

# Emissions trading explained

## Emissions trading explained

Emissions trading, also known as ‘cap and trade’, is a cost-effective way of reducing greenhouse gas emissions. To incentivise firms to reduce their emissions, a government sets a cap on the maximum level of emissions and creates permits, or allowances, for each unit of emissions allowed under the cap. Emitting firms must obtain and surrender a permit for each unit of their emissions. They can obtain permits from the government or through trading with other firms. The government may choose to give the permits away for free or to auction them.

Of course, there is no reason to expect that a permit price that clears the market at a point in time will continue to do so in the future. As economic conditions and emitting firms’ circumstances change, permit prices will fluctuate, becoming more expensive when demand is high relative to supply (for example when the economy is growing robustly) and cheaper when demand is lower (for example when ample renewable electricity reduces the requirement for thermal generation firms).

The origins of cap-and-trade programmes to control pollution date back to the 1980s and 90s when they were successfully used in the United States to phase out lead in petrol and to reduce sulphur dioxide and nitrous oxide emissions to combat acid rain.

One criticism is that participating firms could lose out to firms lying outside the scheme that are not subject to the regulations, whose costs are lower. However, research has found, in the case of the EU ETS at least, very little evidence for negative economic impacts.

Under an Emissions Trading Scheme, also known as ‘cap and trade’, what motivates companies and other entities to cut emissions is profit and its potential to rise or fall rather than tackling pollution with the traditional threat of penalties. The carbon market has thus formed as a result of carbon being traded just like any other commodity.

Emissions Trading Schemes globally by and large operate along similar straits, by utilising the cap and trade system. The sectors and extent of emissions covered however, are usually where systems differ.

Contact us for free full report

Web: <https://sumthingtasty.co.za/contact-us/>

Email: [energystorage2000@gmail.com](mailto:energystorage2000@gmail.com)

WhatsApp: 8613816583346

