

Asia-Pacific leading the world on carbon emissions trading

It is not well known that Kazakhstan — a nation whose landmass exceeds that of Western Europe and which boasts the largest economy in Central Asia — introduced a carbon trading scheme last year. It is the first Asian nation to take on an economy-wide cap and the trading system has been designed to help it achieve its goal of reducing greenhouse gas emissions to 7 percent below 1990 levels by 2020. Indonesia is also considering carbon trading and, in 2014, Thailand will introduce a voluntary emissions trading system, likely to be a precursor to a mandatory scheme. These developments follow hot on the heels of the landmark passage, in May 2012, of a South Korean law that introduces a carbon trading scheme in 2015. Kazakhstan, Thailand and South Korea are only the latest in a growing list of Asia-Pacific nations to embrace carbon trading. Collectively, with China and countries like New Zealand, they represent the emergence of a nascent Asian-Pacific carbon trading hub with potential to be a tipping point in the fight against climate change. South Korea's move is particularly significant because it helps unblock what has been a barrier to progressing development of an Asian response to climate change. That is, competitiveness concerns in the manufacturing heart of the global economy. South Korea's economy is, in numerous ways, in competition with China and Japan. And many voices in Seoul pressed the government to drop its plans for an emissions trading system until Beijing and Tokyo followed suit.

Both China and Japan have, in the past, voiced competitiveness concerns vis-a-vis their neighbors as a barrier to introducing their own schemes. Korea's move was, therefore, a bold one. But it is not as risky as it might seem. Seoul knows that China's 12th Five Year Plan, which runs until 2015, contains specific mention of carbon trading as a mechanism that could help the country reach its current national target of reducing by 2020 the carbon intensity of gross domestic product (GDP) by between 40 and 45 percent from 2005 levels. And the Chinese government announced in 2011 that pilot carbon trading schemes would be introduced in Beijing, Chongqing, Shanghai, Shenzhen and Tianjin with province-wide schemes trialed in Guangdong and Hubei. These are not token efforts; the combined GDP of these Chinese cities, municipalities and provinces is equivalent to Canada's and, if successful, the pilots could be precursors to a national scheme by 2020.

China's motivations here are complex.

Firstly, it recognizes that, in order to maintain social cohesion its growth must be sustainable. As the country grows wealthier, environmental concerns are rising and China is vulnerable to some of the worst impacts of climate change. The 12th Five Year Plan was the greenest ever and this was reinforced by the outcome of the Communist Party's recent 3rd plenum of the 18th Congress, a meeting which traditionally sets the tone for the Chinese government's next 5 year term, which placed environmental and sustainable growth at the heart of China's priorities. Secondly, China knows that the command and control policies they have used to date will not stimulate innovation or encourage enterprise. Emissions trading, on the other hand has the benefit of a regulatory underpinning combined with the flexibility of a market, which creates a financial incentive to develop innovative ways to reduce emissions. China has learned from its experiences in the Clean Development Mechanism that markets can uncover low cost emissions savings and stimulate the creation of new businesses. Finally, in international UN climate negotiations, China is expected to take on an emissions reduction target under a post-2020 framework, due to be agreed in 2015. The existence of a domestic emission trading policy will be a great asset, enabling Beijing to sign up to targets confident that it can meet them at least cost.

South Korea's decision will embolden these efforts.

As the China example underlines, at the heart of all these promising developments in Asia-Pacific is a growing realization that carbon trading is the most economically efficient way to reduce emissions of greenhouse gases. The larger the Asia-Pacific emissions market that emerges, the more efficient its operation, the more solutions will be found and the lower the cost. In time, this nascent regional scheme could be linked with the largest existing carbon trading system in the world in the EU. In fact, if the EU wants to maintain the lead in carbon trading it will need to up its game and implement the urgent reforms necessary to ensure the EU ETS operates effectively.

It is not too much of a leap to envisage a truly global market by 2020, involving the EU and Asia-Pacific, combined with state-level schemes in California, on the US east coast and in Quebec, Canada, perhaps covering as much as 50 percent of global emissions. Such a development would be a step-change in the global fight against climate change. Moreover, as costs of reducing emissions are revealed to be lower than first feared, and benefits are progressively realized in terms of greater resource efficiency, competitive advantage in clean energy technologies and strengthened energy security, governments are likely to commit further in the UN climate negotiations. The ultimate goal here is as urgent as it is complex: to design and agree a global regime for the post-2020 period with the necessary ambition to limit global average temperature rise to 2 degrees Celsius. Asia-Pacific's efforts will be crucial to making this a reality.

The writer is head of policy at the Global Legislators Organization (GLOBE International), London.