineffective in kick-starting action to reduce emissions. A return to a voluntary regime will not work, and whatever replaces the NGAs needs to be much more detailed and effective.

There is always the option of amending the NGA policy to move away from an approach based on energy intensity to one in which gross emissions reductions occur and there is an incentive to take up new technology, as originally signalled in the 2002 policy intent. This would be consistent with the way complex policy develops over time, which is something that any business has to anticipate in the normal process of risk management of business investments.

5. That the policy is inequitable as to sectors of industry

The Review runs an equity argument for the advice that the carbon tax may be dropped since it doesn't apply to the agricultural methane and nitrous oxide emissions. The 2002 policy addressed this quite specifically with the proposed levy for research into ways of reducing emissions — so, while the agriculture sector wouldn't get taxed in the same way as the CO₂ emitters, it would still contribute to research to find ways of reducing its emissions. The research partnership agreement with the government was signed by the industry, to ensure that the objective was still met, but through other means of funding.

The policy approach recommended by officials appears still to advocate a so-called “inequitable” approach with a possible tax targeted at the big emitters and taxes on nitrogen. These inconsistencies in the Review call into question the quality of the advice that the government has received and on which it has made its initial decisions.

An alternative approach that warrants serious consideration by the Government is an emissions cap-and-trade system, applied to all sectors and including the potential of trading between all sectors. We are aware that this approach would raise such questions as whether existing emissions should be ‘grandfathered’, and if so, from when. The issues surrounding this approach need to be carefully modelled and thoroughly discussed with stakeholders, civil society groups and affected parties.

6. That the Projects to Reduce Emissions may have in fact produced little benefit to NZ’s expected emissions position over CP1

The signal provided by the PRE has had the effect of speeding up the development of renewable forms of energy supply which will have lasting impact on NZ’s greenhouse gas emissions since they replace otherwise carbon-emitting sources. This long-term effect seems to have been discounted.

There is also an underlying assumption in the Review that the PRE emissions reduction may be less than the value of the emission units given away. This ignores the fact that the incentive could be placed at the right level to give ongoing reduction in emissions. It is pleasing to see that the government did not take the advice of officials and is seeking ways of ensuring that the PRE works to meet the objective of providing an incentive for emission reductions.

7 That the Government can successfully achieve its stated cap on deforestation of 21 million tonnes of CO₂.

No means of ensuring that the cap is achieved have been spelled out, and since failure to replant forests, rather than forest harvesting itself, is what breaks the cap, the potential for avoiding payment is extensive. Current rates of deforestation imply that the cap may be considerably exceeded, and the application of the cap therefore appears highly impractical. As equity issues have assumed high importance in the Review, we also note the equity issue of making forestry the only sector to have penalties imposed on it.

Implications of the government decision to not proceed with the economy-wide carbon tax

1. Uncertainty

The immediate effect of the government’s decision not to proceed with the economy-wide carbon tax is to create new uncertainty in the economy. SEF makes the observation that many businesses had begun to accept that there was to be a carbon tax and were beginning to factor it in to their bottom line and business projections. The New Zealand Business Council for Sustainable Development publicly acknowledged the value of the tax as an efficient way to signal future considerations

for climate change while at the same time acknowledging that this was only one part of a climate change response.

Two other factors compound the uncertainty:

- The inconsistent way in which equity arguments have been used by officials as one reason for dropping the carbon charge. The effect of dropping the tax and possibly going for a targeted version will certainly not address equity arguments.
- The proposal to resile from the internal policy goal. This makes SEF wonder whether the government is serious about treating climate change as a challenging and urgent issue. Again, the possible significant economic impacts of climate change appear to have been discounted. We note in this context that the UK government is currently undertaking wide-ranging research into what such future costs and risks might be. We see no such research happening here in NZ. This is both surprising and imprudent, given the exposed state of NZ and its economy.

2. Fiscal implications

Not only will the government not receive income from the carbon tax, but it now has no funds to recycle into the economy or to incentivise energy efficiency and renewables, *and* it has to find compensatory savings for the crown account. This will have implications for spending in other areas of government priorities.

