



Australian Government



COVER SHEET

SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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AUSTRALIAN LOCAL GOVERNMENT ASSOCIATION

SUBMISSION

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Introduction

The Australian Local Government Association (ALGA) is the peak national body for local government in Australia. ALGA is a Federation of state and territory local government associations and represents the interests of 569 councils across the country. Since 2001, membership has included the Government of the Australian Capital Territory (unique in Australia as it combines both state and local government functions).

Local government welcomes Australia's ratification of the Kyoto protocol and congratulates the Governments commitment to tackle climate change.

In the lead up to last year's Federal election, ALGA sought a commitment from all political parties to '...active participation and leadership in international agreements on climate change including ratification of effective agreements to reduce greenhouse gas emissions and develop strategies to mitigate and adapt to climate change'.

ALGA appreciates the technical and political challenges of introducing comprehensive domestic and international measures to address climate change. In this regard ALGA, and state and territory local government associations, accept that local government can play a significant leadership role within the community, and are committed to work with the Australian Government to address climate change in a practical and meaningful way.

Local government supports the Government's three pillars of climate change policy:

- Reducing Australia's greenhouse emissions;
- Adapting to climate change we cannot avoid; and
- Helping to shape a global solution that both protects the planet and advances Australia's long term interests.

ALGA notes that the Carbon Pollution Reduction Scheme (CPRS) is intended to be the principle national policy measure to deliver domestic mitigation action, i.e. reduction of greenhouse gas emissions. Given the far reaching implications of the CPRS for Australia's economy, society, environment and culture, local government shares the Government's concern 'to get the design right'.

Local Government welcome the framework of the Government's Preferred Position noting the assessment criteria identified to assess design options for the scheme. These are:

- Economic integrity;
- Economic efficiency;
- Minimisation of implementation risk;
- Policy flexibility;
- Promotion of international objectives;
- Implications for the competitiveness of trade and non-trade industries;
- Accountability and transparency; and
- Fairness.

This submission provides a national overview of local government's support for and concerns about possible design aspects of the CPRS as outlined in the Green Paper. State jurisdictional comments will be detailed in separate state and territory local government association and / or individual council and regional council submissions.

General impacts of CPRS on local government

Over the past decade, local governments throughout Australia have demonstrated a real commitment to innovate and pro-actively reduce their carbon emissions. Initiatives include, for example, participation in the Cities for Climate Protection (CCP) program, green purchasing and methane capture and flaring on waste facilities.

The CPRS will have a number of significant cost implications for local government that must be considered in the final design of Australia's carbon emissions scheme.

Local government spends in excess of \$22 billion per annum (2007) and provides a range of essential and statutory services to Australian communities. These include among other things: local and regional roads, environmental services including waste collection and disposal, environmental health, community services, planning and development, libraries, street lighting etc. While some of these services are paid for by fees and charges, a significant proportion of them are paid for through general rates (council taxation) as public goods.

The Australia Institute Ltd has estimated that the CPRS at \$20 per tonne could add an additional \$344 million annually to the operational cost of local government. It is important to note that these costs do not account for the additional costs of future adaptation or disaster mitigation measures that will be required to cope with climate change we cannot avoid.

The Government has indicated that all revenue raised by the scheme will be used to help households and businesses adjust to the impacts of the scheme. Local government will also require support:

- to adjust to the higher costs associated with the scheme, and
- for investment in adaptation and disaster mitigation strategies to sustain local communities particularly in the face of climate change impacts.

The additional costs estimated by the Australia Institute are significant, particularly given the financial challenges that local government face. PricewaterhouseCoopers, in its National Financial Sustainability Study of Local Government (2006), found that up to 30% of Australian councils are already facing severe financial challenges including significant underspending and backlog on infrastructure estimated at \$2.4 billion per annum.

It is therefore to be expected that councils will have no choice but to pass on the full cost of the CPRS to local residents, through rates or increased fees and charges, at least until it becomes possible for councils to implement strategies to reduce costs through mitigation and adaptation, for example, the introduction of new technologies. It is estimated that a CPRS at a carbon price of \$20 per tonne may raise council operational costs by 1.8%. However, the impact would not be uniform across all councils. The cost burden in some council areas could be significantly higher depending upon the council's mix of services, policy decisions and financial circumstances.

