



May 7th, 2008

**Speech Notes for appearance before the Finance and Expenditure
Select Committee on the Climate Change (Emissions Trading and
Renewable Preference) Bill – 187-1**

Thank you for the opportunity to speak to our written submission.

We wish to update the Committee on certain developments since we prepared the written submission, and to draw a conclusion and make a recommendation.

The Opportunity for fraud or misrepresentation.

Since our presentation of our original submission on February 26th, there have been many claims of fraud and misrepresentation over carbon offsets and trades around the world.

We wish to re-emphasise that the Australian Government has recognized the potential opportunities for dispute and litigation, and draw attention to the Australian Competition and Consumer Commission's Issue Paper: [The Trade Practices Act and carbon offset claims. \(January 16 2008\)](#). This paper provides further reasons for New Zealand to work closely with Australia in developing robust processes and procedures rather than rush to unilaterally implement our own schemes.

[**Ad Lib:** Further evidence has been supplied just yesterday by the comparison between the Treasury's estimate of the Kyoto Liability at \$1 billion, and the Ministry of Economic Development's "revision" down to \$0.5 billion. Surely, if government asked for a valuation of a major industrial asset from two different departments and one came in at \$100,000 and the other at \$200,000 we would have some serious concerns about the methodology?

We suspect that the EU would calculate a total of \$1.5 billion, Greenpeace \$2.0 billion, while the CRMS, using some sound science, could put us back into credit. (Rodney Hide suggested maybe we should be hired. I explained we come very cheap!)]

Who knows how to make a Carbon-Neutral Pencil?

Since writing the original submission in February, the Centre has presented the argument that no one knows how to make a carbon-neutral pencil at international conferences in New York and San Jose, and the papers have been widely distributed through web pages and blogs.

Not only has the argument been well received, but no one, and I repeat, no one, has challenged the reasoning. I can assure Committee members that anyone who publicly challenges the conventional wisdom on Climate Change Alarmism is immediately subject to all manner of attacks from all quarters. My experience with the carbon pencil argument is rare indeed.

We suggest the argument should be taken seriously.

Anyone who wants to challenge a competitor's claim of "carbon neutrality" need only extend the boundary of the assumed "carbon system" to capture more processes. Finally, how many bureaucrats would be needed to calculate the carbon footprint of every element of every building, as has been suggested as a pre-condition to gaining a building permit in New Zealand?

Bio-fuels: A well-publicised example.

In our written submission the Centre pointed out that Governments around the world have assumed they know how to make much more complex items than a pencil and hence have rushed to promote bio-fuels as a means of reducing their national carbon footprint and to move down the pathway to carbon neutrality.

We predicted in our written submission that it would soon be recognized that bio-fuels would do more damage to the environment than fossil fuels and furthermore would drive up the price of food around the world; and pointed out that this unintended outcome would disproportionately hurt the poor.

Our predictions have been confirmed.

It is worth noting that Sir Nicolas Stern, in his famous assessment of the costs and benefits of taking action on climate change, never predicted the impact of these actions on world food prices. We should ask ourselves whether we should give any credibility to his 100 year predictions when he never foresaw these immediate outcomes?

The Case of the "Carbon-Neutral" Vineyard.

In our written submission we suggested that the claims of carbon neutrality by the Grove Mill Vineyard, which had been certified by the Government's own *carboNZero*, would be vulnerable to challenge on several counts.

Since then someone must have challenged Grove Mill's claim because they have had to withdraw their claim to carbon neutral status and concede that *carboNZero* had failed to include the bottles in their carbon-neutral calculations.

Surely, this is a basic error. The omission does not even begin to enter the territories covered by the complexity of the humble pencil. The Press Release follows.

GROVE MILL NOT CARBON NEUTRAL AFTER ALL

Date: Wed 19 Mar 2008

The heavily promoted "first certified carbon neutral winery in the world", Grove Mill, has been revealed to not be carbon neutral. The mistake has been released by the certifying agency, *carboNZero*, verifying that the carbon cost of the bottles used by Grove Mill was not included in their evaluation.

On-line carbon market news site, *carbonnews.co.nz*, broke the story yesterday, declaring *Grove Mill wasn't including the carbon content of its bottles when it announced it was the world's first "carbon neutral" winery.*

Ann Smith, programme leader for state-owned certifier carboNZero, told Carbon News that in anticipation of a new standard being drafted by British Standards, this year's Grove Mill inventory was widened.

