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**REPORT 2**  
*(1215/52/IM)*

## **SUBMISSION ON THE REVIEW OF THE EMISSIONS TRADING SCHEME**

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### **1. Purpose of Report**

To seek the Committee's approval to the attached submission on the select committee review of the Emissions Trading Scheme (ETS).

### **2. Executive Summary**

Under the confidence and supply agreement between National and Act, a select committee review of the ETS is underway. Submissions have been invited, primarily relating to the terms of reference for the review.

The draft submission (attached at Appendix 1) outlines the Council's general support for an ETS, as submitted to the previous ETS select committee in February 2008. However, our submission notes the need for further government measures and assistance packages. The key points contained in our submission include:

We recognise that considerable effort has been put in to development of the ETS. We also recognise the potential of a carbon tax as an alternative simple, flexible approach. We note though that emissions trading is becoming a preferred solution internationally (E.g. Australia, EU, Japan, US)

We believe the core design components of the scheme are in place and do not require significant adjustment (E.g. the phased introduction of sectors commencing with forestry in 2008, followed by energy in 2010, liquid fossil fuels in 2011 and waste and agriculture in 2013).

We would like to see government develop a robust assistance package to replace the previously planned \$1 billion insulation fund. A revised ETS should allocate funds to assist householders, small businesses and communities to cope with the increased prices associated with imposing a cost on carbon across the economy. It should also incentivise emissions reductions via energy efficiency in the residential and commercial sectors.

We support continued New Zealand specific climate change research, which focuses on the range of priority mitigation and adaptation measures needed. Investment in research and technology for reducing greenhouse gas emissions, increasing forest sinks and adapting to a changing climate are seen as core components of any climate change response.

We support the development of a range of associated policy. For example the ETS may lead to increased demands on infrastructure to support greater use of public transport and active travel modes. The Council would like to see government address this increased demand.

In related moves the new government has:

repealed the biofuels sales obligation (which required all fuels sold to contain a percentage of biofuel)  
repealed the renewable preference bill (which put a 10-year moratorium on new base-load thermal electricity generation)  
reversed the previous government's plans to phase-out the sale of incandescent light bulbs.

### **3. Recommendations**

It is recommended that the Committee:

- 1. Receives the information.*
- 2. Approve the submission on the review of the Emissions Trading Scheme, attached as Appendix 1.*
- 3. Agree to delegate to the Mayor, the Climate Change Portfolio Leader and the Chief Executive the authority to make any minor drafting changes necessary before forwarding the submission to the Emissions Trading Scheme Review Select Committee.*

### **4. Background**

The National government agreed to a select committee review of the emissions trading scheme (ETS) in its confidence and supply agreement with Act. The Prime Minister stated that the purpose of the review would be to ensure the reduction of emissions in ways that minimised the cost to New Zealand's society and economy.

The terms of reference of the committee were elaborated on December 9 (see below). The terms set no time limit for the committee's deliberations — though there have been indications that the report is expected by March. National has stated that it will pass legislation to amend the ETS within nine months of taking office (by 30 Sept 2009) and will ensure that an ETS is introduced on 1 January 2010.

Submissions on the review (and related matters) have been invited by the 13<sup>th</sup> February 2009. Following a request for a time extension, the Council has been granted until 27<sup>th</sup> February 2009 to provide our submission.

In December 2008 the new Government made a number of decisions related to climate change policy, including; repeal of the mandatory biofuels obligation, repeal of the ban on the building of new base-load coal and gas-fired power stations, and reversing plans to phase-out the sale of incandescent light bulbs.

