

AUSTRALIAN ENVIRONMENT BUSINESS NETWORK

Submission on

NSW's Greenhouse Gases Strategy Discussion Paper

June 2004



Sydney & Melbourne

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EXECUTIVE SUMMARY

The Australian Environment Business Network (AEBN) welcomes the opportunity to comment on *NSW's Greenhouse Gases Strategy Discussion Paper*.

AEBN supports the general thrust of the discussion paper primarily to limit the growth of greenhouse gases while keeping NSW a prosperous economy. Energy efficiency is seen as the main path in which to achieve this outcome; a path which industry has been following for many years voluntarily and under government programs. Flexibility in the approach to achieving these outcomes is an essential ingredient due to the highly variable nature of industry and business.

AEBN considers that the NSW Greenhouse Office has a major role in establishing government policy to ensure that policies and regulations that inhibit GHG reductions are managed in a balanced way. To stress this point AEBN recommends that a whole of government policy be developed to deal with the potential conflict between controlling local air pollutants and GHGs. In addition, AEBN recommends that the NSW Greenhouse Office undertakes research into way and means of better answers to and the balancing of these often conflicting pollution sources.

Given the recent policy speeches by the Premier, Bob Carr, AEBN is concerned that the strategy will be used to support unilateral GHG trading and or punitive controls. Accordingly we strongly recommend that any unilateral action to undertake the implementation of a carbon tax, cap or trading scheme is not considered within the strategy. Instead actions along such lines should only be developed within a national process involving all jurisdictions.

Comments are provided on a number of the questions raised in the discussion paper which should assist the NSW Greenhouse Office to develop a better GHG strategy for NSW.

Should the contents of this submission require further clarification please contact Andrew Doig at AEBN on (02) 9924 7515.

RECOMMENDATIONS

- R1 AEBN recommends that the NSW Greenhouse Office conduct research into ways and means of achieving local pollutant reduction with minimal or reduced GHG emissions.
- R2 AEBN recommends that the punitive sector-by-sector end-user approach to controlling GHGs not be used unilaterally by NSW. If punitive controls are used they should be based on usage rather than by a sector-by-sector basis.
- R3 AEBN recommends that NSW only participate in a national process including the Federal Government to develop a GHG emissions trading scheme.
- R4 AEBN recommends that the NSW Government develop a whole-of-government policy to deal with conflicting environmental outcomes on air emissions. The policy should provide clarity for the DEC, other government agencies, industry and the public on how to balance greenhouse emissions—a global issue—with local air pollutants such as particulate matter, oxides of nitrogen and many others.

1. INTRODUCTION

AEBN welcomes the opportunity to comment on *NSW's Greenhouse Gases Strategy Discussion Paper*.

AEBN is an industry and business representative body specialising in environmental issues that affect our members. Our membership collectively has a turnover in excess of \$50 billion and employs well over 50,000 employees. Further information about AEBN can be found on our web site at www.aebn.com.au.

The NSW Government has been committed to the reduction of greenhouse gases (GHGs). This is reflected in the establishment of the Sustainable Energy Development Authority and actions undertaken by the Independent Pricing and Regulatory Tribunal (IPART). More recently SEDA was adopted within the Ministry of Energy and Utilities. AEBN looks forward to the good work undertaken by SEDA to continue.

AEBN is concerned that the *NSW's Greenhouse Gases Strategy Discussion Paper* may mark an important diversion away from the federally based approach to managing (GHG) emissions. The paper appears positioned to accommodate the NSW Government's policy position for a national approach on GHG which includes all States but excludes the Federal Government. One of Bob Carr's speeches outlined NSW Government policy on this issue:

I can announce today NSW will, in partnership with the other States and Territories, make a decisive push for a national emissions trading scheme based on our successful benchmark scheme.