CarboNZero now claims that their certification is accurate, but also admits that the freight to the United Kingdom was not part of the original certification either. Ms Smith's assertion is that because Grove Mill does not pay the freight, the carbon footprint of that freight should not be included.

Really? [*Ad Lib*: We can suppose this may explain how those 12,000 officials could fly to Bali without any concern for the greenhouse gas emissions. Is it because they hadn't paid for the tickets? (General laughter)]

This story surely confirms our submission that these uncertainties provide a field day for litigation, and fertile ground for false claims and fraud.

[**Ad Lib**: Surely too, this Committee should be concerned that the Government's own certifying agency has named itself *carboNZero*. How would government respond to a major

auditing firm calling itself *TaxationZero*? Doesn't this name suggest that the agent will deliver carbon neutrality if at all possible? (Rodney Hide and others certainly took the point.)]

Further false claims

Unfortunately, there has been so much misinformation presented to the public (such as the notion that carbon dioxide is a pollutant) that even those who should be better informed fall into traps. For example, when Television One News ran a recent story about the Government's plans to defer some of the costs of the emission trading regime the newsroom chose to illustrate the story with icons of chimneys belching black smoke into the sky, and described the black smoke as "green-house gas pollution".

Presumably Committee members are aware that carbon dioxide is a colourless, odourless gas which is necessary to all life on earth.

Any black clouds of smoke coming out of a chimney will almost certainly be soot or unburned carbon. Soot is a pollutant. But it is not a greenhouse gas and indeed large quantities of sooty particulates in the atmosphere (such as the dust from volcanoes) will actually cool the planet.

The same news broadcast talked at length about rising food prices and the need to produce more food to feed the starving millions.

Any efficient greenhouse operator will tell you that they pump carbon dioxide into their greenhouses because the gas dramatically increases plant growth and reduces the demand for water because the stomata can close up and reduce the rate of transpiration.

The same news story then had a representative from the Green party declaring that we need to invest heavily in public transport to reduce our emissions.

The more likely outcome will be an increase in emissions although any effect in either direction will be unmeasurable. Transport represents the smallest slice of the household's carbon footprint pie – only about 10%. Food is three times as significant.

[**Question note:** Jeanette Fitzsimons asked for the reference and I had to explain that because my broadband connection went down yesterday I had been unable to plug it in but promised

to deliver the link as soon as possible. Here it is:

http://acfonline.org.au:80/uploads/res/res_atlas_main_findings.pdf

It's quite a big file to download so be patient. The key "pie chart" is on page 5.

I strongly endorsed this report to the Committee because it comes from a "green source" and its findings were contrary to what the researchers expected.]

The Food and Agriculture Organisation reports that the increased levels of carbon dioxide in the atmosphere over the latter half of the 20th century made a substantial contribution to the Green Revolution.

Are we sure this is a good time to be reducing the concentrations of carbon dioxide in the atmosphere? Has anyone analysed the impact on food production and the demand for water?

Conclusion.

The Centre submits that the Committee take our submissions seriously. Our track record of accurate predictions is excellent. Indeed we seem to be doing better than official organizations with many more staff and much more funding.

The recent scientific findings from Germany suggesting the Earth is entering a cooling period are another good reason to proceed with caution rather than rush into the role of the canary in the coal-mine.

Recommendation.

The Committee should recommend that the Government proceed with great caution.

And we repeat our written submission that the Committee must consider the implications for the Resource Consent process and the additional costs that will be imposed on applicants by challenges to claimed "neutrality" and claimed "carbon offsets". These will add further delays and costs to the processing of consents and further reduce the certainty of outcome.

Thank you for your attention.

[Question notes: There were several questions over a range of topics. One member challenged my argument that carbon dioxide was not a pollutant, but Lockwood Smith asked if I thought most people today understood the role of carbon dioxide in the whole cycle of photosynthesis

Select Committee

and the production of all our food etc. I responded that without wanting to sound like an old codger, I believe that when all my classmates finished School C Science in the fifties we had a good understanding of the role of plants in capturing carbon dioxide from the air but over the last couple of decades there has been a major “campaign of confusion.”

Rodney Hide then picked up the carbon pencil argument and endorsed the futility of carbon neutrality calculations because of the “infinite regression” problem. He then explained that he had only come to realize the opportunities for international litigation as a result of the Centre’s oral submission and my responses to earlier questions.

In response to a final question from the Chair I suggested that if the a government saw a need to use fiscal instruments to promote a lesser use of fossil fuels then a simple tax on such fuels is the best and simplest way to go, and pointed out that Professor David Henderson, former head of the OPEC economics department, and most other economists agree with this position. I had already reminded the Committee that Enron invented carbon trading.]

