EU Emissions Trading Scheme

The EU Emissions Trading Scheme was a bold attempt to apply neoclassical methods to the most serious market failure of all: climate change. The scheme involved issuing a number of permits to emit carbon dioxide and giving them to 5,000 of the EU's biggest emitters, within a framework of the limits set by the Kyoto Treaty. The corporations that received the permits could then trade with each other so that those who could more cheaply reduce their emission sold the permits to those who found it more expensive to reduce theirs. It was estimated that the value of permits in the first round of trading was €170bn.: this is a huge value that can be created when the global atmosphere is rationed in this way and critics of the scheme have suggested that this value should have been widely shared, not allocated to a narrow range of corporations. In addition, firms have increased prices to reflect the pricing of CO2 emissions, although they were themselves given the right to produce the gas free of charge. The World Wildlife Fund estimated that German utility companies will make windfall profits of between €31 and €64 billion from the scheme by 2012. The scheme was also criticized because only 43% of EU emissions were included.

Any carbon trading scheme is designed and implemented by politicians and is therefore open to political influence at the national level—with Finland, Lithuania, Luxembourg and Slovakia all being allocated 25% more permits than their recent emissions would require—and at the local level, with powerful companies exerting influence on their governments to receive an unfair share of permits. Such a system is also based in the culture of business and corporations have played a major role in designing the ETS. For this reasons it reflects their interests and only mildly constrains their activity. Perhaps most seriously of all, the ETS can encourage companies to keep polluting plants open since, if they do not, they will lose their share of permits. The weakness of the original version of the ETS became clear in 2006 when it was on the verge of collapse because governments had given away so many licences that no company was required to do more than it would have done if the scheme had not existed. Hence the price for the permits fell through the floor, incapacitating the market.

Film on general problems with Cap and Trade:
http://www.youtube.com/watch?v=pA6FSy6EKrM&noredirect=1