

Discussion Paper on Measures to Reduce Greenhouse Gas Emissions in New Zealand Post-2012

New Zealand Ministry for the Environment, December 2006

Submission Template

Please enter your responses, save the completed form to your computer,
and then email it as an attachment to climatechange@mfe.govt.nz
or send it to Post-2012, Ministry for the Environment, PO Box 10362, Wellington.

Submissions are due by 30 March 2007.

Key information

Name of submitters/organisations:

- Auckland City Council
- Auckland Regional Council
- Franklin District Council
- Manukau City Council
- North Shore City Council
- Papakura District Council
- Rodney District Council
- Waitakere City Council

Industry/Area of interest/Organisation type:

Local Government

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Initial Comments

This joint submission is based on the councils' role under the Local Government Act 2002, which is to promote the sustainable development of our communities. It is also based on the direction provided under the Local Government (Auckland) Amendment Act 2004, whose purpose includes improving the integration of land use and transport, in line with sustainable development objectives.

The Auckland region is the largest economic centre in the nation comprising one third of the nation's population, jobs and economic output. Therefore, the challenges and opportunities for a secure and sustainable energy system for New Zealand are inextricably linked with overcoming challenges in the Auckland region.

The councils of the Auckland region have three key multi-party strategies, developed to deal with the region's challenges, each of which is relevant to the Government's goals expressed in the NZ Energy Strategy. These are the Auckland Regional Growth Strategy, Auckland Regional Land Transport Strategy, and Auckland Regional Economic Development Strategy.

The Auckland Regional Growth Strategy aims to manage the region's growing population in a sustainable way, by accommodating people more densely within regional boundaries, encouraging mixed land use and intensification along major transport routes and in town centres. This is to reduce the adverse impacts of sprawl on the environment and on productive land, and is also about using resources such as energy more efficiently as the region grows. This strategy is currently under review.

The Auckland Regional Land Transport Strategy supports the Regional Growth Strategy, by integrating transport planning with land use planning, and by directing more investment into public transport.

The Auckland Regional Economic Development Strategy is a key mechanism for the achievement in Auckland of the Government's goal of economic transformation for New Zealand. The Metro Project action plan under this strategy aims to improve the region's infrastructure, including improving security for electricity infrastructure through the Auckland Energy Prospectus within the Metro Project, as security of supply is a key concern for Auckland's economic viability.

In addition, the councils of the Auckland region and central government agencies are developing a Long Term Sustainability Framework for the region. This Framework will provide overarching direction to regional strategies. Energy has been a theme in its own right in the development of the Framework, in recognition that energy matters have a strong influence on the region's sustainability and resilience. The challenge posed by climate change is also recognised within the Framework as a major influence on the region's sustainable development. We recognise that development of a sustainable, resilient energy future for the Auckland region will play a critical role in enabling the sustainable development of the region. The current draft Framework proposes that a regional energy strategy be developed, to address the region's key goals and challenges relating to energy in an integrated manner with all relevant parties.

Many of the decisions of local government shape cities for the long term, and shape the choices of citizens as they respond to changes, such as increases in energy prices. Auckland councils' core responsibilities directly influence energy efficiency and climate protection. Our roles in land use management, transport network development, urban design, the quality of the built environment and administering building quality can play a key role in delivering the Government's goals in the draft Energy Strategy. Our roles

complement central government responsibilities and we acknowledge the importance of working together.

As such, the councils of the Auckland region seek continued close working relations with relevant central government agencies on a range of initiatives that contribute to the goals of Government's climate change policy.

