



# Some Comments on CO<sub>2</sub> Emissions Trading

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# Trading versus taxes

- ❖ Most environmental economists who have looked at policies to reduce CO<sub>2</sub> emissions have advocated taxes rather than tradable emissions permits
- ❖ Key reasons:
  - ❖ Different likely elasticities of marginal costs of control and marginal damages
  - ❖ Sequestration is likely to be a cost effective option for CO<sub>2</sub>, but is not for SO<sub>2</sub> – this makes the marginal cost of control curve even more uncertain
  - ❖ CO<sub>2</sub> is much more pervasive in the economy than SO<sub>2</sub>, meaning many more activities are relevant, greatly raising monitoring and enforcement costs
  - ❖ Life-cycle CO<sub>2</sub> emissions calculations open up CO<sub>2</sub> permit allocation to substantial lobbying
  - ❖ Politicians prefer permits because they can more easily avoid blame for the consequent energy price increases, while exemptions and special allowances provide plenty opportunities for politicians to do “special favors”
  - ❖ The offset mechanism has been shown to be rife with fraud and misrepresentation, especially in developing countries, raising doubts about the efficacy of the scheme
  - ❖ Different rules and regulations in different jurisdictions make it difficult to ensure global least cost control

