

INTERVIEW: NZ minister wants focus on domestic emission cuts, not international credits

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Countries should prioritise domestic emissions reductions over international credits, according to New Zealand's Climate Change Minister James Shaw.

In an interview with Carbon Pulse at his office in Wellington, Shaw said: "I think that countries need to focus on their domestic efforts at first, which very few countries have actually done with any seriousness up to this point."

Shaw, who represents the Green Party – the more environmentally friendly part of the Labour-NZ First coalition – made his comments as New Zealand is looking for a way to cut an estimated 200 MtCO₂e worth of emissions over the 2020s.

That's equivalent to a quarter of its total expected GHG output over the next decade, and the country is anticipated to require tapping the international carbon market to cover a significant share of that.

But the policy of unlimited access to international credits in the NZ ETS under the previous government had a drastic effect on allowance prices, as UN-issued ERUs from Russia and Ukraine flooded the market at a cost of as little as 10 cents each.

"International credits trashed our ETS," said Shaw. "We had the hot air scandal, with the dodgy Russian and Ukrainian units. Maori land holders with forestry interests lost hundreds of millions of dollars in valuations. It was a disaster, frankly."

The current government, which came to power in Oct. 2017, has yet to decide whether international units will be allowed in the ETS after 2020, and if so, under which conditions.

Shaw said a recent consultation process on the government's Zero Carbon Bill showed that while large industrials are open to accepting some foreign credits, people in general are wary.

"The last time we did it, it allowed New Zealand to meet its international obligations but it didn't lead to any reductions in greenhouse gas emissions in New Zealand. So it's hardly surprising that people are, at best, sceptical about anything that smells like a return to that world," he continued.

"If there is a return to international trading, I think it'll be very different as there have been some lessons learned."

GUT INSTINCT

The top criteria for New Zealand to accept international credits is the environmental integrity of any new mechanism, Shaw said, to ensure that any unit genuinely represents a reduction in emissions.

“You’d have to make a business case as to why it makes more economic sense to send that dollar offshore rather than invest it in upgrading your own economy. That’s probably more a volume of trade question,” he said.

Shaw’s comments come just weeks before governments gather for UN talks in Katowice, Poland to try to finalise the rules for the Paris Agreement, including for the carbon markets envisaged in Article 6.

This section of the 2015 treaty allows for countries to collaborate to reduce emissions (Article 6.2), as well as establishes a new mechanism to encourage sustainable development (Article 6.4).

However, work has been slow going and governments are expected to sign off on core elements of guidance for Article 6 instead of a fully-elaborated rulebook.

“My gut instinct is we won’t, in December, land on a full set of rules, but we’re likely to land on a set of principles that allow countries to set up bilateral or multilateral relationships that are recognised under Paris,” Shaw said, referring to what some have subbed ‘carbon clubs’.

He likened the Paris deal to the World Trade Organisation, which allows multilateral deals within one overarching framework.

“We’re all working on the same set of problems but our national circumstances are entirely different, which means actually it’s perfect for international cooperation and for trade,” Shaw said.

THE AGRICULTURE CONUNDRUM

Domestically, one of the greatest challenges for New Zealand is how to tackle emissions from its agriculture sector, which accounts for around half of the country’s total GHG profile.

Agriculture is currently exempt from the ETS, though the country’s interim climate change committee is set to issue advice to the government on whether or not to include the sector in the market.

“People say it’s a massive problem for us, but I prefer to think of it as a massive opportunity,” said Shaw.

“I have a fundamental belief that innovation is a function of constraint – you get creative when you have fewer options. When times are easy, people don’t innovate, they just keep on doing what they’re doing,” he added,

“If we can solve this problem for ourselves, we can solve it for everyone else.”

However, Shaw also noted that economic modelling ahead of the Zero Carbon Bill consultation pointed towards higher ETS costs if it is the sole policy to cut emissions.

“That carries a lot of cost and doesn’t handle distributive effects. Whereas if you have a range of other policies, there are ways to amortise costs across the economy, which means the ETS unit price doesn’t have to work as hard,” he said.

New Zealand’s ETS has seen record prices in excess of NZ\$25 in recent weeks, which has prompted calls for the government to act sooner on some reforms to the system, such as raising the NZ\$25 fixed price option.

Shaw declined to comment on those plans, as the analysis of the consultation responses is not yet complete.

However, he did note that while the government stated its preferred option was a cost containment reserve, “a number of submissions did come back from the consultation calling for a reserve auction price.”

Also under consideration is how to encourage landowners to engage with the ETS.

“Most farms around the country, even in really productive areas, will have a gully that the farmer would struggle to make a buck from, but they could if it was a carbon plantation,” said Shaw, noting that this approach mimics to some extent how Australia has engaged landowners in its Carbon Farming Initiative.

“A lot of that is what the ETS changes are about, to make it easier, simpler, and clearer for landholders to participate in,” he said.

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