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## Censored CSIRO carbon trading paper - compulsory reading for climate movement

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**NASA climate scientist James Hansen shocked many climate activists when he declared that it would be better if the Copenhagen talks collapsed. Spash's paper will tell you why carbon trading schemes are fundamentally flawed and why Copenhagen will not deliver meaningful action that can stop climate change.**

Clive Spash, an environmental economist with the CSIRO, was censored by CSIRO management a few months ago. CSIRO management wrote to the journal *New Political Economy* in July, withdrawing authorisation to publish Spash's paper. He was later threatened by CSIRO boss Megan Clark for releasing it privately. Why?

Because his paper, "The Brave New World of Carbon Trading," is a lucid and damning exposition of the fundamental flaws of the Rudd government's carbon trading scheme, also known as an emissions trading scheme (ETS).

He writes, "Perhaps the most worrying aspect of the ETS debate is the way in which an economic model bearing little relationship to political reality is being used to justify the creation of complicated financial instruments and a major new commodity market."

"Credits may be sold and resold so they represent no real GHG offsetting at all." He notes that carbon trading proposals place a new multi-billion dollar market in the hands of the same people responsible for the global financial crisis.

Carbon trading is the Rudd government's preferred mechanism to address climate change—and is also popular with other governments worldwide. But the title of the paper suggests that carbon trading is the "soma" that governments are using to lull people into not worrying about climate change. Soma is the drug in Aldous Huxley's novel, *Brave New World*, used by the government to control the population.

Carbon trading—theory and reality

The majority of Spash's paper is dedicated to uncovering the gap between the theory and practice of emissions trading. He writes "In this paper I show how the reality of permit market operations is far removed from the assumptions of economic theory."

"Corporate power is shown to be a major force affecting emissions market operation and design. The potential for manipulation to achieve financial gain, while showing little regard

for the environmental or social consequences is evident as markets have extended internationally and via trading offsets.”

He argues that US and European corporate interests pushed carbon trading into the Kyoto protocol.

Spash says in real markets, corporate power can lead to price manipulation and market control, meaning that the assumption that price signals can control pollution doesn't hold. He provides a telling example from the European scheme, "Under the EU ETS Europe's largest emitter, the German power company RWE, is estimated to have received a windfall of \$US6.4 billion in the first three years of the system, and made €1.8 billion in one year by charging customers for permits it received for free.”

He is also critical of those who see carbon trading as an opportunity to make money, "The transaction costs inherent in an ETS appear to be viewed by some as a source of economic growth, rather than a deadweight loss”.

Spash argues that problems with carbon trading schemes cannot simply be designed away. He argues that monitoring and accounting, the allocation of allowances, and offsets, will be manipulated by vested interests. He says allocation of permits is a process of negotiation not science, and over allocation risks a collapse of trading with little or no emissions cuts. He is harshly critical of offsets because they will allow polluters to keep polluting. In some cases they will increase emissions, "where sink offsets are involved the total scale of systemic GHG cycling will be expanded (eg via more sources justified by more sinks)". The proposed Australian CPRS allows unlimited offsets.

He says allocating permits to polluters means effectively handing out property rights, as experience with water permits has shown (and as legal advice for The Greens now confirms). Over-allocation means potential windfall profits for polluters. For example, "Lohmann cites the case of Czech electricity giant CEZ being allocated a third of the country's allowances, selling them in 2005 when the price was high, being able to buy them back after the price collapsed and then using the trading profit to invest in coal energy production.”

The last section of his paper talks about how market incentives can "crowd-out" and discourage individual efforts to reduce emissions. This is true. For instance, performance targets in the workplace can lead to workers competing with each other, rather than helping one another. They undermine collectivity and actually reduce overall motivation.

Spash writes, "markets tend to promote competitive interactions, but fail to provide a good forum for the expression of social values." But individual action is no solution to climate change. We can't individually build solar power stations. However this is a minor criticism of a paper that so thoroughly rips apart the arguments for a carbon trading scheme.

He concludes by supporting "alternate policies – taxes or direct regulation" rather than carbon trading. It is a shame he doesn't deal with these alternatives more fully. To be fair that is not the purpose of the paper. But it is a question the climate movement needs to face up to – what is it fighting for?

Of the two alternatives, direct regulation, including direct government investment, is a better option than a tax. A carbon tax would still use the same mechanism of price signals as carbon

trading. Rudd's CPRS is expected to raise electricity prices by around \$6 a week based on its 5 per cent emissions reduction target. To achieve the 80 per cent (or higher) cuts that are needed, price signals would make electricity exorbitantly expensive for households.

Real solutions require taking on the corporate interests that are pushing carbon trading. The sections of the climate movement that are promoting carbon trading are actually holding back the movement. Not only does carbon trading not work, the ones who are hardest hit by such schemes are the working class, the very people who are needed in the climate campaign, if it is to go forward.

It took a Senate resolution moved by Greens Senator Christine Milne to force ALP Minister Kim Carr to table Clive Spash's paper in the Senate. It is great The Greens leapt to the defence of Clive Spash, but they can't have read his paper thoroughly. If they had they wouldn't be offering to negotiate an improved carbon trading scheme with Kevin Rudd.

Reading Spash's paper makes it very clear that the CPRS is a diversion. Real action to stop climate change depends on serious direct government investment in renewables and a serious movement to force them to act.

**By Chris Breen**

[Link to article of The Brave New World of Carbon Trading by Clive Spash](#)

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