Slumping Carbon "Cap-and-Trade" Price Worries Greens

by Dennis T. Avery

The price of carbon has slumped in Europe's emission trading—for the second time in two years. The long-term investments needed to reduce humanity's greenhouse emissions are being discouraged. The carbon price is meant to offset the economic cost of shifting from coal, gas, and oil to non-fossil energy. If the carbon price is too cheap, however, Greens worry we won't stop burning the fossil fuels.

That's why President-elect Obama told the San Francisco Chronicle last January "Under my plan, electricity prices will skyrocket." The Obama campaign has endorsed a U.S. carbon cap-and-trade market to price coal out of American power plants. The drop in EU carbon prices may be telling us that a straight carbon tax would be more effective, but politicians fear a carbon tax would create immediate voter rebellion.

No one is quite sure why the EU carbon price has dropped from nearly $30 per ton in July to about $22 recently:

- It could be the credit crunch spreading globally since the U.S. had to "nationalize" Freddie Mac, Fanny Mae and their sub-prime mortgages.

- It could be the ten EU are rebelling against scheduled European emission cuts they consider too ambitious. They fear the European economy can't absorb such a massive, rapid shift without industries fleeing overseas—and taking their jobs with them.

- Canada is emitting far more than its promised levels of greenhouse gases, but it says it will neither slash the emissions nor buy carbon credits to offset them. With half a dozen other countries billions of carbon-credit dollars over their Kyoto limits, Canada could undermine the whole carbon credit trading scheme.

If too much human-emitted CO_2 is the cause of global warming, however, the price of carbon emissions must be high enough to discourage such backward steps as building massive coal-fired power plants in Britain, or brown-coal power plants in Germany.

Carl Mortished recently warned in The Australian that the falling price of carbon would discourage clean energy installations, drive solar and wind-power companies into bankruptcy, and cause green jobs to be lost. The cost estimates for "clean coal" carbon capture and storage vary from $50 to $80 per ton.

Economists have long warned that Europe's cap-and-trade" mechanism would not provide a consistently effective carbon penalty to industries and power plants. Price volatility is already a huge problem for energy companies. The price of oil has lately swung from $140 to $60, with the International Energy Agency forecasting $200 per barrel again by 2030. Natural gas prices fluctuate with the movements of Russian tanks in Georgia and Sarah Palin's new gas pipeline from Alaska. The developing countries might suddenly deliver bunches of cheaper carbon credits from retooled Indian factories and/or Chinese reforestation projects.

The carbon price needs to be more stable than such factors.

"In only three months," Mortised wrote recently, "life has become a lot cheaper for polluters. The financial cost of warming the planet has plummeted in Europe's emissions trading system and the effectiveness of such a volatile market mechanism in curbing carbon is being questioned."

Or the entire fossil fuel sacrifice may seem less important with declining global temperatures. The Britain's Hadley Centre and the U.S. satellites say global temperatures have fallen at least 0.5 degree C since 1998 even as CO_2 levels have risen another 5 percent. NASA's Jason satellite predicts lower thermometer readings for the next 25 years due to cool phase of the Pacific Decadal Oscillation.

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