The quite fascinatingly stupid case of the minimum carbon price [1]

Written by **Tim Worstall** [2] | Saturday 20 April 2013

The Wall Street Journal picks up on the quite fascinatingly stupid imposition by the current government of a minimum price on carbon permits. This could only have been done by people entirely ignorant of how a cap and trade system works: not a wholly desirable attribute in those supposedly running a cap and trade system [3].

> The European Parliament's rejection this week of the Commision's proposed carbon-permit price-fixing scheme is good news for economies across Europe?except for the U.K.'s, which is likely to suffer from the lower carbon-emissions prices that result.....The carbon price floor, which came into effect April 1, was supposed to increase investment in "green" energy projects in the U.K. by ensuring that carbon-permit prices could not fall below a certain level?starting at £16 per ton of carbon this year and rising to £30 per ton in 2020.....The European Commission's idea for shoring up the price of carbon permits?withholding the supply of permits from the market?was voted down this week by the Parliament, and the permit price only fell farther. As of Thursday is stood at €2.80 (£2.40) a ton?just 15% of the Cameron government's floor.

I know, I know, many of you are more sensible than I am when it comes to this climate change thing. I'm still under the delusion that it's a problem we should do something about. But at least I do understand the role of price in a cap and trade system. In a carbon tax system, the other viable alternative action, it is the tax, the price of carbon emissions, that reduces them. In a cap and trade system it is instead the number of permits issued which reduces emissions. The price for such a permit is simply telling you how tough it is to meet that cap. Thus, the lower the price of the permit the better for all. It shows that reducing emissions is actually quite simple and quite cheap.

In this case, we're seeing that eliminating the marginal emissions necessary to stay under the cap costs less than £2.40 a tonne. Quite why the British government insists that everyone should pay £16 a tonne for it is known only to the more frenzied minds within it. In a cap and trade system a low price for permits is a good idea, a welcome sign that it's all less of a problem than we had thought.

As I say I do indeed think that carbon emissions are a problem that we ought to do something about. But I do also think that we should not use this as an excuse to do fascinatingly stupid things: like artificially raising a price that we are gloriously grateful about being low. The cost of reducing emissions that is.

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