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Business

FINANCIAL POST

Carbon credits: 'Cure worse than the disease'

By Kevin Dougherty, Montreal Gazette August 3, 2009

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Carbon credits - to package and trade offsets to greenhouse gas emissions - won't work, says McGill University economist Christopher Green.

Photograph by: J.P. Moczulski/Reuters, J.P. Moczulski/Reuters

QUEBEC -- Carbon credits - to package and trade offsets to greenhouse gas emissions - won't work, says McGill University economist Christopher Green.

"This cure could be worse than the disease," says Green, rejecting the argument of Premier Jean Charest, who wants the Montreal Exchange to be the carbon market for all of Canada.

As an alternative to Charest's "cap and trade" proposal for carbon credits, Green proposes a carbon tax.

A carbon tax would cost less, he says, and would pay for "an energy-technology revolution," finding ways to use less carbon, or no carbon for industrial processes, transportation, heating and cooling.

And he laments that the Copenhagen conference this December, the followup to the 1997 Kyoto gathering on climate change, seems bent on setting "absolutely unrealistic targets" for greenhouse gas reduction, relying on the carbon markets he distrusts.

"We are going to waste another decade," Green said.

In June, the National Assembly adopted Bill 42, which empowers the province to call on industrial emitters to quantify the greenhouse gases they spew out.

By 2012, Quebec will impose caps on the level of greenhouse gases industries can emit, forcing them to turn to the carbon market.

To explain his plan, Charest harkens back to the 1990s, when Canada took the initiative in dealing with sulphur dioxide given off by coal-fired power generators in the United States, creating acid rain.

"The government of Canada and the provinces decided this issue had to be addressed," Charest said. "Canada went ahead with a cap on sulphur dioxide emissions and did the regional distribution within Canada and didn't wait for the Americans to act on this issue." Subsequently, the Americans adopted cap and trade.

This time the Quebec tail wants to wag the Canadian dog, in co-ordination with Ontario, Manitoba and British Columbia.

The four provinces belong to the Western Climate Initiative (WCI), started by California Governor Arnold Schwarzenegger, to push the cap-and-trade agenda.

Six states - Arizona, New Mexico, Utah, Montana, Washington and Oregon - have joined California in using the WCI to sway the U.S. government to cap and trade.

Green rejects the parallel Charest has drawn between cap and trade for climate change and the success of cap and trade in resolving the acid rain problem. In 2007, sulphur dioxide emissions had fallen 50 per cent from 1980 levels.

"It certainly worked very well," Green admitted, noting that reducing sulphur dioxide was limited to about 300 coal-fired plants, at a time when cheap, low-sulphur coal arrived on the market.

"There are too many emitters to put a price on carbon," Green said, adding that cap and trade "sounds like something neat" at first glance.

"But the devil is in the details." With our cars, lawn mowers and gas barbecues, we are all carbon emitters. As well, major industries and Alberta's oilsands, which consume the equivalent of one barrel of oil to produce three barrels of synthetic crude oil, make a carbon cap-and-trade system more complex.

Green is also worried about the "subprime" potential of carbon offsets in developing countries.

For instance, banks could package the non-tillage of agricultural land, a way to absorb carbon, just as they packaged dubious mortgages in asset-backed commercial paper.

Planting trees, generating wind energy and carbon capture would also generate tradable carbon credits.

But Green wonders whether the United Nations policing process, to vouch for carbon credits in developing countries, would work.

"There could be counterfeit bills in the carbon market," he said.

Green points to the National Round Table on the Environment and the Economy, an advisory body to the Canadian government, which projects that carbon credits would trade at \$200 a tonne in 2050.

Ottawa aims to reduce greenhouse gas emissions 65 per cent below 2006 levels by 2050. In 2006, the emissions were 721 million tonnes a year. The Harper government's target is 469 million tonnes by 2050.

The National Round Table projects such a high carbon price because drastic reductions are needed to meet the greenhouse gas reduction target.

Green notes that countries like Poland depend on coal for 95 per cent of their electricity.

Coal costs about \$50 a tonne now.

"Every tonne of coal combusted gives off 2.86 tonnes of CO₂," Green said, explaining that adding \$200 per tonne for the carbon given off would raise the cost of coal in Poland to an unrealistic \$622 a tonne.

"What planet is anyone on?" Green asked.

Green proposes instead a more modest carbon tax of \$10 a tonne, much less than the \$40 a tonne proposed by former federal Liberal leader Stephane Dion in his Green Shift policy.

"So a \$10 a tonne tax implies a tax on coal of \$28.60," Green said.

Green is not alone in decrying the Kyoto-Copenhagen process and carbon markets to reduce greenhouse gas emissions.

He is one of 12 international economists who signed a recent paper titled How to Get Climate Policy Back on Course.

The authors noted that, in 2001-2006, as the attention of Kyoto Accord signatories focused on reducing greenhouse gases, the amount of carbon grew globally by 0.53 tonnes for each additional \$1,000 of output.

"So during the period in which the most concern has been expressed about the need to reduce emissions, the world has become more carbon intensive," the paper notes.

Why? Because emerging economies, such as China and India, rely on coal to generate electricity and do not have the same greenhouse gas reduction targets the advanced industrialized countries face.

"International capital naturally prefers to invest where there are neither emissions restrictions, nor environmental standards," the paper notes. "If production is transferred to areas, like China, with looser emission norms, then emissions increase overall." Trading carbon credits would please financial derivative traders, Green says, but he rejects the premise that polluters would simply embrace new technologies to reduce their carbon credit costs.

First, the technologies have to be developed, Green said. A carbon tax would finance the quest for green solutions. "I am extremely depressed. It just doesn't make sense," he said.

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