Carbon Trading: flaw at the heart of Democratsâ€™ climate bill

by Oscar Reyes
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The oil, gas and coal industry lobbyists who have spent almost $45 million on President ObamaÂ´s clean energy plan in recent months need not worry: it is so full of holes that US industry could avoid making any reductions at home until at least 2026, rendering talk of a 17 per cent cut in greenhouse gas emissions by 2020 largely meaningless.

The key problem is that the Waxman-Markey Clean Energy and Security Act places carbon trading at its centre. This allows domestic emissions reduction commitments to be exchanged for cheap and unjust projects abroad, or ineffective measures like tree planting at home, while introducing a â€œcap and tradeâ€• market that has shown a fundamental susceptibility to industry lobbying in the allocation of its targets.

The basic idea behind â€œcap and tradeâ€• is that companies are given a limited number of permits to pollute; the scarcity of these permits should encourage their price to rise; and the resulting additional cost to industry and power producers should then encourage them to pollute less.

The practice is far messier, as the experience of the European Union Emissions Trading Scheme (ETS) has shown. The first phase of this scheme, under the heavy influence of industrial lobbying, saw too many permits handed to polluters. Their price collapsed to almost zero, and no reductions were achieved.

The main explanation for this is fairly simple. Emissions trading markets are created from political decisions, so are particularly susceptible to lobby influence â€“ which takes the form of over-stating historical emissions, or negotiating opt-outs and loopholes. As the economist John Kay put it, â€œwhen a market is created through political action rather than emerging spontaneously from the needs of buyers and sellers, business will seek to influence market design for commercial advantage.â€•

Introducing carbon offsets into cap and trade schemes also fundamentally contradicts their basic purpose. The theory behind the â€œcapâ€• is that a limit is set on the availability of pollution permits, but offsets are a licence to print new ones. One system applies a cap and the other lifts it.

The Waxman-Markey proposal would allow participants to purchase up to 2 billion tons of carbon offsets per year, accounting for about 30 per cent of annual US emissions. These would be split between domestic and international offsets, with the latter accounting for up to two-thirds of the total. The former refer to investments in a variety of sectors and practices not covered by the cap, such as waste incineration, forestry and farming. The idea is that these activities would generate credits that could be traded for other, more expensive reductions, such as reductions in industrial emissions or those from power generation. Making these things the same is an essential part of making â€œcarbonâ€• a tradeable commodity, but this masks the obvious fact that there is no equivalent effect on the climate.

International offsets are drawn from the UN Clean Development Mechanism (CDM) for projects in developing countries that would â€œnot otherwise have happened.â€• This rewarding companies and consultancies for turning stories of an unknowable future into bankable carbon credits. Even the US Government Accountability Office acknowledges that a significant proportion of CDM credits do not represent real reductions in emissions.

This is not to say that the Waxman-Markey Act is all bad news for the climate. There are plenty of positive proposals buried in its 932 pages, including measures to encourage energy efficiency in buildings, efficiency standards for cars and electrical appliances, and greater investment in public transport. The problem is that the carbon market at its heart cuts the rug from under them, offering a means to circumvent targets that must be truly binding if they are to be effective.

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