

How The Climate Protection Policy Came To Be

Globalisation has been a buzzword for years now both among national economies and in international business. It was in 1992 – if not earlier – that climate protection came to be understood as a duty that transcends national borders. In July of 1992 the Earth Summit was held in Rio de Janeiro, the first United Nations conference of its kind, in which the Framework Convention on Climate Change was presented. The Convention was ratified by 160 nations and came into effect on 21 March 1994. This catapulted climate protection to a political level subject to international law. From 1992 to 2002 the signatory states held eight further conventions. The third such convention, which took place in Kyoto, was undoubtedly the first political milestone in environmental protection. A climate protocol was drafted that obligates industrial countries to reduce their emissions of environmentally-damaging greenhouse gases over an initial period, from 2008 to 2012, by at least 5% as compared with the levels recorded in 1990. One of the ways in which the signatory states are to fulfil their reduction commitments in order to help achieve this goal is by developing flexible, marketable instruments. This is because experts believe that, in using these instruments (joint implementation, clean development, emissions trading, bubbles policy), greenhouse gases are reduced at a more efficient rate since the associated costs are lower.

In 2005 a system of emissions rights trading (cap and trade) was introduced into the European Community. This system is facility-based, that is, it targets companies that operate energy-generating plants with a combustion output of more than 20 MW, as well as companies in general in the energy, steel, refinery, cement, glass/ceramic and cellulose/paper industries whose facilities exceed specified capacity limits.

The general idea behind this political decision was to have a political authority establish an emissions quota up to which a commodity (in this case air) may be used within a certain timeframe. In other words, an overall maximum amount of emissions is defined and, based on this amount, a price develops on the market. The consumption right, documented in the form of a certificate, may be transferred to a country and/or a company. This makes air, a public commodity, subject to private ownership and pricing as determined by the certificates. When these rights are tradable between the participants, a secondary market develops in which the price for such certificates is derived according to supply and demand. The advantage of this system over disciplinary legal measures is, in addition to its static and dynamic efficiency, its ecological effectiveness. While the emissions ceilings are defined by countries, the price for the license is determined by market dynamics. Changes in the market in response to economic growth and inflation affect only the price of the licenses – and not the amount of emissions. Furthermore, the licenses provide an incentive to make new, innovative technologies commercially viable as these lower the costs of emissions reductions and, in turn, the licenses themselves.