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Dear Sir,

Paper : Possible Design for a National Greenhouse Gas Emissions Trading Scheme

Referring to the paper specifically at page xxvi - tabled - Permit Allocations.

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It has been proposed that permits be allocated FREE to those who are most likely to be adversely affected by the scheme. This is strongly objected as the report proponent here fails to show how adversely the operators would be affected if these permits are not allocated as FREE. The reason provided being to sustain current profits is also unsound as this implies the community has to absorb the cost in order for polluters to profit. Alternatively, the very least the cost of permits should equate to profits sustained instead of looking towards an estimated future profit to support the footing that the operators have already polluted rather than will pollute. It is also well known in the art that the appropriate discount rate is at best a guess. Furthermore, having a FREE chunk of permits floating around in the market could potential dilute the value of those who paid for them.

#### Alternative Allocation Proposal

The better view is to provide a FIRST auction specifically targeted by those who are deemed to be adversely with these permits having special class "A" for adversely affected entities (known as group A).

This auction will allow those deemed affected to compete against themselves effectively putting them in a Prisoner's Dilemma scenario. This is to say if they all co-operate then permits will be zero cost but if one of them breaks and allocate a value, then the others may follow and bid up the price. The only question is who is going to play the 'sheriff' here ?

Obviously if there are no takers from this FIRST auction then one can conclude there are no adversely affected entities as implied by the report's proponent or at least these entities consider themselves not so adversely affected which means they could be grouped with others and will be asked to bid for open permits later in a SECOND auction for ordinary permits.

These class "A" will be convertible to ordinary permits at a future period say when carbon level has reduced to "X" amount, else they are only tradable within the same class A.

Referring back to group A, such lock-in allows several scenarios, if each entities continue to pollute, they will have to buy from each other which means price will be high and other means of generating power will be considered or else it means bankruptcy or merge. To reward, entities which reduces CO2 will also be given options on ordinary permits or bonus ordinary permits (ie non "A" class).

If the entity decides on shut down or bankrupt then its permits will be deemed worthless. To enforce this, should the entity sell their permits within a period of 12 months before its bankruptcy then these permits in the hands of the buyer will also be worthless ab initio. This way, the entities can self-check each other in terms of sustainability and to avoid dumping permits by exiting.

Furthermore as mentioned, if the entities all co-operate either in sharing technology or process with the effect of reducing CO2 per schedule, then it allows either full or partial convertibility to ordinary permits say at ratio of 1 to 10 so to enable these entities to reap some benefit, options to buy permits. This co-operative element is perhaps rare but in the opinion of this author is a practical step since not all entities are created equal as assumed by economists in their models.

It should be remembered that this scheme is designed to reduce CO2 directly either through adopting new technology or using alternative energy, it does not address the most crucial element which is to educate users and to modify their choices so that in totality we can retool the landscape of energy production.

With respect to internationalization, this author noted that the proponents of this report have neglected to point out or address the difficulties such as "Transfer Problem" inherent in a global permit system and of the dangers of a "Dutch Disease" or "Gregory Thesis" associated with the actual operation of a global permit trading system. For example in Warwick J. McKibbin, Global Emissions Trading: Prospects and Pitfalls ( Feb 1998) which this author believes to be still relevant today. This author however fail to see how McKibbin-Wilcoxon Proposal could work as it ignored the currency for its world carbon price, ie while its carbon price remains the same (ie \$10), this does not mean the exchange rate with other nations wishing to trade remains constant, well unless a world currency is adopted but that is another point.

### Conclusion

It is evident that the proponents of this report is targeting power generating sector as one of the carbon sources. And because it targets this sector, any proposed scheme can only be started in 2010. As the proponents see power generation as the source, the report therefore also fails to involve the public and users of these generated power.

How about other sectors such as directly reducing motor vehicles on the roads which can even begin tomorrow given each car on the road could potential emits 2 Kton of CO2 per year ? The report fails in this respect as it has already framed a solution to solicit feedback relating to said solution instead of a critical analysis of all possible solutions.

### Statement of Potential Conflict.

The author here is an advocate of Personal Carbon Trading, see for example as described in <http://pericles.ipaustralia.gov.au/aub/pdf/nps/2006/1207/2006100751A4/2006100751.pdf>. The author is currently in Sabah, Malaysia trying to find an alternative (albeit lately) solution to avoid having yet another coal powered generator. See story <http://thestar.com.my/news/story.asp?file=/2006/11/20/nation/16075435&sec=nation>

Yours truly,



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