I will shortly write to the Premiers and Chiefs Ministers calling for their support. A national emissions trading scheme would have a range of benefits:

- *Emission reduction targets could be applied across a number of sectors such as waste management, manufacturing, forestry and farming, as well as energy;*
- *It could provide an 'opt-in' provision for large energy users to develop their own benchmarks, with provision for banking, borrowing and trading of carbon credits;*
- *The government would be confined to a regulatory and oversight role, leaving the maximum possible scope for the private sector to design and run a carbon credit system;*
- *Targets could be set initially at a modest level that still manages to set a national price signal for greenhouse emissions;*
- *the costs of not meeting targets could be set to ensure that abatement is always a cheaper option, giving a "ceiling price" to carbon credits; and*

- *Carbon credits under an Australian national emissions trading scheme could be eligible to be traded internationally.*¹

AEBN is concerned that as a result NSW will take on a unilateral approach to managing the international issue of GHG reduction. Even if a number of individual States join with NSW the outcome will be a divided nation along this policy. The fear is that the resulting NSW GHG Strategy will be the vehicle that this Federal Government exclusion policy will be implemented through.

While environmental issues are clearly a state issue for each state jurisdiction, this is overruled by the impact of internationality of GHG control and global warming. The Kyoto Protocol was signed by the Federal Government and as such it was not signed off by NSW or any other state. Nevertheless, AEBN accepts that NSW will move aside if any Federal approaches to controlling GHG emissions are put into action. However, NSW state based unilateral schemes already exist such as:

- NSW Greenhouse Abatement Scheme
- The Waste Levy on landfilling of wastes (most of which is justified on GHG emissions)

Such schemes undermine the competitive advantage of NSW in both private and government controlled trading enterprises. Fortunately, the above schemes are currently relatively small economically in comparison to say implementing a carbon tax or cap and also do not directly affect the export of products and services from NSW. Nevertheless, these taxes add to the costs of production in NSW.

The paper makes some comments in relation to the Kyoto Protocol and Australia position of being a signatory, but not ratifying it. The paper states:

The Australian Government has committed to meeting its Kyoto target, although if it does not ratify, Australia will be disadvantaged, as it will be locked out of international trading mechanisms reserved for Kyoto signatories.

Ratifying the Kyoto Protocol would allow Australia to participate in the international trading mechanisms, but this is only permitted if Australia (or any other signatory) meets its target. If Australia does ratify the Protocol, many other countries which are both signatories and have ratified it, are unlikely to meet their targets. As a consequence post 2008, there may be very few countries in which to trade with.

AEBN questions the level of disadvantage if ratification does not occur. Considering that the National Australian Labor Party's policy is to ratify the Kyoto Protocol, the issue is considered mute. A change in the Federal Government is a matter of when rather than if. As such the question raised in the discussion paper *What steps can the NSW Government take to prepare NSW for both domestic and international emissions trading?* Must take into account that a change in Federal Policy will eventuate and NSW will need to integrate with any national trading scheme.

¹ "In Control Of Carbon" Breakfast Thursday, November 20, 2003

2 MAIN ISSUES IN DISCUSSION PAPER

This section of the submission covers the issues identified in the issues paper which summarised includes:

1. The areas in which NSW should focus research on Greenhouse Gases (GHGs)?
2. Which end-use sectors do you think are the most important to target emissions reduction activities?
3. What steps can the NSW Government take to prepare NSW for both domestic and international emissions trading?
4. Goals of the Strategy
5. How should the NSW Government determine an effective balance between short term, least-cost abatement measures, and longer term measures to develop a low-carbon economy?
6. What initiatives could the NSW Government introduce to limit greenhouse emissions from industrial processes

2.1 Greenhouse Gas Research

AEBN considers there is a major role in which NSW can assist in better managing GHG emissions. One of the major conflicts that industry is experiencing is that by reducing GHGs other air pollutants tend to rise. In particular oxides of nitrogen (NO_x) are considered a major local air pollutant.

NO_x discharges in the Sydney basin have been shown by the MAQS study to be a major contributor to poor air quality in western Sydney. The study shows that reductions in discharges are required if health goals are to be achieved.²

Conflicts arise between local air pollutants and GHGs on a regular basis. For example, a company may wish to change its old coal fired boiler to one which runs on natural gas. In doing this the new boiler will have to pass much stricter NO_x emission limits than the current coal fired boiler. Under the *Clean Air Plant and Equipment Regulation 1999* the current boiler is permitted to emit 2.5 g/m³ NO_x, while a new gas fired boiler would have to meet the limit of 0.35g/m³ NO_x. Simple economics will discourage the installation of the new more energy efficient boiler.

Tighter pollution controls on industrial emissions will in general increase GHG emissions. Another example is the potential for scrubbing NO_x using SCR catalyst. To achieve effective reductions use of a neutralising agent for the NO_x is required. Commonly urea is used for this purpose. From GHG emission perspective the urea costs energy to make, as it is made from ammonia—a very energy intensive process.