**Director
Centre for Resource Management Studies.**

May 6, 2008

The full written submission follows.



February 26th 2008.

To the Finance and Expenditure Select Committee on the Climate Change (Emissions Trading and Renewable Preference) Bill – 187-1

1. Introduction

1.1. The Submitter

This submission is from the Centre for Resource Management Studies. The address for contact is:

1104 Oneriri Rd, R.D.2,
Kaiwaka,
Northland 0573.

1.2. Appearance before Committee.

The Centre wishes to appear before the Committee to speak to this submission. The Centre can be contacted at 09 431 2775.

1.3. Person making submission.

My name is Owen McShane. I am a Resource Management Consultant and Director of the Centre for Resource Management Studies. I hold the qualifications of B.Arch, and Dip T.P. (University of Auckland) and a Masters Degree in City and Regional Planning (UC Berkeley). My Master's thesis was in the field of urban development economics, and since then I have maintained a strong interest in economic issues and have written extensively and made submissions on the economic "thread" which pervades the RMA.

1.4 Nature of Organisation

The Centre for Resource Management Studies is funded by a charitable trust whose purpose is to promote better understanding and implementation of the Resource Management Act, and associated issues, in New Zealand. The Centre focuses on improving the quality of planning documents at the local and regional level and attempts to develop model "chapters" within

selected districts and regions which may then be applied by other district and regional councils as they see fit.

Our main aim is to promote sustainable management as defined in the Act.

The Trustees of the Centre for Resource Management Studies are:

Dr Donald Brash, former Governor of the Reserve Bank – Chairman.

Sir Roger Douglas, former Minister of Finance – Trustee

Alan Gibbs, Businessman – Trustee.

Noel Lane, Architect – Deputy Chairman and Trustee

Dick Quax, Manukau City Councilor – Trustee.

Owen McShane – Director and Trustee.

The Centre is particularly concerned about the additional costs and delays that claims and counter-claims regarding carbon offsets, and emissions trading, will have on the Resource Management consent process.

1.5 General/Summary

The Centre opposes the intent of this bill because the science on which it is based is not settled, and in particular, the economic and legal problems do not appear to have been thought through, and addressed, even though the potential costs are massive.

The impact on RMA consent processing, in particular, appears to have been ignored.

2 Specific Points.

2.1 Opportunity for fraud or misrepresentation.

It should be clear to anyone that the notion of trading in carbon dioxide credits (or equivalent gases) and offsetting carbon dioxide footprints, will provide a multitude of opportunities for fraud, misinterpretation or straightforward error.

The scope of the Bill is significant and extends to virtually all sectors of the economy. The government fact sheet on the Bill explains:

Once fully implemented, the scheme will apply to all greenhouse gases specified in the Kyoto Protocol (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, petrofluorocarbons, and sulphur hexafluoride.)

It will also apply to all parts of the economy that emit these gases, including electricity generation and industrial heat and power, transport, industrial processes, forestry and waste.

Every one of these sectors is involved in the RMA process.

The Australian Government has recognized the potential opportunities for dispute and litigation, and the Australian Competition and Consumer Commission has released an Issue Paper: [The Trade Practices Act and carbon offset claims. \(January 16 2008\).](#)

This Issues paper lists the following examples of the information gaps and discrepancies in the market relating to carbon offsets as:

- Claims of Carbon-neutrality based on an accurate carbon footprint but inappropriately 'offset'
- Claims of Carbon-neutrality based on an inaccurate carbon footprint
- Claims of Carbon-neutrality made without substantiation
- Claims of a transition to a position of carbon neutrality (representations about future matters)
- Claims of 'low carbon' in particular products and services

This excellent paper identifies the opportunities for fraud and deception; the table of issues and concerns on page 2 deserves all our attention.

While emissions-trading schemes have been successful in certain markets overseas (as for example the sulphur dioxide trades in California and elsewhere) they are fraught with difficulties if the trading is extended beyond single jurisdictions. These problems occur when trading occurs across State boundaries, and these problems are multiplied if trading occurs across international boundaries.

The problem areas identified by the Australian Consumer and Competition Commission are all potential sources of dispute and litigation. This litigation could take place between competing companies, and between individuals and companies and between companies and government agencies. The stakes will be high and the costs of litigation will be high as well.

If an American company brings a case against a New Zealand company for presenting misleading or fraudulent claims to the American market, the New Zealand company will have to defend its case within the US courts.