The terms of reference for the review and related matters are as follows:

- hear views from trade and diplomatic experts on the international relations aspects of this issue
- consider the prospects for an international agreement on climate change post Kyoto 1, and the form such an agreement might take
- require a high quality, quantified regulatory impact analysis to be produced to identify the net benefits or costs to New Zealand of any policy action, including international relations and commercial benefits and costs
- identify the central/benchmark projections which are being used as the motivation for international agreements to combat climate change; and consider the uncertainties and risks surrounding these projections
- consider the impact on the New Zealand economy and New Zealand households of any climate change policies, having regard to the weak state of the economy, the need to safeguard New Zealand's international competitiveness, the position of trade-exposed industries, and the actions of competing countries
- examine the relative merits of a mitigation or adaptation approach to climate change for New Zealand
- consider the case for increasing resources devoted to New Zealand-specific climate change research
- examine the relative merits of an emissions trading scheme or a tax on carbon or energy as a New Zealand response to climate change
- consider the need for any additional regulatory interventions to combat climate change if a price mechanism (an ETS or a tax) is introduced
- consider the timing of introduction of any New Zealand measures, with particular reference to the outcome of the December 2009 Copenhagen meeting, the position of the United States, and the timetable for decisions and their implementation of the Australian government
- report to the House accordingly.

The full submission is attached at Appendix 1. The key points contained in our submission are:

- We recognise that considerable effort has been put in to development of the ETS. We also recognise the potential of a carbon tax as an alternative simple, flexible approach. We note though that emissions trading is becoming a preferred solution internationally (E.g. Australia, EU, Japan, US)
- We believe the core design components of the scheme are in place and do not require significant adjustment (E.g. the phased introduction of

sectors commencing with forestry in 2008, followed by energy in 2010, liquid fossil fuels in 2011 and waste and agriculture in 2013).

- We would like to see government develop a robust assistance package to replace the previously planned \$1 billion insulation fund. A revised ETS should allocate funds to assist householders, small businesses and communities to cope with the increased prices associated with imposing a cost on carbon across the economy. It should also incentivise emissions reductions via energy efficiency in the residential and commercial sectors.
- We support continued New Zealand specific climate change research, which focuses on the range of priority mitigation and adaptation measures needed. Investment in research and technology for reducing greenhouse gas emissions, increasing forest sinks and adapting to a changing climate are seen as core components of any climate change response.
- We support the development of a range of associated policy. For example the ETS may lead to increased demands on infrastructure to support greater use of public transport and active travel modes. The Council would like to see government address this increased demand.

## **5. Discussion**

### **5.1 The nature of the ETS review**

Some commentators have suggested that the select committee review puts the ETS “on hold”. However, the ETS is vested in legislation commencing with the forestry sector on 1 January 2008. To amend this commencement would require repeal of the Act.

There has been speculation that the ETS may not go ahead, with a carbon tax or other measures preferred instead. Indeed the terms of reference for the review include an examination of the relative merits of each. However, the Government has made it clear that it will implement an ETS, with modifications. It is likely that the Government will be able to push through its desired reforms via the review.

During the development of the ETS the National Party indicated the direction it would like to see for the scheme. The six major concerns raised by National were identified in their minority select committee report.

1. Balancing environmental and economic interests
2. Windfall profits to government
3. Alignment with Australia's developing ETS
4. Industry incentives to exit New Zealand
5. Importance of small and medium enterprises
6. Unilateral phasing out of industry support

## **5.2 The likely outcome of the ETS review**

Although the Government has not yet outlined the specific changes proposed, it is likely that they would include a delay in exposing trade-exposed sectors to a cost on emissions. This may involve delaying the introduction of entire sectors (or parts of sectors) into the scheme, increasing the length of the phase out for allocation of free emissions units, or altering the levels of free allocation. The Government has also raised questions regarding points of obligation (particularly with regard to agriculture) and argued for a cap on the price of carbon credits within the ETS (however a cap in the EU ETS has affected the value of units).

The \$1 billion household assistance package agreed as part of the scheme has been removed under the current government. The National government claims that no budget was set aside by the Labour led government for this household insulation fund (however, it was to have been self-funded from emission unit allocation). Replacement of this fund with an alternative is seen as a key component of a well designed scheme.

The Government has proposed allocation of emissions units based on intensity. This means that an emitter could increase their overall emissions, providing the emissions per unit of output were reduced. This would protect investment that could otherwise look to find a less regulated location offshore.