In addition, the annual account of emissions will be higher than it otherwise would have been with the tax, *and* the role of other policy measures is much more challenging than it would have been with the tax. The cost of purchasing emission reductions in other countries is still largely unknown. The implied price of credits from the cost estimates is only a little over \$8/tonne. The actual price is unknown, and could vary widely from this. The extent of this risk has not been given sufficient consideration. Furthermore, it takes time and money to develop projects that will provide these emissions reductions.

SEF is concerned that the government has decided at this stage not to proceed with a carbon tax prior to any substantive analysis of the costs and benefits over time of this course of action, and without any developed policy substitutes. The decision appears to be a huge leap of faith that is unsupported by the grounds stated in the Review.

3. Taxpayer or polluter pays?

The proposal that the polluter tax be replaced by some policy measures and some purchase of emission reductions in other countries raises the spectre of a shift from polluter responsibility to the taxpayer subsidising pollution. No analysis of the implications of this shift has been raised in the advice to government.

The degree of the taxpayer subsidy could have been less if the tax had remained and there would still have been a sweetener available for business through potential reduction in company taxes using the carbon tax revenue or to provide an incentive for renewables and energy efficiency.

These are significant shifts that in other spheres, such as tax reform, have been the subject of substantial independent inquiry. It is most discouraging to see decisions taken based on so little supporting argument for the directions now signalled.

4. Resource Management Act

The removal of the main part of the government's national policy on climate change — the carbon charge — has left a policy vacuum for major CO₂ emitting industries going through the RMA.

The 2002 policy and subsequent amendment to the RMA made it clear that the implications of CO₂ emissions could not be considered under the RMA because there was a national policy instrument to deal with them.

This instrument is now no longer to be introduced. How then are the CO₂ implications to be dealt with when national policy is in hiatus and proposals for coal and gas fired power stations are in the RMA pipeline?

SEF considers that another national policy to restrict such developments — such as, perhaps, a national policy statement on CO₂ emissions — is urgently needed. It would be desirable for some quick signal to be issued by government halting any proposals that will increase NZ CO₂ emissions until a permanent policy response can be issued. We are concerned that the signals which the Government has already given regarding the use of our gas resources for gas-fired generation may lead to a missed opportunity to use these resources to assist the transition to a sustainable energy system.

5 Lost opportunities

One major advantage of a carbon tax over other measures, not discussed in the Climate Change Policy Review, is the financial incentive it would have provided for the rapid adoption of cost-effective energy efficiency programmes, particularly by industry. That this would have been of significant benefit to the national economy is not in dispute, yet this serious lost opportunity forms no part of the costs presented in the report associated with abandonment of the tax. Additionally, analyses have demonstrated the economic benefits should government income from a carbon tax be appropriately recycled. Although not easy to define, such benefits may well outweigh the costs to the economy of reducing our carbon intensity.

The importance of decoupling the growth in energy demand from economic growth cannot be overstated. The failure of the NEECS programme to deliver any improvements in efficiency beyond Business As Usual underlines the urgency with which this matter needs to be addressed. Placing a cost on carbon emissions would have significantly assisted progress.

SEF would strongly support the application of a carbon charge to major emitters, provided a satisfactory basis on which to define eligibility can be developed.

A way forward

1. Process

SEF has very real concerns over the process followed for the Review of Climate Change Policies. There was no opportunity for informed groups to provide input to the discussion either prior to completion of the Review or before government made decisions on it.

Officials, led by the Ministry for the Environment, did a very quick round of centres announcing the Review, explaining what it was and wasn't, with no real opportunity for any dialogue or follow-up. It appears that the same thing is about to be embarked on after some significant decisions have been made on the Review. The agenda for meetings around the main centres has been set, and SEF is concerned that it appears to be a 'talking at' session rather than a genuine attempt at dialogue. Public meetings of this sort are not the way to get a good discussion going with considered input.

SEF asks that at this juncture, before further work plans are prepared and decisions are taken about future policy responses on climate change, a more considered dialogue be set up with smaller special interest and civil society groups to engage in a meaningful discussion of 'where to now'.

