A New Carbon Accounting Unit for Permanent Sequestration

Submission on the
Climate Change Response Emissions Trading Reform Amendment Bill

This submission addresses a single issue: the need for a new carbon accounting unit that recognises permanent sequestration.

The Issue: Delivering permanence in offsets

There is increasing consumer pressure on exporters to provide carbon neutral products. This is boosting demand for carbon credits that have strong environmental integrity and can be used internationally to offset that portion of a producer's emissions that is not eliminated.

Pastoral agriculture in particular faces two converging challenges that are increasing pressure for carbon neutral production to be adopted:[1]

- Increasing awareness of the impacts of meat and dairy production on the environment, and
- Direct competition from plant-based foods that provide an alternative to animal protein products and have much lower environmental footprints.

Global value chains and brands are already making emissions neutrality commitments for 2050 (for example Danone's to become "carbon-neutral from farm to family").[2] In New Zealand, Synlait has a net zero emissions target for 2050. Tourism operators also face rising consumer expectations for carbon neutral services.

Offset providers are currently unable to deliver any suitable locally sourced carbon credits for use post 2020. They can only source credits arising from other jurisdictions. A key issue is that in order to get recognition in the international marketplace, offsets increasingly need to adhere to principles set out under the ICROA Code of Best Practice,[3] and meet a permanence test in particular. Article 2.1.3 of the code specifies that permanence in this context means a minimum of 100 years:

[1] For further discission see: Sustainability Council and Envirostrat, *Market Pressures for Pastoral Products to go Carbon Neutral, and the 2050 Climate Target*, 2019.
[2] This was reflected in Danone's decision to invest $40 million to run its Balclutha plant on fuel that is carbon neutral. https://www.msn.com/en-nz/money/news/danone-spends-dollar40-million-to-create-nzs-first-carbon-neutral-dairy-plant/ar-AAF3wBv?ocid=se
[3] ICROA, *Code of Best Practice For Carbon Management Services –Technical Specification*, 2019.

> **Permanent:** Carbon credits shall represent permanent emission reductions and removals. Where projects carry a risk of reversibility, at minimum, adequate safeguards shall be in place to ensure that the risk is minimized and that, should any reversal occur, a mechanism is in place that guarantees the reductions or removals shall be replaced or compensated. These conditions shall be superimposed on emissions reductions and removals validated and verified by any ICROA-approved offset standard that requires additional permanence conditions. The internationally accepted norm for permanence is 100 years.

Proposal: A new carbon accounting unit for permanent sequestration

In response to the above, the Sustainability Council developed the proposal that a new unit of carbon accounting be created to specifically recognise permanent sequestration. This proposal was advanced to ministers in 2019 as part of wider suggested reforms, including managing issues arising from the interaction of regulatory carbon instruments, such as the ETS, and the use of voluntary carbon instruments. (We note that a local offset provider, Ekos, has also backed our proposal for a separate unit in its submission on the Bill).

The creation of a new unit of carbon currency, provisionally entitled New Zealand Permanent (NZP), would provide a clean and clear way for exporters to meet international standards for offsetting - and for those developing such carbon credits to target the required standard.

At present the NZU is not tied to any international accounting base or cap (having originally been designed to be 'backed' by equivalent volumes of AAUs). Nor do NZUs measure actual carbon flows domestically – as units of forestry sequestration sit right alongside units that are gifted to major industrials as emissions tax subsidies. In the latter case (units issued to energy intensive industries), an NZU has no connection to carbon reduction activity and is simply serving as a means to deliver a targeted tax break.

The NZU is sufficiently debased as a currency for accounting for carbon flows that rather than attempting to create another sub-brand of the NZU, an entirely new unit and name is needed – the NZP for example. Such a move would allow clear marketing statements to be made and would set up incentives for high integrity sequestration. The alternative is a labyrinth of layered declarations and bundled understandings that, simply as a result of their complexity, invite opportunities for carbon fraud and thus scepticism – from international certifiers, producers and consumers. Given New Zealand's recent history in allowing the use of relatively large quantities of carbon credits that were severely lacking in environmental integrity (through allowing their surrender under the ETS), it is all the more important for New Zealand to be seen to be setting strong standards where permanence is the expectation.

A new unit for sequestration will also allow a cleaner approach to be made to incorporating non-forestry sequestration sources. For example, forms of 'blue carbon' are gaining increased attention for their sequestration efficacy and have the potential to significantly expand New Zealand's offsetting capacity.

Current and proposed new provisions for the Bill

The Bill currently addresses the permanence issue in two ways:

- It disestablishes the existing Permanent Forest Sink Initiative, and
- Replaces the PFSI scheme with a new permanent post-1989 forest activity in the NZ ETS.

These new provisions have a number of limitations, including:

- They apply only to forests rather than all potential forms of permanent sequestration;
- They apply only to post-1989 forests; and
- They restrict (clear-fell) harvesting for only 50 years (compared to the ICROA minimum standard of 100 years).

We suggest that the Bill be amended so that

1. **A new unit of accounting is created that recognises permanent sequestration of all forms**
   It can incorporate the proposals for post-1989 permanent sequestration. Should there not be consensus to create the new unit now, the Bill should at least be amended to provide the minister with the power to create such new units by Order in Council – a power that is likely to be useful in any case as other new units may also be desired in time.

2. **The Minister is empowered to set the standards for the new unit by Order in Council**
   Delegating to regulation the definition of what standards must be met to comply with the new unit will allow these to be readily updated as market standards evolve.

There are complex issues to be addressed involving the interaction of regulatory pricing instruments and voluntary instruments, including what is to be considered double counting – internationally and nationally. However, none of this is a barrier to ensuring the Bill provides the minister with the power to deliver a separate unit that recognises permanent sequestration.

The Sustainability Council would appreciate the opportunity to be heard in support of this submission.