

- FACTSHEET -

The Cap and Trade Charade for Climate Change

13 Reasons Why Trading and Offset Use are NOT a Solution to Climate Change:

1. Time is of the essence
2. The European Union Emissions Trading Scheme (EU-ETS) has failed to deliver greenhouse gas emission reductions
3. Although the EU-ETS has not Reduced Greenhouse Gas Emissions it has Awarded Windfall Profits to the Largest Polluters
4. Trading stifles technological innovation needed to achieve long term goals for greenhouse gas reductions
5. Global Offsets Are Often Unverifiable, Lead to Oppression, and Do Not Benefit Our Communities
6. Trading is undemocratic, secretive, and excludes the public from decision-making about whether and how to address greenhouse gas emissions
7. Trading intensifies financial incentives for fraud
8. There is a broad-based rejection of trading
9. Climate change disproportionately affects communities of color fundamentally linking environmental justice to the need for real greenhouse gas emissions reductions
10. Failure to address the primary cause of greenhouse gas emissions will also fail to address the primary cause of negative health, safety, and quality of life impacts in communities of color
11. Pollution trading can create and exacerbate existing pollution "hot-spots"
12. Trading, investing, profiting and gambling on public health is just wrong
13. There is a better way

1. Time Is Of The Essence

In September 2006 NASA scientist James Hansen said: "I think we have a very brief window of opportunity to deal with climate change ... no longer than a decade, at the most,"¹

In October 2007 a group of researchers released a study showing that global warming was occurring much faster than expected because of increased human emissions of carbon dioxide and the Earth being less able to absorb them. According to the study, carbon dioxide emissions were 35 percent higher in 2006 than in 1990, a much faster growth rate than anticipated. Kevin Trenberth of the National Center for Atmospheric Research in Boulder was quoted as saying "[C]oncentrations of CO2 are increasing at much higher rates than previously expected and this is in spite of the Kyoto Protocol that is designed to hold them down in western countries."²

In December 2007, a group of more than 200 leading climate scientists released the [2007 Bali Climate Declaration by Scientists](#), in which they stated that:

"...many millions of people will be at risk from extreme events such as heat waves, drought, floods and storms, our coasts and cities will be threatened by rising sea levels, and many ecosystems, plants and animal species will be in serious danger of extinction ...[unless] global greenhouse gas emissions [are] reduced by at least 50% below their 1990 levels by the year 2050."³

2. The European Union Emissions Trading Scheme (EU-ETS) Has Failed To Deliver Greenhouse Gas Emission Reductions

In London, on March 7, 2007, the European Commissioner for Energy declared the EU-ETS "A failure."

The convoluted and highly politicized matter of *allocating emission credits* will mean that "low credit prices and phantom reductions are certain."⁴ Even under the highly regarded and single-sector SO2 emissions-trading regime there were complicated allocation formulas,

arbitrary discretion exercised in permit allocations, and special subsidies and extra allowances given for political reasons, despite the best intentions to establish objective criteria.⁵ These problems of political adjustments will be amplified under a carbon trading regime across numerous competing sectors and industries, and across international borders. Economists from the American Enterprise Institute (AEI) depicted the following example:

“The forest products industry... will reasonably want credits for creating carbon sinks in the trees it plants and harvests, but the manufacturing sector that uses these wood products as a raw material will want credit for sequestering carbon. The difference will have to be split in some arbitrary manner that will surely introduce economic distortions in the marketplace... There are going to be winners and losers in this allocation process. Multiply this problem across sectors and industries and it becomes evident that a GHG emissions-trading system is going to be highly complex and unwieldy, and too susceptible to rent-seeking influence...”⁶

The easy and favored solution to these politicized problems is to over-allocate the number of initial permits, which very nearly led to the collapse of Phase I of the EU ETS. “Because emissions permits were over-allocated, the price of emissions permits plummeted, and little—if any—emissions reductions have taken place because of the ETS.”⁷

Even with the best of intentions and absent political pressures, determining an appropriate allocation “is fundamentally tricky because really it involves policymakers trying to guess the future of energy prices, the future of the growth of the economy, [and] the future of technology change for [] several years ahead.”⁸

