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To: **FINANCE AND EXPENDITURE SELECT COMMITTEE**  
Parliament Buildings  
Wellington

Submission of: **CLIMATE DEFENCE NETWORK**  
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Submission on: **CLIMATE CHANGE (EMISSIONS TRADING AND  
RENEWABLE PREFERENCE) BILL**

**Wish to be Heard** The Climate Defence Network wishes to be heard in support of our submissions on this Bill.

### **Introduction**

This submission is in three sections. The first relates to the some of the key issues and generic comments. The second covers the Emissions Trading System proposals and associated forestry measures, and third relates to the Renewable Energy Preference.

### **CDN Background**

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

CDN welcomes the opportunity to make this submission and wishes to be heard.

## **SECTION 1 GENERIC COMMENTS**

### **Support for the general aims of the Bill**

The Climate Defence Network supports the general aims of the Climate Change (Emissions Trading and Renewable Preference) Bill. We have been critical of the many years of hesitation and delay on climate change policy which has preceded the introduction of this Bill; therefore, it is only fitting that we should congratulate the Government on its introduction, while recognising that such legislation forms only one part of the suite of measures required to address the most serious environmental problem of our time.

We have appreciated the opportunity provided by the Government to engage with officials at various stages of the consultation process that lead to the drafting of the ETS sections of this Bill. Especially for an issue such as climate change, which affects all sectors of the community and to which all sectors of the community need to respond, a wide-ranging engagement process has been essential. The public engagement meetings, facilitated sessions between NGO representatives and officials, and participation of climate NGO representatives in the Climate Change Leadership Forum have all been appreciated.

### **The need for binding emissions reduction targets for New Zealand**

As greenhouse gas emissions continue to rise, and as the scientific evidence grows that the effects of human-induced climate change are occurring more quickly and becoming more severe than earlier IPCC projections indicated, so the efforts of the world community and New Zealand to stabilise climate are all the more pressing. We consider that it is essential that there are clear absolute limits on New Zealand's emissions and that we aim to have staged absolute reductions in emissions. These should be according to defined legal

milestones so that there are interim emissions reductions milestones as binding targets staged to achieve a **80-90% reduction of greenhouse gas emissions in New Zealand against 1990 levels by 2050**. This will require that all sectors play their part and that none is given a free ride in the meantime.

The Climate Defence Network urges the adoption of a **30% minimum emissions cut for New Zealand emissions compared to 1990 levels by 2020**. It will be a stretch, but it can and should be done. We note that in Bali all industrialised countries (including NZ) agreed to discuss "in principle" an interim range of 25-40% by 2030. We would hope that the government is comfortable with being in the lead on that target. We suggest therefore that New Zealand aim for a reduction of 50% of emissions against 1990 by 2030 and 65-75% of emissions against 1990 levels by 2040. Regular milestones, monitoring and reporting must be set in place by this Bill to achieve genuine emissions reductions and to track the country to the **80-90% reductions against 1990 by 2050**.

We understand that investment in emissions reduction becomes easier as time goes on but that in some areas there may be increasing marginal cost of emissions reductions at any one time.

This means that the ETS has to be designed to support and sit with other measures to ensure that there truly is a cap with clear staged emissions reductions. At present the design of the ETS is essentially only a most uncertain global Kyoto cap (which is too high) which can easily expand as shonky credits become available with trade at the international carbon equivalent price, whatever that turns out to be. We support a price of carbon and trading, but we consider this must be within an overall design for a real and substantial reduction in New Zealand greenhouse gas emissions.

We know that some consider that the ETS should allow full trading and use of any credits from any part of the world to achieve emissions reductions at least cost. This approach might work if all credits have environmental integrity and

reflect true emissions reductions, but it is clear that they will not. The global cap is an expandable cap, with lots of murky elasticity. We cannot rely on it. Moreover, the Kyoto emission reductions are well known to be far too little. The IPCC reports of 2007 and the more recent science show we must cut reductions much more than this and ensure that this is done fast.

### **We urge resistance to weakening the Bill**

The work of the Greenhouse Policy Coalition and its members to defeat, delay, or weaken the Climate Change (Emissions Trading and Renewable Preference) Bill and related measures have been shown to be increasingly indefensible. Their pursuit of private corporate objectives at the expense of a sustainable or even livable environment is not only short-sighted but ultimately self-defeating and certainly unacceptable to our coalition. The Climate Defence Network urges the members of the the Select Committee and of Parliament not to give in to the myopic policy advice of the Greenhouse Policy Coalition

### **Social Equity of measures**

CDN urges that Parliament consider social equity in the Bill and ensure that the provisions are consistent with all shouldering their share of the burden and that the most vulnerable groups in society are given measures to help the transition to a low greenhouse gas economy and society. We thus consider that farmers especially dairy farmers, must pay their way now, not wait until 2013. They are particularly well resourced at the moment (notwithstanding the drought) and are well able to do so. Households on low incomes on the other hand are being expected to pay their way (via increased power, fuel and other prices) AND to subsidise the big emitting industries. This is not acceptable to this coalition. We urge that such subsidies by households and small to medium enterprises be removed by removing the late introduction of liability for emissions and by auctioning NZUs.

