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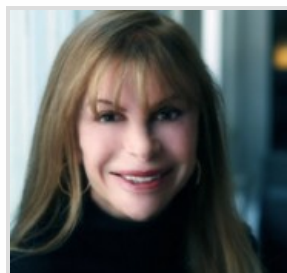
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January 13, 2010

Who Needs a Carbon Market?

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Are “carbon offsets” an effective means of cutting carbon for society and industry?

Carbon offsets are a recent invention of the Kyoto Protocol. Kyoto has a unique distinction – it uses market forces. It trades the nations’ rights to use the planet’s atmosphere. These are the “carbon offsets” – or “carbon credits”. If you buy a “carbon offset” you buy the right to emit one ton of CO₂.

Carbon trading has grown by leaps and bounds. Trading has doubled yearly since the market became international law in 2005.

The carbon market now trades US\$120 billion per year. Soon it will become a \$3 trillion market, and it is expected to be the largest commodity market in the world.

But is it working to cut dangerous carbon emissions?

Many believe that the carbon market is just a financial gimmick. That it deceives more than it does good – postponing the moment of reckoning and the change that society needs. Energy is the mother of all markets, and it is overwhelmingly fossil. Today, if you heat your house, drive your car, take a plane, or even breath – then you emit carbon.

The question is: how can this market possibly decrease carbon emissions?

The carbon market is an unusual combination: it has a firm grip on global emissions and market flexibility to meet limits. Each wealthy nation has an emission limit. It adds up to a world total – a total that never changes with trade. But those who over-emit can buy rights from those that are below limits – in total we remain within the same world total, which is a cut below of what we emit today. That is all. It is as simple as it sounds. This is what I wrote into the Protocol on a late December night in 1997 – and the Protocol was born.

The simplicity is deceiving. The carbon “price signal” that emerges – you have to pay about \$35 per ton when you over emit – changes the prices of all goods and all services in the world economy. It is a monumental change.

All of the sudden being dirty is expensive and being clean is profitable. This is the first time this has happened in history. It is a sea change. The price signal is like a tax. People buy high

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mileage cars and “clunkers” go out of fashion.

This changes the automobile industry worldwide, even in the U.S. because we sell cars around the world and the world wants high mileage cars now. This also changes the oil industry, which sells gasoline, and it changes the way you heat your home and use energy in factories; it changes all electricity power plants that emit 41 percent of world emissions.

What else can you do with the carbon market?

You can make lots of money if you are clean – producing greener cars, green heating services, introducing clean technology inventions that are now seen all over the place – such as selling carbon offsets when you fly an airplane. There are \$120 billion dollars to document this impact. The over-emitters have lost \$120 billion – but the under-emitters have gained \$120 billion.

If one sets the world emissions limit low enough one can resolve the global warming problem at no net cost to the world economy. Some are better off and some are worse off – but the world economy is the same in net terms. This is how the carbon market works.

The carbon market has a long arm that goes beyond its traders. For example, developing nations do not have emissions limits and do not trade in the carbon market. Yet by using the Clean Development Mechanism (CDM) of the Kyoto Protocol investors get carbon credits for investing in clean technologies in their soil. The carbon reduced can be converted in cash at the carbon market.

For the first time in history it pays to invest in clean technologies in developing nations. This means that developing nations now prefer to be clean – they make money by being clean – even though they do not trade in the carbon market. So far the CDM invested over \$25 billion into clean projects in developing nations decreasing 20 percent of EU emissions. The CDM also replaces border taxes. Carbon intensive exports are now a loss – more money is made by exporting clean products.

What else?

REDD is the newest kid in the block. Aiming at “reducing emissions from deforestation and forest degradation,” which are 20 percent of the global emissions, it was introduced by Papua New Guinea, a tiny nation with a large agenda: to save the world’s forests. Forests sequester carbon, since trees absorb carbon as part of their life cycle.

If this is ever adopted, it could mean a cash infusion for cash poor developing nations who want to conserve precious forests and promote a new model of sustainable development. With the carbon market in place it pays more to conserve forests than to destroy them to export timber and pulp. The carbon market can also help transform the energy industry favoring renewable sources of energy.

Negative carbon technologies can help build power plants that suck carbon from air, funded by the Clean Development Mechanism. This means less climate risk, more economic development in developing nations and more exports and jobs in industrialized nations: a win- win solution for the global economy. The carbon market is therefore all about cash and trading – but it is also a way to a profitable and greener future.

Professor Graciela Chichilnisky played a central role in designing and negotiating the carbon market that she drafted into the Kyoto Protocol. She is the director of the Columbia Consortium for Risk Management and professor of economics and statistics at Columbia University. Chichilnisky acted as lead author on the Intergovernmental Panel for Climate

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Change from 1996 to 1999. Her new book, "Saving Kyoto: An Insider's Guide To The Kyoto Protocol: How It Works, Why It Matters And What It Means For The Future," co-authored with Kristen A. Sheeran, has recently been published.

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Any time we can reduce our carbon footprint must be good for the planet. In my case I'm selling my carbon offset on ebay to the highest bidder. You can view my auction here <http://bit.ly/66mVTJ>

I think people need to stop knocking the world for creating a commodity that I can sell so easially. I mean, how many other people do you know that are trying to make cash off an intangible asset like this?

Philip | [January 13th, 2010](#)

This is one of the most lucid defenses of carbon trading I have read. It certainly is refreshing after reading so many detractor Chicken Littles, much like we saw in the 1980's when the US Chamber and Nat'l Assoc of Manufacturers presided over giving away US manufacturing. Strange, they are both at it again, having learned nothing.

John Atkins | [January 13th, 2010](#)

At Ecolink we have taken negative carbon technologies and applied them to our product base. We have made a commitment to only produce negative carbon footprint products.

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"Each wealthy nation has an emission limit. It adds up to a world total — a total that never changes with trade. But those who over-emit can buy rights from those that are below limits — in total we remain within the same world total, which is a cut below of what we emit today. That is all."

So did you have in mind a decreasing cap over time in order to achieve the needed emissions reductions on a global scale?

Chris Porto | [January 30th, 2010](#)

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