3. Although the EU-ETS has not Reduced Greenhouse Gas Emissions it has Awarded Windfall Profits to the Largest Polluters

Several independent studies documented that the EU ETS caused higher electricity prices, increases ranging from 3-28%, leading one report to conclude that the main effect of the ETS “has been to substantially increase electricity prices.”⁹ One of the studies cited in the report predicted a 31% increase in electricity prices by 2013.¹⁰ Meanwhile, big oil companies like BP and Shell can each expect to make around £50 million by selling permits,¹¹ and big electricity generators in the U.K. for example made about £2 billion, with similar figures in other comparable EU states.¹² If free allowances were given under a U.S. trading system, the value of the allowances provided to the top 10 emitting electric utility companies would conservatively range between \$4.5 billion to \$9 billion per year (assuming allowance prices ranging from \$5-\$10/ton.)¹³

Under the EU-ETS, consumers paid for large corporations to enjoy windfall profits and for their energy prices to rise, while no emissions reductions were achieved.¹⁴ Of course, there is really no such thing as “windfall profits”—just the unjust transfer of wealth from consumers to corporations, since “profit” is simply the difference between what it costs to provide a good or service and what people pay for it.

4. Trading Stifles Technological Innovation Needed to Achieve Long Term Goals for Greenhouse Gas Reductions

Even supporters of trading programs admit that “[t]he price of phase two allowances [in the EU-ETS have] risen to a level high enough to get some power generators to switch from coal to gas at the margin when the gas price is moderate; but not high enough to get them to replace coal-fired power stations with gas-fired ones—nor to encourage much of the innovation that carbon trading had been expected to spawn.”¹⁵

Pollution trading, especially when coupled with offsets, actually creates perverse incentives to *avoid* innovation. Under such programs many firms chose to purchase cheap credits rather

than innovate, consequently stifling new technology development by allowing industries to choose cheap fixes which require no innovation and could have been achieved much more efficiently.¹⁶

5. Global Offsets Are Often Unverifiable, Lead to Oppression, and Do Not Benefit Our Communities

Excess pollution is being allowed in inner cities and other poor communities in the North in exchange for tree-planting programs or methane capture in the South. Within developing countries, these trades often divide the rich against the poor, the plantation owners against the poor farmers. By accepting carbon trading as inevitable, communities are essentially turning their backs on the basic rights of communities, North and South to clean air, clean water, and food.¹⁷

There have been examples under the EU ETS, which employs the Kyoto Protocol's Clean Development Mechanism, of large numbers of people being displaced to make way for large hydropower projects in developing countries that are applying for the right to sell carbon credits to Northern polluters.¹⁸ Elsewhere villagers have been arrested and even killed after being ousted from their land for tree plantations which they then dared to cut down; plantations which are now being used as carbon offsets by Northern polluters.¹⁹ "Offsets are a form of carbon colonialism," said Indian activist and researcher Soumitra Ghosh. "Instead of helping us leapfrog over polluting industries, they have become a cheap way for the North to allay their guilt by bribing Southern governments. The poor are suffering the consequences, and seeing none of the benefits."²⁰

"Environmental justice concerns will arise both domestically and globally under global pollution trading. Carbon dioxide sources release hazardous co-pollutants, e.g., fine particles and toxic products of incomplete combustion. As U.S. firms buy bogus [] credits or cheap reduction credits from

developing countries, where energy inefficiencies are high, air pollution in urban U.S. communities will be maintained or at least not reduced as fast as it otherwise would have been had domestic reductions in greenhouse gases been mandated."²¹

6. Trading Is Undemocratic, Secretive, And Excludes The Public From Decision-making About Whether And How To Address Greenhouse Gas Emissions

Pollution trading schemes have historically and strategically excluded the public, and even the very government agencies charged with the directive to regulate the pollution, from the decision-making process, effectively excluding the very communities that will be affected by industrial pollution.²² Credits can be purchased from private brokers, where a company seeking to continue or increase its pollution need only purchase the requisite credits without any public review or comment.²³

Public accountability is vital because pollution trading programs create strong incentives for regulated entities to manipulate numbers and cheat so long as fraudulently-created credits are still opportunities to profit.²⁴

The public right, through its communities and our government, to focus reductions in ways that maximize co-benefits should trump claims of "market efficiency."

