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Warming Up to Reducing Greenhouse Gases

Some big businesses, states and cities are taking market-based steps to curb the emissions thought to cause climate change.

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WASHINGTON — For years, politicians have resisted proposals to regulate emissions of carbon dioxide and other greenhouse gases, saying companies couldn't afford the costs.

Now, for the first time, the Senate is poised to vote this week on a measure that would reward companies for cutting emissions of carbon dioxide and the other greenhouse gases that contribute to global warming.

And even though the Senate is likely to reject the measure, which is sponsored by Sens. John McCain (R-Ariz.) and Joe Lieberman (D-Conn.), observers ranging from multinational corporation executives to environmental activists predict that the United States will eventually settle on something very much like it to combat global warming.

In fact, some large companies, states and cities — sobered by the likely consequences of climate change and determined to minimize their roles in hastening it — have begun moving ahead voluntarily without Washington.

Ford, DuPont, Motorola, 10 other large companies and the city of Chicago have agreed to reduce their combined emissions of greenhouse gases. The 15 participants announced last week that their plan would take effect Oct. 1.

On the initiative of New York Gov. George E. Pataki, 10 Northeastern states also announced last week that they had agreed to a regional system that would limit carbon dioxide emissions from power plants.

Alcoa, the world's largest aluminum producer, is so certain that these plans are the wave of the future that it has started developing an internal system for curbing total emissions from its businesses around the world.

The efforts of the companies, states and cities to create mechanisms for curbing greenhouse gases reflect the growing consensus that with a problem of this magnitude, the time to act has arrived, regardless of the signals from Washington.

"Rather than further debate the science, we have decided that the risk of significant climate change is an issue of vital importance requiring action," Randy Overbey, president of Alcoa's energy business, told a Senate committee earlier this year.

All of the schemes work according to the same principle. Whoever is running the program — the federal government, a network of states, a group of companies — distributes allotments to power companies, big manufacturers and other large emitters of greenhouse gases specifying how much they may release. Companies that reduce emissions below their limits can sell leftover greenhouse gas credits to companies that lag behind. The amount of pollution allotments available in any year can be adjusted according to pollution reduction goals.

The price of the pollution allotments is determined by supply and demand. A commodity market, like the commodity exchanges for oil and grains, facilitates the trading.

The Bush administration is dead-set against the McCain-Lieberman proposal on the grounds that it would stifle corporate expansion. Although the proposal has not attracted broad support from industry, many observers predict that it is clearing the way for a similar measure to pass in the future.

"In a way, it's the start of a long campaign," said Eileen Claussen, executive director of the Pew Center on Global Climate Change, an independent foundation that works with Fortune 500 companies seeking solutions to global warming. "Eventually, we will have a bill that will require emissions reductions. You have to start somewhere."

A so-called cap-and-trade program for global warming pollution would be modeled after the successful acid rain program, part of the 1990 Clean Air Act, which has slashed sulfur dioxide emissions from power plants.

But not all market-based efforts to cut pollution have succeeded. Southern California's Regional Clean Air Incentives Market, or RECLAIM, was supposed to clean up smog-causing pollutants in the region, but the program has been widely judged as a major disappointment.

Global warming is generally thought to be caused by increasing concentrations of certain gases, including carbon dioxide, methane, nitrous oxide and water vapor, in the Earth's atmosphere. The gases trap solar heat, causing surface temperatures to rise.

Most scientists say the human contribution to the problem — through releasing greenhouse gases and cutting down trees that inhale carbon dioxide — is a major one. They predict profound long-term environmental effects: melting glaciers, increased drought in semiarid regions and rising seas near coastal areas.

So far, the Bush administration has rejected mandatory measures to regulate greenhouse gas emissions. During his 2000 campaign, George W. Bush pledged to regulate emissions

of carbon dioxide from power plants. But soon after taking office, he reversed himself because of concerns that a government mandate would harm the economy and cripple coal-fired power generation, a major emitter of carbon dioxide, the most common greenhouse gas produced by human activities.

Bush also removed the United States from the international negotiations aimed at addressing global warming that resulted in the Kyoto Treaty.

Members of the European Union and some other countries that are signatories to that treaty are already creating trading systems for greenhouse gases. Some multinational corporations that will be required to abide by greenhouse gas regulations abroad want to find a way to get credit for the actions they take globally against global warming.

"As a company that has taken some action in this area, what's very critical to us is that that action is recognized in a systematic way, globally," said Jake Siewert, an Alcoa vice president.

Alcoa, for example, could seek credit for shifting the source of its energy to hydroelectric power, which results in no greenhouse gas emissions — even though shifting to hydro would not reduce emissions at Alcoa's own plants.

The company is training personnel at its many aluminum production facilities around the world to get used to participating in an exchange for greenhouse gases by creating an internal trading system. The various branches will get used to tracking their emissions and sharing information on efficient technologies for cutting their releases of greenhouse gases.

"If you take the long view, we're assuming over time there will be some form of trading," Siewert said. "We're getting accustomed to the idea."

The Chicago Climate Exchange, which will operate the market in greenhouse gas pollution rights among the 14 companies and the city of Chicago, expects to get a head start even on the European Union when it opens trading in October.

Richard L. Sandor, chairman, chief executive and founder of the Chicago exchange, said he hoped that the exchange's experience would help inform the policy debate over how to address the problem of global warming.

"Our job is to see if you can prove that you can build the infrastructure, keep transaction costs minimal and make a market feasible," Sandor said.

It is no small experiment. The 15 founding participants emit nearly 60% as much greenhouse gases as Great Britain. Each company will get an emissions allotment equal to the average of its emissions between 1998 and 2001. Companies will be required to cut that allotment 1% a year for four years.

Participating companies hope that the experience will give them a jump on their competitors in case the government starts regulating emissions.

"A key element is to prove the point that these types of programs can be very effective ways to reduce greenhouse gas emissions," said Richard J. Guimond, Motorola's vice president for environment, health and safety. "We've always believed market incentive programs are likely to be the most effective at stimulating reductions and doing it in the way that is flexible so you can do it in the most cost-effective way."

For all the voluntary efforts underway, environmental activists say that only a federal cap on emissions will ultimately rein in greenhouse gas emissions.

"Both political leaders and businesses around the country increasingly recognize that mandatory limits on global warming pollution are going to happen sooner or later," said Daniel Lashof, science director of the climate center of the Natural Resources Defense Council, a national environmental group. "The question is: Are we smart enough to do it sooner so businesses can have the planning horizon needed to make the transition to cleaner energy?"