New Zealand's new carbon market: a taxpayer subsidy for plantations and energy companies

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New Zealand has a new carbon market, the first national scheme to be launched outside Europe. It looks set to award profits to forest plantation owners, help power companies avoid emissions reductions, and pass the costs of tackling climate change from big business to individual consumers.

The New Zealand Emissions Trading Scheme (NZ ETS) was officially launched on 1 July. It covers approximately half of the country's greenhouse gas emissions.

The majority of permits are expected to be supplied by forestry projects, which are notoriously unverifiable and include numerous plantations.

Initial estimates suggest that around a third of the permits, called New Zealand Units (NZUs), are expected to be sold to oil companies, with the remainder bought by electricity producers and manufacturers of cement, steel and aluminium.

In response to heavy industrial lobbying, however, the New Zealand government has introduced a â€œbuy one get one freeâ€• offer for manufacturers and the energy sector. Until 2012, companies are only expected to buy one â€œtonne of carbonâ€• for every two they produce. The other half of the permits will be paid for by taxpayers.

Roughly 11.7 million NZUs will be issued free to manufacturing, accounting for most of the permits required by aluminium smelters, and up to 90 per cent of permits in industrial sectors such as steel and cement. The exact proportions are currently subject to tenders from industries that consider themselves â€œcompetition exposed.â€•

Windfall profits: individual consumers lose, energy companies win

Even with the high level of assistance and free allocations, energy companies have notified customers of imminent price hikes. Contact Energy Ltd, the country's largest electricity supplier, has already announced that residential power prices will rise by an average of 3.2 per cent. Mercury Energy, the third largest supplier, also announced a 3.3 per cent price rise.

This mirrors in some respects the experience of the EU's Emissions Trading System, in which energy companies passed on increases to consumers way in excess of what emissions permits actually cost them. The result has been a financial bonanza for energy companies.

The New Zealand Sustainability Council estimates that households will bear half the cost of the ETS during its first five years, despite accounting for just 19 per cent of all emissions. In a recent report, it concluded that the scheme imposes a â€œregressive quasi-tax burden on households and firms that are not major emitters, while largely exempting high-emitting vested interests with political strength.â€•

Plantations as â€œcarbon sinksâ€•

In the early phases of the scheme, the forestry sector (including plantation owners) look set to have the largest surpluses of permits for sale under the scheme.

New Zealand has met its Kyoto Protocol targets by encouraging commercial plantations and then claiming these as a carbon sink. These plantations â€“ dubbed â€œKyoto forestsâ€• because they were planted after 1989 - are then counted as emissions reductions, although the statistics that measure them as such do not account for the 90 million tons of CO2 that will be emitted when the newly planted trees are cut down in the coming years.

Credits from the â€œKyoto forestsâ€• pre-date the NZ ETS, have already been available for conversion into assigned amount units (AAUs), which can be sold to other industrialised country governments to reduce their overall emissions reduction targets. Official estimates suggest that two-thirds of Kyoto forests will enter the NZ ETS, supplying up to 76.1 million units, which would more than meet projected demand.

It is not yet certain whether plantation owners will continue to sell their credits as AAUs, or register them within the new domestic carbon market. What is clear, however, is that the practice of creating plantations to generate offsets to displace emissions reductions from fossil fuels will only serve to delay tackling climate change.

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Further reading

Ministry for the Environment, New Zealand Emissions Trading Scheme

Pattrick Smellie, â€œETS fails fairness testâ€•

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