
Frequently Asked Questions



prepared by The Story of Stuff Project

What is cap and trade?

Cap and trade, also known as carbon trading or emissions trading, is one of the leading proposed solutions to the global climate crisis. The climate legislation currently under consideration in the United States, for instance, proposes a national cap and trade system for greenhouse gas emissions.

Under cap and trade schemes, individual governments or intergovernmental bodies, like the United Nations, set a limit on greenhouse gas emissions allowed within a given time period — that's the cap.



In order to keep carbon emissions below the set cap, companies are allotted “carbon permits” or “emissions allowances” that allow them to release limited amounts of carbon dioxide into the atmosphere. If a company plans to pollute more than their allotted limit, they can buy permits from companies that haven't used all of theirs — that's the trade.

Proponents of cap and trade argue that innovative companies will invest in technologies that lower their pollution levels below their cap, giving them a surplus of permits they can sell to companies that need them because they are exceeding their own pollution limits. The logic is that as long as we stay under the cap, it doesn't matter who pollutes and who innovates.

What's wrong with cap and trade?

The Story of Cap & Trade points to several significant problems with the cap and trade schemes on the table, the so-called 'devils in the details.'

Setting the Cap

Cap setting is an inherently political process and as such is highly susceptible to corporate lobbying. All cap and trade systems carry a significant risk that the cap – which is based on historic pollution levels – will be set too high and that “carbon permits” or “emissions allowances” will be over allocated to polluters. When companies receive more permits than they need in the first place, as happened during the initial phases of the European Union Emissions Trading Scheme (EU ETS), there is no motivation to reduce emissions. In Europe, these surpluses also caused the price of permits to collapse due to lack of demand.

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Cap & Giveaway

When the cap is set, the big question is how carbon permits or emissions allowances are distributed. Under so-called Cap & Giveaway systems, permits are given free to historic polluters — the more a company polluted in the past, the more permits it gets. For instance, the majority of the permits in the initial years of the proposed U.S. Cap and Trade system would be given away for free.

Critics of Cap and Giveaway have suggested, as we do in the film, that these valuable permits should be sold or auctioned to these companies by the government, which could then use the revenue for investments in clean energy research and development, to provide a dividend to utility company customers (to pay for higher electricity bills) or to pay off the ecological debt we owe to the countries (like island nations) who will bear the brunt of climate change.

Offsetting loosens the cap

Under most Cap and Trade schemes, companies get to choose between reducing their own emissions OR buying offset permits.

Offset permits enable companies to exceed their emissions cap by paying for supposed pollution reductions to take place elsewhere, outside of the capped market, typically in the so-called third world. Most current and proposed Cap and Trade schemes allow offset credits to be traded in lieu of actual emissions trades – including the system proposed in the 2009 American Clean Energy and Security Act (ACES) in the U.S. Congress.

Offset permits, which are typically cheaper and less regulated than actual emissions trades, allow polluters to continue 'business as usual,' delaying the significant infrastructure changes required to shift to a low-carbon economy.

How big is the global carbon market right now?

The global carbon market has roughly doubled in size every year since 2005 and was worth \$126 billion in 2008. It has been predicted to grow to a market value of approximately \$3 trillion per year by 2020.

Are there examples of Cap and Trade schemes in practice?

There have been a number of Cap and Trade markets – the United States Acid Rain Program, the Los Angeles Region Clean Air Markets (RECLAIM), the Chicago Emissions Reduction Market System (ERMS), the Regional Greenhouse Gas Initiative and the European Union Emissions Trading Scheme (ETS), which is currently the largest system in the world.

Who's involved in cap and trade?

While independent economists have theorized emissions markets since the 1960s, the corporations and countries most responsible for greenhouse gas emissions largely developed today's markets. Enron was a pioneer in the climate-change industry, launching an effort way back in 1993 to convince the newly inaugurated Clinton Administration and Congress to create a trading system for carbon dioxide emissions. And according to a 2009 Rolling Stone article by Matt Taibbi, Goldman Sachs ramped up its push for cap and trade legislation in 2008 when the firm spent \$3.5 million to lobby on climate issues. As Taibbi puts it, "Goldman is ahead of the headlines again, just waiting for someone to make it rain in the right spot.

A wide range of companies participate in the carbon markets, including utility companies and other heavily-polluting industries. In the markets, these are known as 'compliance traders'. But trading for compliance purposes is a small proportion of the overall volume of permits and credits traded. Most carbon permits and credits are held by investment funds, brokers and trading desks, whose participation in the markets is solely for the purpose of profiting from buying and selling, ie speculation.

The complexity of the carbon markets, and the involvement of financial speculators and complex financial products, carries a risk that cap and trade will develop into a speculative commodity bubble that could provoke a global financial failure similar in scale and nature to the subprime mortgage crisis.

But isn't cap and trade better than nothing?

No. Cap and trade protects business as usual, something we just can't afford given the magnitude of the climate crisis we face. Not only does cap and trade allow polluters to avoid change – and even enables them to increase emissions – it often hands them a tidy windfall for their effort (or lack thereof). As the film argues, carbon trading is a dangerous distraction. There are real solutions out there, but cap and trade, with its loopholes and promises of riches, have made many people forget all about them. Its time to set aside this distraction and build a climate solution that will really work (and really work for everyone)!

Special thanks to Carbon Trade Watch (www.carbontradewatch.org) and Friends of the Earth International (www.foei.org) for their valuable contributions to this introduction to cap and trade.

For more information on cap and trade in general, check out Dangerous Obsession (www.foe.co.uk/resource/reports/dangerous_obsession.pdf), a 2009 Friends of the Earth UK report.

For more information on offsets, check out Dangerous Distraction (www.foe.org/sites/default/files/A_Dangerous_Distraction_US.pdf), a 2009 Friends of the Earth US report.