



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

SUBMISSION

by the

**New Zealand Council of Trade Unions –
Te Kauae Kaimahi**

on the

**Climate Change (Emissions Trading and
Renewable Preference) Bill**

29 February 2008

1. Introduction

- 1.1 The New Zealand Council of Trade Unions – Te Kauae Kaimahi (CTU) is the internationally recognised trade union body in New Zealand. The CTU represents 40 affiliated trade unions with a membership of over 350,000 workers.
- 1.2 The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Runanga o Nga Kaimahi Māori o Aotearoa (Te Runanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 1.3 The CTU supports the Climate Change (Emissions Trading and Renewable Preference) Bill. However, we do not believe emissions trading as a market mechanism will be effective if it is the sole, or even the main, response to greenhouse gas emissions. Community and work-based education campaigns and other energy conservation measures as well as adequate, stringently enforced regulations are also needed.
- 1.4 The CTU also raises some issues in this submission about the proposed method of allocation of credits to industry.
- 1.5 The CTU will be making a supplementary submission on the impact of this Bill for Māori workers and the broader interests of Māori.

2. General Comments

- 2.1 In March, 2007 the CTU released a document called *Towards Sustainability: Unions and Climate Change*. In that document we noted that:
 - Unions agree that climate change is having a damaging effect on the planet and is harmful to workers and their families.

- Unions agree that there is a need for collective action in response to this threat. Although emissions in New Zealand of around 0.15% are tiny on a global scale (although significant on a per capita basis), the principle of collective action, the need to show leadership and the increasing consumer awareness of environmental impacts of production methods all underpin a need for action in New Zealand.
- An effective way to mobilise collective action is to have clear targets for emissions reductions and practicable mechanisms for achieving those targets.
- There is an imperative for action to be taken to ensure there are high wage, high skill jobs in the future in New Zealand based on a lower level of carbon emissions.
- Adaptation to climate change and practical responses should be based on widespread consultation and analysis in the context of a sustainable development framework that includes social, cultural and economic considerations alongside environmental issues.
- Union support for specific action programmes to reduce harmful emissions is conditional and depends on the extent of worker and union involvement and also the extent to which 'just transition' measures are incorporated into programmes so that workers are not disadvantaged in terms of employment effects or other costs.
- The CTU explicitly requested in the document that the Labour Department is required to analyse and monitor employment effects from climate change mitigation policies and practices.

- Unions support emission reduction agreements or other measures for firms that are in the category of competitiveness at risk. The risk of 'leakage' is a real issue.
- There is a great deal more that can be done to conserve energy. This offers the least risk approach to seriously reduce greenhouse gas emissions.
- The CTU believes that workers can have a major role in reducing harmful emissions, promoting energy conservation and suggesting work organisation and other improvements.
- There will be a need for skilled workers, with appropriate training and qualifications, to advise, implement, monitor and assess energy audits, emission reductions, alternative energy uses at home and at work, and the application of new technologies.
- Also investment in research into alternative fuels and power supplies - such as hydrogen, solar, wind, wave, tidal, and ground energies.
- There is a risk that a policy focus on emissions trading, regulation and incentives misses the opportunities for voluntary reduction in emissions through widespread public awareness. If the general public increasingly understand the connection between their emissions and climate change, and the risks to New Zealand exports through perceptions of the carbon footprint in products, then there is the prospect of this impacting on decisions such as housing, appliances, cars, energy conservation at home and work, and consumer products.
- Unions accept that there may be a place for some market mechanisms to internalise some of the negative externalities of

greenhouse gas emissions. However, our preference is for regulatory measures, incentives, and energy conservation aimed at effecting long term changes in behaviour rather than too much reliance on the short term and unpredictable effects of market mechanisms. We believe that there should not be an over-reliance on emissions trading, and carbon sinks, rather than measures to reduce emissions. We believe active measures to reduce carbon emissions are necessary rather than a passive reliance on emissions trading and carbon sinks.

- The CTU believes that revenue recycling should be back into sustainable development programmes and initiatives to support research, investment and new technologies to reduce emissions rather than revenue recycle into general taxation.
- Unions support major investment into public transport (as well as initiatives around cycle and walking options) and coastal shipping.

2.2 The CTU therefore supports this Bill. We recognise that the Bill in essence relies on connecting two economic concepts – tragedy of the commons, and incorporating externalities. In addition, there is a vision of a global trading reality where consumers will increasingly discriminate not just on price but on a verifiable and compelling story of the sustainability practices inherent in the good or service consumed.

