SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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MUNICIPAL ASSOCIATION OF VICTORIA

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Submission – Carbon Pollution Reduction Scheme Green Paper

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While this paper aims to broadly reflect the views of local government in Victoria, it does not purport to reflect the exact views of individual councils.

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1 Introduction

The Municipal Association of Victoria (MAV) welcomes the opportunity to provide a submission to the Climate Pollution Reduction Scheme (CPRS) Green Paper.

The MAV is the peak body for local government in Victoria, representing all 79 councils.

Climate change is the greatest social, economic and environmental challenge that Australia and the world is facing. The MAV supports a CPRS as a response to this challenge. Local government is already taking responsibility for emissions mitigation, managing the impacts of climate change and providing leadership for the broader community. This responsibility will require councils to continue to implement mitigation strategies and adapt their activities and resource allocation to address challenges, potentially at a considerable cost to the sector. Victorian councils have recognised the importance of climate change, with the MAV's statewide strategic work plan consultation rating climate change as one of the top three issues of concern for local government.

The MAV recognises that climate change is a global issue, and any successful response will need to go well beyond Australia. Several countries are leading the way. Europe already has an operating emissions trading scheme, and several countries, namely New Zealand, Norway, Iceland and Costa Rica have pledged to achieve carbon neutrality[1].

There are many reasons for Australia to join this leadership group in cutting greenhouse gas emissions. Firstly, a leadership position will provide policy certainty to allow new industries to emerge, facilitating economic development whilst adapting to climate change. Also, an earlier cut in greenhouse gas emissions will lessen the economic shock of carbon pricing and the effects of any future post-Kyoto global agreement, which will place obligations on Australia to reduce emissions. Secondly, Australia's per capita emissions are amongst the highest in the world, and historically Australia has contributed to the build up of carbon in the atmosphere more than any other country in our region. As such, Australia has an obligation to lead responses to climate change.

This submission focuses on the waste industry, as this is an area where local government is directly involved, and also makes some recommendations on transport and the coverage of a cap-and-trade carbon pollution reduction scheme.

2 Coverage of the Emissions Scheme

The MAV agrees with the conclusion in the draft report of the Garnaut Review, that an emissions trading scheme needs to be as broad as possible, including as many sectors as possible. A broad scheme will increase the opportunities for emissions reductions and reduce the overall cost to the economy per unit of reduction. The MAV is concerned that the Green Paper recommendations narrow the trading

[1] Marshall, C. (2008) *Costa Rica Bids to go Carbon Neutral*, BBC News; www.bbc.co.uk/news, published 11 August 2008.

scheme principally through proposals in the transport and coal-fired electricity generation industries. These policy responses will only shift the costs of emissions reduction to other sectors, such as waste, and increase the overall cost to the economy through the distortion of the carbon market. As Professor Garnaut's report recommends, the broader the base of an emissions trading system, the more scope for the economy to achieve a reduction in emissions where it is most efficient. Local government is concerned about the costs of carbon trading on its communities and believes this cost should be as low as possible.

Although the MAV sees the need for temporary support for emissions intensive, trade-exposed industries, it does not believe that a further widening of direct support is justified. Instead, the revenue from the auctioning of emissions permits should be used through direct financial assistance to the community and to trade exposed industries, and to support communities such as those in the Latrobe Valley to prosper and shift away from a local economy based on coal electricity production. With Federal Government assistance and investment, the Latrobe Valley could become a centre for renewable energy and post-carbon industry, ensuring its long-term economic viability. Revenues should also be targeted at reducing the demand for fossil-fuel based energy in particularly vulnerable communities, such as low income households, and rural, regional and outer-suburban households. Reducing carbon exposure of households is an effective way to ensure social equity, and also has the benefit of further helping to reach Australia's emissions reduction target. Assistance to emissions-intensive trade-exposed industries should not completely remove incentives for these industries to increase their efficiency and move away from fossil-fuel based energy.

