

# Boosting voluntary climate action in Aotearoa New Zealand

## Frequently asked questions

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### 1. How was this proposal developed?

Motu Research's work was funded by the Energy Efficiency and Conservation Authority (EECA) and informed by a dialogue process involving cross-sector stakeholders. The work only represents the views of the authors (not EECA or other government departments, dialogue participants or He Pou a Rangi, the New Zealand Climate Change Commission). No endorsement is implied.

### 2. What is voluntary mitigation?

'Voluntary mitigation' means reducing emissions and increasing removals of greenhouse gases (GHGs) beyond government requirements (including requirements in the New Zealand Emissions Trading Scheme (NZ ETS)). Voluntary mitigation can happen in an organisation's own boundaries, within its supply chain (referred to as insetting) or externally (referred to as offsetting).

External voluntary mitigation can include:

- buying and cancelling offsets using the voluntary carbon market (VCM)
- partnering in or otherwise supporting mitigation projects
- marketing low-emission goods and services.

### 3. What are the benefits of voluntary mitigation?

For organisations, voluntary mitigation helps to:

- demonstrate environmental and social responsibility and leadership
- retain social licence to operate
- manage exposure to climate-related risk
- increase market advantage.

For Aotearoa more broadly, voluntary mitigation helps to

- boost innovation and investment
- redistribute mitigation costs to support a just transition
- educate people about climate change and shifting social norms.

### 4. What is the current approach to carbon-neutral claims for organisations in Aotearoa?

Organisations currently follow a hierarchy of measuring the emissions within their boundary and scope, reducing their own emissions where feasible and offsetting residual emissions by financing external mitigation.

Eligible offsets should be transparent; be real, measurable and verified; be additional; not be double counted; address leakage; and be permanent.



## 5. Why won't the current approach work in the future?

The Kyoto Protocol framework (which operated from 2008 to 2020) included mechanisms to avoid double counting of organisational offsets under government targets. The United Nations Paris Agreement has a different architecture. To prevent double counting of voluntary mitigation under countries' Nationally Determined Contributions (NDCs), the voluntary mitigation either needs to fall outside the scope of NDCs or carry a 'corresponding adjustment' by the host government – meaning the government essentially adds the equivalent emissions back into its greenhouse gas inventory.

The New Zealand Government has yet not decided if it will provide corresponding adjustments for domestic mitigation. Doing so would make it more difficult and costly for Aotearoa to meet its NDC and would also raise equity considerations. Currently there is no mechanism that lets organisations in Aotearoa source offshore mitigation carrying Paris-compatible corresponding adjustments. This situation creates uncertainty for market participants.

## 6. What would change under this proposal?

The proposal begins with ambitious targets for reducing organisations' own emissions in line with the temperature goal of the Paris Agreement. In this context, offsetting would boost overall mitigation ambition, not displace it. Organisations could then choose between two tracks for recognising external voluntary mitigation. In the Carbon Horizon track, they would help Aotearoa meet its NDC. In the Carbon Frontier track, they would increase global mitigation beyond Aotearoa's NDC.

## 7. What claims could organisations make under the proposal?

In both tracks, organisations could make a marketable claim for taking credible voluntary action to support Aotearoa's low-emission transition.

Under the *Carbon Horizon track*, an organisation that compensated for (or mitigated beyond) its residual emissions could claim a carbon neutral (or carbon positive) contribution to the NDC. For other levels of mitigation, an organisation could claim a carbon contribution.

Under the *Carbon Frontier track*, an organisation could claim a carbon neutral (or carbon positive) contribution to global emissions. The acceptability of these claims would need to be tested in domestic and international markets.

## 8. What are the advantages of the proposal?

Many organisations want to go the extra distance to support Aotearoa's low-emission transition. They would benefit from clear guidance around what types of actions will make a positive difference for the climate and how to make associated marketing claims.

The *Carbon Horizon track* would open new options for mitigation cooperation with shared gains that help Aotearoa meet its NDC. It would enable recognition for voluntary mitigation in sectors beyond forestry. It would let organisations make credible, transparent claims for more diverse types of voluntary climate action. Its more flexible design means it could be integrated with other frameworks supporting risk management, nature-based solutions, ecosystem services, biodiversity crediting and impact investment. The track would also be scalable throughout the net-zero transition.

