

CAP-AND-TRADE MIRAGE

by Laurie Williams and Allan Zabel



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Supporters of the climate bill passed by the House and the similar bill under consideration in the Senate -- including President Obama and Democratic congressional leaders -- say that the cap-and-trade approach would guarantee greenhouse-gas reductions. But this claim ignores the flaws inherent in both bills that would undermine even their weak emissions-reduction targets and would lock in climate degradation.

We are speaking out as parents, citizens and attorneys, but our analysis is informed by more than 20 years each at the Environmental Protection Agency's San Francisco Regional Office, including Allan's extensive experience overseeing California's cap-and-trade and offsets programs for the EPA.

Cap-and-trade means a declining "cap" on total emissions, while allowing trading of pollution permits. Confidence in the certainty of declining caps is based on the mistaken assumption that cap-and-trade was proven in the EPA's acid rain program. In fact, addressing acid rain required relatively minor modifications to coal-fired power plants. Reductions were accomplished primarily by a fuel switch to readily available, affordable, low-sulfur coal, along with some additional scrubbing. In contrast, the issues presented by climate change cannot be solved by tweaks to facilities; it requires an energy revolution through investments in building clean-energy facilities.

The biggest obstacle to this revolution is that uncontrolled fossil fuel energy remains much cheaper than clean energy. Cap-and-trade alone will not create confidence that clean energy will become profitable within a known time frame and so will not ignite the huge shift in investment needed to begin the clean-energy revolution. In recent interviews, even the economists who thought up cap-and-trade have said they don't believe it's an appropriate tool for climate change.

What guarantees failure of the proposed climate bills, however, are their provisions for carbon offsets, a concept not used in the acid rain program. Both bills allow all required greenhouse-gas reductions for almost 20 years to be met with carbon offsets rather than actual reductions in use of the capped sources. Offsets -- considered indispensable to keeping cap-and-trade affordable -- are supposed to be "additional" reductions beyond what is legally required. But experience with offsets in Europe and California has shown that ensuring real "additionality" is not an achievable goal.

Suppose, for example, that a landowner is paid not to cut his forest so that it can continue capturing carbon dioxide from the atmosphere. Purchasing this offset allows owners of a coal-fired power plant to burn extra coal, above the cap.

But if the landowner wasn't planning to cut his forest, he just received a bonus for doing what he would have done anyway. Even if he was planning to cut his forest and doesn't, demand for wood isn't reduced. A different forest will be cut. Either way, there is no net reduction in production of greenhouse gases. The result of this carbon "offset" is not a decrease but an increase -- coal burning above the cap at the power plant.

Or consider the refrigerant HCFC-22, the manufacture of which creates an extremely powerful greenhouse gas as a byproduct. This byproduct is relatively easy and cheap to destroy, and governments could require refrigerant manufacturers to do just that. But offset investors have persuaded regulators to approve destruction of the byproduct as a carbon offset, making it twice as profitable to sell byproduct destruction as it was to sell the refrigerant.

Some have even fought to keep release of this byproduct legal because, otherwise, destruction of the byproduct would no longer produce offsets as it would no longer be "additional." The situation also creates incentive for some to make unneeded refrigerant to profit from byproduct offsets.

Carbon offsets create the illusion of "additional" greenhouse-gas reductions, but we are just getting business as usual. Untrackable shifting of economic activity and perverse incentives such as these are inherent problems for carbon offsets and cannot be solved by certification or verification processes. Since the most flawed offsets will be the cheapest, they will also be the most popular.

The House and Senate climate bills are not a first step in the right direction. They would give away valuable rights in cap-and-trade permits and create a trillion-dollar carbon-offsets market that will not lead to needed reductions. Together, the illusion of greenhouse-gas reductions and the creation of powerful lobbies seeking to protect newly created profits in permits and offsets would lock in climate degradation for a decade or more. The near-term opportunity to create an effective international framework would also be lost.



Laurie Williams and **Allan Zabel** are lawyers with the Environmental Protection Agency. The views expressed here are their own and not those of the EPA. Their [discussion paper](#) and [video](#) on climate change solutions are online at www.carbonfees.org/home/.

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