We suggest it is appropriate to ramp up the support for households that are not well off to convert their wood burners to clean space heating without high

marginal emissions (as occurs through using electricity from burning coal in thermal power stations).

## **SECTION 2 – Emissions Trading System**

### **Carbon sequestration via land use, biofuels credits.**

The ETS rules for gaining credits for carbon sequestration via land use and incentives for biofuels raise two sets of concerns:

#### **Environmental integrity and avoiding perverse environmental effects:**

a) The proposed ETS rules and associated afforestation measures are inadequately framed to protect against unnecessary environmental degradation arising from afforestation intended to secure carbon credits and from planting of areas of indigenous biodiversity in NZ and abroad for biofuels.

Of particular concern is the potential for plantations on New Zealand indigenous ecosystems such as tussock grasslands, and the losses of both soil carbon and native biodiversity. We recommend that there be explicit measures to put biodiversity and environmental integrity tests into the acceptance of any emissions sinks credits or measures such as the NZUs and the approved overseas credits, and into the Afforestation Grants Scheme.

Similarly we regard it as vital for the planet and for the climate that there are environmental integrity tests for any acceptance of overseas credits and JI or CDM projects and credits so that these are not accepted if they involve the destruction of natural ecosystems and biodiversity such as tropical rainforests such as Indonesia, PNG and the Amazon for the plantation of biofuel crops. The destruction of the Amazon rainforest correlates with the price of soya oil, according to the *Ecologist's* Peter Bunyard.

Specifically, for New Zealand there should be a test to deny recognition of sinks or credits that are done at the expense of native ecosystems. This

principle has long been the basis of the New Zealand Forest Accord of 1991 in which significant forestry industry interests agreed with environmental groups not to plant plantations on areas where native forest canopy species were present. In 2007 ENGOs and forest owners further developed this principle to relate to climate change policy and we attach this declaration on climate policy and the NZ Forest Accord for the benefit of the Committee. There is thus already a substantial consensus for this policy set and we urge that it be incorporated into this Bill.

The proposed rules should be augmented to avoid perverse environmental effects of the ETS and related policies and to better reflect the value of any gains or losses in biodiversity and other ecosystem services. This could be by way of both pricing tools and specific regulatory restraints.

### **Full Carbon Accounting**

b) The proposed ETS rules do not require a true net measure and accounting of the greenhouse gas emissions resulting from a change of land use. The degree of departure seems likely to be sufficient to allow significant sub-optimisation. We urge that soil carbon and the carbon tied up in existing non-forest vegetation and the issue of the release of methane from wetlands that may be modified be incorporated into environmental quality and carbon accounting for any land use related credits or sinks, and for emissions accounting purposes.

We recognize that these vital refinements are not yet part of the Kyoto accounting, but we consider that the post 2012 rules could well incorporate such, and that anyway the environmental consequences of soil and other carbon losses and the losses of biodiversity and biophysical processes could be so severe, that there are compelling reasons for making such provisions.

### **Pricing Tools**

The Climate Defence Network supports the issue of a separate emissions unit (the NZU).

This move allows the Government to modify the rules for Kyoto sequestration activities so that they differ from those under which credits can be redeemed internationally under the Kyoto rules. Establishing separate NZU rules would be beneficial in the following aspects.

- a) The NZU rules should ensure the true net GHG emissions resulting from a change of land use are fully counted, more accurately reward land-use change activities in CP1 with respect to the policy targets.
- b) The NZU rules should establish the long term policy approach likely to be included in future international agreements (yet to be negotiated). This is essential to provide an insurance policy against the potential (probable!) post 2012 requirement to fully account for all sources of sinks and emissions.
- c) The NZU rules should be crafted to avoid adverse environmental effects, and to incentivise positive environmental outcomes. The Kyoto rules, applied without modification, seem likely to result in negative impacts on biodiversity and other ecosystem services in some cases. New rules could both limit such negative impacts and be used to drive desired outcomes by way of accounting for externalities that are not currently being recognised financially.

