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'Offsetting' Crisis? - Climate Change Cap and Trade Need Not Contribute to Another Financial Meltdown

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Abstract

In 2009, the promise of a comprehensive federal cap and trade bill to address climate change fell apart. At least in part, this was due to the fears that exotic 'carbon' financial instruments might cause more financial crises. As California launches its economy wide carbon trading system, and other regional systems and the even possibly the EPA consider cap and trade, it is important to revisit what, if anything, about carbon denominated financial instruments might lead to financial market problems. The most problematic of the instruments, offsets, can be designed to lessen financial risk from underlying asset failure.

Keywords: carbon trading, greenhouse gases, climate change, AB32, cap and trade, offsets, environment, environmental justice, environmental law, offsets, financial crisis, commodity, commodity trading

JEL Classification: D44, D61, D63, G12, G14, G18, H11, H23, K22, K23, K32, L51, M21, O13, Q20, Q4, Q40

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