Several of the MAV's members have expressed concerns that under a CPRS, voluntary actions that councils, companies and individuals take to reduce emissions will fall under the emissions cap and therefore not be additional to it. These actions will also reduce the burden on the covered sectors under a CPRS and discourage voluntary action. It will also mean that Australia's emissions reductions are constrained by the government's targets and reductions will not go beyond these targets. The MAV understands that one of the purposes of the CPRS is to create market mechanisms that encourage voluntary action by making it more financially attractive, but there are a number of things the Association recommends that will minimise this dampening effect on voluntary action.

First, a carbon market must be as broad as possible and free from distortions, which is why the MAV, in line with the Garnaut Review, does not support compensation to any covered sectors other than trade exposed industries in the absence of global sectoral agreements. Secondly, complementary measures in addition to a CPRS must be included to encourage the production of renewable energy and the increase in energy efficiency. These measures should include the renewable energy target, an energy efficiency target (similar to the Victorian Energy Efficiency Target being introduced in Victoria) and a national gross solar feed-in tariff. Thirdly, the Federal Government must include some flexibility in its emissions cap, to enable this to be reduced if the community responds to a CPRS and complementary measures by voluntarily reducing emissions more than expected, and as scientific knowledge develops on the sensitivity of the climate system to greenhouse gases.

3 Waste

Waste makes up around three per cent of national greenhouse emissions, mainly through the rotting of organic waste, producing methane, whilst the sector's emissions have decreased 11.4 per cent over the period 1990 through 2006[2]. Local government takes its responsibilities in managing waste seriously, including reducing the associated greenhouse emissions. In direct response to reducing waste emissions from landfill and landfill diversion targets, over 50 per cent of Victorian councils provide a garden and green organics collection service[3] and one council provides a food organics collection. As stated earlier, the MAV concurs that the CPRS should be as broad as possible to lessen the impact on any one sector or group within the community, and to minimise the overall cost of emissions reductions to the Australian economy and that waste should be a covered sector. However, waste has particular issues, in particular the inability to directly measure total emissions, only those captured. Further, waste management, being a core requirement of local government, poses capacity and capability constraints, especially in rural and regional areas. The MAV would support a delayed introduction of the waste sector to the CPRS, to allow time to resolve the issues.

The Association understands that the intention of the CPRS is to deliver emissions reductions at the lowest possible cost and it supports this approach. Although the MAV is concerned that without carefully-designed complementary waste and resource recovery policies and associated tools, there are likely to be perverse and contrary outcomes. For example, Victorian Government policy, through *Our Environment, Our Future: Towards Zero Waste*, is for 75 per cent waste diversion from landfill across all waste sectors and 65 per cent for municipal waste, of which the MAV is supportive. Achievement of this target requires the use of new technology such as composting, anaerobic digestion or waste conversion to fuel or energy or soil conditioner. It is likely the CPRS will provide a counter-incentive, with best-practice landfill with gas capture and energy generation providing the lowest cost abatement option. It is understood that the current gate prices with forecast carbon prices will not bridge the cost differential between alternative treatments and landfill.

The MAV strongly recommends that both the Victorian and Australian Governments give particular attention to policy tools and approaches that can prevent negative consequences of the CPRS on other waste and resource efficiency objectives.

3.1 Market Signals

The major aim of a CPRS is to create a market for carbon, which eliminates the externalities associated with emissions of greenhouse gases and generates market signals that facilitate the reduction of these emissions. However, with waste, these market signals are fuzzy due to the nature of the 'product' and the industry.

For example, a coal-fired generator and its customers can react to reduce the cost of buying emissions permits in any of the following ways:

- The generator may:
    - increase the efficiency of a coal-fired power station through improving systems or installing new technologies;

[2]Department of Climate Change, Commonwealth of Australia (2008) *National Greenhouse Gas Inventory 2006*, p. 1.
[3] Sustainability Victoria (2007) *Local Government Data collection 2005-06*, August 2007, p. 7

    - shut down the power station;
    - reduce the production of electricity; and/or
    - increase electricity prices.
- If a generator increases the electricity price, a customer may:
    - reduce his/her electricity use either through increasing efficiency or reducing use of appliances; and/or
    - choose to purchase electricity from a less carbon-intensive source.

