

Emission Trading: Ethical or Unethical

Sonal Jain¹, Khushboo Solanki²

¹Professor and HOD, Deepshikha College of Technical Education, Jaipur, India. Author can be contacted at Email-id: gaursonal@yahoo.co.in

²Assistant Professor, Deepshikha College of Technical Education, Jaipur, India. Author can be contacted at Email-id: khushboo.solanki02@gmail.com

ABSTRACT

For several decades, the economic, environmental and health effects from Green House Gases (GHGs) have been closely studied and debated. Currently, nations are pursuing alternative strategies in their quest to cut down the level of GHG emissions and meet national targets.

Aldo Leopold's land ethic specifies that "A thing is right when it tends to preserve the integrity, beauty, and stability of the biotic community. It is wrong when it tends otherwise." As a result of increasing awareness about Global warming, the concept of carbon credits, an outcome of the Kyoto protocol, came into existence. "Kyoto Protocol" has served the idea of saving the planet earth from the global meltdown. The Cap-and-Trade systems for greenhouse gas emissions are an important part of the climate change policies. But concerns have been raised on a variety of ethical grounds about the use of markets to reduce emissions. The question arises that is it really ethical to trade carbon credits in market and allow the industries to emit as much as their buying or borrowing power and capacity allows? This article is an attempt to examine the ethical question of the responsibility of business organizations to respond to climate change.

Keywords: Kyoto Protocol, GHGs, Cap-and-Trade, Carbon Credits, Commoditization

1. WHAT DOES CARBON CREDIT MEAN?

Global warming has been considered as a serious issue in the past few decades. On one hand, where it has become essentially important to reduce the emission levels, an entirely new industry has evolved holding great opportunities for the investors.

The concept of carbon credits came into existence as a result of increasing awareness of the need for pollution control. It is a focus point of national and international emission trading schemes that have been brought into action to mitigate global warming. They provide a way to reduce the effect of green house gases emissions on an industrial scale by capping total annual emissions and letting the market assign a monetary value to any shortfall through trading. Credits can be exchanged between businesses or bought and sold in global markets at the prevailing market price.

Emissions of carbon dioxide and other Greenhouse Gases (GHG's) from human activities like deforestation, fossil fuel combustion, industrial processes, etc. have resulted undoubtedly in global warming. These emissions must

be controlled and reduced to protect our Mother Earth from the adverse effects of the climate change. To attain this goal, the concept of Clean Development Mechanism (CDM) has come into existence as a recommendation of the Kyoto Protocol.

The Kyoto Protocol is an agreement made under the United Nations Framework Convention on Climate Change (UNFCCC). The treaty was negotiated in Kyoto, Japan in December 1997 but it came into force and legally binding on 15th February 2005. The protocol provides three mechanisms to the developed nations to meet the emission targets:

- 1. Joint Implementation (JI):** The Kyoto Protocol provides for developed countries to implement projects that reduce emissions, or remove carbon from the atmosphere in other developed countries in lieu of Emission Reduction Units (ERUs). These ERUs can be used to meet the emission reduction targets.
- 2. Clean Development Mechanism (CDM) Projects:** The CDM is an arrangement under the Kyoto Protocol which is perhaps most exciting

feature of the total scheme which allows ‘Annex 1 countries’ (41 industrialized countries such as USA, UK, Japan, Australia, France, etc.) to meet their emission reduction in ‘Non-Annex 1 countries’ (developing countries such as India, Sri Lanka, China, Iran, Kenya, Singapore, etc.). It provides for the developed countries to introduce such industrial activities that reduce emissions in developing countries in return for certified emission reductions (CERs). The CERs generated by such project activities can be used by developed countries to help meet their emission targets under the Protocol.

