

Carbon Trading

Emissions Trading or 'Cap-and-Trade'

Pollution permits to large industrial emitters [e.g. emission allowances under the EU Emissions Trading Scheme [ETS];

Trading that involves the selling and buying of such allowances / permits is often referred to as 'cap-and-trade' because the volume of permits limits / caps the amount of emissions, which can then be traded among companies.

If such permits were auctioned, and the focus were on the companies upstream in the fossil fuel economy [refineries, energy utilities e.g.] such cap-and-auction would not be that different from a carbon tax but would likely be less effective and involve much more price volatility than a tax.

In all of the existing cap-and-trade schemes, the permits are by-and-large handed out for free, resulting as in the ETS in huge windfall profits for e.g. the energy utilities who passed on the extra cost – and more – to the energy consumer.

Also, the ETS is not really a 'cap-and-trade' scheme because the cap has a hole: **The EU Linking Directive.**

This Directive allows companies covered by the ETS to release more greenhouse gases than they have allowances for as long as they buy a necessary volume of carbon credits from offset projects approved by the Kyoto Protocol's Clean Development Mechanism (CDM; project in the South) or Joint Implementation (JI, offset project in another country with a Kyoto emission target, mostly Eastern European countries).

Offset Schemes or Project-based credits

Carbon credits from offset projects: Projects claim that their emissions are lower than the emissions that 'would have happened otherwise'. The difference between the projects actual emissions and the hypothetical emissions 'that would have happened without the project' is the volume of carbon credits the project can sell to 'offset' / 'neutralise' someone else's emissions elsewhere. The reasoning is that these 'additional' emission reductions would not have happened without the extra carbon money and that therefore the climate impact of extra emissions elsewhere is 'offset'.

Because the calculations involve quantifying a hypothetical scenario of 'how many emissions would have been released without the project', none of these offset projects can ultimately verify their claim of x additional tonnes of emissions having been reduced by their project.

"Offset credits are an imaginary commodity created by deducting what you hope happens **from what you guess would have happened.**"
Dan Welsh

Kyoto Offset Market

Offset credits from projects related to the Kyoto Protocol: (1) Clean Development Mechanism (CDM) projects which are approved by the CDM Executive Board and which sell 'certified emission reductions' CERs

(2) Joint Implementation projects

Project list:
<http://cdm.unfccc.int/index.html>

Voluntary Offset Market

Projects that sell carbon credits to individuals and companies without any legal emission limits, often carmakers, airlines, oil companies. Compared to the Kyoto offset market, the voluntary offset market is characterised by a lack of transparency and projects do not require any form of third-party verification or approval against an agreed standard. Some such standards exist and some projects are assessed by third parties but criticism abounds about the quality of both the verification processes and the projects. More than 40 companies sell such voluntary 'offset' credits.