The Australian Government has set out to deliver a Carbon Pollution Reduction Scheme (their version of an ETS), commencing on 1 July 2010. Their scheme includes significant assistance to businesses and households (estimated to be \$11.5 billion AUD in 2011-12) self funded through allocation of emissions permits. Alignment with the Australian scheme is likely to be principally around timing, although Australia has said that agriculture will not be considered in the scheme until 2015. The schemes may also be aligned more closely on approaches for allocation of free emissions units and assistance packages for those most affected by a price on carbon.

## **5.3 The relevance to Council**

The impact of the ETS is significant for Council in two ways. In its current form the Council will be a “point of obligation” for its emissions from waste. This requires reporting of emissions from landfill operations and purchasing and surrendering of emissions units to cover these. Resulting cost increases are intended to be passed on to customers. Similarly Council has the opportunity to participate as a forest owner, generating emissions units in the case of forest growth or new planting (but being liable for emissions associated with deforestation).

Secondly Council is a consumer facing cost increases passed on by other sectors – in particular this will impact on fuel and electricity prices.

The Council should focus on:

- critical appraisal of the changes to the ETS and their likely impacts and incorporation into planning and policy
- the likely cost implications for local government and ratepayers

- seeking adjustment funding for the community (this could follow some of the funding proposals in the Australian scheme, such as increases in selected benefits, income tax benefits for low or middle income earners, reduced fuel taxes).
- providing a submission to the select committee.

#### **5.4 Biofuels, renewable energy and funding for home insulation**

The Biofuels Act, which came into force in October 2008, required a proportion of petrol and diesel sold to be sourced from biofuel. The Governments justification for the repeal of this biofuels obligation was the international concern about biofuels' effect on food supply and biodiversity and uncertainty in greenhouse gas emission benefits. The repeal means there will be no mandatory biofuel content introduced into New Zealand fuel.

The legislation had included a clause requiring biofuels to come from sustainable sources and the Green Party suggested that sustainability standards could have been in place by mid-2009. The Government has said it is considering using a tax incentive to encourage biofuel production.

The Renewable Preference Bill provided for a 10-year moratorium on new base load thermal electricity generation. The Governments stated that their primary concern regarding the moratorium was security of electricity supply. It is likely that the repeal will have little impact on generation investment decisions by electricity companies. This is because fossil fuels are likely to continue to increase in price (despite the temporary drop in oil prices over recent months in response to the global financial crisis), uncertainty remains over future supplies of gas, and the ETS itself encourages a move away from thermal generation. Renewable energy generation was already increasingly seen as key to meeting New Zealand's future electricity generation requirements. The proposed reform of the Resource Management Act by the new Government is also likely to accelerate the shift towards renewable generation.

The \$1 billion (over 15 years) "Green Homes Fund" to assist with household insulation and energy efficiency was agreed to in the ETS. It was to be funded through profits recycled from state-owned power companies as a result of the ETS and managed by EECA. National has said that it had not been properly costed and will not go ahead. They have instead developed their own suite of energy efficiency policies which include putting \$15 million a year more into insulated state homes, a \$35 million a year solar heating subsidy and \$10 million a year to help councils assist low-income householders with cleaner heating options. The policies came from a mixture of existing baselines and the following year's new spending allowances. If run for fifteen years, these policies would total around \$900 M.

## **6. Conclusion**

The draft submission (attached at Appendix 1) outlines the Council's general support for an ETS, as submitted to the previous ETS select committee in February 2008. However, our submission notes the need for further government measures and assistance packages. Implementation of an ETS is consistent with the Council's Environmental Strategy and will also be important in assisting the Council to achieve its medium and long-term emission reduction targets.

