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A flaw in California's cap-and-trade plan

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Op-Ed

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Cap-and-trade offsets with out-of-state or even foreign interests won't help the state meet its goals.

By Alan Ramo and Janet Redman

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California has made clear its intention to reduce greenhouse gas emissions. But is it taking the right steps to do so?

The state has set a goal of returning to 1990 emissions levels by 2020. It has adopted renewable energy standards, driven the national trend in controlling automobile emissions and instituted a cap-and-trade program aimed at curbing climate pollution from power plants, refineries and other "stationary sources" of emissions.

But a low-profile bill scheduled for consideration by the Legislature next year has exposed that, at least as far as its cap-and-trade program is concerned, California may be off-track. As it stands, the program's rules may not reduce emissions from California's largest stationary pollution sources at all. With all eyes on California as a possible federal model, this has national — even global — implications.

Theoretically, the cap-and-trade approach works by setting a limit on carbon emissions and issuing permits to pollute — called allowances — that add up to the overall cap. A company that exceeds its annual quota of pollution can buy allowances from a company that has stayed below its ration.

In a perfect regulatory world, as the cap is ratcheted down over time and allowances become increasingly scarce, permits to pollute would become more expensive, providing an economic incentive for companies to cut emissions.

But California's cap-and-trade law allows another way for companies to avoid penalties for excess emissions. Instead of buying extra allowances from less-polluting facilities in the program, they can "offset" their emissions by funding activities presumed to lead to carbon reduction.

One common offset, for example, is municipal tree-planting. So long as cities plant more trees than they cut down — even if they were already doing that — they can sell an offset credit to a refinery. Instead of meeting emissions targets, companies can finance such tree-planting, regardless of whether more trees are planted than would have been otherwise.

Another offset allowed in California is the installation of equipment to trap methane emissions from manure stored on dairy and swine farms. With this offset too, the credit can be taken even if the farms actually would have installed the equipment anyway — something they have an incentive to do because they can make money from this practice by using the methane to produce energy.

Planting trees, even in California, is problematic as a way of reducing the state's carbon emissions. For one thing, once a tree is planted, there is no guarantee how long it will live, and some tree-planting operations are not all that concerned with a new forest's longevity. Trees release carbon when they die from fire, disease, natural decay or timber harvesting — but the oil, coal and gas they were meant to offset can't be unburned.

It is even worse if the trees are planted, as is now allowed, far away from California — which means that the state's residents, who have to endure the excess pollution of the company buying the credit, don't benefit from the offset.

In the bill that will be heard next year, Sen. Ricardo Lara (D-Bell Gardens) has proposed an amendment to the state climate bill that would limit the use of offsets to those "originating and achieved within the state." This would be a good first step. Carbon finance experts have predicted that including out-of-state and international offsets would create an oversupply of pollution credits, which would in turn make carbon prices tank and dry up the financial incentive for clean innovation at California's largest sources of greenhouse gases.

But resistance to the amendment from regulators, industry and market-oriented environmental groups is already fierce. Polluters argue that having to meet climate targets by reducing their own emissions without using offsets would double or triple the cost of compliance.

Shell Energy has already announced a deal to buy carbon rights from a forest in Michigan's Upper Peninsula to offset emissions from its California facilities. And in 2010, California signed a memorandum of understanding with the Brazilian state of Acre and with the Mexican state of Chiapas to develop the legal and technical links needed to trade forest carbon credits.

These kinds of offsets demonstrate why Lara's bill is necessary. The simple fact is that out-of-state and international offsetting does nothing to reduce pollution in California. Nor does it spur investment in clean energy or green job growth in the state. Yet, without Lara's bill, industry would be allowed by 2020 to offset nearly 75% of greenhouse gas cuts required under the cap-and-trade program with foreign forest offsets.

We absolutely must stop deforestation both in the United States and abroad, and reforestation efforts are important to protect the climate, livelihoods and ecosystems. But the best way to fight forest destruction is to attack its drivers — like wasteful consumption.

It's possible to reduce fossil fuel emissions through regulation and renewable energy innovation and protect forests. Californians don't have to trade one for the other.

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