This situation is similar with transport, if the CPRS allows the market signals to be created for this sector. However, with waste, the actions are much more limited. The operator of a landfill cannot stop emissions by shutting the landfill, because landfill emissions continue once the organic waste is in the ground. This could create situations where landfill operators are locked in to purchasing permits (if the technology to capture 100 per cent of emissions is not developed) no matter how high the carbon price goes. As the operational life of the landfill shortens with decreased tonnages of waste through the gate, so too does the ability for the operator to recoup costs, as it limits the ability to spread carbon costs across the received waste and further increases the financial risks landfill operators face. At its extreme, it may also create the situation where a bankrupt operator is no longer able to purchase permits for a landfill that may still be emitting methane. Additionally, an operator cannot send a market signal back to the producers of the waste because waste charges are generally per household. In order to create a market signal for households to reduce their organic waste to landfill, there would need to be a mechanism that allows landfill operators to measure the amount of organic waste each household is disposing of, which is unfeasible. Victorian local government has been very successful in its behaviour change programs to encourage recycling, however the bulk of organic material from households from gardening and the consumption and preparation of food is relatively fixed, with the variable component, food spoilage and wastage, very difficult to reduce. Therefore, it is very hard for households to reduce this particular waste production and reduce their costs. Whilst if a household-specific signal were able to be created, there is a possibility that the disposal of organic waste may be diverted from municipal systems with potentially undesirable effects, such as leachate generation from poorly managed home compost systems and home waste incineration. Having highlighted the potential difficulties, behaviour change towards worm farms and efficient compost systems, has proven successful in some councils, although this appears limited on the larger scale.

3.2 Measurement and capturing emissions

At present there is not a reliable, cost effective way to directly and accurately measure emissions from the landfill at source. And the mooted technologies appear to be a number of years away from commercial use and with limited applicability, especially for older sites. Landfill emissions must be calculated indirectly through waste tonnages and composition estimations, as well as any captured portion. Adding to this difficulty is the situation where a number of rural landfills do not have a weighbridge and the tonnages must be estimated by truck size and source. Many Victorian councils already struggle to manage the reporting requirements of state-based legislation, and it is very difficult to imagine them coping with highly complex measurement and reporting under the CPRS. The MAV recommends firstly that the number of sites captured in the scheme is limited, whilst still covering the bulk of the emissions; and secondly minimising the measurement and reporting burden of the

CPRS. If waste is to be included in a CPRS, then a reliable emissions measuring methodology needs to be developed. Further, local government, required by law to keep their municipal districts clean, has a limited capacity to undertake the detailed modelling required of higher order estimation techniques, which are likely to be used by commercial operators to reduce their reported emissions liability. This measuring methodology also needs to be able to take into account when organic waste is diverted from landfill and used elsewhere.

Point source capture from landfills is difficult, although a new, engineered landfill may capture up to 75 per cent of the methane[4] and an existing best-practice landfill with wells and a good cap may capture in the vicinity of 20 per cent[5]. It must be noted that there is some conjecture in the waste industry as to whole-of-life gas capture at a 'best-practice' landfill, although around 60 per cent seems reasonable. The physical characteristics of the landfill such as waste composition and distribution, siting, lining, and size determine the feasibility of gas capture. In practice this may mean that it is very expensive and difficult to capture gas from smaller older landfills, with irregular shape, depth and composition.

Whilst for the majority of landfills with significant emissions, some gas capture will be possible, unlike a coal-fired plant, it is impossible to completely remove remaining emissions as the landfill emissions cannot be turned 'off'. Some of the likely methods for reducing emissions to be used, driven by permit requirements, include gas capture, better capping including bio-filtration, and shortening the life of the landfill with earlier capping and gas collection. Whilst modifying the waste composition through waste education and alternative treatment, is likely to take longer and cost much more.