3. **Emissions Trading:** The Kyoto Protocol provides that developed countries can acquire units from other developing parties and use them towards meeting their emissions target. This enables developed countries to make use of low cost opportunities to reduce emissions. Only developed countries in specified in Annexure I to the Kyoto Protocol with emission limitation and reduction commitments inscribed in Annex B to the Protocol may participate in such trading. Such countries must therefore be prepared to transfer units when they do not require them for compliance with their own emission targets.

Carbon credits are certificates issued to countries that reduce their emission of GHG (greenhouse gases) which causes global warming. Carbon credits are measured in terms of Certified Emission Reductions (CERs). Each CER is equivalent to one tone of carbon dioxide reduction.

Credits can be allocated by a government as part of a plan that sets a limit on the total amount of GHG emissions. This is referred to as ‘The Cap-and-Trade’ approach. The ‘Cap-and-Trade’ system uses free market principles to attain a decline in a certain GHG emission. A regulatory body fixes a limit on the allowed amount of emissions and issues permits (carbon credits) for that amount. Organizations covered by the cap must emit according to the permits they possess. If companies exceed their maximum emission limits, they are expected to obtain credits from other organizations that have surplus credits, or by investing in projects that offset their emissions. Thus, emissions are ‘capped’, and emitters can ‘trade’ credits until their emissions match the amount of permits they possess. Purchasing carbon credits offer the opportunity for companies to better manage their climate impact.

2. THE ETHICAL & POSITIVE SIDE OF EMISSIONS TRADING

A number of environmentalists and economists are of the view that a cap and trade system is the best means to establish a quantifiable, legally enforceable limit on emissions which will ensure that essential climate change targets are met at the lowest possible cost. Such a program, when combined with offsets, will accelerate global emissions reductions. In addition, cap and trade provides the private sector with the liveness required to reduce emissions while stimulating technological innovation and economic growth. The famous Anthropologist Mary Douglas (1990) once noted that the apprehension for refuge and endurance offers some of the last forensic resources available to gather together support for common achievement in a post-ethical society. Emissions trading have proven its effectiveness in the US through the acid rain program, where it swiftly and effectively reduced pollution levels at a far lower cost than anticipated. The European Union Emissions Trading System has shown that cap-and-trade can be extended to carbon and can be done so in an agreed-upon manner across many countries, and in doing so creates a price on carbon that drives emissions reductions.

Weiss (1992) has considered the Earth as a trust, which is being passed on to us by our ancestors and is to yet to be passed on to our descendants for their own use. Thus, being a beneficiary of the global commons clearly implies that we also have to act as trustees for taking care of the trust that is being handed over to us to be enjoyed, explored and exploited. Thus climate protection is actually a matter of rebalancing relations among generation for him and emission trading is believed to be fulfilling the purpose. It is believed by many experts in the field that emission trading is fairly novel in terms of its practical application and is serving to the actual cause for which it was developed and introduced. Shielding the environment for defending humans is the most widely accepted plot originating reduction commitments. As Aldo Leopold’s land ethic specifies that “A thing is right when it tends to preserve the integrity, beauty, and stability of the biotic community. It is wrong when it tends otherwise.”

The current emissions trading system is said to be following the principle of “Polluter Pays”, which says that the polluter has to pay for the environmental damage done through his pollution and also to bear the cost of pollution prevention and control measures. Interpretation of this principle can be best understood as put by Verhoef who states as follows:

“(...) the question of whether the polluter should pay (...) may often lead to different outcomes in terms of both allocative efficiency and equity. (...) This ambiguity in the interpretation of the polluter pays principle is, unfortunately, often overlooked”

Emission trading policies are increasingly important in environmental protection, especially in controlling air pollution in the United States. Their popularity results in part from the limitations and frustrations of centralized command and control regulation. Well-designed emission trading programs can achieve the same or better environmental and health outcomes as command and control regulations but provide regulated industries with greater flexibility. This lowers costs and improves the process of negotiating environmental policy. These programs generally are well-designed, speeding emission abatement; improving health outcomes; and reducing compliance costs.

