A carbon price cap: Can it improve our future?

The current choice of policies facing both environmental advocates and the business community are too tightly drawn. What we propose is a more flexible policy with the potential to address the substantive concerns of both groups, i.e., uncertainties about both benefits and costs. The hybrid policy does just that. By implementing a tradable permit system where the [redacted] as the0 0 0.8(t)113.4(e8 rg8298 rg80(piBT12 0 0 12 139.6 5

capped, permits to emit can be distributed and holders of permits can be permitted to trade them.

Each of these two methods has its strengths and weaknesses.

Emissions trading is very flexible. It can help facilitate the development of markets that in turn generate efficient flows of information, investment and disinvestment. Thus for instance firms will have an incentive to abate emissions if they can sell the permits thus freed up to firms who will buy them for more than it costs the firms to abate. And permits with different tenures can be issued. This enables a market in carbon risk to develop – with firms able to express their appetite for carbon risk in their preferences for long or short-term permits. This is analogous to the money markets helping firms manage – and trade – their different appetitesi.7(,)0 Tf5.2(n)9.2(ter)6(e)-0.8(st)10(

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are disproportionately large for Australia because our exports are emissions intensive (and thus the most exposed to 'carbon leakage') and because we are in the same region as the most populous, and many of the most prosperous non-Annex 1 countries.

3. Even without these 'imperfections', the global trading system envisaged in the Protocol would entail the following risks:

   - The international capital flows generated by international trading would have substantial and potentially disruptive economic effects;

   - There would be powerful incentives for countries to 'cheat' – to under report their emissions and over-report carbon sequestration.

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defend their own revenue base. Like any enforcement system this will not substitute for direct trade.[4] Without such links some of the lowest cost carbon abatement projects may go unfunded.[5]

There are some other problems. At some stage after allocation of

Further, it is not clear what emission endowments “far in excess of requirements” really means. If the excess were small enough to have a *countries*

plan can attack it as compounding the way in which past and existing

Creating perpetual emissions endowments and giving them away

McKibbin and Wilcoxen have proposed that domestic governments decide what proportion of their domestic carbon market should be accounted for by be prepared to shoulder all the ‘renegotiation risk’ and markets will not be activity in the other country which the purchase of the permit would bring about), and it would change international income flows. It would generally