

## Hot air swirls over vested interests in climate change

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NZX chief executive Mark Weldon denies he is pushing a trader's agenda in his role on the Climate Change Leadership Forum.

Mr Weldon is part of a working group within the forum that is said to have been "swayed" to the view that a cheap – though controversial – source of "hot air" emission permits should be kept out of the trading scheme unless they are internationally supported. They then asked for more information from the government to assist their final opinion.

Excluding hot air permits could increase market liquidity – a bonus for the NZX – but it could also be a negative for the NZX if pricing volatility sees companies turn more to futures trading.

Hot air permits – assigned amount units or AAUs – were allocated to countries under the Kyoto Protocol. They got their name because countries like Russia and the Ukraine hold large surpluses, allocated before their economies collapsed in the 1990s.

Because those surpluses aren't the result of any effort to cut emissions, the EU scheme doesn't allow trade in them.

So if the New Zealand scheme allowed hot air AAUs to be traded, links to the European market could be very difficult and trading liquidity could suffer.

Papers NBR has obtained show the working group also recommended earlier this year that economic costs should not be considered when the hot air decision is taken.

A spokeswoman for Mr Weldon said he was on the forum in a personal capacity and the decision was made by the group based on research.

Forum chairman Stephen Tindall said neither the working group nor the full forum had finalised their views on the issue.

The speculation has raised the issue of transparency in the consultation process.

Greenhouse Policy Coalition executive director Catherine Beard – who's not involved in the forum – said nobody knew which "vested interests are pushing which barrows" on the forum.

"[The debates are] so important to the cost of the scheme – to be having them behind closed doors is just not satisfactory," she said.

But Mr Tindall said officials' reports prepared for the forum would be released for the next meeting, to give members time to debate among themselves "without there being a furious public debate."

The forum will see a lot of fierce debate before the issue is settled. Bills introduced to Parliament this week have not placed any restrictions on tradable units yet.

Lower liquidity could lead to higher prices, one source said.

But the general view is that including AAUs brings in a potentially cheap source of carbon units.

Motu Economic and Public Policy Research director Suzi Kerr said allowing them would lower prices as it would broaden the range traders could buy from. But it would probably not lower prices too far as Russian traders could hold out for better prices.

"It might halve the price – you don't know," she said.

Ms Beard said excluding the hot air units called into question some of the economic forecasts for the scheme. "It's potentially controversial because the government has made some assumptions this isn't going to cost much – partly based on [including] AAUs."

But a Ministry for the Environment briefing to the working group said even without AAUs, there would be plenty of Kyoto units for New Zealand buyers.

Local demand is forecast to be 10-50 million carbon units for 2008-2012. Expected supply of Kyoto units, excluding AAUs, is 1.7 billion.

There's also a flip side to the argument that buying "hot air" won't benefit the environment.

Dr Kerr said failing to honour the assignments given to Russia wouldn't help to build trust in global trading.

"They were given these in good faith," she said.

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