More is less: a case against sectoral carbon markets

by Oscar Reyes
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The global carbon market is in crisis. Proposed emissions trading schemes in the USA, Japan and Canada have stalled indefinitely; new markets in Australia and South Korea face significant delays; and climate justice activists have successfully blocked the start of a planned scheme in California. Trading has become ever more concentrated around the EU Emissions Trading System (ETS), which could well see carbon permit prices drop to zero if the 27-country bloc adopts stricter guidelines on energy efficiency. Overall carbon trading volumes were lower in 2010 than in the previous year, and are predicted to stagnate in subsequent years; and the Clean Development Mechanism (CDM) has declined for four years running, with fewer credits purchased from new projects than at any time since the Kyoto Protocol came into force in 2005.

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Perhaps confusing these contractions for birth pangs, there is currently a push to create new international carbon market mechanisms in the context of United Nations Framework Convention on Climate Change (UNFCCC) international climate negotiations. The World Bank is offering further encouragement, in the guise of a new Partnership for Market Readiness (PMR) to promote carbon markets in middle-income countries.

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This report critically examines the reasons behind and potential consequences of creating new carbon market mechanisms. In particular, it focuses on â€œsectoralâ€• carbon markets, which would move beyond the project-by-project basis of the CDM and issue carbon allowances in relation whole sectors of the economy.

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