

Climate Defence Network (New Zealand)

PO Box 11-057, Wellington
cdn@climatedefence.org.nz

30 March 2007

Submission to the New Zealand Government on the discussion paper “Transitional Measures”

CDN is a network of organisations and individuals concerned about the need to prevent destabilising climate change. It includes: Environment and Conservation Organisations ECO, the Environmental Defence Society, Cycling Advocates' Network, Forest and Bird Protection Society, Federated Mountain Clubs, Friends of the Earth NZ, Greenpeace NZ, Gecko, Pacific Institute of Resource Management, Public Health Association, Ecoaction, Alternative Technology and Lifestyle Association, Nelson Environment Centre, Engineers for Social Responsibility, the Sustainable Energy Forum and WWF.

CDN welcomes the opportunity to make this submission.

Ongoing consultation

While 30 March is the end of the submission period, it is essential that it not be the end of the process of consultation and engagement. To be effective, these strategies must be revisited, revised and updated frequently. CDN is keen to work with the Government and with officials, as our resources permit, to ensure that this is the case.

Summary:

1. The *Transitional Measures* document (pre 2012) outlines options only for electricity and stationary energy – it must be expanded to cover all sectors and emissions.
2. Any pre-2012 options must be compatible with post-2012 arrangements and goals.
3. We must address our Kyoto commitment in a comprehensive manner. Taxpayers should not end up paying for pollution; the Polluter pays principle should apply.
4. We must put a price on greenhouse gases across all sectors. A carbon charge is easy to implement in the short term - however, a mix of policy instruments is required.
5. Revenue collected should be recycled to society so as to assist in achieving further emissions reductions and ensure equitable outcomes.
6. Measures that should be adopted in the short-term are:
 - The setting of clear, long term targets to give certainty to those planning emissions cuts, and interim targets set, and with a clear timeframe for reporting progress on emissions reductions (see below)
 - A carbon equivalent charge – which moves to the international price of carbon well before 2012
 - Renewable obligations are clear in the electricity markets, so as to phase out fossil fueled electricity generation, with the government setting specific medium and long term targets for renewable energy.

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- Development of a National Policy Statement on climate change and energy under the Resource Management Act to reduce emissions and plan and design for a low carbon future.
- Immediate enactment of the adoption of Resource Management (climate protection) Amendment Bill.

While there are a range of voluntary measures that can be applied, it is clear from current increasing trends in greenhouse gas emissions that voluntary measures are not working – and will not work.

Targets: short, medium and long term

Twenty years ago our electricity supply in New Zealand was from 80 per cent renewable resources; today we rely on fossil fuels for 43 per cent of our electricity.

Globally, total emissions need to peak no later than 2020, with at least 50 per cent reductions in 2050. Wealthy countries like New Zealand and the United Kingdom (Annex 1, countries under the Kyoto Protocol) which collectively have been the main cause of the current levels of greenhouse pollution have a responsibility to act first, as per Article 3, principles 1 & 2 of the UN Framework Convention on Climate Change.

They need to aim for 20-30 per cent reductions on 1990 levels of emission by 2020, and 80 to 90 per cent reductions by 2050 if the planet is to have a good chance of avoiding very dangerous levels of climate change. CDN agrees with the definitions of dangerous climate change as set out in the tables on page 57 Part II of the Stern Review – see http://www.hm-treasury.gov.uk/media/986/D2/sternreview_report_part2.pdf

To this end, the Government's proposal on Transitional Measures, limiting a price on carbon to a very narrow band of stationary electricity supply, does not go far enough.

While it may begin to encourage our energy companies to look to renewable energy, it does not begin to address the demand for electricity in New Zealand.

Public education on energy efficiency must go hand in hand with these transitional measures. All sectors need to begin reducing their emissions now – not after 2012. The lessons from the UK Government's Stern report shows us that the longer we wait, the more it will cost us. This has not been factored into the Government's thinking.

As discussed in CDN's overview submission, the Government must set long term targets and timetables for reduction in greenhouse gas emissions and set up a clear timeframe for the Government's reporting on progress.

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While the “transitional measures” are taken through to 2015, the Government has no national target beyond that of reducing our greenhouse gas emissions back to 1990 levels by 2012. This does nothing to set a clear way forward to where we need to be. A long term target. To quote Ralph Chapman of Victoria University¹:

“The primary benefit, however, is visibility and signalling. New Zealand’s climate change strategy is driven in large part by how we can best influence other countries to take concerted action. This means adopting an ambitious but reachable target and having a clear sense about our future emissions path.”