3.3 Thresholds

The National Greenhouse and Energy Reporting Systems (NGERS) specify emissions of 25 Kt of CO_2e as the threshold for a facility per financial year, estimated to capture 80 per cent of waste volumes[6].The MAV supports this threshold, as it would capture the large majority of emissions from landfills, whilst not capturing the smaller regional and rural landfills largely operated by local government.

Current data shows that in 2006/7 there were 9 council landfill sites taking more than 20 Kt of municipal solid waste, which translates to approaching or being above the 25 Kt of CO_2e emissions. The 10 Kt of CO_2e threshold would see 22 council sites captured out of a total of 42 council owned and operated landfills across 33 councils taking putrescible waste. General conversion factors for municipal waste have been used from National Greenhouse Accounts Factors to determine probable emissions.

Rural and regional councils are already stretched with current regulatory and community needs and have limited capacity to calculate the complex emissions profiles of their landfills. Local government provides landfills, sometimes on behalf of a region, as a legislative requirement, at cost, in an environment where the commercial operators choose not to compete. Further, councils, at considerable cost

[4] Productivity Commission, Commonwealth of Australia (2006) *Waste Management: Productivity Commission Inquiry Report,* No. 38 20 October 2006, p.72
[5] Ibid, p. 71
[6] Australian Government, *Discussion Paper: Coverage of Landfill Emissions*, (paper presented at Carbon Pollution Reduction Scheme Consultation meeting – Coverage of landfill emissions, Canberra 26 Aug 2008), p. 1.

have been closing and consolidating smaller landfills, with the assistance of the Regional Waste Management Groups, resulting in improved environmental management performance and health and safety outcomes. Ironically, this action which results in better outcomes may tip these sites over the emissions threshold. Whilst the MAV accepts that the per-household cost of permits for waste is likely to be a few dollars, this would be on top of other, higher costs across the board and higher costs borne within the council for emissions management.

The Association, does however, accept that there is potential for waste leakage to sites below the threshold, particularly in competitive urban markets, leading to competitive disadvantage and poorer emissions reduction. It would be difficult to prevent this through regulation, and the MAV would support an incentive approach for those below the threshold. In the start-up years of the CPRS this situation should be monitored closely.

The MAV supports the concept of offsets for sites below the threshold that are achieving gas capture greater than a determined baseline. The ability to create offsets, or other instruments would create an incentive for emissions abatement at sub-threshold sites and legacy sites (which the MAV proposes be exempt from permit requirements – see below). This would provide better outcomes across the country than patchy state-based regulation, and would help to drive innovation in small-scale gas capture. Setting a best-practice baseline, depending on the age of the landfill, as against assessing individual sites, would reduce administrative requirements. The NSW Greenhouse Gas Abatement Scheme provides a good model on which to pass such an approach. Negotiating the best practice capture thresholds and the landfill age requirements is likely to be complex initially, but a process in which the MAV would be happy to be part. The MAV would support a 'baseline and credit' model instead of a 'strongly affected industry' claim as this method is a better long-term approach and avoids further market distortions. However, this is on the proviso that closed and legacy sites are not included in the CPRS.

3.4 Legacy emissions and closed sites

Legacy emissions and closed sites pose particular problems for the local government sector, as it would be inequitable and impractical to re-coup costs from current ratepayers or waste depositors for past waste, especially in regional areas. Historical waste that will continue to emit into the future has had no costs collected against this liability. Landfill gate fees have been calculated and charged for against the operating, decommissioning and rehabilitation of the landfill. Therefore if historical waste was to be included, gate fees per tonne of 'new' waste in currently operating sites would have to be much higher proportionally to account for the historical waste. Further, local government has a very limited ability to equalise this cost over several sites, unlike commercial operators who are able to dilute the costs at one site across several sites and even jurisdictions. The MAV recommends that emissions from closed sites and waste deposited prior to 1 July 2009 (commencement of NGERS reporting) be excluded from the Scheme. However, the MAV believes that it is important to manage emissions from these sources and this should be achieved through incentives and complementary improvements such as lifting of the regulatory bar in the states. Under the Victorian EPA requirements, sites receiving between 40,000 and 100,000 tonnes of waste a year are already required to have gas control

and flaring in place[7]. The MAV notes that state-based regulation may result in patchiness and increase administrative requirements for national companies.