Contact Officer: *Chris Cameron, Principal Advisor*

## **Supporting Information**

**1) Strategic Fit / Strategic Outcome**

*Consistent with the Council's Environmental, Transport and Urban Development Strategies.*

**2) LTCCP/Annual Plan reference and long term financial impact**

*Not applicable.*

**3) Treaty of Waitangi considerations**

*Nil.*

**4) Decision-Making**

*This decision does not trigger the significance policy. This submission is important in advancing the interests of the Council with respect to national energy and climate change policy.*

**5) Consultation**

**a) General Consultation**

*Not applicable.*

**b) Consultation with Maori**

*Not applicable.*

**6) Legal Implications**

*Nil.*

**7) Consistency with existing policy**

*Consistent with current policy as set out in the Council's Environmental Strategy and commitment to the Communities for Climate Protection (CCP-NZ) programme.*



## Appendix 1:

### Wellington City Council **DRAFT** Submission

<b>Relates to:</b>	Select Committee review of the Emissions Trading Scheme
<b>From:</b>	Wellington City Council, PO Box 2199, Wellington
<b>Date Due:</b>	27 February 2009
<b>Point of contact:</b>	Chris Cameron, Principal Advisor, Ph 803-8373
<b>Oral submission sought:</b>	Yes
<b>Consultation:</b>	This submission has been agreed by the Council's Strategy and Policy Committee

#### **1 General Position**

Wellington City Council ('the Council') generally supports the introduction of an Emissions Trading Scheme (ETS). This is in line with our submission to the previous ETS select committee in February 2008. However, we do have some specific concerns related to review of the scheme, and these concerns are outlined in this submission. We recognise the potential of a carbon tax as an alternative simple, flexible approach. However, repealing the ETS in order to bring in carbon tax legislation will no doubt lead to even greater delays in relation to addressing climate change. Emissions trading is becoming a preferred solution internationally (e.g. EU, Australia, some US states, several major international cities). This global trend enhances the trading of emissions units as a fundamental aspect to the success of such schemes.

The Council supports the general design and structure of the ETS as it currently stands. While recognising that the immediate economic environment has changed, we believe that an "all sectors, all gases" approach is an appropriate response. In addition we believe that generally the selected "points of obligation" are correct. Council has planned for the likely implications of the current legislation and prompt implementation of the ETS will provide certainty for our forward planning.

We also note that this review offers the opportunity to include long and medium-term emissions reduction targets in the legislation, to guide the distribution of permits over time. The United Kingdom has recently legislated for an 80% emissions reduction by 2050, with the government required to set and work within 5-year carbon budgets to achieve this. The Select Committee could consider a similar framework for New Zealand.

The Council is concerned that this review could result in even greater allocation of free permits to large industrial emitters, or delays in introduction of some sectors into the ETS. These moves would transfer the cost of these emissions from industry to taxpayers, further adding to the burden faced by ordinary households and small businesses. We note that the case for further support for industry is weakened by the position of the incoming United States administration, which advocates for all permits to be auctioned rather than freely allocated.

## **2 Comments on the Terms of Reference for the ETS Review**

- ***consider the impact on the New Zealand economy and New Zealand households of any climate change policies, having regard to the weak state of the economy, the need to safeguard New Zealand's international competitiveness, the position of trade-exposed industries, and the actions of competing countries***

The National led government has indicated it will remove the \$1 billion "Green Homes Fund", which was included in the ETS agreement under Labour. It is not clear if or how a revised ETS would allocate funds to assist householders, small businesses and communities to cope with the increased prices associated with imposing a cost on carbon across the economy. Consideration of the impact of the ETS on households and adjustment support is seen by the Council as a critical component of the scheme.

With or without the ETS legislation, we would like to see government develop a robust assistance package targeting insulation and clean heat in order to replace the previously planned fund. There has been significant research (E.g. New Zealand Business Council for Sustainable Development and the University of Otago School of Medicine) relating to the social, environmental and economic benefits of home retrofits. These types of schemes are also a major source of employment, an important consideration given the high unemployment forecasts. The Council notes that the Australian ETS scheme provides an assistance package to households self-funded through allocation of emissions permits. These include such measures as increases in selected benefits, income tax benefits for low or middle income earners, and reduced fuel taxes.