Key Points

- The councils of the Auckland region consider there is a need for urgent action to address climate change in relation to both mitigation and adaptation. We are aware that the Ministry for the Environment and other agencies are currently developing a work programme to address climate change adaptation. We look forward to engaging with government further on this work.
- We support the introduction of a price-based measure to reduce all greenhouse gas emissions (not just CO₂), as part of a strong package of measures. We consider that clear, stable policy will provide certainty for investment and for consumers. Within that stability, it is also important to ensure policies can be responsive to changes in technology and international events.
- Internationally, structural change has been one of the most effective ways of reducing greenhouse gases. The document needs to consider what structural change New Zealand within sectors and economy wide, and make that will lead to reduced emissions.
- We consider that policy measures to address climate change need to be assessed within a broad sustainability framework that addresses environmental, social, cultural and economic wellbeing, considers impacts at the local, regional and national levels and makes links to other policies and strategies.
- The document needs to acknowledge transport emissions are continuing to rise and put forward realistic options to reduce them within the context of a clearly articulated vision of what a sustainable transport system would look like by 2050, and an overarching strategy that will achieve this vision.
- We support many of the measures proposed in the NZ Energy Strategy and NZEECS that reduce emissions. We consider that greater attention be focused on the potential for urban form and investment in public transport, walking and cycling can do to reduce greenhouse gas emissions.
- We are not supportive of greenhouse emissions becoming a responsibility of councils in resource consenting unless there is considerably greater national guidance through statutory instruments such as a National Policy Statement or National Environment Standard under the RMA.
- The Auckland councils wish to work with Government in addressing greenhouse gas emissions, as appropriate to local government's roles and responsibilities and we are committed to playing our role.
- The impact on local government of specific measures in this suite of energy and climate change strategies needs to be considered in detail in further policy development.
- Affordable energy choices need to be maintained for those on low incomes.

Specific comments in relation to Transport

We note that transport is discussed in relation to possible inclusion in an emission trading or other pricing mechanism. However, there is no clear indication of the government's preference in this area. The Auckland councils consider that urgent action is required to reduce transport emissions.

We also note the range of measures outlined in the NZES and NZEECS to address transport energy and greenhouse gas emissions. As noted in our submissions to those strategies we consider that measures for the transport sector require an overarching vision of sustainable transport for New Zealand.

Consideration needs to be given to what is the most appropriate pricing signal, for the transport sector. We do not consider the application of an emission trading mechanism to be appropriate to this sector at this time. Further specific work is required to determine the most appropriate mechanism(s) to provide pricing signals that are effective in reducing emissions while also maintaining the core role of transport in our economy. We support further investigation of appropriate pricing mechanisms for this sector and consider such mechanisms are likely to be most effective upstream (i.e. carbon pricing on fuel inputs).

We also note ongoing work in areas of road user charges, road pricing, congestion charging and road tolling and fuel taxes. Each of these tools are focussed on a specific objective such as addressing government revenue stream, congestion management, environmental improvement, and acceleration and funding of specific transport projects. We request that Government develop overarching transport pricing policy principles to address different types and purposes of road pricing so this range of tools is consistent and mutually supporting, and avoid any perverse outcomes that a more ad hoc approach to transport pricing may produce. We also request Government consider how these pricing instruments might operate together and how each can be designed and implemented to ensure multiple objectives are achieved.

(4) Longer-Term Climate Change Policy Development¹

1. Do you expect international efforts to reduce greenhouse gas emissions to continue? If so, in what form?

Yes. The councils of the Auckland region consider there is uncertainty regarding the form of any international agreement for the post 2012 period. However, we note recent developments and announcements which indicate a move towards emission trading systems, particularly among the developed nations, including Australia, North America and a possible expansion of the European Trading System.

We also note there is increasing action by large corporations and growing interest in private sector carbon trading systems, particularly as a means to build experience in the operation of such markets.

¹ Numbered headings in the submission template correspond with sections of the discussion paper.

2. Do you believe a price-based measure such as emissions trading, which gives emitters the responsibility for at least some of their emissions, could enable businesses to find the lowest-cost way to reduce emissions?

Yes. Price based measures will help address the current imbalance between the economic advantages inherent in established traditional technologies and industries and new renewable energy technologies. It will support investment in new technologies and support greater investment in renewable energy.

