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Editorial

This special issue on climate change in 2010 comes at a time of much change and considerable uncertainty about climate policy and mitigation. In Australia, the failure in December 2009 to pass the Carbon Pollution Reduction Scheme (CPRS), its own version of an emissions trading scheme, has become a major political issue. Internationally, the failure of countries at Copenhagen to agree to binding emissions reductions beyond 2012 has created a great deal of angst among those who argue for rapid stabilisation and then reduction in global greenhouse gas (GHG) emissions. Behind this backdrop economists are trying to provide evidence-based policy advice so that if there are to be reductions in GHG emissions, they can be achieved at least cost.

The volume provides six insightful articles on the economics of climate change from various angles. All contribute to the public policy debate on climate change mitigation, both within Australia and internationally. Clarke provides a game-theoretic view of international climate change negotiations that suggests possible mitigation pathways. Ergas dissects Australia's CPRS from the perspective of the hypothecation (earmarking) of revenues from the sale of emissions permits. Using standard economic arguments, he correctly argues that hypothecation is inefficient. He also points out that the CPRS has the potential to distort public policy making in the future. Pezzey, Mazouz and Jotzo evaluate the choice of CPRS targets, and the size and method of CPRS free permit allocation to emission-intensive, trade-exposed emitters. They show that these free permits will badly skew sectoral incentives for abatement and forego billions of dollars of government revenues.

Betz, Siefert, Cramton and Kerr, in general, provide a favourable review of the CPRS in terms of the mechanism design of the auction of permits. Lambie, however, provides further cause for concern about the CPRS with his assessment of the potential impact on the investment decision of carbon-intensive electricity generators. The closing paper by Seo examines the issue of climate change from the perspective of land use in Africa. In particular, it provides important insights of the effects on African agriculture of climate change, and also upon development programs designed to promote on high-yielding crop varieties.

R. QUENTIN GRAFTON

Editor, Special Issue on Climate Change