China, India and South Korea urged rejection of Kyoto Emissions caps

LONDON, Nov 22 (APP): China, India and South Korea could have a much larger impact on the international price of carbon if they continued to reject Kyoto emissions caps at the Bali conference in December and instead devised their own domestic greenhouse gas trading schemes better suited to their own needs and under their own control.

A leading UK energy consultant Liz Bossley has argued that any caps that these developing countries might be induced to accept are likely to be set so high for political reasons that they would undermine the while Kyoto cap-and-trade concept.

Bossley who heads an Energy Advisory Group said for Kyoto to achieve anything there must be shortage of allowances such that their traded price is high enough to incentivise change.

She said it would be unfortunate if the cooperation of the Non-Annex 1 countries such as China from 2013 were to be bought with a cap that is so high as to create a surplus of allowances in the second commitment period similar to the Russian surplus of “hot air” in the 2008-2012 period.

Hot air is the term given to surplus emissions allowances that have been generated without any effort to cut emissions levels. The existence of the Russian surplus is likely to put a psychological ceiling on prices in the first Kyoto period. The total surplus of allowances in the 2008-2012 period, about 75% of which is in Russian hands, is estimated at around 14% of the caps that have been agreed for the period.

In an article published by the Oxford Energy Forum, University of Oxford, Bossley, has argued that if developing countries such as China were to devise their own domestic cap-and-trade mechanisms, targeting whichever sectors, industries or regions within their own borders that they deemed appropriate, the countries could buy a significant proportion of the international market surplus of allowances for compliance with their own domestic schemes. This would support the price of allowances in the international market and support the objectives Kyoto Protocol without the need for negotiating a Kyoto-prescribed cap.

Any country, region, local authority, company or individual can trade in most of the different types of Kyoto allowance asset classes by opening up a registry Person Holding Account in one of the 25 operating European allowance registries. This is achieved by a process similar to opening a bank account.

She noted that if sufficient Non-Annex 1 countries chose to introduce domestic emissions trading schemes outside the direct control of the UN, but using existing Kyoto-based allowances and/or allowances generated by non-Kyoto mandatory and voluntary schemes, it would not only raise the international carbon price but also provide a fungibility link between the prices of allowances from diverse sources that are not otherwise interchangeable.