Recently the NSW Government put up the cost by 45-50% for companies subjected to Load Based Licensing³ of emitting NO_x. The main reason provided was to encourage the use of Load Reduction

² Regulatory Impact Statement Pollution Control Regulation 1998 p33 EPA (1998)

³ Increases were made under the *Protection of the Environment Operations (Clean Air) Amendment Regulation 2004*

Agreements (LRA) with the DEC. LRAs provide a financial incentive to companies to cut their load fees by agreeing to install pollution reduction equipment within 3 years. For NO_x this will mean the use of SCR pollution control equipment and will come at increase GHG emissions. The cost of such pollutant control equipment is so high that few if any will install the equipment.

Thermodynamic efficiency is generally linked to higher internal operating temperatures. While this increases the conversion of fuels into useful energy, such as electricity or rotational energy, the higher temperature increase one of the most costly air contaminants NO_x. Many good ideas to improve thermal efficiency tend to also increase NO_x a precursor to photochemical smog.

AEBN considers that the NSW Greenhouse Office is in a position to research into effective solutions where both GHGs and local air contaminants are both reduced.

The Sustainable Energy Development Authority has put a lot of effort into such schemes already, such as cogeneration of electricity and process heat or steam and better demand side control of energy demand.

RI AEBN recommends that the NSW Greenhouse Office conduct research into ways and means of achieving local pollutant reduction with minimal or reduced GHG emissions.

2.2 End-Use Sectors to Target

This question is made redundant as later in the paper the priority list of sector action is put forward. The papers chapter “**Summary of priority sectors**” pre-empts the answer to this question, but confusingly provides a new list of priority sectors in which to target.

There are two ways in which to better manager GHG emissions:

- Punitive controls such as taxes or limits or even monitoring conditions
- Assistance measures such as grants or guidance materials

AEBN considers that targeting end-use sectors with punitive controls could be flawed if used inappropriately. For example, placing high levels of punitive controls on one sector will merely force it to withdraw from NSW and locate elsewhere. Such an approach will come with costs, in terms of increased unemployment and increased disinvestment in NSW.

If sector taxes and or punitive measures are used to ‘control’ GHGs AEBN would dispute its ability to substantially drive abatement. As the Government has found out from the Load Based Licensing scheme, especially for air pollutants, the fees imposed are far too low to drive abatement measures. Consequently, the scheme becomes a tax rather than achieving environmental outcomes. If however, the LBL fees were increased to reflect abatement costs, this will tend to close businesses increasing unemployment. A similar outcome may occur if carbon taxes or punitive controls are imposed on selected industry sectors. The NSW Greenhouse Office needs to be aware of the danger zones of when abatement costs are becoming too high forcing plant closure rather than process improvements.

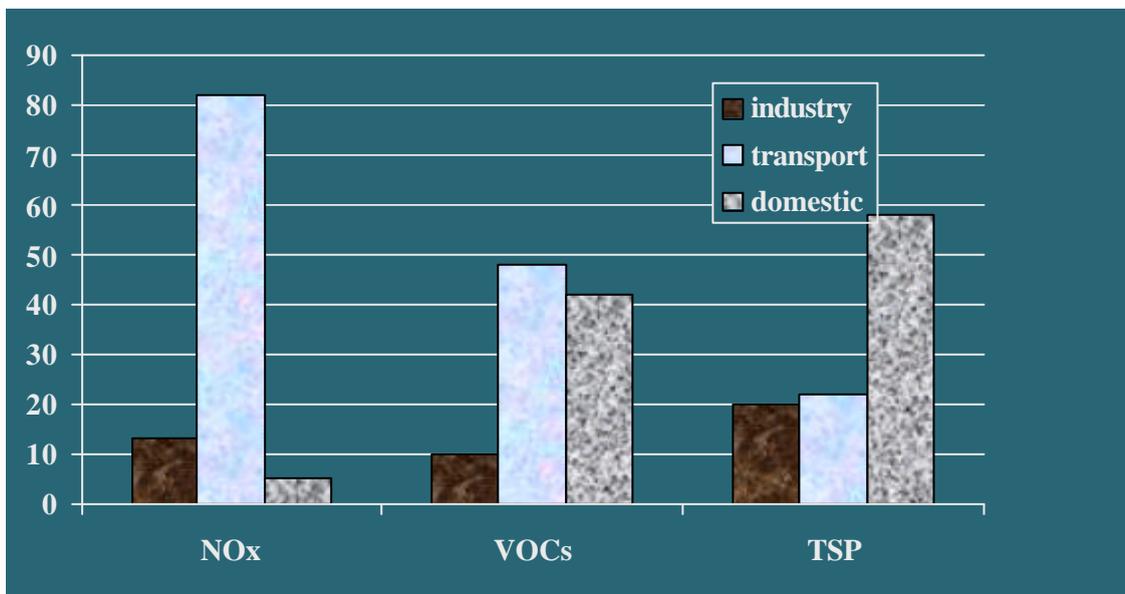
Internationally GHGs are generally being considered for control in terms of emission taxes, carbon taxes and controls which imposes a financial penalty on the production of GHGs. Alternatively it can be a tax on a specific commodity, such as electrical energy or disposal to landfills. Such taxes and financial impediments do not discriminate between specific sectors, taxing in a user pays approach. In contrast to the global issue of GHGs, is the way in which local air contaminants are controlled. Typically local air contaminants, such as oxides of nitrogen (NO_x) and volatile organic compounds (VOCs)⁴, particulate matter are controlled on a sector by sector basis.

