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PM's emissions trading report expected soon

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PRIME Minister John Howard will receive a report in May from his specially selected taskforce on carbon emissions trading.

Although the composition of the group has been criticised, there is no doubt its projections will be widely discussed.

Mr Howard's departmental head, Peter Shergold, is chairman of the group, which includes Qantas chairwoman Margaret Jackson and executives from BHP Billiton, Xstrata, Alumina, NAB and National Power.

In the past nine months, Mr Howard has gone from being opposed to any carbon trading unless it is adopted internationally, to seemingly endorsing the Labor states' position that such a system is necessary for Australia but must be imposed by Canberra.

Although the thrust of the taskforce's thinking is not known, a book published by London's Consilience Energy Advisory Group gives a clear guide to what has been experienced through a carbon trading scheme that began in Europe early last year.

A second edition of *Climate Change and Emissions Trading: what every business needs to know* is to be published soon.

In it, authors Liz Bossley and Andy Kerr say the Kyoto Protocol's promise - on the part of fewer than half the world's emitters - to cut greenhouse gas emissions by about 5 per cent compared with 1990 levels by 2012 is no more than "a gesture in the direction of one possible solution to an imperfectly defined problem".

The second edition takes into account October's publication in Britain of the Stern Review on the economics of climate change but not the more recently published study from the International Panel on Climate Change.

Bossley and Kerr note that the partnership between Australia, US, China, India, Japan and South Korea, known as AP6 and set up in July, has adopted an approach to greenhouse gas emissions that supports the European-adopted "cap and trade" approach.

In this system, a central regulatory authority imposes a cap, or upper limit, on greenhouse gases that may be emitted along with the rights to emit that can be traded.

Bossley and Kerr say the number of allowances generated by the central authority must be less than the emissions cap.

"Unless there is a shortage of emissions allowances, there is no incentive to cut actual emissions," they state.

Commenting on AP6, they claim its stated intention is to "collaborate to promote and create an enabling environment for the development, diffusion, deployment and transfer of existing and emerging cost-effective, cleaner technologies and practices through concrete and substantial corporation so as to achieve practical results".

This approach does not impose emission caps or involve measurement and verification standards that require international approval, but relies on public/private partnerships to put bilateral projects into effect.

"No practical results have been reported so far by AP6 but it represents a powerful group of countries and its activities should not be written off," Bossley and Kerr say.

Australia heads two of the major work programs being undertaken by AP6.

But discussing cap and trade, the authors note that early experience of the European energy trading system, which began in January last year, has brought the concept of emissions trading into disrepute because emissions caps were too high.

"Around 12,000 installations involved (in the initial program) had over-claimed their need for allowances in the first place (or) had made a legitimate claim for allowances but had achieved a surplus by cutting production or investing in new technology," they say.

"The first should be penalised, the second should not."

They add that the market could deliver a carbon price to encourage green behaviour, but only if politicians were prepared to accept the economic and social consequences of change by agreeing to meaningful greenhouse gas emissions targets.

"Otherwise the emissions market is a house built on sand that will be swept away by the next wave of surplus allowances," the authors argue.

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