



Some Comments on CO₂ Emissions Trading

Peter Hartley
Rice University



Trading versus taxes

- ❖ Most environmental economists who have looked at policies to reduce CO₂ 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 CO₂, but is not for SO₂ – this makes the marginal cost of control curve even more uncertain
 - ❖ CO₂ is much more pervasive in the economy than SO₂, meaning many more activities are relevant, greatly raising monitoring and enforcement costs
 - ❖ Life-cycle CO₂ emissions calculations open up CO₂ 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

