

Ertel: Whatever Happened to Acid Rain?

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By Andrew O. Ertel
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As Senators hammer out the final details on their climate and energy bill, the push to forge compromise inevitably creates complexity. The bill could be a victim of too many cooks in the kitchen. The Senators would do well to pause and review the lessons from one environmental program that has been a simple, unequivocal success: the fight against acid rain.



We used to hear a lot about acid rain and the damage that it was causing in the mountains of the Northeast. The sulfur dioxide emissions from power plants in the industrial heartland were destroying trees in the Adirondack Mountains, threatening fish stocks, endangering wildlife and hurting the economy.

Why don't we hear about acid rain anymore? Because it's no longer the serious problem that it once was. This year marks the 20th anniversary of the Environmental Protection Agency-devised cap-and-trade program. Since that time, SO₂ emissions have dropped 40 percent. And according to the Pacific Research Institute, acid rain levels have dropped 65 percent since 1976. The New York Department of Environmental Conservation announced this month that acid rain levels have dropped in all 48 Adirondack lakes that were monitored on a long-term basis and that moose, bald eagles and peregrine falcons have returned. Most importantly, the program has seen almost 100 percent compliance and no instances of fraud.

It worked because the government established clear incentives and relied on an open market to motivate investment. Rather than directly penalizing utilities for their emissions of sulfur dioxide and nitrogen oxide, the EPA established declining annual emission caps and allowed market participants to trade the rights to emit these gases. Those companies that could cost-effectively cut their emissions did so and sold their surplus emission rights to others in the market. The SO₂ market helped the industry cut its emissions far faster than expected and at a small fraction of initial cost estimates. It is worth noting that 97 percent of the SO₂ emission allowances were created and allocated to market participants for free.

The market for greenhouse gas emissions is obviously a far larger one, but the same incentives put in place in the acid rain program can also be effectively implemented with a carbon trading market.

The issue of climate change and reducing our dependence on fossil fuels — particularly foreign oil — will always produce heated debate. Not surprisingly, the most widely supported plan for reducing greenhouse gas emissions — a market-based cap-and-trade system — has become a prime target for opponents of climate change legislation. Such a system is too complicated, they say. It is too costly and too big a burden for our struggling economy to bear. Given all the political heat, the very phrase “cap-and-trade” is now being abandoned even by staunch supporters of market-based solutions to climate change.

By whatever name, however, market-based solutions remain our best option for reducing our dependence on fossil fuels and limiting greenhouse gas emissions, and they should remain the core of any forward-looking energy plan. The most important element of the plan is putting a price on carbon. The debate should revolve around how best to do that.

Businesspeople manage what they can measure. And once a price is put on the right to emit carbon, businesses will strive mightily to reduce their emissions for one very powerful reason: It will save them money.

Carbon markets also have the capability of stimulating investment in green technologies while lowering the cost of compliance with emission regulations across the economy. The legislation envisioned by Sens. John Kerry (D-Mass.), Lindsey Graham (R-S.C.) and Joe Lieberman (ID-Conn.) will create new jobs, and the underlying trading market will be a driver. And, unlike the blunt instruments of government taxes and regulatory fines, a cap-and-trade system enables the market to determine the most effective and least costly ways to accomplish environmental goals.

The fact is it works.

The pundits have written off cap-and-trade as the energy policy of choice. We heard similar calls 20 years ago during debate on acid rain that cap-and-trade would devastate our economy. Industry got behind it, leveraged the program’s flexibility and made a difference in protecting our environment. Taking a similar approach on climate change will not only address the environmental challenges, but lead us toward energy independence, a more efficient economy and the creation of new jobs.

Andrew O. Ertel is president and chief executive of Evolution Markets Inc., a provider of strategic financial and transactional services to participants in global environmental and energy markets. He has been involved in emissions trading since 1995.