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Emissions trading schemes are fraught territory: is Rudd ready?



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DISCLOSURE STATEMENT

Maxine Newlands does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

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Prime Minister Kevin Rudd has told Australia we're shifting to an emissions trading scheme one year earlier than anticipated, with Treasurer Chris Bowen suggesting it will address "cost of living pressures".



But does a carbon emission trading scheme constitute a substantial response to the problem of man-made global warming and rising energy bills? Or is it simply greenwashing? Rudd will have to learn from the mistakes of Europe's ETS if he's to show ours is a serious response to a serious problem

Reducing emissions with a trading scheme rather than a tax can be risky business. Brian Yap

By proposing this change, Rudd is making “climate change an election issue again”. But the issue this time is tagged as easing living costs and heading off the loss of mining industry income, and it’s all to be done without threatening a return to surplus despite a probable cost to the budget of several billion dollars.

It’s all about economics. Christine Milne has a point when she asks, what has it to do with the climate?

Rudd is not the first political leader to put economics at the heart of climate change issues. The parallel rise of mainstream environmentalism and financial services – and the role of politicians and policy makers in translating the former into the latter – is a familiar pattern across the world. In the UK, Tony Blair and Gordon Brown both used tools such as emissions trading to create a carbon budget and reform energy markets.

Friends of the Earth identifies carbon trading as “action by governments to create this new commodity – the right to emit carbon – and then to limit the availability of this right in order to create scarcity and therefore a market for it”. Carbon trading is the buying and selling not of carbon, but of permits to emit carbon dioxide, under licence from nations or international institutions.

Green markets were seen by many as additional taxes that increased costs of living. Politicians have been accused of “grandfathering”; using an ETS to produce windfall profits for firms by selling a large volume of their allocated permits.

Rudd will need to avoid similar accusations. He says he wants to bring the ETS forward with a floating price of between \$6 and \$10 per tonne to “ease cost of living pressure for families“, but the ETS may not be the best way to do this.

Carbon emissions trading is particularly prone to dubious transactions. In Europe, oil companies have profited by selling on their surplus allocations to under-allocated hospitals and universities. Steel manufacturer Corus obtained emissions permits for development at their plant in the North of England, then shelved their plans and sold on the unused permits for an estimated profit of £250 million.

There has been tax fraud in spot trading of allocations followed by “cyber-thieves” hacking into spot trading, prompting the (temporary) suspensions of the market. This “sparked panic and forced a halt into trading in numerous countries”.

In Europe the third phase of ETS comes into effect in 2013. Organisations with remaining permits will “carry over 1.8 billion permits...obviating the need to buy any new credits before 2016”, thus making a mockery of the system. Other writers have suggested ways Australia’s ETS could overcome this problem, but it remains to be seen whether the Prime Minister is up to the challenge.

Rudd’s decision to move from a fixed price earlier than the scheduled date of July 2015 would require setting emissions caps. As Tony Wood showed in an earlier article for The Conversation, this too is both politically difficult and hard work.

Rudd’s preference to solve climate change is diplomatic, trading one country’s concern against another’s in a process of lengthy negotiation. But “international cooperation” can often turn out to mean a protracted process in which each nation’s toxicity – the problems it manufactures for others – is offset against the geo-political problems which they, too, have produced while pursuing their own self-interest.

Rudd needs to be careful with the quick shift to an ETS. With the Greens still likely to hold the balance of power in the Senate, putting climate change on the election agenda opens him up to accusations of greenwashing, grandfathering and ignoring renewable energy. Rudd claims

the move to fast track to ETS is revenue neutral – but we've heard that before.

Like Thatcher, Cameron, Brown and Blair, Rudd is using climate change as a political tool to get one over on the opposition while still keeping big business sweet. There are risks for consumers, international relations and – of course – the atmosphere. As details of the new scheme emerge, we'll better be able to judge how carefully those risks have been considered.

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