

WORKSHOP: Trading mechanisms in the reduction of externalities: participating in a carbon market

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Abstract: We seem to have reached a watershed, in late 2006, in the level of acceptance of human-induced global warming and that market mechanisms - specifically cap and trade - have a very important, if not essential, place in the control of greenhouse gases and mitigation of climate change.

While the US and Australia have not ratified the Kyoto Protocol and are therefore excluded from the trading mechanisms under the Protocol there are nevertheless emerging markets for emission or carbon in both, and these markets are likely to strengthen considerably in the future, in the two countries and globally.

This workshop will focus on emission trading and will take the form of a role-play of participants where each participant would be an emitter with a certain marginal costs of abatement. There would be a cap on emissions and each participant will be able to choose between offsetting emissions (by investing in carbon sequestration projects) by purchasing credits, by abating or by purchasing offsets. The marginal costs of abatement would differ between participants, thus generating the potential for trade. Trades are recorded and the transactions analysed to show the cost savings that were made by allowing trade as against meeting mandatory caps. This simple exercise may seem old hat to some, but to others it could be an instructive exercise. The exercise would be based on a successful teaching model that I developed and use.