It should be noted that the demand for essential local government services and infrastructure is relatively inelastic and a council's capacity to mitigate costs may be limited. Demand for economic inputs such as fuel, electricity for street lighting, bitumen for roads, air conditioning and hot water for aged care and sports centres will not necessarily fall as a result of increased prices due to the CPRS, at least in the short to medium term. As a consequence ALGA is concerned that while council costs will increase, there may not necessarily be a corresponding reduction in carbon emissions in the short to medium term. ALGA acknowledges that over time consumers, such as local government, may be able to respecify service requirements / and influence suppliers to provide low carbon goods and services to councils. For example electricity suppliers may provide more efficient street lighting such as T5 lights, thereby reducing council costs and improving greenhouse emissions. (ALGA believes that this process, particularly for street lighting, could be accelerated by the introduction of state or federal regulations.)

Passing council costs of carbon on to rate payers through rates, is neither efficient nor an effective mitigation measure. It will not necessarily reduce council carbon emissions, at least in the short to medium term, nor will it send a 'price signal' to encourage rate-payers to consume less essential local government services and infrastructure.

Local government does not resile from making its contribution to reduce carbon emissions. However, it must be recognised that the accumulated costs of the CPRS on local government operation will impact negatively on councils' ability to provide essential local government services.

Councils will also face additional costs from climate change in the area of mitigation of natural disasters. Natural disasters have a significant impact on the Australian community (in excess of \$1 billion annually) and all levels of government have worked cooperatively in recent years, through the Natural Disaster Mitigation Program (NDMP), to fund mitigation measures. The exposure of Australian communities to natural disasters in the face of climate change is increasing, given the expectation of more frequent and severe storms and bushfires. The Government's commitment to modernize the NDMP to address climate change impacts is welcomed by ALGA but communities, through local government, are finding it increasingly difficult to fund mitigation measures and ALGA strongly supports the appropriate use of revenue from the CPRS to offset these growing natural disaster mitigation costs.

The Waste Sector

ALGA notes that the Green Paper proposes the CPRS should cover stationary energy, transport, fugitive emissions, industrial processes, waste and forestry sectors, and extend to all six greenhouse gases counted under the Kyoto Protocol from the time the Carbon Pollution Reduction Scheme begins.

While ALGA appreciates the Government's intention to ensure that the CPRS should be as broad as possible, i.e. include as many sectors as possible, ALGA is concerned with the inclusion of the waste sector. It is in marked contrast to the advice of Professor Garnaut in his Interim Review which nominated the waste sector for later inclusion in the CPRS (say 2015, in line with the likely inclusion of the agricultural sector), and the models that have been adopted in Europe and other countries.

The Green Paper has indicated that the Government does not presently consider that the waste industry demonstrates the characteristics of a strongly affected industry. This does not adequately acknowledge the complexity and technical issues that confront the sector. These include: waste diversion to smaller sites; possible early landfill closure; cost uncertainty and administrative costs; measurement problems and legacy issues. These will be discussed in more detail later in this submission.

In response to the release of the CPRS - Green Paper ALGA, in collaboration with its state and territory association members, commissioned Deacons to provide a review that would assist local government to understand the National Greenhouse and Energy Reporting Scheme, Carbon Pollution Reduction Scheme and Complementary Measures. The report also identified the implications of these initiatives for local government.

The report concludes that waste sector is that the only sector which may lead to local government inclusion within the CPRS.

'Our assessment is that the only sector which may lead to local government inclusion within the CPRS is the waste sector. Councils that operate landfills which trigger the emission threshold under the CPRS would therefore need to purchase carbon pollution permits to cover those emissions, or seek to reduce the emissions through measures such as landfill gas flaring or capture. Reduction of emissions below the threshold would mean that councils would not be covered by the scheme and therefore would not need to purchase permits. Alternatively, reduction of emissions (if the threshold is still triggered) would result in fewer permits having to be purchased.¹

Thresholds and Coverage

ALGA notes that waste-related activities across Australia contributes 3% to the total potential CO₂ equivalent emissions.

The Green Paper and Department of Climate Change (DCC) discussion paper indicate that the 25kt CO₂ equivalent will capture some 100 landfill facilities and around 80% of total landfill volume

These figures indicate that the inclusion of all "uncaptured" landfills (ie below 25kt threshold) can only ever capture an additional 20% of 3%, or 0.6% of the available CO₂ emissions. (A reduction on the threshold to 10kt CO₂ equivalent would result in an additional capture somewhat less than this.)

ALGA questions the value and practicality of reducing the threshold below the currently proposed 25kt CO₂^e threshold, for the following reasons:

- The relatively high cost and resource implications for smaller waste facilities to determine their CO₂ equivalent emissions
- The fact that the smaller end of the waste facility sector is the most ill equipped and under resourced to undertake these calculations.
- The significant additional resource requirements for DCC in assisting the additional 100 facilities to address their responsibilities, and the additional task for DCC of administering and regulating such a piecemeal system;
- The arguably very small gains and impact that a reduced threshold can ever have on the total CO₂ emissions from the waste sector, and from Australia in total. The law of diminishing returns would clearly indicate that there is little wisdom in reducing the threshold at this stage of the introduction of CPRS.