This is a highly complex area of public policy with risks and benefits both now and into the future that affect the way our economy and society works. It therefore warrants the careful design of a dialogue process to get quality input from the wide range of expertise across the community. That process can, in turn, support the analysis that will form advice to Ministers. This process should not hold up policy development on the so-called 'no brainers', which will ensure that specific measures to reduce emissions can get underway soon, as recently referred to by the Minister during the Energy Federation of New Zealand meeting held in Wellington on 9 February 2006.

2. Suggested Policy Directions

1. That the 'internal goal' be aspirational and communicate the need for urgent action beyond what is signalled in the Kyoto target, to avert dangerous concentrations of greenhouse gas emissions. New Zealand cannot just look at its own domestic interests. We are part of the global community, and domestic policies that reflect the urgency for us *all* to take action *now* will strengthen NZ's good record as a global citizen with benefits in other areas of the economy.
2. That a clear market signal be made as a matter of national policy so that emitters can take responsibility to the largest extent possible.
3. That a national policy statement under the RMA be prepared giving a clear signal that we are transitioning to a lower-carbon future.
4. That a means of replacing at least some of the lost revenue from the carbon charge be found from the major emitters, including using some of the revenue to provide an incentive for renewable energy and energy efficiency, and that the recycling option be put back on the table.

5. That consideration be given to basing the policies that replace the NGAs on approaches that will reduce overall emissions at the enterprise level rather than on an intensity of activity approach. A push target should be included to keep the emissions reductions increasing in future, as world best practice will improve over time, and we want to provide New Zealand firms with incentives to themselves exceed, and thereby improve, current world best practice.
6. That the Projects to Reduce Emissions incentive be retained and altered to ensure that the emissions reductions are greater than the value of the incentive given.
7. That serious consideration be given to an emissions cap-and-trade system, to apply to all sectors, and that issues such as the extent, if any, of 'grandfathering' of existing emissions should be thoroughly modelled and discussed.

About the Sustainable Energy Forum

The objective of SEF is to "facilitate the use of energy for economic, environmental and social sustainability". SEF is a group of individuals and companies interested in promoting information and supporting action which will help move New Zealand toward a sustainable energy future. SEF has a membership around 150 ranging from staff in major energy companies to students and retired people. Many members are active in small-scale sustainable energy supply and energy efficiency businesses. See <http://www.sef.org.nz> for further information.

Appendix

The following timed recommendations on specific steps in the transport sector are taken from the SEF paper "New Zealand's Response to Peak Oil: Land Transport" (October 2005), as previously sent to you.² Due to the passage of time, the suggested implementation dates for some proposals may have to be extended.

By mid-2006

- Introduce emissions testing for all vehicles into the Warrant of Fitness.
- Introduce integrated ticketing on major public transport networks.
- Introduce minimum fuel usage standards per kg of gross weight for all newly registered or modified vehicles.
- Develop policies to integrate the present range of vehicle use charging measures, and introduce new measures, to create a consistent, effective taxation and charging regime that rewards low fossil fuel use and low emissions, and penalises high fossil fuel use and high emissions, in the New Zealand vehicle fleet.

By the end of 2006

- Make fuel use meters compulsory on all new cars.
- Introduce tamper-proofing of diesel injector pumps.
- Introduce a moratorium on all new roading projects except those that can be demonstrated to produce energy efficiency, environmental or public health gains that outweigh the project's true cost.
- Commence a programme of major investment in urban public transport.
- Remove policy and technical obstacles to the increased use of biofuels in New Zealand vehicles, and ensure that the growth and production of biofuels is integrated into New Zealand's wood processing and land use strategies, and that biofuels become available in sufficient quantities, and with sufficiently wide distribution, to meet an increasing demand.
- Commence research programmes that investigate the potential interactions between the effects of Peak Oil and the effects of climate change.

By 2008

- Create and implement a national strategy for energy-efficient movement of freight.
- Create and implement a national strategy to integrate all modes of transport into a system in which fossil energy use is minimised, and lowers over time.

² Available from <http://www.sef.org.nz/papers.html>

- Integrate the planning of the transport system with that of the electricity system, so that both move towards sustainability.
- Continue and extend the public transport investment programme, where net energy efficiency benefits can be demonstrated.