

Carbon Credits

A carbon credit is defined as a tradable permit scheme. The carbon credit provides an eco-friendly way to reduce the amount of greenhouse gases that are emitted through emissions. The carbon credit gives monetary value to emissions. This means that the owner of the carbon credit has the right to emit one ton of carbon dioxide into the air. The origination of the carbon project generated carbon credits. There have been international treaties that have been drawn up in order to set a quota on the amount of greenhouse gases that a country can produce. An example of one of these treaties is the Kyoto Protocol. When a treaty is set up the country then sets a quota on the amount of emissions that a business can generate. A business that goes over their quota is forced to purchase a carbon credit for the excess emissions that were produced. A business that is below their quota is rewarded by making money from selling their extras carbon credits. Since carbon credits are bought and sold a business that spends money reducing the amount of emissions it puts out can make up for the loss of money by selling the carbon credit to another business. Carbon Credits can be traded or exchanged between two separate businesses or sold or bought in the international market. The carbon credit is bought or sold at the current market price. The two exchanges that deal with carbon credits are the European Climate Exchange and the Chicago Climate Exchange.

How a Carbon Credit Works to Reduce Emissions

A carbon credit creates a market incentive for reducing greenhouse emissions. The carbon credit is able to do this by placing a monetary value on the cost of air pollution. A carbon is now a business cost much like supplies or labor. To give an example if a factory is responsible for producing one hundred thousand tons of greenhouse emissions per year. The government may enact a law that limits the amount of maximum emissions that a business can generate. If the factory is given the quota of eighty thousand tons then the factory must purchase twenty carbon credits to offset the excess amount of carbon that is released into the air. Louis Redshaw head of the environmental market at Barclays Capital has said in the past, "Carbon will be the world's biggest commodity market, and it could become the world's biggest market overall." This is a powerful statement that carries a lot of weight in the business community. Managing emissions is expected to grow to one trillion dollars within the next ten years. Many financial experts have predicted that emission levels will continue to rise over time. It is believed that the number of companies that will need or want to purchase carbon credits will continue to increase. This means that the influx will push the market price up. This will encourage more large corporations and businesses to undergo eco-friendly activities in order to create extra carbon credits that can be sold on the open market. Other businesses that do not create the amount of carbon allotted will be able to also sell their excess carbon credits for a profit. It seems that this will create an open market with endless possibilities. There are so many reasons why a corporation or business or even an individual should go green. There are so many government incentives right now that are being given to companies or individuals. The money is a huge incentive but helping make this a cleaner, better world is an even better incentive. A carbon credit is one step in the positive direction of a healthier, less polluted environment.