Under NSW environmental legislation industry is controlled on its local air emissions by:

- Concentration of the emission of air contaminants being limited
- Regular monitoring which is continuous in many cases
- Its mass load over a year being limited
- Being charged for the amount of the air contaminants it emits.

No other sector in NSW is as tightly controlled. Motor vehicles are the main source of local air contaminants in NSW’s urban areas. In contrast to industry motor vehicles are controlled through design and concentration once per year. Also the number of environmental offences in NSW is dominated by motor vehicles. Over 1900 fines for smoky vehicles are issued each year. This makes up the majority of all environmental penalties. The table below which appeared in the 1997 NSW State of the Environment Report; clearly shows that while industry is the most regulated it is for most main local air contaminants a minor player:

Industrial Contribution to Major Air Pollutants State of the Environment Report 1997



⁴ NO_x and VOCs together with the right meteorological conditions can lead to photochemical smog causing high exceedances of ground level ozone target concentrations.

AEBN is also concerned about the context of the question and the reference to the graph above it. This is misleading as the graph in the section **1999 National end-use allocation of emissions** shows overall Australian emissions while the question relates to NSW actions. At a minimum the graph should show NSW end-use allocation of emissions.

Overall AEBN does not consider a sector-by-sector punitive approach for GHGs emission control is appropriate.

R2 AEBN recommends that the punitive sector-by-sector end-user approach to controlling GHGs not be used unilaterally by NSW. If punitive controls are used they should be based on usage rather than by a sector by sector basis.

2.3 Domestic and international emissions trading

AEBN would only support the joint development of a National emissions trading scheme that involves all jurisdictions across Australia. If NSW develops its own trading scheme unilaterally it runs the high risk of not having that scheme adopted nationally when Australia ratifies the Kyoto Protocol. A risky strategy as the resources need to develop such a scheme would be wasted if it was not adopted.

Even if Australia has still not ratified the Protocol by 2008+ it is doubtful that NSW will be permitted to participate in any international GHG emissions trading.

R3 AEBN recommends that NSW only participate in a national process including the Federal Government to develop a GHG emissions trading scheme.

2.4 Goals of the Strategy

AEBN in principle supports the thrust of the goals in the paper. However, the goal to *Put NSW on a long term path towards a prosperous economy with low net carbon emissions* will provide substantially challenges for the NSW Greenhouse Office.

NSW policy mechanisms should also take account of other States and Territory greenhouse policies setting, as well as providing flexibility and certainty, emphasising cost effectiveness.

AEBN has noted a consumer backlash in taxes that, while not directed specifically on GHGs achieve a similar outcome in reducing consumer demand and improving energy efficiency. The recent price spikes in petrol and diesel resulted in considerable consumer backlash in Europe and North America. France, only about a month ago, was faced with blockades from truck drives which paralysed the road system. The

Government backed down and cut fuel taxes by 15%, despite call from environmental groups to do the opposite.

The NSW GHG strategy will need to consider the implications of this consumption demand backlash and how to deal with it.

