

# Emissions trading could misfire, economists warn

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With the report of the Prime Minister's Task Group on Emissions Trading due to be handed to Prime Minister John Howard tomorrow, environmental economists from The Australian National University have warned that an emissions trading scheme could misfire if it is poorly designed or captured by interest groups.

Dr Jack Pezzey and Dr Frank Jotzo argue that while emissions trading is essential for sensible climate policy, a poorly designed system risks being unfair and inefficient, especially if any major emitters are excluded or given too many free permits.

"Emissions trading will be the most important single step the Government can take towards an effective and efficient climate policy," Dr Pezzey from the Fenner School of Environment and Society said.

"But the details are crucial. In his comments this week, the Prime Minister seemed to leave the door open for fossil fuel industries to weaken the environmental and cost effectiveness of emissions trading, and to grab windfall profits. Any future Labor government could also find itself under similar pressures.

"For emissions trading to achieve the lowest cost emission reductions for Australia, all carbon dioxide emissions must be treated equally. This will inevitably have unequal results: deeper cutbacks in carbon-intensive energy industries like coal, while carbon-friendlier sources will increase their market share."

The researchers argue that unless the emission permit trading system is properly designed, the Government could be opening the door for a 'greenhouse grab' where politically influential industries get a large allocation of permits for free. This could result in windfall profits for industry, leaving consumers and taxpayers to foot the bill, as happened recently in the European trading scheme.

"There is no hiding the fact that prices for energy and goods with embodied greenhouse pollution must increase", Dr Jotzo from the Research School of Pacific and Asian Studies said. "Consumers need incentives to buy cleaner technologies and change their consumption patterns. But they can be compensated using revenue from permit auctions – and this money can also be used to cushion the blow to workers and shareholders, especially in the coal industry."

The researchers argue that a comprehensive system is a must to reduce emissions cost-effectively throughout the economy, as exemptions for trade-exposed industries and small emitters could compromise the scheme. They argue that exemptions just mean more has to be done, at higher cost, to reduce emissions elsewhere in the economy.

Source: The Australian National University

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