

Carbon Emission Trading, The Basics Explained

The Kyoto Protocol is a UN-led international agreement reached in 1997 in Kyoto Japan to address the problems of climate change and the reduction greenhouse gas emissions. The Kyoto Protocol went into force on February 2005.

Signatory countries are committed to moving away from fossil fuel energy sources - oil, gas, and coal, to renewable sources of energy such as hydro, wind and solar power, and to less environmentally harmful ways of burning fossil fuels. Greenhouse gases such as carbon dioxide, methane and nitrous oxide are mainly generated by burning fossil fuels. Higher levels of greenhouse gas emissions cause global warming and climate change.

The Protocol commits 38 industrialized countries to cut greenhouse gas emissions by 2008-2012 to overall levels that are 5.2 percent below 1990 levels. Targets for greenhouse gas emissions reduction were established for each industrialized country. Developing countries including China and India were asked to set voluntary targets for greenhouse gas emissions.

The Canadian target for Kyoto is to reduce by 2012, greenhouse gas emissions by six percent below their 1990. The United States did not ratify the Kyoto Protocol, and in February 2002 introduced the Clean Skies and Global Climate Change initiatives, in which targets for reduction in greenhouse gas emissions are linked directly to GDP and the size of the U.S. economy.

Trading of carbon emissions is linked to a program called Cap-and-Trade. Understanding this concept is necessary to begin effective trading. A central authority (usually a government or international body) sets a limit or cap on the amount of emissions discharged into the atmosphere. Companies that exceed the cap may be subject to fine or regulatory sanction. Therefore, those who find they cannot meet the conditions of the cap will look to buy credits from those who pollute less.

Many older established companies are forced to spend considerable sums of money modernizing plants. In many instances this takes time, usually years to achieve. In contrast to new generation technologies which are not faced with up-grading facilities to comply with 1990 emission standards. Trading emission credits is a way for low emission companies such as wind farms to sell credits to benefit higher emitting companies. Cap-and-trade programs ultimately aid in being a net benefit to the host country by enabling it to meet it's commitment to the Kyoto Protocol Agreement.

From the very beginning, this first phase of the European Union Emissions Trading Scheme, or EU-ETS, was intended to be a learning period to work out the kinks and entice major greenhouse gas emitters on board.

On January 1, 2005, the EU-ETS came online with the cap-and-trade program covering approximately 12,000 installations including electricity production and some heavy industry. These 27 member countries of the European Union represents roughly 45 percent of total European CO2 emissions.

Now three years later, amid a flurry of expectations and public controversy, the European Union has credible results to back up its claim of success. Recently, a Massachusetts Institute of Technology analysis of the EU Emissions Trading Scheme (ETS) affirms that despite rather unstable beginnings, the system has been an unprecedented success. More importantly, it opens the door for skeptical countries like the United States to follow suit.

The United States would have been required to reduce its emissions 7 percent below 1990 levels had it accepted ratification of Kyoto. Instead, U.S. emissions have now risen more than 16 percent between 1990 and 2005.

The Bush administration and Republican lawmakers opposed to emission caps have been touting the Asia-Pacific Partnership on Clean Development and Climate, which consists of Australia, China, India, Japan, South Korea, and the United States. The aim of the initiative, which began in 2005, is to foster cooperation on ways to improve clean energy development and lower emissions without global mandates. But since the initiative started, the United States, India, and China have come under increased domestic pressure to move toward mandatory emission controls. California is among several U.S. states that have entered into partnerships or passed laws for controlling greenhouse gas ahead of the federal government, leading to a showdown with congressional lawmakers. Major U.S. cities have also instituted a host of policies designed to cut greenhouse gases.

Without the United States entering into a binding commitment, it is feared that several developing countries which have not yet signed plus some Kyoto signatories may be unwilling to agree to additional international commitments.

Source: HackerReview.com

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