

Cap & Trade 101

What is Cap & Trade?

Cap & Trade is a government program to reduce *carbon dioxide* (CO₂) emissions

A Cap & Trade program has two parts:

1. The Federal Cap

- A system placing a national **Cap** on carbon (CO₂) emissions from large facilities. Those facilities are required to account for their emissions through getting “carbon permits,” which they receive through auction or allocation. The cap decreases regularly, reducing the number of permits and creating emissions reductions.



2. The Private Trading Market

- After buying carbon permits, facilities can **Trade** those permits on a private market for profit. The profit created by buying and selling permission to pollute benefits private companies, not the American public.

What is the Purpose of Cap & Trade?

Cap & Trade aims to reduce CO₂ emissions and fight climate change. By placing a price on CO₂ emissions, the program tries to use the market to encourage polluters to shift away from CO₂-emitting *fossil fuels* and toward clean, *renewable energy* sources.

Glossary

Allocation – The act of the government giving carbon permits to polluters for free.

Auction – The sale of carbon permits to regulated polluters for a price determined by industry-wide bidding.

Climate Change- The long-term, significant changes in our earth’s climate resulting from increased greenhouse gases. Over the last 200 years, the increased emissions of greenhouse gases has been caused primarily by human industrial activities.

Cap- A legal limit on the total amount of pollution that can be emitted each year by facilities under the program. The cap can be local, national, or international.

Carbon Dioxide- A naturally occurring gas that is emitted in unnaturally large amounts by human’s burning of fossil fuels for our transportation, energy, and industries.

Carbon Permits – A legal and financial instrument that designates (usually) 1 metric ton of carbon emissions.

Offsets – A financial measure of carbon reduction. In purchasing “offsets”, carbon-emitting companies pay other companies to reduce their carbon emissions or to take steps to capture and store carbon through, for example, planting trees.

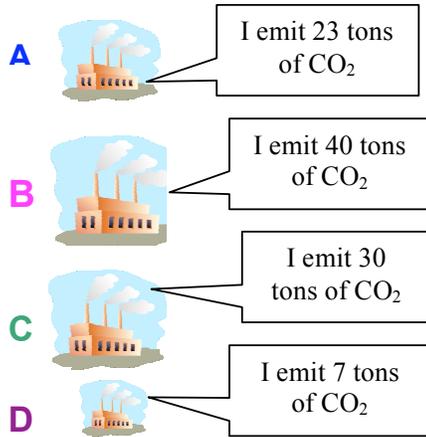
Trade – Once companies have purchased or received carbon permits, they can sell and purchase them on the private trading market. Companies that reduce their emissions can profit off their excess permits and companies that cannot reduce or need to expand can purchase additional permits.

CAP

1 A Cap is Set on CO₂ Emissions

The government sets an emissions cap based on current national emission levels.

Levels are determined by an honor system of facilities self-reporting emissions



2 Permits are Divided Up

Each facility is given access to a set number of permits, based on their reported emissions.

Polluters must purchase enough permits to pay for their annual CO₂ emissions

3 Polluters Buy or Get Free Permits

Permits are given out regularly.

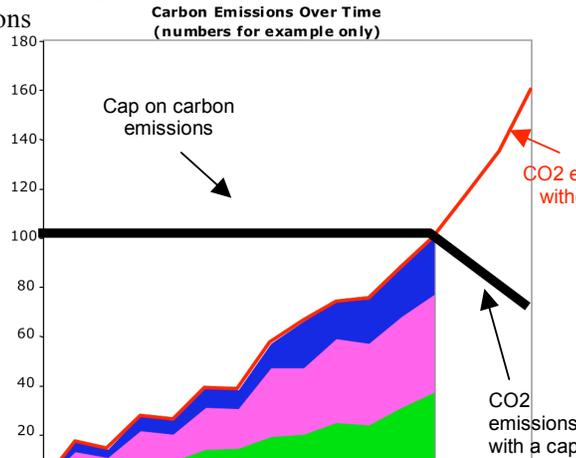
Some facilities are given their permits for free ("allocation"), while others have to buy their permits ("auction").

Revenue from auctioned permits can be returned to taxpayers

4 Available Permits Decrease Over Time

Permits expire yearly. As the emissions cap gets tighter, there are fewer permits and the price per permit increases.

Facilities have to emit less or buy permits on the private market.



- **Factory A** → 23 tons CO₂ = 23 permits
- **Factory B** → 40 tons CO₂ = 40 permits
- **Factory C** → 30 tons CO₂ = 30 permits
- **Factory D** → 7 tons CO₂ = 7 permits

& TRADE

1 A Private Trading Market created for CO₂ Permits

The private market is only open to entities that have received CO₂ permits.

Permits are sold by facilities that have excess permits, and purchased by facilities that did not receive enough permits from the government auction to cover their emissions.

2 Reasons Facilities Have to Sell Permits

A facility will have extra permits if it emits less CO₂ than it was given permits to cover.

Facilities can reduce their CO₂ emissions through reducing production or by putting in place efficiency or pollution-control measures.

3 Reasons Facilities Have to Buy Permits

A facility will need extra permits if it emits more CO₂ than it was given permits to cover.

Facilities may have increased CO₂ pollution because of increased production.

For older, dirtier facilities buying extra permits is likely to be cheaper than cleaning up their plants.

4 Trading permits creates private profit for facilities

Permit prices on the private market are not regulated and will depend on market supply and demand.

The money made selling permits on the market creates profit for polluting facilities and does not benefit the public.