Other assistance options for government to consider include:

- Supporting local government to prepare for carbon trading, such as: development of policies and purchasing strategies relating to trading of carbon credits, establishment of a framework for local government carbon trading.
  - Supporting local bodies to make quality emissions estimates, such as: making funds available for consultant advice or establishing training programmes for landfill operators.
- ***examine the relative merits of a mitigation or adaptation approach to climate change for New Zealand***

Given that our international obligations commit us to mitigation actions, adaptation is not seen by the Council as an alternative, but rather as complementing emissions reductions. Local and central government each have a role to play in both mitigation and adaptation. Investment in research and technology for reducing greenhouse gas emissions, increasing forest sinks and adapting to a changing climate are seen as core components of any climate change response. For adaptation, continued central government support for research and guidance into the impact of climate change across New Zealand is crucial.

- ***consider the case for increasing resources devoted to New Zealand-specific climate change research***

The Council would support such investments in principle, including the concept of developing research centres of excellence. The Council would also like to see continued climate change research that investigates potential vulnerabilities and/or options for handling climate related risks on a local level. For example, coastal

communities will need assistance planning for the effects of sea level rise. Further to this, government could demonstrate its commitment to and leadership in renewable energy by committing to participate in the newly formed International Renewable Energy Agency.

- ***consider the need for any additional regulatory interventions to combat climate change if a price mechanism (an ETS or a tax) is introduced***

The Council believes that additional measures will be required – an ETS should only be one component of a broad domestic response to address increasing greenhouse gas emissions. We support the development of associated policy, such as that which promotes sustainable transport systems, and the planning processes that are critical to their success and effectiveness. Achievement of government targets (e.g. to reduce transport emissions) can only be realised by setting in place stringent goals with the assistance of local government. For example, the ETS may lead to increased demands on infrastructure to support greater use of public transport, active travel modes, and low-emissions technologies. The Council would like to see government address this increased demand by taking steps such as direct infrastructure investment or regulations to encourage uptake of fossil fuel alternatives.

The Council also believes more focus should be placed on demand-side interventions/regulations relating to the electricity market as opposed to continually augmenting supply. Ensuring that the Building Act translates to lower-emission residential and commercial developments is also vital. In addition we support regulation for minimum energy performance standards, to remove substandard products such as appliances, vehicles and lighting from the New Zealand marketplace.

- ***consider the timing of introduction of any New Zealand measures, with particular reference to the outcome of the December 2009 Copenhagen meeting, the position of the United States, and the timetable for decisions and their implementation of the Australian government***

The Council believes the current timing for the introduction of sectors is generally appropriate.

### **3 Recommendations**

The Council recommends that the ETS review select committee:

- Continue to develop and commit to an emissions trading scheme
- Continue to include “all sectors, all gases” in as fair a way as practicable
- Develop a robust assistance package that would include reducing energy consumption and improving the quality of New Zealand housing through a combination of insulation, clean heat technology and other energy efficiency measures
- Recognise adaptation as complementary to, rather than alternative from, mitigation
- Support climate change research, with particular focus on its effects on New Zealand, and the avenues of action that can be taken by local communities
- Develop clear policy and support for sustainable transport systems and the planning processes that are critical to their success and effectiveness

- Develop regulations leading to lower-emissions building operations and construction as well as increased focus on demand side interventions in the electricity sector
- Continue to promote renewable energy developments in New Zealand
- Continue with the current timing associated with the ETS.

#### **4 Conclusion**

The Council is generally supportive of the Government's proposed direction on climate change with the ETS. Notwithstanding this general support, there are many details yet to be resolved with respect to the further development and implementation of the scheme. The local government sector needs to be actively involved in discussions on these details. In this submission, options related to adjustment funding, support for ongoing research and development of related government policy have been identified. We thank the committee for the opportunity to provide a submission on the review of the Emissions Trading Scheme. We look forward to the opportunity to appear before the committee in support of this submission.