We support the introduction of a price-based measure that provides for certainty of outcome, i.e. one that achieves emissions reductions, rather than certainty of price (hence we favour an emissions trading system over a carbon charge).

We support a managed transition to the full pricing of greenhouse gases over time.

3. Would you prefer directive regulations to a price-based measure?

We prefer a price-based measure to regulations as it constitutes a more flexible and responsive approach to reducing greenhouse gas emissions. We consider regulatory measures have an important role in supporting pricing mechanisms.

4. What, if any, pre-conditions need to be met internationally and/or domestically before a broad price-based measure such as a greenhouse gas charge or emissions trading was introduced in New Zealand?

A precondition for the introduction of a price based measure is for it to be supported by a strong mix of other policy measures as noted above.

Development of a specific audit and compliance role for emissions measurement, monitoring and report that is independent of Government will also be required. This could be achieved through establishment of a Climate Change Commission with powers of oversight and independent advice to government. Such a commission could be based on the roles of the Electricity and Commerce Commissions.

(5) Policy Development on Devolving the Cost of Emissions

(5.3) Leakage and Competitiveness Issues

5. In the longer-term, should the same price of emissions apply across all sectors of the economy? If not, how could the stringency of emission targets be determined for different sectors?

We recommend that the Government develop clear emission reduction targets for each sector of the NZ economy in such a way that targets are a stretch for each sector, but achievable within available technology and with medium and long-term horizons. Such targets need to show the relative contribution of each sector to achieving national emissions reduction targets (such as those currently established under the Kyoto protocol, and any new targets negotiated for the post 2012 period).

(5.4) Thresholds

6. How should the government define and enforce a threshold determining which firms or sites should be included in the scheme? For example, should a threshold be defined on an intensity or absolute basis?

We consider that in the medium to long-term all parts of the New Zealand economy need to be addressed by appropriate measures, including pricing mechanisms of one sort or another, to encourage emission reductions and support use of alternatives and to drive innovation.

We do not support a one-size fits all approach to emission pricing, and support the approach government has indicated of addressing the timing and nature of emissions reduction measures in each sectors as economic, technological and sector structure considerations allow.

We note that an absolute threshold would have the advantage of reducing the compliance cost burden on small firms, whereas an intensity based threshold would require some compliance costs from them simply to show that they were below the threshold.

However, we would not wish the system to distort the economy by disproportionately favouring smaller firms in a given activity - which would also cause further distortions by favouring sectors with smaller firms.

(5.5) Revenue Recycling

7. Should revenues from climate change policy measures be returned to the economy through either general tax relief or funding for targeted activities? If you believe revenues should be returned to the economy through funding for targeted activities, which activities should be considered?

We consider that any revenues from climate change policy measures should be recycled and provided as subsidies and incentives for emissions reduction initiatives and projects. They should be particularly targeted at initiatives that are not currently economically viable and require transitional support while other structural and behavioural changes occur, for example to support the introduction of new technology with quantifiable emissions reduction benefits. This approach could link with emission reduction agreements and other pilot schemes. Revenue recycling could also be targeted at local government actions that assist in emissions reductions, such as public transport development or CCP-NZ projects.

(5.6) Building Capacity for Strategic Emissions Management

8. What assistance would large direct emitters need to prepare for mandatory monitoring, measurement and reporting?

We suggest that Government work with industry to develop carbon accounting standards and protocols to ensure consistency in measurement, monitoring and reporting of greenhouse gas emissions. Similar standards and protocols will also need to be established for auditing of these greenhouse gas emission accounts to ensure transparency and robust data. We consider the strength of the audit and compliance

framework is also vital to the integrity of any pricing mechanism that is introduced. We consider that audit and compliance functions should be undertaken either directly by government agencies or by an independent climate change commission established by government, possibly with elements and powers similar to the Electricity and Commerce Commissions.