“We should also state it ‘loudly’, both inside NZ and outside. This helps business and individuals to start adjusting, reducing future adjustment costs (i.e. minimising the procrastination penalty). Externally, it assists other countries to appreciate what we are doing. Alignment with more progressive countries, such as the EU, is likely to be a preferable basis for a target.”

CDN recommends that the long-term economy-wide emissions reduction target should be an 80-90% reduction in New Zealand’s greenhouse gas emissions, compared to 1990 levels, by 2050. This target should be subject to both revision and an increase in precision as understanding of the risks of both abrupt and gradual climate change increases.

CDN recommends the following subsidiary targets,.

- 1. A 20% reduction in New Zealand’s greenhouse gas emissions, compared to 1990 levels, by 2020.**
- 2. A target of moving to a 100% renewable stationary energy system by 2025.**

Basic principles on pricing

CDN recommends that New Zealand introduce a broad-based, economy-wide price-based measure as soon as 2008.

This approach must be:

- **fair** In contrast, a narrow scheme aimed only at the stationary energy sector will place an unfair burden on a particular sector of the economy and fail to place incentives across the whole economy.

¹ Ralph Chapman, University of Victoria. Paper prepared for NGO meeting on climate policy, 9 March 2007.

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- **efficient** A broader scheme will create a more dynamic carbon market – because there will be a wider range of opportunities to reduce emissions.
- **smooth** If business and investors are provided with certainty, they will lead a smooth transition to a low-carbon economy.

4. Carbon charge or emissions trading?

CDN's preferred price instrument for New Zealand in the short-term is a broad-based carbon charge., but moving to an emissions trading regime (post 2012). Much of the policy work has already been done on this and could be reasonably implemented by 2008. In the very long term, post 2050, NZ could be close to a zero carbon economy.

As the Government itself says of the proposed carbon charge in 2005:

“...many technical matters had been resolved and could be applied in a new greenhouse gas charge regime. These include issues such as emission factors (particularly for coal types, natural gas streams and geothermal energy), definition of points of obligation, treatment of fugitive emissions and administrative issues.”²

CDN considers the carbon charge was dropped without adequate analysis or consideration of the need to act on climate change. CDN believes that in the last year the science has become unequivocal on the need for action. The political climate around the issue of global warming has changed considerably in the past year and that the Government could move to implement a carbon charge by 2008.

It will be extremely difficult to establish an emissions trading scheme within the next few years due to the complex nature of the policy and the implementation issue involved. The fisheries quota system took years to develop and it was established without sorting out major issues which have dogged the system ie Treaty rights, integration with recreational fishing, and environmental policies and standards. The current debate over shared fisheries shows why it is critical to get these issues sorted out at the beginning. A limited, quick a dirty trading system will likely fail.

However, from the medium- term onward an emissions trading scheme would be an acceptable alternative, provided that the following potential faults are avoided:

- There should be no “grandparenting” of permits to polluters, whereby those businesses that have caused greenhouse pollution in the past are given the equivalent of a tax exemption. In the European Union grandfathering has provided some heavy

² “Discussion paper to reduce greenhouse gas emissions in New Zealand, post 2012. Section 7, page 44

polluters with windfall profits (this also occurred with fisheries quota allocation). Grand parenting typically places an unfair burden on individual consumers.

- The caps set under the emissions trading scheme must be consistent with the national greenhouse gas emissions targets and must be reviewed periodically so as to continue to reflect the actual cost of the need to reduce emissions.
- Treaty of Waitangi issues associated with the creation of a new property right (emissions permits) must be satisfactorily negotiated.

These issues are likely to take many years to resolve and to develop the appropriate policy and legislative mechanisms. If emissions trading were to be adopted, an interim price on carbon must be implemented in the short term to ensure that businesses and decision makers receive clear signals upon which to base investment and policy decisions.

4.1 Citizen allocation

CDN recommends that in the longer term, an equitable and effective approach to addressing climate change can be set through giving each citizen an equal number of emission permits. Please see the paper on Post 2012 for details.

To summarise:

- Every person gets an entitlement, an equal share of NZ's allotment of a global commons
- Entitlements are fully tradeable
- Emitters purchase entitlements from citizens
- Provides a mechanism for pricing carbon the public is likely to trust and so helps build mandate necessary for meaningful action

4.2 Implementation

Entitlements should be tradeable on an international market (eg EU ETS) – which sets their price. They are issued at regular intervals and at least first sale of each required to be through a dedicated entity to protect citizens. In addition:

- This helps offset higher prices faced by consumers.
- Age limit for entitlement should be kept low
- Limit on volume of entitlements issued is set annually by Government – reduces progressively to meet the 2020 and 2050 targets.

