

7 Arguments for Emissions Trading

An emissions trading system (ETS) is a market-based instrument that can be used to reduce greenhouse gas (GHG) emissions. It works on the principle of 'cap and trade'. The government imposes a limit (cap) on total emissions in one or more sectors of the economy. Companies in these sectors need to hold one permit for every ton of emissions they release. They may either receive or buy permits, and can trade them with other companies. This is the 'trade' part of 'cap and trade'. Currently, there are 17 ETS operating across four continents, with major economies like China preparing to introduce a nationwide system. Jurisdictions with emissions trading now account for 40% of global wealth (GDP). But just what makes emissions trading such an attractive policy instrument?



1. ETS SETS A CLEAR PRICE ON CARBON

By creating a market for GHG emissions, an ETS puts a clear price on carbon. It means that the costs caused by GHG emissions—such as the impact on public health, costs linked to extreme weather or the extinction of certain animals and plants—are made visible and integrated into the price of goods and services.



2. ETS PUTS A FIRM LIMIT ON EMISSIONS

In an ETS, the government sets a clear emissions target, capping the maximum amount of emissions that are allowed in selected sectors of the economy. This ensures that the desired environmental outcome will be reached. With a steadily declining cap, an ETS also delivers a predictable reduction pathway, which sends a long-term signal for businesses and investments.



REDUCE THEIR EMISSIONS



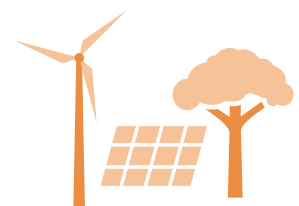
BUY EXTRA PERMITS

3. PARTICIPATING COMPANIES CAN CHOOSE HOW, WHEN AND WHERE TO REDUCE EMISSIONS

An ETS provides great flexibility for individual companies to decide how to best meet their obligations. Companies can reduce their own emissions and/or buy surplus permits from other companies. Governments often allow companies to bank permits to be used at a later date. In many systems, they may also use domestic or international offset credits from emissions reduction projects in sectors not covered by the ETS. These individual choices mean that the costs of staying under the ETS cap are minimized, not only for the companies, but for society as a whole.



BANK PERMITS



USE OFFSET CREDITS

4. ETS FITS VARIOUS ECONOMIC AND POLITICAL CONTEXTS

Emissions trading can be tailored to suit a wide variety of economic and political contexts. There is no one-size-fits-all approach. Systems are currently operating in a range of jurisdictions covering individual cities, states, provinces, countries, and regions, with the design of each system adapted to a unique economic and governance profile.

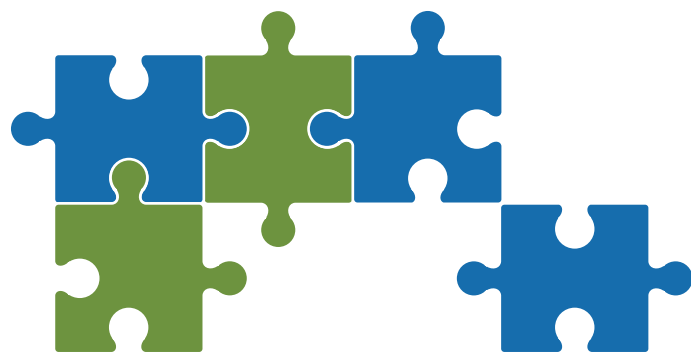


5. ETS CAN PROVIDE AN ADDITIONAL SOURCE OF REVENUE FOR THE GOVERNMENT

Governments may choose to auction their permits to companies. The resulting fiscal revenue can be reinvested in a variety of ways, such as funding other climate action programs or compensating low-income households.

6. EMISSIONS TRADING PROVIDES A RANGE OF ADDITIONAL BENEFITS

While the primary goal of emissions trading is to reduce emissions, a well-designed ETS can deliver substantial environmental, economic and social co-benefits. These benefits can include cleaner air, improving resource efficiency, ensuring energy security and creating jobs.



7. ETS CAN BE LINKED TO CREATE A BIGGER, MORE EFFICIENT CARBON MARKET

The 'linking' of two or more systems creates a larger carbon market, which opens up more (and potentially cheaper) emission reduction options. When systems are directly linked, permits can be used interchangeably in both systems.

ABOUT THE INTERNATIONAL CARBON ACTION PARTNERSHIP: ICAP is an international forum for national and subnational governments focusing on best practices in emissions trading. Its work centers on three main pillars: technical dialog, knowledge sharing and capacity building. For more information visit the [ICAP website](#), check out the [ICAP map](#) or follow us on [Twitter](#).