Will NZ walk away from the Paris Agreement?

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By Geoff Bertram

COMMENT: Unless the government can find very cheap offshore mitigation, the temptation to walk away from its Paris Agreement obligations may well be too strong to resist for a coalition government focused on fiscal austerity.

A couple of months ago I gave a lecture with the title “Will Aotearoa/New Zealand walk away from the Paris Agreement?” My answer then was: probably yes, since there is now no prospect of this country meeting its Nationally Determined Contribution (NDC) target by domestic action to reduce emissions, and the cost of buying offshore offsets could run into the billions.

But walking away can take various forms. The easiest is to retrospectively revise the NDC target down to a level consistent with projected actual emissions. As Treasury pointed out last year, “New Zealand may change its NDC at any time.”

And as the Climate Change Commission noted this year, “the Paris Agreement imposes a binding obligation on countries to have an NDC in force at all times but does not impose an obligation to meet that NDC… changes in the level of Aotearoa New Zealand’s NDC are not a change in international obligations.”

The real test would be whether our trading partners agree not to cancel Free Trade Agreements that contain climate policy provisions.

A second option is to find some cheap source of offshore credits without imposing a fiscal burden. An intriguing paragraph headed “international cooperation on reducing emissions” on page 28 of the draft Emissions Reduction Plan published earlier this month seems to argue that joint ventures elsewhere in the world might open up some off-Budget way to get offshore credits; watch this space.

The third option is to bare-facedly defect from the 2015 Paris Agreement, as the USA will clearly do if Trump becomes President. This does, however, have potentially high costs diplomatically and in terms of free-trade agreements.

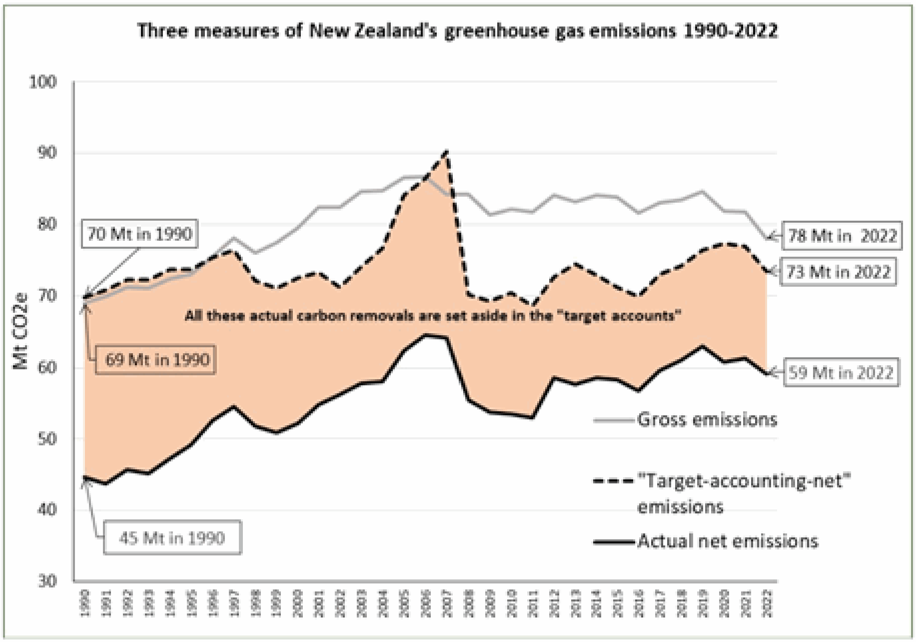
How did it come to this?

Basically, since the early 1990s New Zealand’s weak political leadership, under intense pressure from powerful vested interests, has repeatedly shied away from any serious effort to cut this country’s gross emissions.

That failure to take effective action has co-existed with a political imperative to rhetorically proclaim a deep commitment to emission reduction and climate change mitigation.
The contradiction between glowing PR window dressing and shabby reality has, until now, been resolved by creative accounting.

In addition to the two scientifically-grounded measures of New Zealand’s GHG emissions (gross and net), New Zealand has produced a third measure, created for spin-doctoring without a solid basis in either science or economics. That third measure, calculated under a “target-net-accounting” procedure, gives a false picture of New Zealand’s actual emissions history but has been the basis for all official climate policy to date.

The chart below shows the three measures for the years 1990-2022, using the latest AR5 data (the April 2024 GHG inventory report for actual net emissions, and last week’s ERP numbers for gross and target-accounted-net emissions).



The 'fig-leaf' of target accounting

According to these numbers, actual net emissions (“what the atmosphere sees”) increased by 33% between 1990 and 2022, while target-accounting-net emissions rose just 5%. As usual with accounting fiddles, the target-accounting story is “legitimate” within the letter of the Kyoto Protocol rules, in the drafting of which New Zealand played an enthusiastic part.