Other submitters have given examples of the multitude of problems which surround offset trading and I shall not detail them here. The European Union's problems are well documented and need not be repeated here.

However, members of this Committee should at least be asking such questions as:

- Where is the equivalent of a department of weights and measures?
- Where and what is the equivalent of the standard kilogramme and the standard metre?
- Who sets the rules and who arbitrates disputes about those rules?
- Who sets the penalties for breaking the rules and who collects the fines?

However, we want to argue that there can be no agreement on such matters because nobody knows how to do the sums. We present this argument below.

2.2 Who knows how to make a Carbon-Neutral Pencil?

2.2.1 Leonard Read's Famous Fable

In his classic essay [*I, Pencil, my Family Tree as told to Leonard E. Read*](#), Leonard Read demonstrates that no single person knows how to make a pencil, on their own. He does this by listing the pencil's components (cedar, lacquer, graphite, ferrule, factice, pumice, wax, glue etc) and identifying the multitude of people involved, down to the coffee drinker in the forest and the lighthouse keeper guiding the shipment into port.¹

The pencil's self-analysis begins with:

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

F. A. Hayek drew on Read’s essay to illustrate his theory of “spontaneous order” and to explain how prices gather together huge amounts of dispersed information to guide our choices and actions. As the Pencil “says”:

There is a fact still more astounding: the absence of a master-mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the Invisible Hand at work.

In Milton Freidman’s famous video “Free to Choose”, he summarized Read’s essay and went on to say:

No one sitting in a central office gave orders to these thousands of people. No military police enforced the orders that were not given. These people live in many lands, speak different languages, practice different religions, may even hate one another—yet none of these differences prevented them from cooperating to produce a pencil.

All these commentaries reinforce Read’s original point – the processes that produce an item as simple as a pencil are so diverse and so dispersed that no one person can document them all, let alone assess their costs, including the costs of their externalities such as adverse effects on the environment.

2.2.2 What is the Pencil’s “Carbon Footprint”?

If no single person, or even members of a committee, know how to make a pencil on their own, how can any person or committee calculate its carbon footprint? How can anyone know the carbon footprints of the people who help make the pencil by mining graphite in Sri Lanka, or making candelilla wax in Mexico, or building the lighthouse that guides the ship into port?

Calculating the greenhouse gases emitted during the myriad processes that go into making the pencil adds yet another level of complexity to the “production calculation” and requires another round of knowledge – taking the exercise even further beyond the realms of possibility.

Anyone who wants to challenge a claim of “carbon neutrality” needs only extend the boundary of the assumed “carbon system” to capture more processes. But the more we extend the system boundary the greater our ignorance. The other irony is that given the ability of prices to capture so much information, a “best guess” on emissions is probably to pay the least. If new products are cheaper than recycled ones they probably burn less carbon.

2.2.3 The Litigation Risk.

The Pencil's "autobiography" even reminds us that any application for a certificate of carbon neutrality is open to challenge in court, or even action by the Commerce Commission. Objectors simply have to extend the boundary to include the coffee-makers in Brazil. Any claim to carbon-neutrality can be challenged on the grounds of false claims – by simply extending the system boundary to include say the truck-builders of America or the ship-builders of Japan. New Zealand farmers have used the process in reverse to challenge "food miles".

Finally, how many bureaucrats would be needed to calculate the carbon footprint of every element of every building, as has been suggested for New Zealand as a pre-condition to gaining a building permit – including the pencil used to draw the plans? This opens up yet another channel for trade competitors and the like to use the courts to block new developments.

In New Zealand the Resource Management Act is "effects based" legislation and requires consent authorities to have regard to the effects of climate change, and the benefits of renewable energy when considering proposed plans and applications for consents.

It is inevitable that applicants will present the outcome of their emissions trading or use of carbon offsets to demonstrate their commitment to the move towards national carbon neutrality. It is equally inevitable that these claims will attract counter-claims challenging the choice of system boundary, or the time-line of the analysis.

If a dairy farmer is seeking consent to increase the size of the herd (as is being promoted in many quarters) should the carbon footprint involved in manufacturing the tractor be taken into account, or extracting the iron ore and other materials from which the tractor is made? If there is a road to the farm should its construction, or upgrading, also be taken into account? What about the carbon emissions for the visit the property to check the carbon emissions? Should everyone who is visited by a "carbon emissions inspector" have to take into account the trips only to their own properties or should they balance, on a pro-rata basis, the entire carbon emissions over some extended period of time?

