

# Last word

Euan and Carolyn Mason

*Euan: 'Do you want to be rich? We could invest in \$4 New Zealand carbon units (NZUs). They are almost certain to yield a 400–500% return within a few years.'*

*Carolyn: 'Do you really want to be that guy?'*

It was 2014 and we were debating whether or not purchasing credits as a speculative investment was hypocritical. There is a difference between making money and creating wealth, just as there is a difference between having a token, dysfunctional emissions trading scheme (ETS) and addressing climate change. Our government had finally, after years of criticism, agreed to disallow ETS surrenders of 'hot air' credits obtained from former Soviet countries, and a gradual rise in prices of NZUs was virtually guaranteed now that polluters were required to surrender NZUs instead. 'Hot air' credits did not represent any response to address climate change, and they were available in enormous numbers very cheaply. After they were banned NZU prices rose a bit faster than predicted, and we would have made a 400% return in less than 18 months.

The fact that we could have made so much money for nothing speaks volumes about how morally bankrupt New Zealand's climate change policies have been, and these policies have had long-term consequences.

Imports of 'hot air' credits created a legacy in our national carbon credit registry. Polluters given free NZUs for their 'allowed' pollution were able to import credits from former Soviet countries for as little as 10 cents each and surrender them instead. As of 2016 our credit registry contained 185 million NZUs. To put that in perspective, the ETS required polluters to surrender 20.4 million credits in 2015. Our credit registry contains enough NZUs for nine years of surrenders at the 2015 level.

We are one of the world's worst performers on climate change. Our CO<sub>2</sub>-e (carbon dioxide equivalent) emissions per capita are the fifth highest in the OECD. Between 1990 and 2014 our gross emissions rose 23% and our net emissions 54%. Our net emissions had never previously been higher than in 2014.

Imports of 'hot air' credits were only part of the problem. Agriculture, our largest single source of greenhouse gasses, was and still is excluded from the scheme. Arguments for exclusion usually involve some form of, 'we can't reduce our emissions'. Udder rubbish! (Apologies). More careful use of fertiliser would reduce emissions substantially. Moreover, dairying produces one tonne of CO<sub>2</sub>-e (as CH<sub>4</sub> and N<sub>2</sub>O) for every 600–700 kg of milk solids, so is \$20/NZU (for one tonne of emissions) really such a heavy burden? That \$20 would encourage someone else to plant trees. Moreover, many hill country farmers have patches of erosion-prone land that are ideal for carbon forestry. Owners of small land holdings were the prime participants in the planting boom of the 1990s, and with a sufficient incentive they could repeat the exercise for carbon forestry. This incentive requires a stable carbon credit currency.

Carbon credits are a kind of currency, designed to discourage polluters or make them pay others to clean up their messes, but that is not what has been happening. Our government gave free credits to 'trade-exposed' industries, and also to those with an 'allowed' level of greenhouse gas pollution. Credits made out of thin air, representing no environmental gain, have also been gifted to pre-1990 forest owners and power companies. Gifting 'thin air' credits is tempting because such credits have no immediate effect on government accounts. Moreover, 'hot air' credits from Eastern Europe flooded the scheme. Our ETS has been a speculators' paradise. If we managed our dollar currency in the same way our government has managed NZUs then our national currency inflation would rival that of the Weimar Republic.

After forbidding the surrender of 'hot air' credits, New Zealand's government has proposed auctioning credits to polluters. Auctioned credits would be created without any corresponding actions to mitigate climate

change and would not encourage anyone to sequester CO<sub>2</sub> from the atmosphere. We should call them 'thin air' credits. How can polluters claim to be 'greenhouse gas neutral' after using 'thin air' credits to cover their emissions?

The term 'greenhouse gas neutral' should be reserved for those who either do not emit or who purchase credits for their pollution from others who sequester CO<sub>2</sub> from the atmosphere. Establishing new forests is one way to sequester CO<sub>2</sub>, and New Zealand could rapidly meet its climate change mitigation targets through new plantation establishment. To do this we must revise our policies.

If we choose to continue with the ETS then policy changes are required in order to reduce risk and stabilise the price of NZUs:

- **Manage our domestic credit currency**

We need to set reduction targets each year that stabilise the NZU price at a level that encourages us to meet international commitments. Emission reduction targets could be set by a small policy group that is protected from interference by government or lobbyists, and charged with keeping the NZU price at a level that would enable New Zealand to meet its international climate change commitments. We also need to plan to gradually reduce our NZU price as the world solves the climate change problem, thereby also reducing long-term liabilities for owners of forests. If this policy was well known then foresters would be more inclined to participate in the ETS.

- **Stop giving away 'thin air' credits and require surrenders only for 'over-target' greenhouse gas emissions**

'Thin air' credits have no credibility and simply add to the NZU currency pool without creating any value. Requiring surrenders only for over-target emissions would mean less long-term liability for ETS participants and also no inflationary infusions of 'thin air' credits into the market.

- **Apply the ETS equally to all sectors**

Not only would this be more equitable and minimise market distortion, it would lessen the load for current participants.

- **Allow trading only between sequesterers and emitters so that if you over-pollute you pay someone else to clean up**

Speculative investment in NZUs encourages gaming and price fluctuation, and contributes nothing to mitigating climate change. Restrictions on trading would limit speculative behaviour.

- **Buy back gifted NZUs that were replaced by 'hot air' credits before surrender so that our ETS can begin to work without undue delay**

We cannot afford to wait several years for the ETS to work effectively. Buying back the gifted mountain of NZUs stored in our registry would mean that NZU owners would not be out of pocket but the ETS could begin to operate more swiftly.

In addition (some say instead), we might consider expanding afforestation grant schemes. When forest owners participate in the ETS they incur a long-term liability that is a disincentive for some. Afforestation grant schemes provide an incentive without the liability, but probably for lower financial gains for forest owners compared to ETS participation. This option is controversial because it is essentially a subsidy, price setting would be difficult, and it may lead to complaints between sectors because it would distort the market.

It is way past time for New Zealand to begin to play its part in addressing climate change, and forestry is one of our trump cards. All we need are sensible policies.

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