A call to action

The emissions trading community needs to put greater effort into educating the public about the merits of this valuable and successful policy tool, says Daniel Chartier.

The past year was an active one for emissions trading. Among many apparent successes, the EU trading proposal was approved by the Council of Environment Ministers and should be passed by the European Parliament later this year; and progress was made by the CDM Executive Board in finalising the procedures that will help take the Clean Development Mechanism from concept to reality. But emissions trading also suffered some setbacks in the past year, such as the withdrawal of the State of New Jersey's Open Market Emissions Trading rule.

For those working in the emissions markets, this give and take is all part of a day's business. After all, a healthy debate of the merits of any regulatory programme, including emissions trading, should be a part of the normal routine. It is only through careful examination of the benefits and drawbacks of any particular scheme that we can learn and hope to make improvements for the future. Lively and factual debate among professionals capable of understanding the validity and merits of positions taken in a critical review is welcomed.

If we were to believe our own press from within the professional industry, emissions trading is alive and well. Unfortunately, the public, which relies for its information on the popular media, may not be faring as well, as misinformation seems to be the order of the day.

Take, for example, a recent headline in the Wall Street Journal (20 November 2002, page A6): “Report faults emission trades for dirty air in some US areas”. This sounds ominous for emissions trading until you read the report cited in the news story. The article cited mortality data that it claimed were directly associated with emissions trading and linked local increases in emissions or ‘hot spots’ with a failure of the emissions trading programme. But this rationalisation is incorrect. Put simply, the US Acid Rain Program set a cap on the entire industry, not on individual sources. The purpose of reducing acid rain damage caused by the total atmospheric loading of sulphur dioxide (SO₂) and nitrogen oxide emissions. The programme also allowed for national trading of emission allowances between facilities. It was never intended that the Acid Rain Program should address local levels of emissions. Instead, local emission levels were, and still are, protected by National Ambient Air Quality Standards designed to protect human health. Or, to put it another way, the Acid Rain Program was an overlay to these existing safeguards.

So, to blame emissions trading for dirty air is disingenuous. If there is concern about local or regional air quality, one should look to the National Ambient Air Quality Standards and not to emissions trading. In fact, work done by the Environmental Protection Agency and independent groups, including the Environmental Law Institute, had already looked at this so-called ‘hot spot’ issue and concluded the issue was not substantiated by emissions data.

There were other absurd attacks on emissions trading in the popular press in 2002. An article on the proprieties of Enron executives made the irrational linkage that, since Enron supported international greenhouse gas emissions trading and Enron was accused of perpetrating fraud on its shareholders, it must have supported greenhouse gas trading only because it thought it could use emissions trading as a front to commit additional fraud.

While such rhetoric may resound with injured investors, it ignores some simple truths. In its heyday, Enron was the largest trader of SO₂ allowances in the US. Through its active trading portfolio, Enron brought needed liquidity to the allowance market and helped advance the use of options, swaps and loan structures – all of which helped affected companies reduce their cost of compliance and hedge their risk.

As Enron was such a large player in the emissions markets one might have expected that its sudden withdrawal would have left the markets in disarray. Yet that has not been the case. The Acid Rain Program has enjoyed a near-perfect compliance record and the market continues to function without Enron. This is a very different outcome for the emissions markets than the one portrayed in the article vilifying Enron.

While only two examples of poor press coverage of emissions trading have been cited here, there have been many others over the years of a similar nature in the popular press. But, to be fair, there has also been some excellent coverage of emissions trading in the popular press including, for example, a well-researched article in Fortune magazine in September 2002.

The lesson for professionals in the emissions markets, whether it is the traders, regulated entities or government agencies overseeing an emissions trading programme, is the need to look beyond the trading community to be sure accurate information is delivered to the public. We expect to see a fully informed debate within the conferences we attend and the trade journals we read. However, if we stop there, we may be missing the fact that the public may not be getting the full story.

If we desire to see the continued expansion of market-based programmes for emissions control, the call to action is to encourage you in the coming year to help educate the public about the advantages of this policy tool in a credible and easy to understand way. If we are successful, perhaps 2003 will see the end of inaccurate and sensationalised coverage of emissions trading by the popular media.

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