BENEFITS OF EMISSIONS TRADING

Emissions trading achieves the environmental objective – reduced emissions – at the lowest cost.

Cap and trade is designed to deliver an environmental outcome – the cap must be met, or there are sanctions such as fines. Allowing trading within that cap is the most effective way of minimising the cost – which is good for business and good for households. Determining physical actions that companies must take, with no flexibility, is not guaranteed to achieve the necessary reductions. Nor is establishing a regulated price, since the price required to drive reductions may take policy-makers several years to determine.

Emissions trading is better able to respond to economic fluctuations than other policy tools.

By allowing the open market to set the price of carbon allows for better flexibility and avoids price shocks or undue burdens. For example, as seen in Europe, prices will fall during a recession as industrial output, and thus emissions, fall. A centrally-administered tax does not have the same flexibility.

Emissions trading incentivizes innovation and identifies lowest-cost solutions to make businesses more sustainable.

The combination of an absolute cap on the level of emissions permitted and the carbon price signal from trading helps firms identify low-cost methods of reducing emissions on site, such as investing in energy efficiency – which can lead to a further reduction in overheads. This helps make business more sustainable for the future. Imposing technology on business does not allow for creativity and can actually lead to higher costs as companies look merely to comply with regulations.

Cap and trade has proven to be an effective policy choice.

Cap and trade has proven its effectiveness in the US through the acid rain program, where it quickly and effectively reduced pollution levels at a far lower cost than expected. The EU Emissions Trading System has shown that cap and trade can be extended to carbon, and in doing so creates a price on carbon that drives emissions reductions. Reductions in pollution that industry feared would be excessively costly were achieved at a fraction of the original estimates. The International Carbon Action Partnership's 2015 status report found that **40% of the world's GDP is now subject to emissions trading**, with systems active in South Korea, China, California and Kazakhstan, among several others.

Emissions trading can provide a global response to a global challenge.

Cap and trade provides a way of establishing rigour around emissions monitoring, reporting and verification – essential for any climate policy to preserve integrity. Allowing for the use of offsets, which lowers compliance costs, can help involve other jurisdictions in the fight against climate change – and may even inspire them to establish their own emissions trading system, as the Clean Development Mechanism offset program inspired China.

As emissions trading spreads around the world, there are a number of opportunities to link systems, which enhances their effectiveness and reduces costs.

Connecting emissions trading systems, as California and Québec have done, widens the pool of participants to trade with, which reduces costs. This can allow for even greater emissions reductions to be achieved at a lower cost than previously.

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