

Why a global emissions trading system can fend off climate catastrophe

The world is urgently searching for an overarching solution to the challenge of global warming. Governments made a commitment in Bali to negotiate a new post-2012 agreement to meet this challenge.

These negotiations must now be vigorously pursued. Energy efficiency, a push for renewables, breakthrough technologies, efforts to avoid deforestation, advanced forms of nuclear power and any number of ingenious policies and measures appropriate to national circumstances are all available to help us save our planet.

Yet any solution needs to ensure that global greenhouse gas emissions are cut by more than 50 per cent from 1990 levels by 2050. More, this must be done in the most cost-effective way.

The best solution is a global emissions trading system. This would create a single long-term world carbon market and turn the right to burn fossil fuels into a dwindling commodity. Permits to burn fossil fuels and emit CO₂ would be issued worldwide. They would then be gradually decreased with the goal of reaching the 50 per cent reduction in emissions by 2050. In short, nobody would be able to use or burn fossil fuel unless they possessed permits equivalent to the carbon content of such fossil fuel.

Preferably, the trading of such permits should be implemented upstream at the level of primary fuel producers and importers and in a completely free, unrestrained and non-discriminatory manner. Free trading would give rise to a single price for each unit of carbon burned and emitted no matter where in the world this occurred. The beauty of a single, uniform carbon price is that it would force emission reductions precisely where it was least costly for that to happen.

If the long-term price signal became clear worldwide, the use of fossil fuel would become more rational. No one would burn fossil fuel unless they were able to pay the carbon price. Everyone would be equally entitled to accede to the prevailing lowest cost abatement opportunities worldwide. A stable long-term carbon market with gradually dwindling allowances would be a powerful incentive for companies to seek energy-efficient solutions and invest in cleaner technologies.

As long as a business remained competitive in relation to the carbon price, it would be able to buy permits and burn as much fossil fuel as it required. Such a global emissions trading system would not restrain production or growth. It would force fossil fuel to be burned in the most rational and

competitive way and compel individuals and businesses to pursue energy efficiency and to invest in new cleaner technologies.

Such a system would avoid so-called “carbon leakage”. Industries moving to foreign countries in search of lenient carbon restrictions would face exactly the same carbon price. Additionally, the system would be the least expensive in terms of administrative cost as it harnesses market forces at the upstream level.

Since the right to burn fossil fuel would turn into a dwindling commodity, the carbon price would continue to climb, though probably not abruptly. The increase would be contingent on multiple factors, most importantly clean technology investments. The gradual increase in price would be attenuated by a global drive for energy conservation and breakthrough technologies.

Even such neat solutions are often difficult to implement. How should permits be allocated? Which world body should oversee its management? How should assistance be provided to poorer countries to help them cope with a gradual, or even a sudden, increase in carbon prices?

These problems are not insoluble. One thing is clear. Over the next few years, the world will reach consensus that global warming demands urgent and drastic counter-measures if a catastrophe is to be avoided. The threat of disaster should be enough to overcome any technical challenges.

What the world needs now is political leadership to galvanise international co-operation in getting such a system going. A global market in emissions trading may appear unrealistic today. Tomorrow it may seem inevitable.

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