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HD **An acrid taste in the mouth**

BY Jennifer Hewett

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Jennifer Hewett

As we drive towards the **China** Beijing Environmental Exchange, it's hard to see through the smog. All those grand buildings fade away into grey shrouds, the sun looks more like a strange red moon and the reading on the air quality index, updated hourly, is officially registering as well over "hazardous" – and climbing steadily.

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Inside the exchange, a few dozen people are sitting at their desks in a bright, modern trading room surrounded by large wall screens flashing up prices. This is part of **China**'s attempt to do something about its pollution problems via a pilot emissions trading scheme. The Beijing exchange is one of seven such state pilots ahead of the introduction of a national scheme in 2016.

This marks a significant change in approach. A national emissions trading scheme in **China** won't make Tony Abbott change his mind on the virtues of his Direct Action plan. But his rhetoric will certainly have to acknowledge the shift given the world's biggest emitter of carbon dioxide is now promising an ETS that would have done Malcolm Turnbull proud.

Not that the **Chinese** are setting themselves a **firm** target for reduction of emissions – merely the "intensity" of those emissions. That's effectively how much carbon dioxide it takes to create a unit of **energy**.

However, as the capital's horrific pollution levels demonstrate, dealing with climate change and pollution never translates into straightforward answers for any country.

Bejing's ETS, for example, has been going two years and according to the exchange vice-president Zhou Cheng, emissions did drop in Beijing last year – by 4 per cent.

Just how much of that drop was due to the trading scheme and how much was due to industries closing down and other anti-pollution measures, he says he can't be sure.

The other issue is that much of the pollution in Beijing comes from **coal**-fired power stations that still supply close to 70 per cent of the city's **energy** needs. Several of these are in Beijing. They now just pay more. Other **coal** power stations are situated in neighbouring provinces – along with a lot of heavy industry such as steel manufacturing, closed in Beijing before the 2008 Olympics. Their emissions still drift to blanket Beijing.Still dependent on **coal**

And while Zhou insists the government is serious about curbing emissions, he concedes **China**'s massive dependence on **coal** for **energy** won't change in the short term. Instead, **coal**-fired power generation is still growing in absolute terms – along with the **Chinese** economy.

So despite the huge investment in "clean" **energy** such as hydro, **wind** and **solar** power, this still accounts for less than 10 per cent of **China**'s **energy** consumption.

Zhou Cheng points to growing international pressure as well as pressure from China's citizens, who are increasingly unhappy about a worsening environment.

"People used to worry about survival," he says. "Now they worry about their health. The government knows they must do something."

We have plenty of time to observe the reality of this observation during our many hours in a semi-permanent traffic jam. Beijing is now limiting the sale of new cars to a mere 15,000 a month and on any week day 20 per cent of cars are banned from the road, regulated by a licence plate control system. This is supposed to help with pollution levels as well as traffic gridlock. But no limits on driving cars or even the most stylish Chanel face masks (truly) can block an acrid taste at the back of the throat or stinging eyes when the wind doesn't blow or the rain doesn't fall.

The Beijing marathon 10 days ago featured many runners wearing full oxygen masks and copped criticism it was run in such conditions. Residents may be used to living with pollution but they don't like it.

The Beijing pilot is designed to capture companies emitting more than 10,000 tonnes of carbon annually. That adds up to about 400 enterprises – which between them are responsible for close to 50 per cent of all emissions from Beijing, according to the exchange. They are given a level of free permits based on their historic emissions from 2009 to 2012 – but they must reduce emissions by 2 per cent each year or face fines. The carbon price is currently trading at 50 yuan, or just under $10 a tonne. If the carbon price sinks below 20 yuan ($3.77) for 10 days, the government will buy permits to increase the price. If it rises above 150 yuan for 10 days, the government will similarly auction them off to force the price down again. The official cut-off date for measurement is July 15 every year. For the few months before that, the carbon trading levels on the exchange rise to about 30,000 tonnes a day.

Yet this is in the context of China's overall emissions of close to 10 billion tonnes in 2012. Emissions are still growing every year, albeit more slowly. A national trading scheme, combined with other measures, will help encourage greater energy efficiency thanks to the penalties. China's economic planning agency, the National Development and Reform Commission, is drawing up a draft law although key details of how many permits will be provided at what cost to which industries are yet to be finalised. It is to be presented next month. Beijing residents won't be throwing away their face masks any time soon.

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