4 Transport

Above and beyond the potential inefficiencies in the carbon market that would be encouraged through concessions to certain industries, the MAV is concerned that the structure of the fuel tax cuts proposed in the green paper will create perverse incentives that go against the main policy aims of a carbon pollution reduction scheme.

Specifically, the proposed cut in fuel tax for trucks but not for rail for at least the first year of the scheme will make rail freight less attractive relative to road freight. This is despite the Australasian Railway Association indicating that rail uses around four times less carbon per tonne carried than road freight[8]. The MAV strongly believes that an expansion and development of the rail freight network is an important component in responding to challenges such as climate change, peak oil and even local amenity and road safety. Rail freight remains an important transport mode for export oriented industries and has the capacity to service intra and interstate freight needs. The MAV understands a view exists that significant investment in road infrastructure has already created a financial disadvantage to utilising rail freight. Within this context, there is a strong argument for an emissions trading scheme to provide incentives to substitute some of the freight task to rail.

For example, the recent review of the Victorian rail freight network, chaired by Tim Fischer, concluded that an impediment to an improvement in the share of freight carried by rail was the access charges. While the Victorian Government has responded to these recommendations and reduced access charges, the Victorian experience indicates the sensitivity of rail freight movements to cost changes.

The MAV believes the effect of a CPRS should be to encourage rail freight rather than discourage it. Moving freight by rail rather than by road not only reduces greenhouse gas emissions, it improves the amenity of our suburbs and towns, improves road safety and reduces infrastructure maintenance costs for Commonwealth, state and local government.

The MAV asserts that the CPRS should remove this cost disincentive for rail freight proposed by the Green Paper.

A similar issue exists in the proposal to cut petrol excise for at least the first three years of the scheme. Electrified public transport will be impacted by the CPRS through increased electricity prices, however, users of private motor vehicles will be shielded from the carbon cost of petrol. This will serve to increase the attractiveness of private vehicles while increasing the price of public transport. Again, this is an outcome which directly contradicts the aim of the CPRS. Victorian local government

[7] EPA Victoria (2001) *Best Practice Environmental Management: Siting, Design, Operation and Rehabilitation of Landfills*, publication 788, October 2001, p. 39.

[8] Australasian Railway Association Inc. (2007), *Submission to the National Greenhouse and Energy Reporting System - Regulations Discussion Paper*, www.climatechange.gov.au/reporting/pubs/52ara.pdf, p. 3.

has been a strong advocate for enhancements to the public transport network as a means of reducing carbon emissions, enhancing social equity and ensuring a more liveable state. The MAV recommends that public transport use and investment be encouraged through the CPRS and any fuel tax concessions that distort this aim not be included.

5 Council Costs

Victorian local government has the ability to pass on carbon costs to households through the rates and direct waste charges, however, this is problematic for a number of reasons. Firstly, council rates are arguably the most transparent and visible form of taxing in this country. Even though local government's share of total tax take is three per cent, the rates notice is received in a transparent form in which movements in rates are easily measured, creating sensitivities in the community to movements in rates.

Secondly, the ability to absorb higher costs from councils is very limited in rural and regional areas with their small rates base and high infrastructure costs with many kilometres of roads to maintain. The MAV's analysis indicates that around a quarter of councils face some form of financial challenge and many of these face structural constraints to increasing rates, such as a low local incomes, structural socio-economic disadvantage and/or existing high levels of taxation effort.

Third, the implications of councils rates on communities needs to be considered within the context of the burden of rates in the community. Analysis by the MAV indicates that rates can be regressive with particular issues faced by old age pensioners. Given the waste charges are charged as a flat fee based on bin size, increasing waste charges are, by nature, regressive.