The central idea behind emissions trading is that participants will in this way be encouraged to trade emissions allowances amongst themselves, or through action on the global emissions grant markets, such that each extra tone of CO₂ emitted into the atmosphere will only be emitted if no other participant would place a higher price than the emitter on a sanctioned emission grant that could be used to counterbalance the emission.

3. THE UNETHICAL & UNJUST SIDE OF EMISSIONS TRADING

This paper attempts to identify and analyze the ethical issues inculcated in the concept of “Emission Trading”. At its core, emission trading is a market-based technique under which a Governmental authority sells permit that allow enterprises to emit a specified quantity of pollution. A company possessing surplus emission credits can sell them to companies which anticipate higher quantities of emissions and thus, are interested in buying from them.

The Emissions Market is believed to have made its way spectacularly during the past few decades and is expected to continue growing at a consistent pace, if not accelerating to high. Since the emissions market has been created as a result of a number of political initiatives, it is regulated by a number of authorities. These authorities are typically associated with the foundation and administration of the underlying emissions market. The key differences in the emissions market, compared with other commodities markets, are that it is a politically-generated and managed market and that the underlying

is a dematerialized allowance certificate, as opposed to a physical commodity.

Now, the topic for debate is that should the market be used to cap-and-trade emission limits? Michael Sandel, a philosopher and lecturer at Harvard, argues precisely that there are certain things which money cannot buy, in his book *What Money Can't Buy: the Moral Limits of Markets*. His argument is that there are certain things which should not be bought and sold, one of them being the right to pollute the environment. For him, placing a monetary value on the environment is wholly misfit as “it undermines the spirit of shared sacrifice that may be necessary to create a global environmental ethic.” The issue of environmental protection is vested in civic values and the introduction of commoditization results in a corrosive effect to the underlying ethical values they are actually meant to protect. By treating the environment and atmosphere as a commodity/ product to be bought and sold in the market, people and industrialists begin to target less on the ethical offense of causing pollution and think of paying for additional permits as “the cost of conducting business and emitting extra carbons.”

4. ARGUMENTS AGAINST EMISSION TRADING

The concept of emissions trading emerged as a probable solution to the alarming problem of global warming. But the real problem is that carbon trading won't do the job, rather it is making it even more complicated and difficult to develop and implement real solutions. The under mentioned arguments could prove to be of help in strengthening the issue that emissions trading is somewhat unethical and contrary to social justice.

- ◆ Critics say that carbon credit trading is aimed at the wrong target. It does not address the issue of global warming. Emission trading focuses at allocating certain numerical budgets and emission limits and then making it easy and permissible for them to continue their pollutant emitting businesses. The question arise that how can environment be measured in numerical terms and furthermore how will it be justified as to what amount of emission is permitted.
- ◆ Dworkin, in his analogy “Principles to a Doughnut” explains that though principles have no enforceable value, yet they tend to act as a boundary line within which all legislations and statutes should fall. Keeping this in view, it is arguable that at present emission trading is not practicing the principle of

“polluter pays” in true sense; rather it is facilitating the polluters to pay for polluting more, along with providing no compensation for the environmental damage done by their acts.