7. Trading intensifies financial incentives for fraud

Under a carbon trading regime regulated entities:

"[W]ill doubtless fudge numbers to maximize their credits; some companies stand to make a great deal of money under a trading system. Also hoping to profit, honestly or not, would be carbon traders. Large financial institutions would jump into the exchange to collect commissions on carbon trades, just as they do with crude oil and wheat. This presents opportunities for Enron-style market manipulation."²⁵

8. There is a broad-based rejection of trading

Despite trading advocates' claims that a market-based approach is the only feasible alternative for industry to accept carbon reductions, increasingly, people are speaking out against trading.

"Most economists believe a carbon tax... would be a superior policy alternative to an emissions-trading regime. In fact, the irony is that there is a broad consensus in favor of a carbon tax everywhere except on Capitol Hill... Al Gore supports the concept, as does James Connaughton, head of the White House Council on Environmental Quality during the George W. Bush administration, Lester Brown of the Earth Policy Institute supports such an initiative, but so does Paul Anderson, the CEO of Duke Energy."²⁶

The *New York Times*, *Los Angeles Times*, and conservative economists at the American Enterprise Institute have favored a carbon tax,²⁷ The *Wall Street Journal* opined "[t]he emerging alliance of business and environmental special interests may well prove powerful enough to give us cap-and-trade in CO₂... it would make money for some very large corporations. But don't believe for a minute that this charade would do much about global warming."²⁸

New York Mayor, Michael Bloomberg, is actively advocating for a carbon tax saying, "I think it's time we stopped listening to the skeptics who say, 'But for the politics,' and start being honest about costs and benefits."²⁹

9. Climate Change Disproportionately Affects Communities Of Color Fundamentally Linking Environmental Justice to the Need for Real Greenhouse Gas Emissions Reductions

Climate Change's "disproportionate effects will be experienced in California.... The state already has the worst smog in the country, and the highest number of people with asthma, an estimated 3.9 million people. Global warming's impacts also will pose major threats to sectors of the California economy employing large

numbers of poor people and people of color -- such as agriculture and tourism-- due to crop losses, drought and flooding."

"The impacts of global warming experienced by [communities of color] and poor communities will be exacerbated because these groups are often the least able to adapt. They typically have less access to health care and medical, home, and renter's insurance; less money to purchase air conditioning or to move away from droughts, floods, and fires caused by global warming; and spend a higher percentage of their income on necessities such as gasoline, water, and electricity, which will become scarcer and more expensive with climate change."³⁰

10. Failure To Address The Primary Cause of Greenhouse Gas Emissions Will Also Fail to Address the Primary Cause of Negative Health, Safety, and Quality of Life Impacts in Communities of Color

A wide range of agencies recognize that fossil fuel usage is the largest contributor to climate change including The International Panel On Climate Change.³¹ Indeed, the US EPA wrote that the greenhouse effect is "intensified by human activities, especially the combustion of fossil fuels. Increased energy use in cars, homes, and factories raises the concentration of carbon dioxide in the atmosphere, and this can cause a variety of impacts on the global climate."³²

In addition to being the primary source of greenhouse gases, the fossil fuel infrastructure is disproportionately located in California's low income communities and communities of color. This infrastructure includes power plants, refineries, freeways, ports, and large industrial facilities that cause grave health and other impacts in traditionally overburdened communities.

11. Pollution Trading Can Create And Exacerbate Existing Pollution "Hot-Spots"

Some assert that "hot spots" will not be a concern because greenhouse gases do not have local air quality impacts. Carbon dioxide emitting sources, however, release hazardous co-pollutants such as fine particles and toxic

products of incomplete combustion as well as criteria pollutants that contribute to the formation of smog.³³ Some argue that carbon is global, but clearly its co-pollutants are localized in communities. An analysis of a pollution trading “car scrapping” program in the South Coast Air Basin showed how pollution trading programs can unfairly concentrate pollution in communities.³⁴

The problem of hot-spots is further complicated by the emission of co-pollutants and precursors, which may increase exposure to certain types of chemicals in downwind communities where pollution is concentrated... Emissions are composed of complex mixtures of chemicals, not the single pollutants often targeted for regulation or trading... Since pollution trading enables polluters to avoid emission reductions, or even increase emissions, at one location by purchasing credits earned elsewhere, the co-pollutants associated with that emission source may also persist and concentrate around that polluter.³⁵

RECLAIM showed how emissions trading programs can “exchange small reductions in widespread pollution for increased exposure to concentrated, and often more toxic, pollution in the neighborhoods surrounding large industrial facilities”³⁶