The proposed NZU rules should be augmented so that activities that provide net benefits in the form of enhanced biodiversity and other ecosystem services, receive a greater number of NZUs than would be justified by the carbon sequestered alone, while the reverse should apply for detrimental effects and no credits should be given in native ecosystems are displaced or planted over. However, the NZU payments made to all parties should be limited to that which the Kyoto rules provide for in aggregate. The individual value attributed to each application for credits should be subject to a distribution formula that weighs the various positive and negative factors.

## **Regulatory Restraints**

We urge that there be provisions inserted into the Bill to implement the restrictions on planting of plantation species on native ecosystems, such as manuka shrublands, native forest, tussock grasslands, matagouri –type grey shrublands and wetlands.

We also recommend that there be a provision that weedy species not be planted and that there be liability for the control of wildings that result if species planted do result in invasive species and wildings.

We recommend that there be a provision added to the clause that provides for free NZUs for the control of forest weeds, that these **not** be available for clearance of native species.

The Afforestation Grants Scheme and the PFSI should not allow grants or credits for plantations over native ecosystems.

We appreciate that some will consider that the proper place for regulatory restraints on the destruction of biodiversity and land use impacts should be the Resource Management Act 1991. We know that any such provision of a National Policy Statement or other RMA measures would take several years to accomplish, with considerable uncertainty that such a result would occur. Planting incentivised by this Bill would already have displaced both soil carbon and native ecosystems by the time any such provisions were in place, so we consider that we cannot rely on this route. Instead, measures are needed in this Bill.

## **Steps to a low-carbon economy**

The NZU rules and the ETS system needs modification to better support the Government's objective to move toward a sustainable energy supply system.

There are two perspectives on the path to take to a low-carbon economy.

- a) A dependence on large-scale investments (MED Energy Outlook and benefit cost analysis of NZES and thermal generation proposals follows this path)
- b) A distributed energy supply and efficiency (EECA's sustainable value project, and KEMA study for Electricity Commission lead more in this direction.)

These perspectives lead to conflicting policies, making them essentially irreconcilable. In an ideal market economy they would work together effectively, delivering the lowest-cost energy solutions in an environment of increasing carbon constraints. Unfortunately the current electricity market is so focused on large scale solutions that it contains many suppressants to small-scale ones.

Climate Defence Network supports policies that help transition New Zealand to demand management and the more sustainable distributed energy approach. We contend that:

- c) There is an enormous quantity of energy efficiency that is cheaper than new energy supply: ETS pricing must make this increasingly important.
- d) Many of New Zealand's renewable resources are either intermittent (wind, hydro, solar) or highly invariant (geothermal).
- e) Wood fuel has significant potential to be used as an electricity "firming resource" for peak loads and even dry years. But this potential is ignored today in the large-scale investment perspective.
- f) Distributed generation, heat supply and energy storage are the main elements of the distributed approach.

**Distributed Generation Principles:** diversity reduces costs of matching supply to demand; distributed storage of energy (as heat, hydro potential, or in time, electric vehicles) reduces costs, biomass fuels (wood, agricultural residues, food processing wastes) should be used close to where they are generated; distributed generation creates opportunities for location close to “waste heat” usage points.

- g) Household energy is a major contributor to energy carbon (or carbon-equivalent) emissions. It offers many of the lowest-cost measures for reducing emissions. Space heating is the biggest contributor, with marginal emissions from electrical resistance heating approaching 1 kg/kWh, compared to 20-40 grams/kg for pellets (depending on how they are dried) and 10 grams for firewood (not counting methane emissions from wood burning).
  
- h) Air pollution control regulations are clearly enormously important for health, and we are well aware of the compelling problems for health of particulate emissions. Policy needs to be crafted to ensure that these regulations do not become a major suppressant of home wood burning since such would drive up peak power usage and add to the use of thermal power generation with high marginal greenhouse gas emissions. Such measures could include accelerated help for households to convert from high particulate to low emissions wood burners.

### **Complementary Measures are essential**

The ETS puts a price on carbon across the economy, but it does not set a cap on emissions within New Zealand. There is no limit on the extent to which emissions reductions, and emissions offsets, can be purchased overseas.

CDN contends that the basic ETS is unlikely to produce major emissions

reductions, unless the international price of carbon is substantially higher than projected by the Government. Clearly, other complementary measures are needed to drive real reductions in our emissions profile. These are not present in this Bill, and are only hinted at in the NZEECS and NZES. Urgent action on these complementary measures is needed.

One complementary measure supported is the proposed ban on the construction of further fossil fuel fired generating plant. See section 2 of this submission for more on this aspect.

