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US states take initiative on cap-and-trade

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As Congress fights over whether or not to block the US Environmental Protection Agency from regulating carbon emissions, 23 states are moving ahead on one level or another to take climate legislation into their own hands and institute cap-and-trade schemes at the local level.



California's is by far the most comprehensive state system being instituted, and cap-and-trade is to begin in the state in 2012. Indeed, Mary Nichols, chairwoman of the California Air Resources Board, the regulator responsible for implementing cap-and-trade, calls it the "capstone of our climate policy".

But it is not the first state system to move on cap-and-trade.

Ten north-eastern and mid-Atlantic states capped and began reducing carbon dioxide emissions in January 2009. That Regional Greenhouse Gas Initiative is working to reduce CO2 emissions from the power sector 10 per cent by 2018.

Another group of six states and one Canadian province have been working since 2007 in the Midwestern Greenhouse Gas Reduction Accord to form their own system. And then there is the Western Climate Initiative of seven states, including California, and four Canadian provinces.

Last year, all 23 of these states and the Canadian provinces met for the first time to explore the potential for collaborating. Branko Terzic, executive director of the Deloitte Center for Energy Solutions, says this could lead to bigger things:

You could have a national market through reciprocity between the regions.

Yet he notes the regions not yet moving on cap-and-trade are those most dependent upon fossil fuels and major carbon emitters – the southeast and the lower midwest. That includes states like Texas, which not only are not moving on cap-and-trade but are among those fighting to keep the EPA from regulating greenhouse gas emissions within their borders.

David Cooke, co-chair of law firm Allen Matkins's Environmental and Natural Resources Group, notes:

There has to be political will in other states that greenhouse gas emissions need to be controlled and that cap-and-trade is the best way to do it. There is not yet a massive rush to adopt cap-and-trade programs across the country.

He believes that the future of cap-and-trade in the US may ride on the success of California's model. If it is too expensive and sends businesses fleeing the state, it will keep others from following, he said. But if it reduces emissions in a gradual and economically workable manner, it could convince others to move ahead.

California's system is more aggressive than the others being worked on and will cover 360 businesses representing 600 facilities. Starting from 2012, it will include many major industrial sources along with electrical utilities. From 2015, distributors of transportation fuels, natural gas and other fuels will be brought in.

The prices of allowances and how they will be divvied up remains to be decided. Companies must provide enough allowances to cover their annual emissions. Each year the number of allowable emissions drops, requiring companies to reduce emissions.

By 2020, there is to be a 17 per cent reduction in greenhouse gas emissions from 2012.

Any momentum on a national level has been undermined by the economic downturn, Mr Terzic said, with worries over unemployment and declining home

values taking precedence over a poorly understood, long-term environmental policy.

Edward Fenster, chief executive of SunRun, providing solar energy to 7,000 customers in seven states, believes job growth generated by California's clean energy initiatives will act as a motivator:

Clean energy is California's fastest-growing sector and has brought in \$11bn in investment capital since 2006.'

Yet Valero, the state's biggest refiner, will be among the key targets of the cap-and-trade system and warns it will push up energy and fuel prices. From Valero's Bill Day:

With unemployment over 12 per cent in California, this is exactly the wrong time to implement costly go-it-alone greenhouse gas restrictions. It will have a detrimental impact on the state economy.

At some point the country is going to have to choose between cheap energy and clean air.

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