Vice-Chairman of Rothschild: “Carbon trading must be globally regulated”

FLASHBACK

By Global Research
Global Research, July 09, 2009
The Telegraph 31 January 2008

Region: Europe
Theme: Environment

Simon Linnett, Executive Vice-Chairman of Rothschild, has called for a new international body, the World Environment Agency, to regulate carbon trading.

In a recently published paper, Trading Emissions, for the Social Market Foundation, Mr Linnett argues that the International problem of climate change demands an international solution.

Unless governments cede some of their sovereignty to a new world body, he says, a global carbon trading scheme cannot be enforced and regulated.

“An urgent global response.” This was how Nicolas Stern described the problem of carbon dioxide emissions, in his recent review of the economics of climate change. The sense of an impending crisis infuses our all debates on this issue.

The human causes of climate change are now well established. The overall measures we must take – a reduction of our emissions – is painfully obvious.

But like a group of rabbits caught in the headlights, our actual means of escape remain unclear. We know what our end goals are, but how do we get there? How can governments achieve delivery?

The first step must be to recognise the scope of the problem. Unlike other pollutants, such as litter or nuclear waste, CO2 emissions have impact on a global level – and only on a global level.

This means we have to deal with the issue internationally. The problem is literally too big for any one country to handle. Old alliances, divisions and ‘special relationships’ are a meaningless hindrance.

I believe it is essential that governments and the private sector work together to solve the problem. As a banker, I suppose I would say that, but only such a partnership will we be able to harness what Al Gore called the multitude of little solutions, which all add up to a better outcome.

Only the private sector can successfully develop those solutions, but only governments can provide a framework for them to be applied internationally.

As a banker, I also welcome the fact that the 'cap-and-trade' system is becoming the dominant methodology for CO_2 control. Unlike taxation, or plain regulation, cap-and-trade offers the greatest scope for private sector involvement and innovation.

Furthermore, taxation and regulation can only be levied at local or national levels, whereas cap-and-trade can operate on a global level. And remember, the problem is global.

But for the private sector to participate enthusiastically in a global carbon trading market, governments must collectively establish a robust framework within which trading can occur. It must be long, loud and legal:

- Long: it is going to be around for a long time;
- Loud: it will be the dominant mechanism for sponsoring changes in behaviour and we are going to make this perfectly clear to the world's people; and
- Legal: we will enforce it through law.

A key implication of creating a legal yet global system of trading, is the loss of sovereignty it implies. Governments must be prepared to allow some subordination of national interests to this world initiative, on the issue of emissions. This need not mean a new system of government, above individual nations.

But it would mean a change to the way treaties are agreed and worded. Instead of saying "we will cut emissions by x per cent by date y" (pledges which are inevitably broken), such statements will have to morph to "we will make our contribution to a scheme which cuts, across certain industries and gases, emissions by x per cent by date y."

The European nations already do this, on certain issues, yielding sovereignty to the EU. And in time, the EU itself will eventually have to yield to a larger body – one which includes the economic powerhouses of India and China.

The cynicism that greets such programmes is well known, since the Asian economies seem bent on rapid expansion. However, I believe that both India and China will soon recognise the benefits of joining a global carbon trading scheme.

First, a properly constituted, one-member-one-vote system would mean that they have a proper 'say'. More importantly, since the allocation of the emissions cap might trend towards recognising world populations rather than current levels of emission, both countries would stand to gain a great deal.

If emissions trading could expand into different areas of economic activity, so too could its message. When an individual receives an electricity bill, they will come to know what the cost of turning on the gas or a light was to the environment.

Perhaps they will gain a new appreciation of their burden on the broader world. Similarly, if the scheme were to expand geographically to include India, China and, ultimately, the US, so too could the prospect be realised of such allowances becoming the reserve currency of the world, taking over that role held for most of the 20th century by gold.

So emissions trading could establish a new world order for a sustainable planet, one based on the sharing of the earth's ability to absorb harmful emissions. To allocate that 'resource' fully and properly will, in turn, require resourcefulness and imagination across the globe.

Simon Linnett is an Executive Vice Chairman of Rothschild. He has enjoyed 25 years of privatisation and PPP experience with the Bank, leading that effort for the majority of that time.

For the last 10 years, Simon has been in dialogue with both UK and, more recently, EU administrations about the future evolution of emissions trading of which he has long been a proponent. This paper represents his personal views only.

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