- ◆ Another argument for emission trading being unfair to the society is that it make huge ways for cheating and deceiving fake credits that certainly do not represent any real reduction in emissions. The vendor gets the cash without having to change anything and the buyer gets cheap credits.
- ◆ Caney (2010) raises a commodity-centered objection against emission trading saying that it in promptly privatize and commodifies the atmosphere by creating a tradable commodity out of it.
- ◆ Since the atmosphere is in centre, it is difficult to estimate as to how much cut in pollution would benefit the environment ultimately. The fact is that no one can actually assess whether a deduction in emitting in a particular nation is going to be as climatically positive and effective in the long run as it may seem to be at the moment.
- ◆ Carbon Trading institutionalizes existing inequalities and rewards the largest polluters by granting those credits and allowing them to trade and capitalize their emission permits.
- ◆ Yet another argument against Carbon Trading is that it is an Antidemocratic concept as both buyers and sellers have an incentive to conceal from the public whether emissions reductions have actually been made. Developing countries want to snap up cheap pollution rights; and the developed countries want to make money flogging them. It is of no concern for them as to whether the setup actually benefitted the climate or not. And as its measurement and enforcement is inadequate or impossible, they can get away with it.
- ◆ Although Carbon Trading promotes itself as funding renewable, this is far more expensive per ton of carbon than credits from bogus “hot air”, tree planting, or straightaway fraud. These cheap carbon credits will set the market price and soak up the capital.
- ◆ Carbon trading is an inherently discriminatory, corporatist, technocratic solution. It provides no role for civil society, and fails to deal with the 50% of emissions from houses and personal transport. It takes into consideration only the emissions by industries

and business houses, but completely overlooks the fact that a major cause of environmental pollution is fuel combustion in households and vehicles.

- ◆ Sandel (2005) argues that the inequity of emissions trading lies in the fact it replace what should appropriately be an atmospheric *fine* with an atmospheric *fee* thereby removing the option of ‘the community conveying its judgment that the polluter has done something wrong’.

5. CONCLUSION, RECOMMENDATIONS & SUGGESTIONS

Numerous corporate dealing in industrial products and national economies has gained plentiful benefits taking advantage of the emissions trading market. Even the emission trading market has ceased a vast market and has shown a robust growth. But the question that presents the dark side of emissions trading is that the Clean Development mechanism and Emission Trading, products of the renowned Kyoto Protocol, through which carbon credits are generated and traded in a way that is expected to do good to both the vending and buying nations is actually creating a mechanism by which both the developed and the developing countries are jointly coming forward for sharing a motivation to resist emission diminution. Free market environmentalism could actually minimize or solve the problem of environmental crisis if it adheres to and follow few set principles of environment law and ethics.

As a remedy to the negative or unethical aspects of trading carbon credits internationally, an alternate mechanism could be suggested which is more in harmony and accordance with the international environment morals and ethics. This objective could be achieved by auctioning where the prospective polluter is expected to purchase the credits prior to actually getting engaged in pollution emitting activities. Also it motivates the buyer to aim at earning profits in long run by investing more in eco-friendly technologies and options rather than investing in credit purchase. Here the polluter nation pays for the right to emit more than the permits allowed to him and the funds so obtained could be deposited in an environmental beneficiary fund, which can be utilized at a later stage to follow the environmental principles and accomplish the ultimate aim of environmental protection. This mechanism could help the nations to plan for consistent industrial and economic development by utilizing the available natural resources in a way that they could be saved and secured for the future generations to come. In

addition to this some standards of right to pollute should be created for the buyer and vendor nations such that the trust deficit between them is reduced and in turn it may turn down polluting content in the atmosphere. A further step taken that is essential towards reducing emitting carbon is development of environmental ethics which comprises the ethical aspect of environmental law. Strong activism and movements initiated by the social activists and political leaders may prove to support the reduction of pollutants in the atmosphere. Green movement is among one of them that strongly supports violation of eco terrorism. Various innovative steps taken by the societies and nation as well to adapt healthy practices like restriction of use of polythene bags, reduction in paper based work and emphasizing on e-books, e-transactions, e-communication afforestation, usage of renewable sources of energy, use of handmade paper, support to the research and development of eco friendly technology, will lead to ecological effectiveness. But ecological effectiveness demands that trading of carbons may not lead to an increase in global GHG emission level.

Despite of the fact that trading of carbon credits looks promising at a glance, the emission trading system has inescapable pitfalls and shortcoming. There generates a strong need on the global ground to make a authoritative structure that could manage and control the main purpose of emission trading market and make this world a ecofriendly place for the upcoming generations to cherish.

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