(6) Emissions Trading

9. Which sectors could and should be included in a New Zealand emissions trading scheme? Could this change over time?

We support the Government's approach of developing broad climate change policy framework for the medium to long-term and providing early signals of that policy framework. We also support the Government taking action to develop transitional measures that will provide immediate and short-term emission reductions and provide capability and capacity building for future climate change measures.

We support the Government's proposed approach of addressing greenhouse gas emissions across all sectors, in a way that recognises the varying ability of each sector to reduce its emissions. We also consider that there is an important role for forestry and tree planting (e.g. native bush regeneration) in providing credits within an emissions trading system.

We consider that early introduction of an emissions trading scheme is possible in the stationary energy and industrial sectors where technical emission reduction options exist and are where alternatives are available as outlined in the Transitional Measures paper.

We consider the transport sector requires urgent action as it is the fastest growing sector for greenhouse gas emissions. However, the measures appropriate for transport are likely to differ significantly to the approach taken for stationary energy and industrial emissions.

Other sectors that require specific action but that we consider are not currently suitable for emissions trading are agriculture and forestry, domestic sector and small/medium size industrial and commercial sectors. While an emissions trading regime may not be adopted early on in these sectors, other measures need to address their emissions.

10. What design conditions would be necessary for emissions trading to function effectively in the New Zealand context?

We consider any emission trading system in New Zealand should learn lessons from problems experienced with by the European Emission Trading systems, in which resulted in underreporting of emissions, windfall profits to some electricity generators and a near collapse of the market. We consider careful design and the ability to address problems as they arise, rather than waiting for review periods (as occurred with the ETS) are critical.

11. Which allocation methods would you support: gratis allocation, auctioning or hybrid allocation schemes? Why?

The system needs to be flexible enough to encourage restructuring in the long run, away from emissions-intensive activities and towards less intensive ones. New entrants and existing firms need to face an appropriate incentive in the form of a marginal cost differential corresponding to the value of emissions rights. The system also needs to be equitable across sectors and between new and older established sectors (e.g. old vs. renewable energy generation). For efficiency in the long run, the system should also allow rights from one sector to be transferred (sold?) to firms in other sectors, to enable and encourage less intensive sectors to grow at the expense of more intensive ones.

A gratis allocation mechanism gives an unearned windfall gain to existing firms at the expense of new entrants, while auctioning introduces a substantial extra cost which could cause major short-term disruptions. Hybrid allocation schemes would appear to have the potential to minimise both these problems.

(8) Other Regulatory Approaches

12. Is it desirable to apply RMA controls on greenhouse gas emissions because of their impact on global climate change?

We are concerned about proposals to introduce consideration of greenhouse gas emissions by councils as part of the Resource Management Act planning and consenting processes in the absence of national guidance. There are considerable workability difficulties for local decision-makers to overcome when making decisions about the climate change impact of local projects. We would, however, support such a proposal where clear national guidance for the assessment of greenhouse gases is provided through a statutory instrument, e.g. through a national policy statement or national environmental standard. Climate change is primarily of national and international significance, so local decision-making over projects will require national guidance.

A national environmental standard could also support local decisions by providing clear guidance as to appropriate noise levels from wind turbines in a variety of locations. A national policy statement could support decisions relating to non-quantifiable issues, such as by providing direction as to the relative weight to be placed on areas of outstanding natural character compared to the provision of new renewable energy.

(9) Emission Reduction Agreements

13. What conditions would be required for emission reduction agreements to be used as an element of post-2012 climate change policy?

We support the use of emission reduction agreements as part of a package of measures to address climate change. We consider the work previously undertaken for Negotiated Greenhouse Gas Agreements could provide a basis for a revised and broader emissions reduction agreement scheme.

This approach has significant potential in addressing sectors or industries where leakage or competitiveness at risk issues exist and in sectors where a broad pricing mechanism, such as emissions trading, may not be suitable, e.g. in the transport, agriculture, small and medium sized industry and commercial sectors.

