The coming carbon crunch

The proposed Emissions Trading Scheme will achieve little over the next five years, but there are ways to help lessen the looming emissions blowout. BY SIMON TERRY

Some time next year, New Zealand's international negotiators will have to settle on a new emissions reduction target – one to apply after the Kyoto Protocol's first period ends in 2012.

Begging the rest of the world to give New Zealand a soft target will be their only option on the current course.

This is because the Government's central proposal for addressing its Kyoto commitments will make little difference to the country's gross emissions.

The Emissions Trading Scheme (ETS) is based on a sound idea – put a price on all sources of greenhouse gases and so pass on the message that excess emissions impose costs.

Yet the current scheme would cut gross emissions by less than 2% before 2013, partly because of the extent of exemptions and corporate welfare proposed. This means New Zealand's gross emissions would still be nearly 30% above the country's Kyoto target over the next five years.

So even if the new target to apply after 2012 turns out to be at the low end of what is being proposed internationally (25% below the current target of a return to 1990 levels), that opens up a 55% gap. In other words, the nation would commence the new period staring down from the top of an emissions cliff.

During the next five years, over 90% of the net charges resulting from the scheme will be paid by households, road users, and small and medium enterprises, even though these sectors account for only a third of all emissions.

By contrast, pastoral farming accounts for 49% of New Zealand's emissions but will be completely exempted during the next five years. As a result, there will be a major transfer of wealth from ordinary consumers to agricultural producers: $1.36 billion at the current world price for good-quality carbon credits of $30 a tonne, after taking into account payments farmers will make on fuel and electricity under the scheme. Major industrial producers will also be heavily cross-subsidised.

For a challenge to the economy as fundamental as adapting to a price on "carbon", such a disproportionate loading on ordinary consumers is politically unsustainable. Although the ETS does call for emissions from all sectors to be subject to it from 2013 and for all emissions to be priced eventually, these are promises to be fulfilled only in the distant political future.

For the next five years, the ETS essentially accepts business-as-usual growth in emissions and redirects the Kyoto bill away from the politically powerful major emitters. In this sense, it is a continuation of the past, rather than a green dawn.

The failures to make a meaningful impact on emissions and share the Kyoto bill equitably are closely linked. For agriculture holds by far the greatest ability to cut emissions.

A preliminary study completed for the Government estimated that 60% of all emissions that could be saved for less than $30 a tonne are agricultural. The study also identified five techniques that can cut emissions while boosting farmers' profits today. And most of these techniques – such as applying nitrification inhibitors and better managing stock effluent – can be introduced quickly, so their savings start early and count for longer.

Putting a price on agricultural emissions would give the farming sector an incentive to use these proven options, and would help New Zealand lead the development and application of such techniques, creating the basis for a sustainable export industry.

Exporting this know-how is also important for the global emissions target-setting negotiations, as their success depends on developing countries beginning to take on reduction commitments. If New Zealand makes commitments on the basis that agricultural emissions can be cut, and is willing to help developing countries also do this, that goal moves a step closer.

This would also allow New Zealand to champion a new approach to carbon-accounting, one that would make end consumers – and hence their governments – responsible for emissions embodied in imported products.

Under such a "level paddock" approach, New Zealand's agricultural exports would be constrained only by the willingness of overseas buyers to use their "carbon budgets" to buy foods from pastoral farms rather than lower-carbon alternatives.

Delivering a sustainable strategy requires a rewriting of the ETS rules so all emitters enter the scheme at the same time and are taxed to the same degree at each stage, with individual firms getting subsidies only if there is a benefit to the nation.

Once the smoke has cleared from the recent artillery exchanges, it is the pace of adjustment to the new carbon regime that will stand as the big question. ▮

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