AEBN supports the papers guiding principle:

Where possible, actions that reduce our greenhouse emissions should be targeted to achieve co-benefits, such as mitigation of salinity, decrease local air pollution, revegetation, regional employment or industry development.

This is a commendable goal, if not challenging. Nevertheless, AEBN is concerned that conflicting environmental legislation and controls will lead to many instances of *dammed if you do* and *dammed if you don't* outcomes. This is particularly relevant when trying to balance local air pollution issues with GHG emissions.

AEBN has called for in many other submissions the need for the NSW Government to develop a policy document in which local air pollution issues are appropriately balanced with regional, national and global issues. The NSW Greenhouse Office is ideally suited to developing a common government policy of how to resolve the balance between competing local air pollutant issues with minimising GHG emissions.

R4 AEBN recommends that the NSW Government develop a whole-of-government policy to deal with conflicting environmental outcomes on air emissions. The policy should provide clarity for the DEC, other government agencies, industry and the public on how to balance greenhouse emissions—a global issue—with local air pollutants such as particulate matter, oxides of nitrogen and many others.

2.5 Long Term vs Short Term Measures

Given the vagueness over the development and ratification of the Kyoto Protocol, whether it:

- Becomes internationally binding (quite likely)
- Is ratified by Australia eventually (quite likely)
- Is changed to suit the majority of signatories which are failing to meet their targets
- What will replace the Kyoto Protocol in the longer term if any thing

In addition, the progress in climate change, its measurement and future predictions add more uncertainties to the future of international controls. All these add up to difficulties in making long term approaches to limiting GHG emissions. Hence we are left with short term options, but with an overall goal of minimising or lowering GHGs.

The government should consider a range of issues in dealing with short term GHG abatement, such as demand management strategies, more efficient use of utilities, transport and government procurement. This would also include re-examining the regulatory and pricing framework of government services and procurement procedures to ensure the GHGs are taken into account.

Allocation of grants to various GHG savings measures needs to be subject to appropriate cost-benefit analysis to avoid spending government money on schemes and projects with little potential return. Industry is well placed to benefit from sound investment in GHG reduction schemes and provide government with real reductions for any grant provided. However, there are many grant schemes operated by most jurisdictions which should be complementary to NSW schemes.

2.6 NSW Government Initiatives for GHG Reduction

AEBN represents industry and business interests and consequently will focus on these areas.

While the list of government actions is limited to NSW action in the discussion paper, it does not consider the vast range of actions undertaken by NSW industry and business to limit and abate GHG emissions. Some companies were concerned after the introduction of the NSW Greenhouse Abatement Scheme was introduced it only permitted credits after the introduction of the scheme. This undermined the Federal Government's pledge that early action to reduce GHGs would be rewarded not punished. However, companies which have been working on the Greenhouse Challenge program found that under the NSW scheme they have been disadvantaged. Companies who did not undertake early action have far more options at lower costs to reduce their GHGs. Hence the poorer performers will be advantaged by this scheme. AEBN acknowledges that was the result of two different jurisdictions and an unfortunate and unintended outcome; however it has made industry more aware of the issues that can arise between state and federal mechanisms. Industry is now far more cautious of such pledges by government.

Overall initiatives to reduce GHG for industry should be complementary to other government's schemes and as flexible as possible. Industry varies widely typically finding similar factories in different areas producing similar products, but have vastly different costs, production and energy use patterns. As a result an incentive based approach to reducing GHGs is encouraged. This would need to be assessed on a case-by-case basis ideally.

3. CONCLUSION

The development of a NSW Greenhouse Gas Strategy based on *NSW's Greenhouse Gases Strategy Discussion Paper* and AEBN's recommendations should provide a clearer approach in managing GHG issues for NSW.

Having a whole of government policy in how to balance GHG emissions when higher levels of local pollutants will result or visa versa, will give clarity to both government industry and business in how to resolve such issues. Appropriate research into methods and technologies, which are economically achievable, will improve the options available and help achieve a win-win for both GHGs and local air quality.

With NSW working with all other jurisdictions in the development of Kyoto Protocol based international mechanisms will result in better clarity for industry and prevent distortion of energy markets across Australia.

Development of industry mechanisms to control GHGs will offer a full range of flexible approaches to assist abatement outcomes for a broad range of industries.