

Friday, March 28, 2008

Editorial: Cap-and-trade system needs a chance to work

Whether the White House is occupied next by John McCain, Barack Obama or Hillary Clinton, it's increasingly likely that President Bush's successor will push for a cap on greenhouse gases as part of a wider effort to combat global warming. How the United States undertakes this effort could well depend on California's success in creating a template for action.

In an exhaustive series of meetings, the California Air Resources Board is now mulling a mix of regulations, fees and market mechanisms it will use to comply with the state's Global Warming Solutions Act. That 2006 law requires California to cut greenhouse gas emissions back to 1990 levels in 12 years, but it gives the board some latitude in determining how to achieve those cuts.

One of the air board's expected tools is a "cap and trade" system, which was successfully used in Northeast states to reduce acid rain generated by utilities.

Under such a system, the state would establish a limit on emissions and then designate allowances for each facility that emits a certain tonnage. If properly designed, this market would impose costs on industries that emit greenhouse gases. These costs would encourage them to either reduce emissions or buy allowances from industries that can reduce them at less expense.

The air board faces a June date for drafting its plans. As that date approaches, the board is facing conflicting pressures to cripple a strong cap-and-trade program before it starts. A coalition of environmental justice groups oppose any form of carbon trading, fearing it could lead to spikes in "co-pollutants" from refineries and plants that choose to buy allowances.

On the other side of the spectrum are business groups that support cap and trade, but only if the state allocates allowances at no cost to industry. The Europe Union initially allocated allowances this way and the outcome, most experts agree, was a disaster. Little trading resulted, and the EU has fallen behind in meeting its targets for emission reductions.

California needs to do better. While the air board must be sensitive to the concerns of business and the environmental justice community, it shouldn't retreat from a carbon trading approach that avoids the mistakes of the EU and reduces emissions at the least possible cost to the economy. Under such a trading system, at least half of all allowances would be auctioned at first; eventually, all of them should be subjected to bidding. Moreover, the state should make clear that auctioning is on the horizon, which will give businesses an extra incentive to reduce emissions now.

If allowances were auctioned for all of the state's current emissions – 500 million metric tons yearly – it would generate \$10 billion, assuming a price of \$20 per ton. Industry groups claim this sum would wipe out the state's economy. They fail to acknowledge that in a properly designed system, revenue from this auction would flow back to industry for investments in cleaner technology and to consumers who might otherwise face higher energy bills.

Cap and trade isn't a cure-all. It will take a mix of rules, fees, incentives and collaborations to make a real dent in emissions that are warming the atmosphere. But it's an important tool in the tool kit. The air board needs to make sure that tool isn't weakened before it has a chance to work.