4.3 Personal Carbon Credits?

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A variation is to take a small set of goods such as automotive fuel and electricity and make these subject to personal carbon budgets. Entitlements for these goods would be given to citizens in the form of carbon credits – with the majority issued as entitlements for sale to Emitters.

Consumers would then use a combination of cash and carbon credits to purchase such items

Whether this would be worth the additional transaction costs would depend on factors such as the extent of extra emission savings expected Investment & Compensation Fund

The Government sets a tax on entitlement sales (holds back a percentage to sell) to feed a fund that:

- Invests in public projects that mitigate emissions
- Can provide adjustment assistance for critically affected firms;
- Long term, all emitters must meet cost of permits. Short term, lack of a global carbon market may mean distorted prices and unnecessary relocations

New Zealand cannot have a five year delay in putting a price on greenhouse pollution while it waits for an emission trading scheme to be established. A carbon charge must fill this gap.

5. New Zealand as a world leader in renewable energy

New Zealand can and should be a world leader in renewable energy.

We have excellent renewable energy resources. We need strong Government policies to promote renewable energy, so that we can build – and then export – our expertise. Our renewable energy sector is currently lagging behind European countries that have actively supported their renewable energy industries.

It is no accident that the world's leading renewable energy companies are located in countries like Denmark, Germany and Spain, where strong policies to encourage renewable energy uptake are well established.

New Zealand can achieve a close to 100 per cent renewable electricity sector and a high proportion of renewable transport if we:

- Promote a diverse range of renewable technologies (i.e. a blend of wind, hydro, geothermal, solar, biomass and ocean energy).
- Encourage the development of a geographically dispersed, “distributed” renewable energy system.

This will increase energy security and reduce the need for additional investment in costly transmission infrastructure.

- Promote technology that has the lowest environmental cost overall.
- Increase energy efficiency and conservation to lower demand.

Specific incentives for renewable energy are required in addition to a price on greenhouse pollution. Both carrot and stick measures are required to spark a rapid uptake in renewable energy. Many European countries such as Germany have used incentives for renewable energy combined with a price on greenhouse pollution under the European Emissions Trading Scheme to reduce their emissions and increase renewable energy uptake.

The benefits of renewable energy should not be thought of only in the context of climate change. The Government needs to re-calculate the spin-off benefits of renewable energy, including especially social benefit such as job creation and health improvements.

5.1 Setting goals – renewable energy targets

New Zealand should adopt a legally binding renewable energy target of:

- 100 per cent renewable electricity by 2025

This is technically and economically achievable, although the Government must periodically report on progress.

5.2 Measures to boost renewable electricity: feed-in tariffs.

Based on international experience, a feed-in tariff is the most effective means of supporting renewable energy. A feed-in tariff provides certainty to investors in renewable energy, by giving a guaranteed sale price for electricity they generate – over a specific period of time.

The tariff could be set at different levels, with targeted encouragement of particular types of renewable energy that deserve support. For example: emerging technologies (e.g. tidal power) and micro (household) generation:

- Community-owned wind development is not occurring in New Zealand. This contrasts with countries like Denmark, where community ownership has helped make wind power popular with rural communities, and injected valuable income into regional economies.

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- Smaller (i.e. less than 20MW) wind developments are not occurring in New Zealand. A key reason is that small players do not have the expertise or ability to negotiate favourable sales prices with energy purchasers. A feed-in tariff would overcome this barrier. "Small wind" deserves particular support because it could play an important role in achieving a more distributed energy system and reduce stress on already stretched transmission infrastructure.

- Newer renewable technologies such as tidal energy should also be supported by a feed-in tariff, particularly for smaller pilot projects. It is no accident that pilot tidal and wave energy projects are currently based in Portugal – where a feed-in tariff has been put in place.

Committing to a renewable target, with feed in tariffs, coupled with mandatory, long term targets will provide the investment community with the "loud, long and legal" stability it needs to make those investments.

CDN sees no need to use the call-in provisions of the RMA for renewable developments.

THE RESOURCE MANAGEMENT ACT

Climate change is a complex issue, requiring action at all levels - individual, local, regional, corporate, national and international. The Resource Management Act (RMA) was amended in 2004 to remove regional councils' ability to directly manage and regulate greenhouse emissions.

