

## Editors' Note

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# EDITORS' NOTE

Global warming has finally become a reality for the international community; the facts have become indisputable. For example, 2005 was just declared the warmest year on record, widespread coral bleaching is occurring at an accelerated rate, and the weather patterns of the past year were more severe than in previous cycles. These indicators can no longer be ignored, and the international community has begun efforts to reduce the worldwide release of greenhouse gases. In our opinion, one of the most notable responses is the emergence of a global emissions trading market.

In short, emissions trading is the economic response to global warming. Trade occurs as those who have exceeded their emissions limits buy credits from others. These systems first appeared in the United States in the mid-1970s; however, emissions trading gained the attention of the general public in the 1990s when the U.S. Environmental Protection Agency put a limit on sulfur dioxide emissions in an attempt to reduce acid rain. Currently, the emissions trading market has expanded globally with the establishment of the Kyoto Protocol and other mechanisms to tackle climate change. The Kyoto Protocol binds ratifying nations to a system of cap and trade, leading to the emergence of a global market for carbon emissions.

According to the International Network for Environmental Compliance & Enforcement (“INECE”), governments and industry have widely accepted emissions trading strategies for emissions reductions because they provide potential financial rewards for reductions and promote cost-effective regulation.<sup>1</sup> Emissions trading schemes are most often used where a government limits emissions in a defined area and then allows trading within that area (the “cap and trade” system). Governments distribute emissions allowances (*i.e.* limits on annual emissions) to businesses within the area, often based on performance standards and historic fuel use. Businesses that do not acquire enough permits to cover their emissions face financial penalties. In an emissions trading market, entities not able to stay below their designated emissions limits may purchase credits from those able to stay below their limits. Thus, emissions trading allows businesses to reduce their emissions in a manner that is efficient, while providing emissions reduction benefits for the region as a whole.

Such a regulatory system may prove to be an effective means of mitigating the rate of global warming, but only with effective compliance. Without effective monitoring, reporting,

and verification of emissions reductions, for instance, businesses might not have an incentive to reduce their emissions.

On November 17-18, 2005, INECE hosted a workshop in Washington, DC, entitled *Confidence Through Compliance in Emissions Trading Markets*.<sup>2</sup> Experts gathered from around the world in order to “identify linkage issues, promote effectiveness, and emphasize the importance of achieving high rates of compliance in emissions trading systems.” Staff members of *Sustainable Development Law & Policy* acted as rapporteurs for the workshop. In this special issue, we are pleased to present our report on its outcome, materials from the workshop, and articles from practitioners involved in emissions trading.

This special issue of *Sustainable Development Law & Policy* examines current topics in the development of emissions trading markets. The articles discuss the successes, failures, and future challenges of addressing global warming through emis-

sions trading. Even within the last few years, we have seen climate law as a whole become increasingly complex as a growing number of players appear. In an effort to step back and look broadly at the implications of an international emissions trading system, we have also included several articles on issues that may become pertinent in the future. For instance, what are the implications

of emissions trading on the World Trade Organization? How can regions of the world that are involuntarily excluded from international schemes address global warming concerns?

As we debate the kinks in a system that is supposed to help the environment while also being financially prudent, we must not forget the urgency of this effort – to prevent a potential doomsday scenario.



Kelly Rain



Kirk Herbertson

EDITORS-IN-CHIEF

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the economic response  
to global warming.*

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<sup>1</sup> For more background on emissions trading, see INECE-Environment Agency (England And Wales) Workshop on Compliance and Enforcement for Emissions Trading Schemes, 16 -18 March 2004, <http://inece.org/news/discussionpaper.pdf>.

<sup>2</sup> For more information and documents related to the INECE workshop, please visit <http://www.inece.org/emissions>.