

Greenhouse Gas, Christopher Skase and HIH.

Most people would find it hard to see the link between HIH, Christopher Skase and reducing Greenhouse gas (GHG) but there is. It comes about because of one of the ways by which Australia and many other countries plan to reduce their greenhouse gas emissions. That way is by rewarding those who reduce or eliminate their GHG emissions and making it expensive for those who do not. To make this system transparent, that is fair and open, it is proposed to use GHG sequestration certificates or permits which can be bought and sold by those emitting GHG as they need them. The idea is that people who have surplus certificates can sell them to those who need them. If someone continues with GHG emissions it will cost them more, if they cut down it costs them less. So far so good, basic economics means this will provide a continuous incentive to reduce greenhouse gas right across the community.

Silviculture, that is plantation forestry, is one large potential source of GHG emission certificates. Trees capture and lock up carbon dioxide, a major GHG, by silviculture sequestration. The idea is that for each unit of GHG locked up or sequestered there can be a sequestration certificate, which can be used by someone to balance each unit of their emissions of GHG. Since these silviculture sequestration certificates will be bought and sold all across the country the expectation is that there will be a sizeable market.

Now here's the link with HIH and the late Skase. When someone buys a share on the stock exchange they can be pretty sure, most of the time, that the company they are buying a share in really exists and isn't just thin air or a scam. Further that the person selling the share really owns it and has the legal right to sell it. This is not a problem in most other markets in Australia. All kinds of systems (which largely go unnoticed) operate to ensure that buyers can be confident that what they get is what they think they have been offered. So the occasional failure of the system such as with Skase or HIH is news indeed.

With silviculture sequestration certificates being traded from Cairns to Albany their buyers and sellers probably never meet. A silviculture sequestration certificate of course, like a share, can be just a piece of paper or an electronic record. So for the buyer, the market place where the trade occurs and the reliability of the purchase is pretty important. For instance few people would contemplate buying a share certificate in a pub from someone they had never met before or for that matter any other paper such as an airline ticket which cost money. Without the reliability provided by laws, regulations and systems buying any certificate at all would be a risky business indeed. But how much more risky would buying a silviculture sequestration certificate be? It might claim to represent the carbon sequestered in a plantation, but can a buyer be sure of this? After all it represents a much more complex background than a mere company share. Potentially, as well as the owner of the certificate, there is the owner of the land, the bank that lent money on the land, the owner of the trees (who may or may not be the land owner), and possible the bank that lent money for the plantation as well as the owner of the right to receive (issue) silviculture sequestration certificates potentially involved.

So what we are confronted with is a golden opportunity for all sorts of scams. A certificate might look good on the face of it but the unwary buyer is likely to find that someone else claims ownership of what he has paid for or that the silvicultural resource has ceased to exist because its owner just cut it down or it has been 're-possessed' by the finance company which has no knowledge of the certificate or wish to be involved with it. That would make the certificate worthless, a nasty shock for a buyer but the implications of such an occurrence are much worse than that. Australia is looking at silviculture sequestration and a vibrant market for certificates as a really good way of managing GHG emission reduction. Fraud and deception would destroy that market quicker than one can say 'HIH'.

Because Australians are used to reliable and secure trading systems, the idea that cheats exist, and that they can use a government initiated GHG certificate system to steal from the uninformed is for most of us, hard to grasp. But there are, in fact, plenty of recent examples of corporate fraud and deception, of which Christopher Skase and HIH are but two examples.

Society has resolved this problem and provided reliability in other markets to make sure that buyers can quickly and easily check what it is they are buying and that the owner has the right to sell it. It is quick and cheap access to accurate information that does it. A recent example from another market serves to make the point. The fact is that around 90,000 motor vehicles are stolen in Australia every year. Most have been bought with borrowed money. In previous years (and it still happens occasionally) unfortunate purchasers of second hand cars awake one morning to find the car is no longer theirs. The original owner or that owner's finance company had tracked it down and recovered possession. Today in every state, as well as the register of who owns cars, there is a register of cars under finance and also of stolen cars, so a buyer can quickly and cheaply check before buying. The key is the existence of a central register and a modern electronic systems. Land ownership is the same. Its register was initiated for much the same reason but that was a long time ago.

So to provide the buyer of a silviculture sequestration certificate with the same level of confidence a central registry would need to show clearly who was the owner and who was the owner of the trees and also of the land. Probably it would also need to indicate that there were silviculture sequestration certificates that related to it. There is a range of other information it could provide all of which would serve to reduce transactional costs. A central registry without that fully linked information might provide an illusion of reliability without actually providing that reliability. It, just like car registration might provide details of the listed owner, but not any other information such as the finance company or in the silviculture sequestration certificate's case the owner of the trees and the land owner.

Fortunately all Australian states have very efficient registers for land ownership and most have provision for ownership of related elements like trees to be linked to the information held about the land. It would be a small step to add the additional information about the ownership of the sequestered carbon and link all this to a national register. Then all buyers and lenders would have easy, speedy and inexpensive access to the information and be confident about transactions relating to silviculture sequestration certificates.

This would make the silviculture sequestration certificate market work in the way intended and support the overall GHG emissions reduction program. Australia is unique and very fortunate because unlike other countries it has a particularly efficient (and now computerised) centralised land ownership recording system which is easily able to handle silviculture sequestration certificates. Many other countries rely on old-fashioned title deeds for land and would be unable to provide such a comprehensive linked information source.

So will this be implemented? Possibly not. The states run the land registries and the Commonwealth will certainly run the central register for silviculture sequestration certificates. Coordinating Federal and state activities and overcoming regional jealousies and suspicions is a slow process. For example the last major effort designed to limit the rampages of the corporate crooks like Christopher Skase was the Corporations Act of 2001. This took some 15 years to work through the negotiations with all states to achieve agreement. Maybe this time around we are a bit smarter – let's hope so.

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