The *Carbon Frontier track* would preserve the option for conventional offsetting without double counting under government targets. This track is suited to participants in export markets or CORSIA (the emissions trading system for international aviation) that require Paris-compliant corresponding adjustments. If the New Zealand Government chose not to offer corresponding adjustments, this track would be limited to eligible offshore mitigation.

In the past, offsetting has sometimes been perceived as a least-cost option to comply with government requirements or achieve 'green' credentials for marketing purposes. Moving forward, we could reinvent voluntary mitigation as one means for achieving highest-value climate change outcomes for Aotearoa.

### **9. Does this proposal safeguard environmental integrity?**

Both tracks would involve independent certification of mitigation projects and offsetting and contribution claims by accredited organisations. The process would include assessment of additionality and registry reporting. Organisations could make consistent and transparent claims about whether their voluntary action counted toward NDCs or not. Participation in voluntary mitigation would not exempt organisations from government compliance obligations. The overarching frameworks for domestic emissions budgets and NDCs would ensure positive outcomes for the climate.

### **10. What would the government need to do to make this work?**

Much of the development of this framework could be led by the private sector.

The Government would need to make policy decisions whether and how to:

- enable corresponding adjustments under Aotearoa's NDC
- enable organisations in Aotearoa to access to offshore mitigation with corresponding adjustments
- adjust NZ ETS caps and emissions budgets in response to voluntary mitigation
- provide further guidance for integrity.

### **11. What are the implications for the Carbon Neutral Government Programme?**

In December 2020, the Government announced public sector agencies must measure and report their emissions and offset those which cannot be reduced by 2025.

The Government will need to decide if the additional mitigation claimed by public agencies to achieve carbon neutrality will also count toward the NDC – with or without preventing emissions displacement in the NZ ETS and emissions budgets – or if it will be additional to meeting the NDC.

The Government will also need to determine what types of mitigation activities will be eligible to compensate for residual emissions.

This proposal offers an integrated framework for designing policy that supports effective voluntary action by both Government and other organisations.

### **12. How is voluntary mitigation being addressed internationally?**

This issue presents a challenge to governments and organisations around the world.

Leading organisations and initiatives active in the international voluntary carbon market have a range of views about if organisational offsetting for carbon-neutral claims can also count toward achieving NDCs. No consensus has been achieved yet.

With its broad-based emissions trading system and economy-wide emissions budgets and NDC, Aotearoa presents relatively unique national circumstances. Aotearoa could take a leadership role in designing an approach to voluntary mitigation which is effective in our context and enables credible marketing claims by organisations while safeguarding environmental integrity.

### **13. What are the next steps?**

Aotearoa could progress a two-track approach for voluntary mitigation by further research, leadership, experimentation — and collaboration across diverse stakeholders and iwi/Māori. We also need ongoing communication with international markets and thought leaders on these issues.

Leaders of organisations need to engage with policymakers to shape the future of voluntary mitigation in Aotearoa. With further development, this proposed system could help organisations get due recognition for going beyond government requirements to help Aotearoa transition to a successful low-emission economy.

#### **More about Motu Research**

Motu Economic and Public Policy Research is an independent economic research institute which never advocates an expressed ideology or political position.

A charitable trust, Motu Research is founded on the belief that sound public policy depends on sound research accompanied by well-informed and reasoned debate.

Motu Research is the top-ranked economics organisation in New Zealand. It is in the top ten global economic think tanks, according to the Research Papers in Economics (RePEc) website, which ranks all economists and economic research organisations in the world, based on the quantity and quality of their research publications.

Motu Research also ranks in the top ten climate think tanks in the world according to the International Center for Climate Governance. See [www.Motu.nz](http://www.Motu.nz).

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EECA is the government agency that works to improve the energy efficiency of New Zealand's homes and businesses and encourages the uptake of renewable energy.

Our purpose is to mobilise New Zealanders to be world leaders in clean and clever energy use. See [www.eeca.govt.nz](http://www.eeca.govt.nz).