**Pacific Rim countries could form emissions trading alliance**

With the first Kyoto Protocol\(^1\) compliance period (2008-12) underway, countries are addressing ways to mitigate the effects of greenhouse gas emissions (GHG) on climate change. However, most developing countries have not made commitments to mitigation. A recent study suggests developing countries and industrialised nations can cooperate to tackle climate change through the use of emissions trading schemes.

The Pacific Rim is a significant area, containing 44 per cent of the world’s population, consuming 61 per cent of the world’s energy and producing 60 per cent of global GHG emissions in 2004. India and China, in particular, are major sources of GHG emissions. Developing countries have argued that the high costs of complying with emission caps would hinder their future economic development.

Investigating cooperation between industrialised and developing countries within the Pacific Rim\(^2\) region, the study analysed the potential costs and savings to countries participating in emissions trading schemes in the year 2020. The analysis assumes that most industrialised countries would continue to comply with their current Kyoto protocol commitments and explores the implications of their access to low-cost mitigation options in developing countries through emission permit trading.

The suggested policy dealt with CO\(_2\) emissions and covered all economic sectors in 31 countries and regions. It provides a structure for the granting and trading of emission permits among industrialised and developing countries within the region. Two methods of allocating emissions permits to developing countries were tested: either on a zero cost basis or on 90 per cent of baseline emissions. Options of trading with five American states, which have agreed to a cap-and-trade emissions scheme (although the US as a whole has not signed up to the Kyoto Protocol), were also included.

Research suggested that all Pacific Rim countries would gain, or be no worse off, from the exchange. Countries that purchased permits would avoid the high cost of mitigation expenditure, and permit-selling countries would use the revenues to offset the costs of implementing mitigation policies. There would be a transfer of monetary payments from relatively rich to relatively poor countries.

Such a trading scheme could mitigate up to 3.6 billion tonnes of CO\(_2\) and would result in a trading price of between 1.88 and 5.55 US dollars per tonne of CO\(_2\). All developing countries would be able to sell permits, and China could reap revenues of between 1.1 billion and 3 billion US dollars annually from exchanging permits. The Pacific Rim is a natural area of co-operation with a long history of international trade and financial treaties. Issues of financial intermediation, monitoring and enforcement need to be addressed. Existing financial intermediaries could bridge the lack of an institutional structure to govern the trading.


2. Countries in the study included: the Asian Tigers (Taiwan, Singapore, South Korea and Hong Kong), Australia, New Zealand, Canada, Central and South American countries, China, Japan, Mexico, Russia, Southeast Asian countries and five States of Western USA (California, Oregon, Washington, Arizona and New Mexico).


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