Some of these questions may appear to be absurd, or trivial, but who will set the boundary? Who decides where the cut-off point should lie?

2.2.4 Bio-fuels: A well publicised example.

Governments around the world have assumed they know how to make much more complex items than a pencil and hence have rushed to promote bio-fuels as a means of reducing their national carbon footprint and to move down the pathway to neutrality.

The legislation has been written and the subsidies paid, and yet already a host of critics claim that the present bio-fuels are doing more damage to the environment than fossil fuels and furthermore are driving up the price of food around the world; an unintended outcome which disproportionately hurts the poor. Many analysts claim that biofuels emit more carbon in their production than fossil fuels.

We have already seen how “food-miles” appear to an obvious means of informing consumers about the carbon footprints of the food they buy but New Zealand’s own research has shown that the obvious conclusions turn out to be “obviously” wrong.

2.2.5 The Case of the Energy Efficient Light Bulbs

Many nations, and the EU, have moved to prohibit regular incandescent light bulbs by a certain date. Analysts are already challenging the assumptions behind these decisions and given the size of the industry and the potential costs the potential for litigation looms large. [This report from EU Referendum](#) sets out the case against the ban on incandescent light bulbs and shows what a powerful case could be mounted in a court of law. The Centre does not agree with all these arguments, but that does not undermine the fundamental argument – that we do not know how to make a carbon neutral lightbulb any more than we know how to make a carbon neutral pencil; or more precisely we do not know how to make a claim of carbon neutrality immune from litigation and prosecution. And the costs of these “compact fluorescent bulbs” (CFLs) appear to have been hugely underestimated. The report says:

“... because CFLs need much more ventilation than a standard bulb, they cannot be used in any enclosed light fitting which is not open at both bottom and top – the implications of which for homeowners are horrendous. Astonishingly, according to a report on “energy scenarios in the domestic lighting sector”, “less than 50 percent of the fittings installed in UK homes can currently take CFLs”. In other words, on the government's own figures, the owners of Britain's 24 million homes will have to replace hundreds of millions of light fittings, at a cost upwards of £3 billion. Not only is this an unwelcome cost, but the time scale of two years to replace as many as 60 million light fittings is wholly unrealistic.”

The history of policy responses to the presumed problems of *Climate Change* is dismal. The *Daily Mail* reporter wonders whether these politicians have the faintest idea of what they are talking about. “Do they actually look at the hard, practical facts before they rush to compete with each other in this mad musical-chairs of gesture politics?” he asks.

Every member of this Committee should be asking the same question.

2.2.6 The Case of the Carbon Neutral Vineyard.

At a recent conference a South Island winemaker presented the company’s promotional video of one of New Zealand’s first “Carbon Neutral” vineyards and how the company intended to use this as a marketing “plus” in the UK market.

The video demonstrated all the steps taken by the owners to reduce their carbon footprint and achieve “neutrality”. Then in an “addendum” the video went on to demonstrate the vineyard’s long-term commitment to environmental enhancement and sustainable management. One of their achievements was the development of an extensive wetland on the site. The fact that this wetland – like any wetland – is a major emitter of methane, which we are all told every day is a more potent Greenhouse Gas than carbon dioxide, seemed to have gone unnoticed.

However, we can be sure that it will not go unnoticed by any disgruntled European or UK winemaker whose wine is bumped off the shelves by this New Zealand exporter.

This raises a more general question. Will we all be allowed to fill in our wetlands as a means of achieving carbon neutrality?

Who is writing these rules?

3 Recommendation.

The Committee should recommend that the Government proceed with great caution and if it is determined to introduce an emissions trading scheme it should be tested within the New Zealand market only and all claims should be carefully checked against a regime developed by the New Zealand Commerce Commission, who should also monitor all claims regarding carbon neutrality and carbon footprints.

The Centre believes the Government’s current approach will prove to be yet another blunder in the name of “meeting our international obligations”.

Select Committee

We believe this will prove to be the case for all manner of reasons, and this blunder, will join the long list of misjudgments which have imposed costs on New Zealand for no benefit or gain.

If we are determined to carry out the experiment we should confine it to our own shores and not expose our enterprises and traders to external costs, frauds and litigation.

In particular the Committee needs to consider the implications for the Resource Consent process and the additional costs that will be imposed on applicants by challenges to claimed “neutrality” and claimed “carbon offsets” which will add further delays to the processing of consents and further reduce the certainty of outcome.

**Director
Centre for Resource Management Studies.
February 17, 2008**