2.3 But we are sceptical of market-based solutions given the volatile nature of markets, the typical concentration of market power, the vulnerability in a NZ context to overseas domination, and the tendency for over-reliance on market signals to change consumer behavior ahead of any other ethical or conservationist attitudes, or practical guidance on energy efficiency and emissions reduction.

- 2.4 We also question the utility of research that states that the overall impact on GDP of emissions trading is in the order of 0.1 percent. Even if this is correct it leaves aside the distribution and employment effects and overall transitional impacts on specific groups.
- 2.5 The CTU is involved in various groups discussing climate change policy options. This includes the Climate Change Leadership Forum and the Māori Reference Group on Climate Change which reports to the Māori Leadership Group. We are also involved in extensive discussions with the Energy Efficiency and Conservation Authority on a scheme to involve workers directly in energy efficiency.
- 2.6 In particular the CTU has been concentrating on:
- risks of leakage and the impact this has on workers and therefore the design of allocation of credits;
 - union involvement in education and other programmes to directly reduce emissions and conserve energy;
 - developing a skills for sustainability strategy;
 - advocating for those on low incomes impacted by increased fuel, electricity and other charges as a result of emissions trading;
 - monitoring specific sector impacts – including forestry.
- 2.7 This Bill only covers some of these issues – allocation and sector impacts. In the explanatory note (page 46) to the Bill there is a distinction made between ‘2007 decisions’ and ‘2008 decisions’ which are described as “those decisions that will be made...after the initial legislation is considered... including decisions about allocation within the ... industrial sector. However the Bill specifically includes a phase down period of allocation of credits to the industrial sector”. Therefore, despite ongoing engagement on issues such as the timing and length of a phase down in allocation of credits to industry, it is important that we signal our concerns in relation to the current wording in the Bill.

- 2.8 In general terms the CTU supports the ambitious ‘all sectors, all gases’ approach of the Government. We also believe that the allocation of credits will mean that prior to 2012 there is a reasonable degree of protection for ‘trade exposed’ firms, subject to our submissions below. However, in a post-2012 context, it will be important for there to be an expanded and comprehensive international agreement with an assurance that competitors will also be subject to some form of emissions trading or carbon tax. In the absence of such commitments, it would be prudent for New Zealand to retain the flexibility to set more modest targets.
- 2.9 In particular it is important that the NZ Government seek the closest possible cooperation and alignment with Australia.
- 2.10 In addition, New Zealand could retain an ability to impose a tariff on imports that are not subject to any carbon tax from the source country. This, in essence, means that New Zealand can take a lead – while maintaining some flexibility to provide for ongoing free allocation and more modest targets if other countries are acting in such a way as to significantly disadvantage NZ-based firms. We are aware that there will be some questions about WTO compatibility if there are border taxes and this may depend on international developments in both the Kyoto Protocol and the new Ad Hoc Working Group on Long-term Co-operative Action under the UN Framework Convention on Climate Change. However it is important that New Zealand retains the policy option of a border tax.
- 2.11 A further consideration could be to have a cap on the price of carbon inside NZ ETS. We recognise that this restricts how the market could operate and that it may be better to focus on free allocation and other measures to reduce uncertainty for industry in a more targeted way, but a cap should still be considered as a possible option.

- 2.12 We recognise that a UK Carbon Trust study¹ (January 2008) found that “for more than 90 per cent of manufacturing industry, carbon costs will remain trivial compared to ... other influences on international competitiveness.” However, a marginal cost can have a huge impact in some circumstances leading to closure or relocation with no environmental benefit as less-sustainable producers pick up the trade benefit.
- 2.13 Therefore we have proposed that this Bill should not stipulate such a precise phase down for allocation of credits through to 2024. We also believe there is a case for some type of intensity measure to combine with an absolute measure in order to allow for innovation and the entrance of new firms.
- 2.14 An option where the phase out is until 2030, with slow or zero decline until 2020, alongside a signal in the legislation that the NZ ETS review would include an assessment of what New Zealand firm’s international competitors are being required to do in relation to their emissions would substantially address competitiveness at risk issues.
- 2.15 Our main concern is that despite the difficulties of prior policies around negotiated greenhouse gas agreements in the context of an impending carbon tax, that process did allow for a firm or sector to engage with the Government on an agreement to meet or better world best practice as best as that could be measured. That ensured a degree of specificity and special consideration could be applied to take account of the many differences between industries. Our concern with an allocation approach based on a ready-made formula is that such consideration and flexibility may not be available.
- 2.16 The CTU reiterates our request that the Department of Labour is required to monitor the employment effects of climate change policies. One study has shown that there could be a very large number of job

