New report fuels debate on Domestic Tradable Quotas

The debate continues on Tradable Energy Quotas (*Bulletin* 81- Lean Energy). This policy instrument which was first developed by David Fleming as part of EFRC's Lean Economy Initiative is attracting increasing attention. The Tyndall Centre for Climate Change Research has been evaluating its feasibility and has just published a report - Domestic Tradeable Quotas: A policy instrument for reducing greenhouse gas emissions from energy use by Starkey R and Anderson K. (2005)).

Domestic Tradable Quotas (DTQs) are a "cap and trade" scheme for the reduction of greenhouse gas emissions from energy use. Under DTQs, emissions rights ("carbon units") are allocated to and surrendered by all end-purchasers of fuel and electricity ie adult individuals and organizations. Carbon units are allocated to adult individuals free and on an equal per capita basis whilst organizations purchase the units they require on a national market for carbon units. Individuals with surplus units can sell them on the national carbon market and individuals who require additional units can purchase them on the market.

This Tyndall project set out to evaluate the feasibility of DTQs and their appropriateness as an instrument of public policy. The three evaluation criteria used were equity, effectiveness and efficiency. Key findings are as follows:

Equity

- Strong arguments exist within the philosophical literature on distributive justice that the equal per capita allocation of carbon units under DTQs is equitable
- DTQs should be implemented in conjunction with policies that build on existing approaches to tackling fuel poverty.

Effectiveness

- It is technically feasible to build a DTQs scheme around the existing infrastructure for credit and debit cards
- Enrolling 45 million plus individuals into a DTQs scheme might be challenging in the absence of an ID scheme but should be feasible using an approach known as "electronic verification
- The equal per capita allocation of carbon units to individuals under DTQs may promote public acceptability of the scheme, and the scheme should be sufficiently easy and convenient for the public to use.

Efficiency

- Whilst DTQs might be seen by some as controversial and costly, the scheme is likely to be less costly than current and somewhat controversial government schemes such as ID cards and road user charging and, hence, DTQs are, arguably, affordable in public policy terms
- DTQs are likely to have greater set-up and running costs that other proposed instruments for emissions reduction but these additional costs may be justified by additional benefits relating to equity, public acceptability and the efficiency of emissions reduction.