

ROBERT MCCAFFREY REVIEWS A 'MANUAL' FOR EMISSIONS TRADING

Climate change and emissions trading: what every business needs to know' is a recently published 'manual' which delivers the basics and the details on the European Union Emissions Trading Scheme in CO<sub>2</sub> (EU ETS), as well as taking in some of the background science. The start of trading in the EU ETS in January 2005 and the ratification of the Kyoto Protocol in February 2005 have meant that the cement and lime industries now have a heavy burden of reporting: If and when national allocations are tightened, the industry will see its costs rise, and there are serious plans afoot to shift production outside of the EU, to areas not covered by the ETS, even though the CO<sub>2</sub> liberated in fuel burning and through calcination knows no borders. The authors of the book make the point that Kyoto is just the start of mankind's efforts to address climate change, and that action will soon be taken to achieve bigger cuts in a broader range of industries, and in a larger number of countries.

The Kyoto Protocol proposed legally-binding reductions in greenhouse gases (GHGs) of at least 5.2% compared with 1990 levels (including a cut of 7% from the US). As well as international emissions trading, and the clean development mechanism (CDM), Kyoto also proposed Removal Units (RUs), where countries can earn credits by planting or expanding forests. My own view, as a geologist, is that a forest is only a temporary storage device for CO<sub>2</sub>, even if it lasts for a thousand years: when it decays or burns, it will release its carbon back into the atmosphere: I don't see the point of RUs.

Interestingly, the report does mention those bodies of opinion that diverge from the mainstream. The Copenhagen Consensus group suggests that prioritising action on HIV/AIDS or clean water would be more sensible/give a great payback than action/expenditure on climate change. Yet others deny that climate change is happening or suggest that it is a man-made phenomenon. Piers Corbyn of Weather Action suggests that increased solar radiation has meant that the seas have warmed and that they are less able to absorb carbon dioxide.



The consensus is that the cause and effect are exactly the opposite of this view. Whatever the physical reality, the political reality is that emissions trading is now here, and we all have to deal with it.

The book reviews in detail some of the concepts of the ETS, such as cap and trade schemes (where a central body sets the overall amount of permitted emissions, doles out permits and

then allows sectors, companies or factories to buy and sell allowances); and 'additionality' (for example a new 'clean' source of power should not be in addition to a dirty source – there should be an overall reduction in emissions), and in addition, the book has a large glossary of new technical terms and acronyms that have sprung up to describe emissions allowances markets. If you have been tasked by your company to manage its allowances, then the book would make a good practical start.

In looking at the future, the report's authors point out that, although the US is opposed to the Kyoto Protocol, the US and Australia have pledged to protect the climate system, take precautionary measures against climate change, and not to use a lack of full scientific certainty to postpone such measures. A series of meetings around the globe will take place over the next two years to try to set out a framework for what happens next (after Kyoto). However, what is already known of the second phase of the EU ETS is that it will include all six main GHGs, will involve fines of Euro100/t (compared to Euro40/t) for emitting CO<sub>2</sub> without an allowance, and issue not more than 90% of allowances free of charge, compared with 95% in the first phase. The screw is tightening.

The authors of the report state in conclusion, 'The Kyoto Protocol is a feeble weapon, with its insubstantial cuts and its tortuous bureaucratic processes. But it may be regarded as only a preliminary and pragmatic laying down of the battle lines: the real fight has begun with attempts to bring countries such as the US and Australia into the fold and to agree more meaningful cuts to a wider range of sectors, including transport, for the post-2012 period.'  
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