¹ <http://www.carbontrust.co.uk/Publications/publicationdetail.htm?productid=CTC728>

losses. While this study has a number of unrealistic assumptions (that other countries take no steps on emissions trading or carbon charges, that there is no mitigation, and no allocation of free credits) meaning that the number of job losses could be much less, it is also possible that the number of jobs lost could be concentrated in some sectors and a much shorter time period than the 15 year phase out period of free allocation.

- 2.17 For workers, there are two main mechanisms around 'just transition'. One is to ensure that through targeted protections such as free allocation of credits for a period for firms in a competitiveness at risk category, compensation for stranded assets, and other measures there is a realistic opportunity for industry to adapt and change. The second element is to ensure that there is a specific set of active labour market policies to ensure that any workers displaced, should that occur, are supported not just in terms of incomes but also retraining and job placement.
- 2.18 We have proposed greater flexibility around acceptance of AAUs from some countries to address the 'hot air' issue.
- 2.19 The imposition of emission costs on deforestation activities is controversial and has raised concerns. The CTU believes that it should be possible for forest owners to balance out their carbon obligations if they opt to convert their forest to other land use but replant an equivalent Kyoto compliant alternative site. In addition, we note the concerns raised by various iwi groups and we agree that forestry lands returned under recent Treaty settlements should not be subject to carbon charges if land use is changed after the first rotation.
- 2.20 The CTU would also support the Government using credits from Crown forest license land being made available for the sector rather than accrue to the Crown.

2.21 The CTU supports Part 2 of the Bill in relation to renewable electricity generation. This is contingent on the final legislation including current wording or similar to allow exemptions in proven cases of security of supply.

3. Specific Submissions

3.1 In Clause 21 and other clauses there is recognition that the Minister has the power to approve overseas units. The CTU submits that a similar procedure could apply in relation to AAUs. It is accepted that New Zealand should, in principle, honour the agreement made and therefore accept AAUs even from Russia and Georgia ('hot air'). However there are risks around such an approach and it seems sensible for the Government to retain some flexibility. We note that (page 49 of explanatory note), there is discussion on leaving open the ability to change the list of countries from which private sector purchases of AAUs are permitted. We would support such an approach.

3.2 In Clause 70, the CTU seeks an amendment to Clause 70(2)(c) by adding the words "or another timeframe as determined by the Minister". This would provide the flexibility to vary the timing and pace of any phase down. In the alternative, we propose that the Committee agree on an alternative timeframe on the basis of paragraph 2.14 above.

3.3 Clause 70 also needs to be amended to incorporate the possibility of some allocation based on an intensity measure even if the primary allocation is based on an absolute measure.

3.4 The CTU also notes (Clause 70 (1)(b) that the allocation of free credits also applies to "specified emissions above a prescribed threshold". The CTU is not convinced that such a threshold should apply beyond a pragmatic level for administrative purposes.

3.5 Clause 83 gives powers to the chief executive to require a person to provide information in relation to compliance. We note that Business NZ² have suggested that “all sectors should be required to commence monitoring, measuring and reporting to international standards from 1 January, 2008”. The CTU supports such an approach, especially if it can be done in a way that involves minimal compliance costs. This would however require an amendment to the Bill.

4. Conclusion

4.1 The CTU supports this Bill.

4.2 We have submitted that climate change policy should be broad-based and not rely too substantially on market-based mechanisms such as emissions trading.

4.3 We have also addressed in particular concerns about effective and fair mechanisms for the allocation of free credits to industry in order to provide for a ‘just transition’ for workers.

4.4 As stated above, the CTU is already working closely with EECA and Business NZ on awareness raising in the workforce and industry generally about energy efficiency and energy conservation. This work is at an early stage. In addition, we will also focus on ways that skills for sustainability can be developed. New Zealand will need not just new technology but skilled workers able to put such innovation into effect. We recognise that it is innovation, skills training, education which will put NZ workers in the best position to be able to confront climate change and we should be positioning NZ as a leader in innovative energy conservation, climate change research and innovative technologies.

² Business NZ (2007), “A Stable Climate for Business”, page 14.

4.5 The CTU looks forward to ongoing engagement with the Government and other stakeholders on climate change policy.