

## **WHY NOT AN AUSTRALIA-NZ KYOTO 'BUBBLE'?**

**David Hodgkinson, Renee Garner and Simon Dawkins**

There are obvious advantages for Australia having ratified Kyoto before the beginning of the first commitment period (2008-2012) and, more importantly, before the start of the real dialogue on any second commitment period or post-Kyoto framework.

In our view there are also advantages in forming a 'bubble' under Kyoto with New Zealand.

Under Article 4 of Kyoto it is possible for two or more Annex I parties to agree to fulfil their emissions reduction commitments jointly – to form a bubble for the purposes of meeting their targets.

These parties then become subject to a collective amount of total allowable emissions for the first commitment period rather than their individual commitments.

The European Union is the only example thus far of joint fulfilment of Kyoto commitments.

Why would Australia seek to bubble with New Zealand?

An Australia-New Zealand bubble would build on the Australia New Zealand Closer Economic Relations Trade Agreement and the Australia-New Zealand Climate Change Partnership, and represent a further step towards a strong relationship with New Zealand on climate change.

One of the themes of the existing Partnership is working together with Pacific island nations to address regional challenges. In ratifying Kyoto and in seeking to bubble with New Zealand, Australia signals to these Pacific island nations – among the most vulnerable of all nations to the effects of climate change – that it is, at last, serious about addressing climate change.

Such action also supports existing Labor policy. In its policy discussion paper, *Our drowning neighbours*, that policy is informed by two themes: Australia must help its Pacific neighbours to meet the challenge of climate change, and must also do its part locally and globally to combat climate change.

Seeking to bubble with New Zealand indicates a seriousness of purpose and a willingness to significantly engage in the Kyoto process and to fully take advantage of Kyoto mechanisms. Such action has both symbolic and practical significance.

A strengthened climate change relationship with New Zealand could also result in future harmonisation of free carbon trading between the two countries and, ultimately, a single, amalgamated emissions trading scheme.

In the short term, and off the back of the proposed bubble, it is possible that Australia and New Zealand could enter into a bilateral agreement allowing for the free trade of offset credits between their respective domestic emissions trading schemes.

Covered sectors under the Australia and New Zealand schemes differ. For example, the New Zealand scheme covers agriculture and forestry; the Australian scheme does not. Opportunities would therefore be created for the importing and exporting of offsets in those sectors.

Such action would require recognition of New Zealand offsets in the design of the Australian emissions trading scheme, and vice versa, among other things.

Benefits flow from increasing the scope of the offsets market and potentially moving to an amalgamated emissions trading scheme, one of which is liquidity. In any event, forming a bubble under Kyoto with New Zealand would represent a further step in strengthening our regional climate change response.

There are issues associated with forming a bubble with New Zealand. Both parties would be collectively responsible for their total allowable emissions. And New Zealand may be reluctant to take on additional risks given that they have been in the Kyoto process for some time.

There are also advantages, however, in addition to those we have mentioned. It increases the two parties' bargaining power ahead of negotiating any second commitment period or post-Kyoto framework, for example. For Australia, New Zealand's experience with Kyoto's flexibility mechanisms would be invaluable.

Finally, action by Australia and New Zealand such as that which we propose could encourage the formation of other bubbles. It also seems to us not inconceivable that Japan, the only other Annex B party in our broader region, could eventually form part of the Australia-New Zealand bubble.

Rajendra Pachauri, a scientist and economist who leads the IPCC, has noted, 'What we do in the next two or three years will define our future.'

It is time now for audacious goals and action by the new Australian government.

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