### **Timing of inclusion of sectors in ETS**

CDN urges the government to **reconsider the timing of the inclusion of agriculture to bring it forward**, and especially the dairy industry, within the emissions trading scheme. Once again we oppose any pressure to further delay the introduction of different sectors into the scheme. We note the inclusion of mechanisms to facilitate the bringing forward of the ETS to the agriculture sector. This provision is essential to ensure the country can move rapidly to free our major exports from a devastating attack on the marketing credibility of these products. It would be far better for this provision to be implemented as soon as possible to meet the demands of European customers.

### **Opposition to Subsidies in the form of delay in responsibilities for emissions & free allocations**

The proposed scheme **grants generous free allocations** of the right to emit emissions (ie generous taxpayer subsidies). We oppose these free allocations which not only represent real taxpayer subsidies and use up resources that should be devoted to socially and environmentally beneficial expenditure, but also blunt incentives to reduce greenhouse gas emissions.

The proposal phases those free allocations out by 2025. Many large emitters want their free allocations maintained for longer or in perpetuity. **These subsidies are unacceptable to us** and we urge Parliament to bring forward the phase out of any such subsidies. We find the subsidies by the community

and SMEs to large corporates and to dairy farmers who are experiencing unprecedented profits particularly distasteful and unacceptable.

CDN submits that the government should **reduce the time period for phasing out free allocations** and resist pressure to extend these allocations. CDN totally rejects any suggestion that free allocations should be made permanent for some industry groups.

### **Environmental integrity**

We strongly support the government's position of setting environmental quality constraints on acceptable credits, and in particular the disallowance of credits from nuclear generation.

#### **A true cap on domestic emissions and rejection of hot air**

CDN urges the government to **adopt a cap on domestic emissions**, and to **reject the inclusion of Eastern European 'hot air' units** and any offset units that cannot satisfy a 'gold standard' test of environmental integrity.

We also urge government to continually audit the ETS to ensure that it does **not have negative consequences for native ecosystems and biodiversity**, and in particular, that **credits are not given for non-indigenous forests which are established on land currently occupied by native ecosystems**. Since much of the forestry industry has agreed to this already in the Climate change policy addendum to the NZ Forest Accord, there is already strong support from both ENGOS and the forestry sector for this.

We urge that measures be put in place to disallow biofuels and credits from the destruction of intact native ecosystems and biodiversity abroad be to disallowed via provisions in this Bill.

## **Exemptions**

Any exemptions from liability under the ETS should be very clearly framed and have to meet clear and explicit necessity tests. Some of the provisions in the Bill are too broad and too unspecific as to the tests that have to be met.

### **The geographic scope of the Bill is unclear and needs to be defined.**

It is unclear whether the Bill extends to include the EEZ and the continental shelf. The Bill needs to be clear on this. The rapidly increasing greenhouse gas intensity and absolute emissions by the fishing industry are a particular concern, as are apparent plans to mine the seabed and expand the exploration for fossil fuels. These matters need to be thought through and the greenhouse implications accounted for either under the ETS or under companion measures.

## **Public Participation**

We urge Parliament to amend the Bill to provide for more public disclosure and public participation in decision making. We are disturbed that the Bill as it stands provides for only limited public participation and that where participation is provided for, it is primarily for emitters. We cannot accept such lopsided provision and urge that the processes under the Bill be opened up to public scrutiny and input. This will improve decision making and accountability and the legitimacy of decisions made. It will also guard against regulatory capture.

## **Penalties**

The penalties seem to us to be far too low. Economic crime is usually understood to be incentivised on the basis of the **expected value** of the penalty being imposed. Thus the penalties should rise as the probability of detection, conviction and the enforcement of the penalties diminish. The

penalties need to be such as to strongly penalise detected crimes. Those provided for here are too low. It may be that there should be some degree of linkage of the penalties for non-reporting or falsifying of emissions or losses of sinks to the world carbon price so that the penalties keep pace with changing incentives to cheat. As in the RMA 1991, though, there should be penalties of prison for the principals of any deception.

### **Jet fuel Exemption**

We urge that the exemption for jet fuel be removed.

### **Liability Transfers**

Subpart 2 and Subpart 3 of the new Part 5 provides for the Point of Obligation within the ETS to be transferred in some circumstances. Subpart 3 allows for a large user of coal or natural gas to register as a participant in the scheme, and take direct responsibility for the emissions. Subpart 2 allows for a large user of jet fuel to register as a participant in the scheme. No such provision is available for other users of liquid fuels. In both cases the quantities of fuel involved are set directly by legislation and no provision is made to adjust these by regulation in light of new information.

