

Ecologic

-the green hornet

‘Cap & Trade’

Both the Republican and the Democrat tickets have indicated that they intend to address the greenhouse gas emission subject if elected. So no matter who ends up in office, the campaign promise to fulfill is one of assigning a cost to CO₂. As has been mentioned, the EPA has deemed CO₂ a pollutant, but so far, no legislation has been enacted to control it.

One of the possibilities, that both parties seem to be entertaining, is the notion of ‘Cap & Trade’. Basically, ‘Cap & Trade’ is an imposed regulation with a capitalist twist to it. Some regulating body, probably the Federal Government, will set a limit, a cap, on how much CO₂ a given entity, commercial enterprise, can spew into the atmosphere, usually measured in metric tons (also known as a Tonne, consisting of 1,000 kg or 2204 pounds). The application of this limit would be in the form of an allowance that is either given to a commercial organization or as a permit to pollute that would be sold at auction. Since these permits to pollute are limited, an artificial scarcity is created that would create a market for this permit commodity.

The individual companies would also endeavor to rework their processes in order to come in under that imposed/purchased cap/limit. Those who are successful will have a surplus, or credit, of CO₂ emissions, which they can sell/trade, to some company that isn’t meeting its mark. These credits would be bought and sold on an open market exchange and presto, you have a new way of moving money around. A big difficulty, however, relates to the metric used in determining what a cap should be. It seems to make sense that efforts should be given in order to avoid unduly burdening business but often, the caps have been understated.

As bazaar as this sounds, this permit to pollute process is not a new idea, in fact the Europeans have had a system like this in place for over three years, called the European Union Emissions and Trading Scheme (EU ETS). There was a recent study conducted by MIT that concluded that it wasn’t working too badly. It did have its initial problems though, in fact there was a point in 2007 where the price of the ‘commodity’ dropped to zero; which was probably a little unsettling. The reason for the drop, it was determined, was that the initial caps were too high and over time no one needed the credits. For more information on the MIT study you can go to:

<http://web.mit.edu/newsoffice/2008/emissions-0610.html>

In our own country, we also have a little experience with this sort of market. The Clean Air Act Amendment established a market for allowances to emit sulfur oxides (SO_x) and Nitrogen oxides (NO_x) amongst electric utility companies. The experience with the Regional Clean Air Incentives Market (RECLAIM; who thinks these acronyms up anyway?), in California, was not necessarily a good one because, again, the caps were established too high. But the EPA Allowance Trading under the Acid Rain program was apparently successful in reducing SO_x and NO_x emissions to pre 1980 levels. However, there is a difference; CO₂ emissions are involved in virtually everything humans do and the SO_x and NO_x is more localized, so this new system may prove to be colossal.

In essence, the oppressive sounding command and control aspect of more regulation is partially avoided by this quasi free market approach. However, regardless of how it is referenced, it does represent additional costs of production and that would probably be passed along to the consumer; not that that's necessarily bad, it just seems like a reasonable conclusion. The intent is to actually place an economic value on pollution and if CO₂ emissions are indeed considered a pollutant, then 'Cap & Trade' does seem to accomplish that. A question to consider though is: Is this market-type approach the best method to achieve this end or is regulation through an old fashion 'carbon' tax method more effective? Yes, things certainly were simpler when polluting was free; oh well I guess we'd better keep recycling while we're still making stuff to recycle.