We note that there are already a number of programmes that effectively provide a voluntary emission reduction type agreement, such as the Communities for Climate Change programme for local government (of which most of the Auckland councils are members) and initiatives among the private sector such as Sustainable Business Council initiatives.

Emission reduction agreements need to be developed in such a way that they are consistent with pricing and regulatory measures. Any emissions reduction agreement scheme would also need to be consistent with the same measurement, monitoring, reporting and audit standards as boarder pricing based measures.

(10) Comparison of Options

14. What national and/or international circumstances would favour emissions trading rather than greenhouse gas charges if applied broadly or more selectively across multiple sectors of the New Zealand economy post-2012?

We note growing commitments to emission trading systems internationally by national governments and among large corporations.

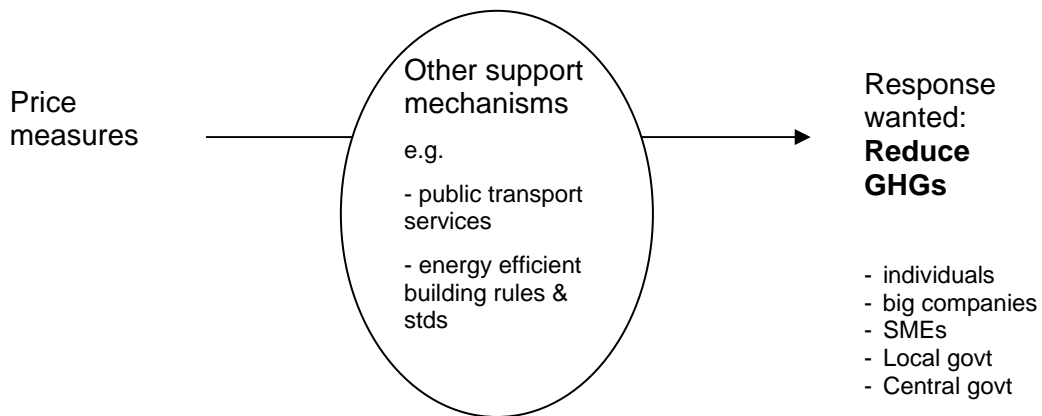
15. Would a price measure be sufficient to achieve the following types of climate change-related objectives: accelerated uptake of highly efficient technologies, development and commercialisation of new technologies, fuel switching to low-emission or renewable energy sources, and reduced energy demand?

We consider price based measures are necessary but are not sufficient on their own. A strong mix of policy measures is required as no single measure will adequately address the actions required to reduce greenhouse gas emissions.

Structural change has been a key driver in effecting reductions in carbon emissions in other countries. New Zealand needs to consider what structural changes we can make to lower emissions. For example, in the Auckland region, a significant modal shift to public transport, walking and cycling away from private car use would lower emissions. There needs to be a focus on determining and implementing the structural shifts we can make as a nation.

The diagram below illustrates that while a price measure aims to produce the desired response, i.e. a reduction in greenhouse gas emissions, on its own the price measure will often not achieve this aim. Other measures, policies, rules and infrastructure also need to be in place to enable people and organisations in each sector to reduce their emissions.

For example, consumer responses to increased fuel prices is limited (people tend to pay more for fuel and keep driving) unless public transport infrastructure and initiatives to encourage behaviour change are also in place. This point is relevant across all sectors and all greenhouse gas emitting behaviours. A price-based measure is necessary, but should not be relied on to produce emissions reductions on its own.



16. Under what circumstances should a regulatory approach be used in place of price-based measures such as emissions trading, a greenhouse gas charge or financial incentives?

We consider regulation to be appropriate in a supplementary role, for example, to assist local decision-making under the RMA in relation to renewable energy applications.

(11) The Path Forward for Longer-Term Policy Development

17. What are your views on the indicative proposal for discussion?

We support the indicative proposal for discussion.

We specifically support an approach that defines the architecture of measures now while addressing the details of stringency and scope of the measures when key uncertainties are clarified.