As drafted, Air New Zealand can manage its own domestic emissions directly, while Toll New Zealand - the country's largest diesel user - cannot. Similarly, the public transport bus fleets within major urban areas are large users of diesel and some regional councils, especially those owning forests, may prefer to manage liabilities and credits directly.

The decision as to whether to manage emissions directly or face the price signal from suppliers is largely a commercial one and the ETS ought simply to include empowering provisions. It seems odd to limit this to specific quantities of fuels or even specific classes of users. At the very least, these limits ought to be able to be varied by regulation rather than by statute.

### **Project Mechanisms**

In general we support the move away from project mechanisms, but we consider there does need to be a companion system to the ETS to give people credits for household insulation, demand management and conversion of vehicles from internal combustion to electric power and other such projects. We recommend that there be established a scheme where Crown revenues are put into a fund to assist emissions reductions particularly through demand reduction schemes and measures. This could be modelled on the UK Carbon Trust and could be funded by windfall gains to State Owned Enterprises.

### **The Register and Allocation – Transparency**

Measures are needed to make for clarity and transparency of the Register and of allocation particularly within sectors. There seems to be no provision in the Bill for this.

## **SECTION 3 – RENEWABLE ENERGY PREFERENCE**

### **Support for the general aims of this section of the Bill**

The Climate Defence Network generally supports the aims of the sections of the Climate Change (Emissions Trading and Renewable Preference) Bill related to the preference for renewable energy but wants provisions to ensure that it does not lead to significant environmental damage from for instance large dams or the destruction of New Zealand or overseas native ecosystems from biofuels.

We congratulate the Government on the introduction of this measure that is complementary to the ETS but consider it needs safeguards.

We would have appreciated an opportunity to engage with officials at various stages on this section of policy development for the Bill.

The emissions trading scheme by itself does not fully internalise the environmental cost of fossil fuelled electricity generation and it is essential that New Zealand sends a clear signal that renewable energy is favoured where it meets environmental standards.

Not all hydro is acceptable, we do not want to see this policy leading to the drowning of native forests or wetlands, or to the expansion of biofuels into native ecosystems. We have already covered these issues above so will not repeat them all here, but it will be vital that only environmentally sound biofuels are accepted, and that those grown on land where native ecosystems such as old growth rainforest or native shrublands or grasslands are not accepted for this target.

## **Support for a ban on thermal electricity generation & opposition to weakening the RMA's public participation**

A ban on thermal generation is strongly supported by CDN. It should be permanent, not just a moratorium.

We oppose any attempt to weaken public participation processes in the Resource Management Act 1991 in order to promote renewables. Because the Resource Management Act 1991 relies on robust process to deliver sound environmental decisions, changes to the decision-making processes to make renewable energy easier to consent will almost certainly result in inappropriate use of renewable energy (such as the development of hydroelectric schemes in environmentally sensitive locations).

### **Ten-year limitation must go**

The ten-year limit should be deleted. It serves no useful purpose and introduces investment uncertainty. In the very unlikely event that in ten years time, the Government decides that circumstances have changed to make increased use of fossil fuel generation both cost effective and environmentally appropriate, then it can amend the law at that time.

### **Exemptions must go**

The legislation sets in place 20% fossil fuel component and 10 MW capacity as the thresholds for plant to be captured by the moratorium. In light of these thresholds, the proposed exemptions to the moratorium make no sense. They have the appearance of a cobbled together shopping list, rather than well thought through necessary back-stops. For example:

- It's unclear what would constitute an "emergency" requiring over 10MW of capacity. There are no criteria for what would constitute an emergency;
- A community requiring over 10MW is unlikely to be a small isolated community. 10 MW could supply up to 5000 homes;
- The waste material exemption uses the example of using a "small amount" of fossil fuel to ignite landfill gas. Such a situation appears unlikely to require greater than 20% fossil fuel component to the overall energy use;
- Co-generation using fossil fuels at greater than a 20% component would undermine the purpose of the moratorium as they could allow very substantial fossil fuel emissions.

These exemptions make no sense given the purpose of the legislation and the threshold levels in the Bill. They should be deleted.

The exemption for replacing inefficient plant with efficient plant does not make sense unless an approach is taken that takes into account the proposed lifetime of the plant. For example, there is no climate change benefit in replacing old, worn out plant with only a few years life with new efficient plant with 30-40 years of life. Any emission reductions gained over the short term would be greatly outweighed over the long term. This exemption should be deleted or replaced with one that takes into account the life-time of any replacement fossil fuel plant.

The option of allowing the Minister to over-ride the moratorium because a proposal is 'desirable' allows the Minister so much scope that the moratorium is in practical terms, void. This provision should be deleted. If any exemption is retained, the test for approval should be 'necessity' rather than 'desirability.'