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Progess in greenhouse gas emissions linked to climate change

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In a bid to control greenhouse gas emissions linked to climate change, the European Union has been operating the world's first system to limit and to trade carbon dioxide. Despite its hasty adoption and somewhat rocky beginning three years ago, the EU "cap- and-trade" system has operated well and has had little or no negative impact on the overall EU economy, according to an MIT analysis.

The MIT results provide both encouragement and guidance to policy makers working to design a carbon dioxide (CO2) trading scheme for the U.S. and for the world. A key finding may be that everything does not have to be perfectly in place to start up similar systems.

"This important public policy experiment is not perfect, but it is far more than any other nation or set of nations has done to control greenhouse-gas emissions-and it works surprisingly well," said Denny Ellerman, senior lecturer in the MIT Sloan School of Management, who performed the analysis with Paul Joskow, the Elizabeth and James Killian professor.

The cap-and-trade approach to controlling emissions is not new. For years, the U.S. has operated highly successful cap-and-trade systems for emissions of sulfur dioxide and nitrogen oxides. Based on a national emissions cap, facilities that emit those pollutants receive a limited number of emissions permits, or allowances, for a given period. Facilities that emit more than their allowed limit must buy allowances from facilities that emit less. Markets for trading allowances operate smoothly and facilities have reduced their emissions significantly.

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