Trading programs knowingly subject communities of color to greater pollution, all in the service of reducing the overall monetary costs of environmental compliance for the polluters.³⁷

12. Trading, Investing, Profiting and Gambling on Public Health is just Wrong

Pollution trading is perverse in that it treats the public resource of clean air as a private commodity. Clean air and the associated public health becomes a commodity to be sold, invested, speculated against, and profited from. “What once was a wrong—polluting—is now a ‘right’... Instead of people having the right to breathe free, businesses have the right to pollute as much as they can afford.”³⁸

“Why should the polluters profit from the legacy of damage they have caused? Do we really want them to own the sky?”³⁹

13. There is a Better Way

Energy and resources spent establishing a robust credit market and proving that carbon trading “can actually work” will lead to fraud, artificial reductions, and will not lead to “real” GHG emissions reductions. We are wasting incredible amounts of investment, resources, and research in attempting to redesign failed pollution-trading systems, when we may have less than ten years to avert global catastrophe. The dollars that will be funneled into attempting to make a carbon market work could be better spent investing in proven zero-carbon technologies (such as solar and wind power, and advanced public transportation systems), direct regulation of polluting entities, protecting low-income households, worker transition assistance and green job training, mitigation of disproportionate climate change effects, and helping pay for a genuine transition to a clean energy economy. The

Further, “going green may be the largest economic opportunity of the 21st century.” The Climate Action Team, also calculated that California, the world’s 6th largest economy, could increase income by more than \$4 billion and provide 83,000 new jobs with global-warming reduction. With the Mohave Desert being one of the best sites for solar energy development in the world, California has the potential to meet all of its 50,000 megawatt energy needs from solar alone. Wind and solar energy are clean, renewable, available, and plentiful.⁴⁰ A recent world wind-mapping study suggests that sufficient wind power is available over land to satisfy all electric and vehicle power demand worldwide, up to 5 times over.⁴¹ “Wind and solar power could satisfy all electric power and non-electric power requirements worldwide and simultaneously address climate change and air quality, eliminating the millions of cases of asthma and respiratory disease and hundreds of thousands of deaths worldwide each year due to fossil fuels.”⁴² There are also promising new lower carbon technologies, like algae farms that can churn out more than 5,000 gallons of biofuel from a single acre and can grow from little more than wastewater, sunlight, and CO₂ to flourish.⁴³

We have the technology for zero and lower carbon alternatives, except that the biggest challenge for the companies is that they can not compete with the highly subsidized price of petroleum,⁴⁴ and other fossil-fuel based industries.

Because the implementation of clean energy sources continues to be as much political problem as a technological one, the Renewable Portfolio Standard (RPS) in California remains around 11%, the same ratio in existence when the RPS was adopted in 2002, despite the 20% mandate. However, we can no longer afford to rely upon the very same highly-polluting technologies from last Century, namely, combustion, and continue to subsidize and entrench the very same fossil-fuel and natural resource extraction industries that put our planet in peril. Proven zero-carbon renewable energy sources, such as solar and wind, are the best available and proven alternatives that will lead us to a zero-carbon, sustainable, and equitable future.

¹ Warming expert: Only decade left to act in time, MSNBC.Com, Sept. 14, 2006. (<http://www.msnbc.msn.com/id/14834318/> last accessed 2/17/2008)

² Study: Warming is stronger, happening sooner: Higher CO2 emissions from fossil fuels, and weaker Earth, cited as reasons, October 22, 2007.

(<http://www.msnbc.msn.com/id/21423872/> last accessed 2/17/2008)

³ For link to the declaration issued by scientists, see, <http://www.climate.unsw.edu.au/bali>

⁴ Drury, p. 275.

⁵ Green, et. al.

⁶ Green, et. al.

⁷ Green, et. al.

⁸ *OnPoint*

⁹ Open Europe.

¹⁰ Open Europe.

¹¹ Helmer.

¹² *OnPoint*.

¹³ "Should Big Polluters Own the Sky? The Distribution of Emission Permits Under a Federal Greenhouse Gas Cap-and-Trade Program," Clean Air Watch, June 2007, p. 8; see also, "in the first ten years of the Acid Rain program (1995-2005), the financial value of the SO2 allowances allocated to American Electric Power (AEP), the largest U.S. electricity generator..., the largest consumer of coal in the Western Hemisphere, and the largest emitter of SO2 in the electricity sector [alone] totaled at least \$1.6 billion." *Id.*

¹⁴ See, Kill, Jutta, FERN, *quoting*, Peter Atherton, Citigroup Global Markets, Jan. 2007.

