

Climate Change PBL #8: Emissions Trading

Problem

There is much debate over how Canada can effectively implement a national policy of Greenhouse Gas (GHG) emission reductions. One of the most popular proposed strategies is “emissions trading” (also known as a “cap and trade” system). What are the pros and cons of such a system? Could Canada successfully implement such a system, either by joining one that exists or creating one in Canada? Would doing so help the country achieve its emission reductions goals?

Background

The general idea behind a “cap and trade” system is to reward companies that are actively lowering their emissions and punish those whose emission levels are increasing, all through a market based system. Companies that reduce their emissions below a government mandated “cap” are rewarded with a number of carbon credits. They can then sell these credits to companies whose emissions exceed the “cap.” The idea is the overall emissions from the country are reduced and a financial incentive (selling carbon credits in the marketplace) is provided to companies that will offset the costs of reducing their emissions.

There are some emissions trading systems already in place, the largest being the European Union Emissions Trading Scheme. In its first year (2006), the EU ETS traded more than 320 million tonnes of carbon with an estimated financial value of €7.2 billion. All together, EU emissions totaled 147 million tonnes of carbon below the first period cap. Only a handful of countries marginally exceeded their allotted carbon emissions. Despite this, emissions from the 27 member states of the EU actually increased 1.9% between 2005 and 2007. This has created a large amount of confusion about the efficacy of the emissions trading scheme and accusations that the caps over this period were too lenient. More aggressive caps have been devised for the 2008-2012 period. Independent analysis groups do believe that with more stringent caps, Europe can begin to reduce its aggregate emissions.

Expansion to new countries, markets, and commodities is also difficult and there are often disputes over what deserves a credit and what does not. At the BC Forestry Roundtable of September 2009, goals emerged for the forest industry that included “sequestering carbon.” This goal stems from the belief that creating and growing a carbon sink could be a viable business in BC. Unfortunately, the EU ETS does not accept “sinks” as a source of carbon credits. This could lead to friction if Canada intends to be a part of the ETS. Similar issues could arise across Canada, lessening the chance of a merger with the European system. Alternatively, could a cap and trade system be developed in Canada?

Potential Direction

Although there have been bumps in the road to implementation, cap and trade systems

like the EU ETS are showing promise as a constructive method to combat carbon driven climate change. Creating a global carbon credit free market will take negotiation and sacrifice on the parts of prospective parties. It is also important that participating states have clear and reasonable reduction targets that lead to a carbon reduction. Any regulation on emissions reduction will ultimately pit many large Canadian businesses against the government. The management of this relationship will be crucial to the success of any plan.

Guiding Questions

- What would the Canadian and BC priorities be if Canada was interested in becoming a part of an emissions trading program like the EU ETS?
- What would a Canadian cap and trade system look like? What interests in Canada would be represented in such a decision?
- Are there any exemptions that you think would be built into such a trading system?
- Would some industries in Canada benefit more than others under a trading scheme? Which ones?
- What groups would be opposed to an emissions trading scheme?

Resources

EU ETS Homepage - http://ec.europa.eu/environment/climat/emission/index_en.htm
Greenpeace on Carbon Offsets - <http://www.thecroc.org/> (Note: Be sure to click the 'Why is Greenpeace so Upset' button on the right after watching the video)
Point Carbon: European Carbon Trading Survey 2006 - http://www.pointcarbon.com/wimages/Carbon_2006_final_print.pdf
Ontario and Quebec's proposed emissions trading plan - <http://www.cbc.ca/canada/story/2008/06/02/ont-que.html>
The Guardian: Trading Not Cutting Emissions - <http://www.guardian.co.uk/business/2007/apr/03/carbonemissions.environment>

Potential Community Engagement

BC Forestry Roundtable - http://www.for.gov.bc.ca/mof/forestry_roundtable/20090930_ExecutiveSummary_Status_Report.pdf
David Suzuki Foundation on Cap and Trade - http://www.davidsuzuki.org/files/climate/Carbon_Tax_Cap_and_Trade_briefing_2008_May.pdf
Western Climate Initiative - <http://www.westernclimateinitiative.org/>