Ensuring that the community equitably shares the costs of a trading scheme is an important consideration in the design of the scheme as equity may require further intergovernmental transfers. If local government rates do not have the characteristics to equitably raise appropriate revenues for council services, it is important that alternative funding sources are considered.

6 Targets and trajectories

The MAV does not advocate a particular emissions reduction target, but supports the setting of short-term targets as outlined in the green paper. Several of our members have set ambitious emissions reduction targets and great advances have been made across Victoria in reducing local government emissions. However, one basic principle the MAV advocates is that any emissions reduction target and trajectory adopted by the Federal Government needs to be based on the most up-to-date science, with the aim of avoiding dangerous climate change including consideration of tipping points and positive feedback loops.

The Garnaut Review, in its Targets and Trajectories supplementary report released this month, advocates (based on 2000 levels) an 80 per cent emissions reduction by 2050 and a 10 per cent reduction by 2020 with an international agreement (aiming for 550ppm CO_2 in the atmosphere), with a best case scenario of a 25 per cent cut by 2020 and 90 per cent by 2050 (aiming for 450ppm or lower CO_2 in the atmosphere).

At a forum in August this year organised by LeadWest, Professor David Karoly, the chair of the Victorian Government's Climate Change Reference Group advocated an emissions reduction of at least 90 per cent by 2050 (based on 1990 levels) and 25-40 per cent by 2020 in order to limit global warming to two degrees above pre-industrial levels. The Federal Government should ensure its targets are driven by the scientific thresholds to increase the possibility that the world will be successful in avoiding dangerous climate change and runaway positive feedback loops.

7 Conclusion

The following is a summary of the recommendations included in this submission.

1. In line with the Garnaut Review, only trade-exposed, emissions-intensive industries should be directly compensated within the CPRS, with the revenues from the auctioning of emissions permits to be used through direct financial assistance to the community, and to support communities such as those in the Latrobe Valley to prosper and shift away from a local economy based on coal electricity production.

2. Complementary measures in addition to a CPRS must be included to encourage the production of renewable energy and the increase in energy efficiency. These measures should include the renewable energy target, an energy efficiency target (similar to the Victorian Energy Efficiency Target being introduced in Victoria) and a national gross solar feed-in tariff.

3. The MAV would support a delayed introduction of the waste sector to the CPRS, to allow time to resolve the issues noted in this submission, such as emissions measurement, waste leakage, complementary measures and placement of market signals.

4. Commonwealth, state and territory governments must give particular attention to complementary measures to prevent perverse outcomes against recycling and waste diversion targets. A market-based approach would offer suitable incentives.

5. The MAV supports the 25 Kt of CO_2e facility threshold, which offers a good balance between coverage and equity. Although the Association does not expect waste leakage to be significant, it should nevertheless be monitored closely in the start-up years of the scheme.

6. Legacy waste and closed sites must be exempt from CPRS permit requirements.

7. The MAV would support incentive or market-based mechanisms to encourage emissions capture at sub-threshold and legacy sites. This approach is supported over a 'strongly affected industry' claim as this method offers better, long-term outcomes and avoids further market distortions. However, this is on the condition that closed and legacy sites are not included in the CPRS.

8. The competitive disadvantage created by the proposed CPRS to rail freight over road-based movements should be removed. The effect of a CPRS should be to encourage rail freight rather than discourage it. Moving freight by rail rather than by road not only reduces greenhouse gas emissions, it improves the amenity of our suburbs and towns, improves road safety and reduces infrastructure maintenance costs for Commonwealth, state and local government.

9. The MAV recommends that public transport use and investment be encouraged through the CPRS and any fuel tax concessions that distort this aim not be included.

10. Any emissions reduction target and trajectory adopted by the Federal Government needs to be based on the most up-to-date science, with the aim of avoiding dangerous climate change including consideration of tipping points and positive feedback loops.