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26 February 2009

Committee Secretariat
Emissions Trading Scheme Review
Parliament Buildings
Wellington
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SUBMISSION TO SELECT COMMITTEE ENQUIRY ON EMISSIONS TRADING
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POINTS OF REFERENCE ADDRESSED:

1. The benchmark projections being used as the motivation for international agreements to combat climate change and the risks and uncertainties surrounding these projections.

2. The relative merits of a mitigation or adaptation approach to climate change for New Zealand.

3. The case for increasing resources devoted to New Zealand-specific climate change research.

4. The relative merits of an Emissions Trading Scheme or a tax on carbon or energy as a New Zealand response to climate change.

5. The need for any additional regulatory interventions to combat climate change if a price mechanism is introduced.

The Institute has made several submissions before Select Committees in the past on the topic of climate change, including a submission on the suite of five Government papers on Climate Change policies in March 2007. The present submission reiterates the points made at that time in a synoptic form as they apply to the Points of Reference.

We wish to appear before the Select Committee to clarify and enlarge on this written submission.

1. Benchmark Projections.

The 2007 Assessment Report by the Intergovernmental Panel on Climate Change (www.ipcc.ch) along with its projections of likely future changes in climate, has been widely reported and accepted by the major national science academies of the world as well as the UN Framework Convention on Climate Change. It is worth noting however that the work of the IPCC is inherently conservative and lag behind the most recent research findings. While there are acknowledged uncertainties, these generally indicate that risk lies in the direction of more extreme changes than current models predict. Recent paleoclimatological data from ice and sediment core samples indicate that possibilities of abrupt climate events with accelerated warming and sea level rise on human timesales. Conditions that could trigger such events lie within the range predicted for the next few decades. We therefore need to be prepared for the next Assessment Report by the IPCC to include more severe predictions for climate change than the last, and to be able to respond to these when the time comes.

2. Mitigation and Adaptation.

Both mitigation and adaptation approaches are necessary. Adaptation will be forced upon us by the inevitable consequences of climate change. Mitigation efforts are a moral imperative for any country that is a responsible member of the global community and particularly so for New Zealand with our developed economy, high per-capita greenhouse gas emissions and significant contribution to climate change from historical deforestation. Adaptation and mitigation approaches are of equal importance and must proceed together.

3. Resourcing of New Zealand-specific Climate Change Research.

It is critical that New Zealand rapidly increases our understanding of climate change mechanisms and effects and develops effective adaptation and mitigation strategies. Large scale funding of public good research in these areas is warranted to address issues specific to NZ such as climate change effects on our indigenous biodiversity and agricultural systems. It will drive innovative approaches to mitigation that are specific to our sources of greenhouse gas emissions. An important aspect of increased support in this area will be how to translate scientific knowledge of the changes into effective action by society at all levels – individual, communities, and national government. This will require research in the fields of environmental economics, social science and policy development.

4. Relative merits of Emissions Trading and Carbon Taxation.

Any financial instrument used to address climate change carries a penalty. Money that is needed to pay directly for technology substitution is diverted into the operational costs of a market or into the varied purposes of general taxation.

Any mechanism for climate change mitigation must be assessed on its ability to rapidly reduce greenhouse gas emissions. Carbon or energy taxation provides a faster and more predictable outcome for emissions reduction by fixing a price on emissions, though it also has to gain general public acceptance. Emissions trading with a sinking lid is slower and less predictable, and unless well reseaerched and managed could lead to extreme volatility in the price of emissions with detrimental effects across the economy. Price volatility would also deter investment in sustainable technology. There are possibilities that the price of carbon in the market may rise in response to a shortage of credits to such an extent that it causes major damage to the economy. Alternatively, the present financial crisis may result in such a reduction in emitting activities that the price will collapse and fail to provide any incentive for low-emissions technology.

Much of the volatility in an international carbon market is likely to come from ineffective or dubious sources of credits such as reductions relative to projected business-as-usual, clean development and joint implementation schemes and unrealised forest sinks. As with any market there is a risk that, unless extremely well monitored and regulated, the benefits will accrue largely to speculators. This could lead to the situation of a properly functioning and profitable market failing to result in any effective reduction in emissions.

A market mechanism such as emissions trading is unlikely to result in the burden of climate change mitigation being shared equitably through the whole community. There are also moral shortcomings in a system that essentially commodifies and privatises elements of the global commons that is the atmosphere. Emissions trading draws the climate problem into the autonomous mechanisms of global markets where political decision-making is constrained. It is also difficult to see how climate change mitigation can be effectively delivered by the very system that is driving the global economy into collision with the biological and geophysical limits of the planet.

If any financial instrument is to be included in measures to mitigate climate change, the preference should be given to a carbon tax. However, despite the major shortcomings of emissions trading outlined above, work should continue to prepare for the possible continuation of international emissions trading in post-Kyoto climate change agreements with a view to participating if these appear likely to be effective in reducing global emissions.

5. The need for Additional Regulatory Interventions.

Analysis of Emissions Trading during the term of the Labour Government indicated it was unlikely to result in any significant reduction in absolute greenhouse gas emissions other than the possibility of afforestation increasing the store of biologically sequestered carbon. Forest carbon sinks are however a short term instrument prone to destruction by fire, windthrow, insect damage and disease. There is very limited knowledge of the flows of carbon between the atmosphere, soils, water and the entire community of plants, animals and microorganisms that constitute forests. There is an appreciable risk that forest ecosystems may become net emitters of carbon in response to future climatic conditions. Although the current Kyoto Protocol allows treatment of afforestation as equivalent in exchange value to real emissions reduction, this is based on fallacious arguments and has critically weakened the ability of the Protocol to have any beneficial effects. The concentration of mitigation efforts in forestry also results in an emphasis on secondary gains; financial from the selling of carbon credits and environmental from the beneficial effects of afforestation on soil and water conservation. These are prone to being perceived as of more importance than the aim of reducing carbon emissions.

Both Emissions Trading and taxation as financial instruments can only result in small changes in emissions-generating activities over a time course that is too long in the urgent circumstances that confront the planet. There is a need to introduce measures of greater certainty in producing absolute reductions in greenhouse gas emissions that will be both effective in the short term and ongoing. Regulatory mechanisms can meet these requirements.

The discussion document, "*Sustainable Land Management and Climate Change*" produced during the 2007 consultation on climate change policy included consideration of the use of National Standards and National Policy Statements under the Resource Management Act. These methods were generally assessed as practicable, effective and affordable. They could provide a ready means of limiting greenhouse gas emissions with the major advantage of operating through well established legal and bureaucratic processes. The only drawbacks identified were related to emissions measurement and interference with market mechanisms and some constraints on the exercise of free will by landowners. The measurement issue is not exclusive to regulatory mechanisms but is an unavoidable aspect of any scheme to mitigate climate change. The remaining difficulties are largely ideological and insignificant relative to the enormity of the climate crisis.

CONCLUSION

The Pacific Institute of Resource Management urges the Government to introduce as soon as possible a range of effective mechanisms to adapt to anticipated effects of climate change and to contribute significantly to global emissions reduction through a well-managed carbon tax and careful engagement with emissions trading. The window of opportunity for any effective action is rapidly closing. It is essential New Zealand demonstrates the courage and determination required to reduce the worst effects of climate change that future generations can enjoy the earth that we inherited from our forebears. .

Yours sincerely

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