Deacons draw attention to the currently uncertainty over what the threshold will be for the waste sector, and whether it will generally reflect the threshold adopted for the other sectors (i.e. 25 kt CO₂^e /year) or whether a lower threshold (ie 10 kt CO₂^e /year) will be adopted.

'The concern expressed in the Green Paper is that adopting a threshold of 25 kt CO₂^e may result in displacement of waste from covered to uncovered facilities Another option identified in the Green Paper is to lower the threshold only for urban centre landfills, and not for regional landfills.'²

ALGA acknowledges the Government's concern to address major sources of emissions but does not support lowering the threshold or different treatment of landfill operators based on location.

Lowering the threshold to 10 kt CO₂^e may act as a direct disincentive to regionalisation of landfill facilities and actively work against attempts by many State Governments to encourage a rationalisation of smaller, less efficient, often unlicensed landfills into better managed, larger licensed facilities. Further, it could actually exacerbate the problem of waste diversion from covered sites to uncovered sites, by encouraging diversion of waste to many smaller landfills, site closure before reaching the threshold, or illegal dumping of waste.

To avoid leakage of waste from covered to uncovered facilities, local government believes that there is the potential for more suitable complementary schemes to be developed for those landfill facilities which fall below the proposed 25kt threshold. For example, in some states license requirements already impose environmental

¹ Deacon's Research Paper on National Greenhouse Measurers at <http://www.alga.asn.au/policy/environment/greenhouse/>

² Deacon's Research Paper on National Greenhouse Measurers at <http://www.alga.asn.au/policy/environment/greenhouse/>

performance standards and these requirements could be extended to facilitate a more “greenhouse friendly” design criteria.

Generally local government would not support the imposition of mandatory requirements such as flaring or methane capture for smaller landfill sites where the cost of appropriate infrastructure does not result in sufficient capture to justify it environmentally or economically. Ultimately, the market, and the purchase of carbon credits or similar mechanisms can determine the viability of gas capture, and the continuance of these incentive schemes is supported.

ALGA would support a proposal to set the waste threshold initially at 25kt CO₂^e with any potential need for reducing the threshold over time to be investigated once the system is in place. This would minimise the potential for unintended perverse outcomes and would make the waste sector’s threshold consistent with other industries whose facilities are being subjected to a 25kt CO₂^e threshold at this stage of CPRS introduction.

Better Integration between Waste Management and Emission Reduction Policy

ALGA believes that all levels of government need work together to ensure that there is an appropriate level of integration between waste policy and emission reduction policy. For example: ensuring that green waste policies complement carbon emission policies. This should be considered further in greater detail by the Australian Government Minister for Climate Change and Water in collaboration with the Environment Protection and Heritage Ministerial Council.

Measurement

Local government does not consider the estimation methodologies proposed within the Scheme Green Paper, including theoretical maximum landfill gas capture, to be stringent enough to ensure valid or reliable reporting. As such the methodologies do not form a basis for a market based instrument such as the CPRS. While direct measurement technologies are not sufficiently developed at this stage to apply to the Carbon Pollution Reduction Scheme reporting mechanism (i.e. the NGERs/OSCAR system), the finalisation and implementation of the Scheme may prompt development in this area.

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. ALGA supports the exemption from greenhouse gas emission calculation under the CPRS of closed landfills. In simple terms, these landfills were not designed for greenhouse gas capture, nor was the potential cost of post-closure greenhouse gas reduction factored into their pricing (whether at gate or through council rates). Further, historical records regarding the types of waste disposed of, and the relative quantities, are generally non-existent. Sampling would therefore be random at best, and modelling with any degree of reliability would be virtually impossible. Emissions from these sources should be managed through incentives and complementary improvements such as lifting of the regulatory bar in the States.

In addition, ALGA notes from the DCC discussion paper, the rapid decline in post-closure greenhouse gas emissions, and is therefore of the firm view that the cost and added complexity of measurement or calculation and inclusion of post-closure emissions, and the need to purchase carbon permits for these post closure emissions, will serve no real purpose, as there are no real options to reduce these emissions.

For currently operating landfills which have been operating for some time, an equitable system needs to be found to calculate likely emissions from received waste and waste which will be received following the commencement of the CPRS. While it may be possible to develop a sliding scale / variable threshold for existing landfills, this should be a joint effort between industry and the Government.