¹⁵ The Economist, The Carbon Market is Working, But Not Bringing Forth as Much Innovation as Had Been Hoped, May 31, 2007

(http://www.economist.com/surveys/displaystory.cfm?story_id=9217960 last accessed 2/19/2008).

¹⁶ Billions lost in Kyoto carbon trade loophole, Financial Times, February 28, 2007.

(<http://www.ft.com/cms/s/0/c07a48b4-b6d9-11db-8bc2-0000779e2340.html> last accessed 2/18/08)

¹⁷ Wysham, Daphne, "Note from Bali: Please Pay Attention to the Man Behind the Curtain," Institute for Policy Studies, Dec. 6, 2007.

¹⁸ "Groups Oppose Lieberman-Warner Global Warming Bill as Gift to Polluters," October 19, 2007.

¹⁹ *Id.*

²⁰ *Id.*

²¹ Drury, p. 287.

²² Drury, p. 278-279.

²³ Drury, p. 278-279.

²⁴ Drury, p. 259.

²⁵ *Los Angeles Times*, May 28, 2007.

²⁶ Green, Kenneth P., et. al., "Climate Change: Caps vs. Taxes," American Enterprise Institute, Jun. 3, 2007, http://www.aei.org/publications/filter.all,pubID.26286/pub_detail.asp

²⁷ See, Redburn, Tom, "The Real Climate Debate: To Cap or to Tax?," *The New York Times*, Nov. 2, 2007, <http://www.nytimes.com/2007/11/02/us/politics/04web-redburn.html>; *Los Angeles Times*, May 28, 2007; Green, et. al.

²⁸ *Wall Street Journal*, "Cap and Charade: The political and business self-interest behind carbon limits," Mar. 3, 2007, <http://www.opinionjournal.com/forms/printThis.html?id=110009740>

²⁹ Redburn, 2007.

³⁰ Global Warming's Unequal Impacts, Office of the Attorney General. (<http://ag.ca.gov/globalwarming/unequal.php> last accessed 2/17/2008)

³¹ Climate Report Points Finger at Fossil Fuels, GeoTimes, February 2, 2007 (<http://www.geotimes.org/feb07/WebExtra020207.html> last accessed 2/17/2008).

³² Climate Change and Public Health, EPA 236-F-97-005 October 1997 ([http://yosemite.epa.gov/oar/GlobalWarming.nsf/UniqueKeyLookup/SHSU5BNNXJ/\\$File/ccandpublichealth.pdf](http://yosemite.epa.gov/oar/GlobalWarming.nsf/UniqueKeyLookup/SHSU5BNNXJ/$File/ccandpublichealth.pdf) last accessed 2/17/2008).

³³ Drury, p. 287.

³⁴ Drury, p. 251.

³⁵ Drury, p. 251; 257.

³⁶ Drury, p. 272.

³⁷ Drury, p. 279.

³⁸ Drury, Richard; Belliveau, Michael, et. al, "Pollution Trading and Environmental Injustice: Los Angeles' Failed Experiment in Air Quality Policy," *Duke Environmental Law & Policy Forum*, Vol. 9:231, Spring 1999, Drury, p. 269.

³⁹ Clean Air Watch, p.5-6.

⁴⁰ Jacobson, Mark, "Addressing Global Warming, Air Pollution Health Damage, and Long-Term Energy Needs Simultaneously," Dept. of Civil and Environmental Engineering Stanford University, <http://www.stanford.edu/group/efmh/jacobson/>, May 9, 2006, p. 2.

⁴¹ Jacobson, p. 2. "Together, [wind and solar] could supply the world's electric power plus vehicle fuel energy. For example, the world's electric power demand (1.6-1.8 TW)

could be addressed with about 860,000 5-MW wind turbines placed offshore in mean annual winds > 8.5 m/s (the offshore average). The world's total energy demand... could be addressed with 5 million such turbines."

⁴² Jacobson, p. 8.

⁴³ Bourne, Joel K., Jr., "Green Dreams," *National Geographic*, Oct. 2007,

<http://magma.nationalgeographic.com/ngm/2007-10/biofuels/biofuels.html>

⁴⁴ Bourne.