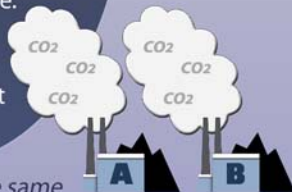


The Cap-and-Trade Tax

Cap-and-trade systems have been used to successfully control certain power plant emissions in the past; one may soon be applied to carbon dioxide. In its most basic form, the process begins when a limit is set on the amount of CO₂ a source can emit over a given time. Allowances for emissions can be given for free or auctioned off; if auction prices aren't carefully regulated, high costs will be passed to consumers.

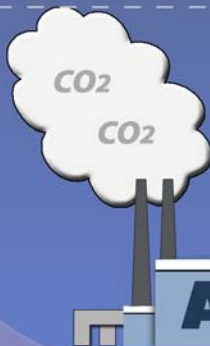


Plants A and B emit the same amount of carbon dioxide gas before the cap

After a cap is set, Plant A invests in technology to reduce its emissions; Plant B continues with business as usual...

THE CAP

unused carbon dioxide allowance

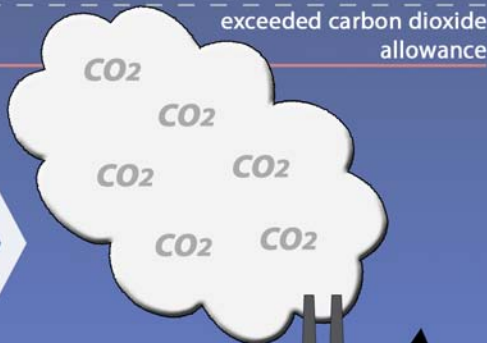


THE TRADE

Plant A reduced emissions to below the capped level, and now has extra allowances that can be sold, or "traded" ...



...to Plant B, which was unable to reduce emissions. Technology options for doing so are limited and expensive, and perhaps decades away from prime time.



exceeded carbon dioxide allowance