While it may be said that costs of compliance and greenhouse permits can be passed onto customers / ratepayers, this does create some difficulties for local councils where they have a statutory responsibility to manage waste, rather than a commercial interest. The Departmental discussion paper suggests that commercial waste corporations, often having operations in several locations, can distribute carbon costs across their various sites. Councils which operate waste facilities however tend to do so in isolation, and additional costs or responsibilities must come at the expense of other social and community deliverables.

Offsets

ALGA supports the concept of offsets for sites below the threshold that are achieving gas capture greater than a determined baseline. The ability to utilise offsets or other instruments creates an incentive for emissions abatement at sub-threshold sites. Setting a best-practice baseline depending on the age of the landfill, rather than

assessing individual sites, could achieve positive outcomes while reducing administrative requirements. The NSW Greenhouse Gas Abatement Scheme provides a useful model on which to base such an approach. Negotiating the best practice capture thresholds and the landfill age requirements is likely to be complex initially, but is a process in which local government would be happy to participate. ALGA would support a 'baseline and credit' model instead of a 'strongly affected industry' claim as this method provides a better long term approach and avoids further market distortions. Even under this approach, however, ALGA would not support the inclusion of closed and legacy sites in the CPRS.

ALGA is concerned that a decision to cover the waste sector does not take into account that many major landfill operations have already made multimillion dollar investments in early abatement, particularly landfill gas capture for renewable energy generation and reduced organics to landfill projects.

There are a number of local government bodies, often in partnership with the private sector, that are engaged in 'landfill gas to energy' projects. These projects have been developed and implemented on the basis of planned income from the on-sale of Renewable Energy Certificates (RECs). While the operators of these facilities would still be able to generate energy from their landfill sites, the Government's proposal to have very limited offsets will significantly impact on the future financial viability of these projects.

The AGO Report (Australian Greenhouse Office *Waste Sector Greenhouse Gas Emissions Projections 2006*, December 2006) and the Warnken Report (Warnken ISE, *Potential for Greenhouse Gas Abatement from Waste Management and Resource Recovery in Australia*, September 2007) note the significant contribution that the waste sector has already made to methane capture and management and the additional cost burden that these projects have created for the waste sector.

ALGA is concerned that decisions to cover the waste sector under the CPRS and to effectively remove offsets will undermine the business parameters of many of these schemes and unfairly penalize councils and operators that have taken early decisions to innovate and address carbon emissions.

Permit price on top of levy price

The inclusion of the waste management sector under the CPRS will effectively add the cost of emissions on top of a State Government waste levy that is already in place. This means municipal solid waste disposal (by individuals and local governments) will be paying two separate taxes for the same disposal activity.

A cooperative approach between the Federal Government and State regulators is required to ensure that the public is not unfairly charged twice for the same activity. This would require that landfill disposal levies would not be charged on the organic fraction of waste disposed of in landfill, but might be maintained for disposal of the inorganic fractions.

Conclusions

In the light of the issues raised here, a series of actions are offered that may enable the development of more effective, fair and equitable carbon markets under the CPRS, as well as the environmental outcome of a reduction in the emission of greenhouse gases.

Local government supports the proposal of later inclusion of the waste sector in the CPRS (say 2015, in line with the likely inclusion of the agricultural sector). This will allow issues with measurement to be overcome through focussed research on modelled and direct estimation of emissions, and through the audit of waste streams to better quantify waste stream composition.

Local government supports an initial threshold of 25,000 tonne CO₂e emissions per annum.

Local government supports the continuation of schemes that allow for the generation of carbon credits for use in the voluntary market, in a fashion such as exists under the existing Greenhouse Friendly™ program from any facility below the 25,000 tonne CO₂e threshold. This would mean that there is a lower value commodity driver for environmental improvement than if the waste sector could generate compliance credits, but there is still some way of defraying the cost of the implementation of infrastructure to capture and flare landfill gas or generate renewable electricity at landfill facilities that do not trigger the CPRS threshold. This second option is less preferable than the first proposed solution but it will still lead to improvement in environmental outcomes in terms of greenhouse gas emission reduction.

These actions will lead to positive behaviour change; real, permanent and verifiable emission reductions, and allow time for both the regulators and the local government sector, especially those with a role in waste management, to deal with ways of more accurately measuring the sectors emissions in an auditable fashion. These actions will also ensure that fairness can be maintained between market participants in the waste sector. Given an appropriate time frame for transition (say, inclusion of the waste sector by 2015) and appropriate market based signals and opportunities driven by sensible government regulation, the best environmental outcomes can be achieved. The approach outlined above is consistent with continued economic reform, which is best advanced

by addressing economic and social matters through flexible market processes within a sensible regulatory framework.

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