The essential trick is to enter credit for carbon absorption only for forests planted since 1990, while excluding from the accounts all carbon absorption by other forests. The atmosphere doesn’t care, nor does the science, and the procedure has no sound economic rationale (because it includes no counterfactual and so is not measuring true additionality).

But for a government needing a fig-leaf to cover policy nakedness, target accounting has been a godsend.

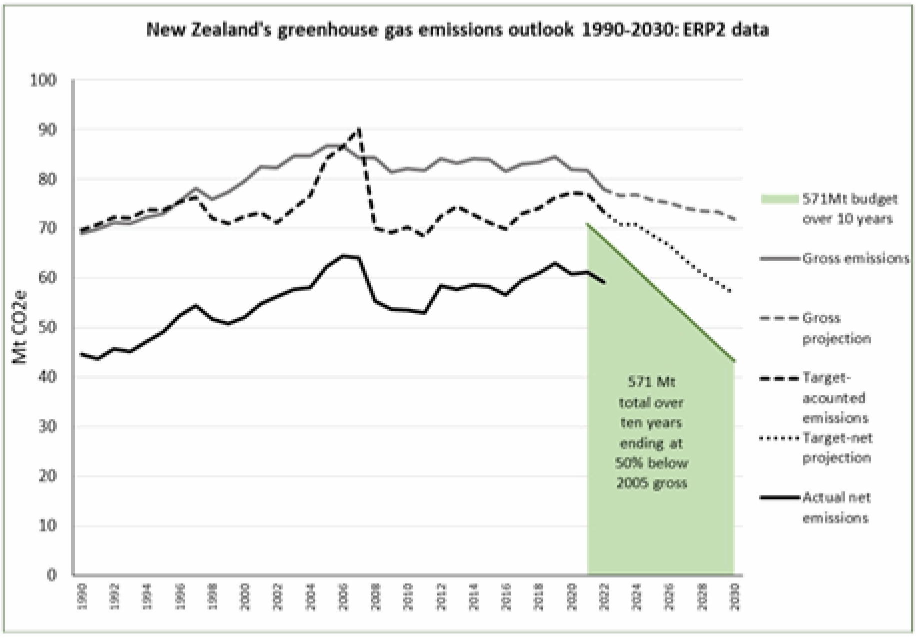
The New Zealand Government sets its emissions targets by comparing “target-accounting-net” emissions in a future year with gross emissions in a base year (1990 for Kyoto Commitment Periods 1 and 2, then 2005 – the absolute peak year - for NDC1). Actual net emissions - the ones that really matter for the global atmosphere - never enter the policy story.

In the Kyoto First Commitment Period 2008-2012 New Zealand promised to keep target-net emissions equal to 1990 gross emissions. As the chart above shows, the target was achieved easily without drawing breath, even though actual net emissions were up by nearly 25%.

For the Second Commitment Period 2013-2020 New Zealand refused to take a legally-binding Kyoto target but offered a voluntary one of holding target-net emissions in 2020 to 5% below gross emissions in 1990. Since nothing effective was done to bring actual emissions down, the target was not quite met, but New Zealand was holding enough banked carbon credits (derived from junk purchases of Soviet-era hot air during CP1) to cover the deficit.

In its Nationally Determined Contribution (NDC) for 2021-2030, New Zealand unilaterally shifted the Kyoto goalposts to start from gross emissions in 2005 (the peak year), and promised to limit target-net emissions to 36% below 2005 gross emissions by 2030. Then in 2020 the Arden Government raised the figure to 50%. Last week's ERG numbers show that as of 2022, target-accounting-net emissions were 73 Mt, barely 15% lower than 2005 gross emissions of 87 Mt and a long way from either of the NDC targets.

The chart below extends the historical picture out to 2030 using the ERP projections for gross and target-accounted-net emissions and the NDC ten-year total target of 571 Mt CO_2e, allocated as a straight-line series of annual target-net emissions ending at 43.3 Mt (50% below 2005 gross emissions).



Inadequate domestic climate policy

Reaching the 50% NDC target by domestic action would require something dramatic to happen to target-net emissions. But Labour's already-inadequate domestic climate policy has been weakened by the Coalition Government, with the result that gross emissions are now projected to fall only 12% from 2020 to 2030, and target-accounted-net emissions are (optimistically) projected to be 35%, not 50%, below 2005 gross emissions by 2030.

The resulting gap of around 100 Mt will have to be filled from offshore, if the NDC target is retained.

Treasury last year estimated the cost of doing that as $3 billion to $24 billion; some recent commentary suggests around $14 billion. The Emissions Reduction Plan predicts a carbon price of $75 per NZU in 2030, at which price 100 million offshore units would cost $7.5 billion.

Unless very cheap offshore mitigation options through off-Budget JVs are found, the temptation to walk away from the NDC (or, equivalently, to retrospectively re-state it so as to remove any ambition) may well be too strong to resist for a Coalition Government focused on fiscal austerity.

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