Greenpeace has successfully argued in the High Court that the benefits of renewable energy development in reducing climate change can be considered under section 104E of the RMA (The proceedings were part of Greenpeace's challenge to plans by Mighty River Power to build the Marsden B coal-fired power station.). What remains, though, is a gaping hole in New Zealand's regulation of greenhouse pollution.

- the Resource Management Act does not allow regional councils to generally consider climate change, or to directly regulate greenhouse pollution, outside the constraints of section 104E; and
- there is no national regulation of greenhouse pollution.

6.1 The Resource Management (Climate Protection) Amendment Bill

This bill would re-instate the ability of local and regional authorities to directly regulate greenhouse pollution, and is therefore the best available means of addressing the

problem in a timely manner. This could be reassessed once a price on greenhouse pollution is implemented.

CDN recommends that Parliament enacts the Climate Protection Bill.

6.2 A National Policy Statement on Climate Change

Government must ensure that the RMA comprehensively addresses climate change. A national policy statement under the Resource Management Act has obvious synergies with any economic instrument. An NPS is totally compatible with economic instruments and could have several advantages, particularly with the need to protect sinks and carbon stores.

The Government should take note of the commentary on national policy statements in the Board of Inquiry report on the Stratford combined cycle power station (chapter 11). CDN agrees with the statements made:

"The Board believes that a national policy statement should cover but not be restricted to the following matters:

1. Policies governing discharges of CO₂ from all anthropogenic sources in New Zealand designed to implement New Zealand's international obligations to the global environment;
2. Mechanisms for distributing and internalising the environmental costs of CO₂ discharges, or capacity to discharge;
3. Mechanisms for establishing and maintaining carbon sinks, and their relationship to environmental costs by such means as carbon credits;
4. The various means of control of CO₂ discharges at national, regional and district levels;
5. The provisions which should be included in policy statements, plans, rules, or regulations.
6. The procedures and methods to be used to review the policies and to monitor their effectiveness."

The board noted that it would be difficult to achieve national consistency on greenhouse gas emission regulations without such a National Policy Statement.

"Without such a statement consent authorities receiving individual greenhouse gas emissions consent applications on a case by case basis must, of necessity, proceed in an ad hoc and isolated manner. There will inevitably be differences in assessment between different consent authorities and between consent applications."

CDN agrees with the Board of Inquiry's points, and **recommends** including the following clauses:

- General principles for including climate change issues in policies, plans and resource consents;
- Implementation of New Zealand's international obligations under the Framework Convention on Climate Change and Kyoto Protocol;
- Measures to enhance or maintain sinks - this could include principles for the maintenance of indigenous forests and other vegetation types and greenhouse friendly subdivisions;
- Measures for subdivision design which are sustainable and reduces greenhouse gas emissions;
- Measures to be taken to plan for sea level rise and increased storm events;
- Matters to be included in air emission plans - this could include criteria for rules and resource consents;
- Matters of special significance to tangata whenua;
- Relationship to any economic instruments.

7. End subsidies to fossil fuels and recycle income from carbon charge to further reduce emissions.

Fossil-fuel energy sources receive an estimated \$365-440 billion in subsidies per year worldwide, heavily distorting markets.

Subsidies artificially reduce the price of fossil fuel energy, and block the uptake of renewable energy in the market place. Eliminating direct and indirect subsidies to fossil fuels would help move us towards a level playing field across the energy sector.

Key fossil fuel subsidies that exist in NZ and should be removed include the following:

- Introduction of a cost of carbon in the energy sector – immediately. CDN commends the Government on at least considering this aspect, but stresses that this price on carbon needs to go much wider across the economy and be applied sooner than 2012.
- In June 2004, the Government introduced a suite of subsidies for gas exploration, worth up to \$100 million. This should be removed.
- The Government's agreement with Genesis Energy to compensate Genesis if the company cannot secure enough gas to operate the e3p gas power station. The contingent liability arising out of the guarantee is uncertain, but could be significant if gas supplies run low.

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- In mid-2006, Meridian Energy paid an \$800 million special dividend to the Government. The Government chose to funnel the renewable energy company's profits directly into fast-tracking the nation's road projects. The absurd outcome will likely be an increase in greenhouse pollution from road transport.

Removing fossil fuel subsidies would save taxpayers' money and reduce current energy market distortions. It would also dramatically reduce the need for renewable energy support.

CDN recommends that dividends from renewable energy SOE's should be funneled into another area to achieve the goal of reducing CO2 emissions – certainly not to increasing them in another sector.