HD **China warns Australia risks scuttlling global emissions trade**

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The head of China's most advanced carbon emissions exchange says australia could scuttle the creation of a global system of carbon trading by dumping its scheme at a crucial time.

EMMA ALBERICI, PRESENTER: The Vice President of China's most advanced carbon emissions exchange says Australia could scuttle the creation of a global carbon trading system.

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As Australia prepares to dump its emissions trading scheme, the world's largest carbon emitter has set up a pilot plan, designed to form the basis of a China-wide network with the potential to link to those in other countries.

China correspondent Stephen McDonell reports from Shenzhen.

STEPHEN MCDONELL, REPORTER: Shenzhen was at the forefront of China's opening up in the 1980s. It was given special economic status to spring board the country into a market system.

Today, the city is again being used as a Guinea pig but this time for carbon trading.

The Shenzhen carbon exchange is the first of a series of seven pilot schemes around the country to test how China might run a domestic trading system.

GE XING'AN, VICE PRESIDENT, CHINA EMISSIONS EXCHANGE: Carbon trading is going to have a huge impact on the economy and the companies. We have to first test whether the carbon trading suitable for different, each economic development area.

STEPHEN MCDONELL: China has enormous pollution problems, especially in the carbon producing industries. This economic giant has pledged a 40 per cent reduction in emissions as a proportion of 2005 GDP levels within the next seven years.

It is forcing older heavy polluting factories to shut down. It is rolling out wind and solar power on a huge scale. It is also trialling a series of carbon trading exchanges across the country, with Shenzhen the most advanced.

The idea is that if you want to pollute you must have the credits or buy some from those who do.

GE XING'AN: If it is not compulsory, the trading won't work. It doesn't work well in China and I think it also doesn't work well for the international community either.

STEPHEN MCDONELL: So companies have to be forced to buy those carbon credits in order to emit CO2?

GE XING'AN: Yes.

STEPHEN MCDONELL: Ge Xing'an is Vice President in Shenzhen. His organisation possibly hoping to one day run the entire national system goes by the English name China Emissions Exchange.

He says he thinks a trading scheme is the best way to deliver a financial incentive for cleaner production, yet when the Shenzhen exchange opened last June it was struggling initially.

GE XING'AN: The first time you will see that maybe one deal a couple of days one deal, now you will see every day there is deals.

STEPHEN MCDONELL: Though the numbers are still relatively small, we are told volumes are picking up with more than $2.5 million in trades now. Hundreds of companies who have been told to participate are becoming aware of their new obligations.

This should give you an idea of how it works. Up here, these are companies who want to buy carbon credits or carbon allowances as they call them here and down here, these are the people selling them.

If you move along the board, this is the volume, so for example, somebody wants to buy 100 units and what they want to pay is 70 Yuan per unit.Down the bottom, these are the prices people want to sell them for and it is more, it's 82 Yuan.

So these are incomplete sales because they can't agree on the price. Really it is operating like any other market would.

QIN SHIXAO, EXECUTIVE, SHENZHEN ENERGY GROUP (TRANSLATED): Our aim is to become a provider of low carbon clean electricity.

STEPHEN MCDONELL: Qin Shixao is deputy general manager of the Shenzhen Energy Group - a major electricity supplier. His company sold its excess allowances to make the very first trade here.

QIN SHIXAO (TRANSLATED): To kick-start the system for the benefit of society we were willing to make the first sale, to send a positive signal to the market.

STEPHEN MCDONELL: The Shenzhen energy group buys about 500,000 tonnes of Australian liquid natural gas every year to run facilities like the Dongou power plant. It, like other energy companies, has been allocated a number of carbon credits to use but we're told it can easily outperform older coal fire power stations on this front.

In the future the plan is for this scheme to deliver many more companies like this one because this plant is more efficient than its competitors it doesn't use up all of its credits or allowances.

Those that are left over it can sell and so the company can actually make a profit by being cleaner. Yet this company's bosses believe there needs to be motivation beyond profit, whether it is forced on industry or through corporate goodwill.

QIN SHIXAO (TRANSLATED): Even though we earn some profit from carbon trading, that profit is not huge. That is not our goal. We simply aim to reduce emissions.

STEPHEN MCDONELL: And word has reached here that Australia, one of the early adaptors of carbon trading, looks set to pull out altogether.

GE XING'AN: If Australia grabs that legislation, then the whole system will sink, everything that has been done will be in vain. And the future, the linkage, the whole market of the global - it is going to be jeopardised.

STEPHEN MCDONELL: Really, the entire global market might be jeopardised by Australia pulling out?

GE XING'AN: Of course. Of course. Australia is a very important player in the climate change issues and also the carbon market.

STEPHEN MCDONELL: Beijing and Shanghai have also just opened their exchanges but even the most optimistic observers say it could be more than five years until a China-wide trading system is established.

Stephen McDonell, Lateline.

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