

THE Emissions Trader

A Publication of the Emissions Marketing Association
Serving the International Emissions Trading Community

VOLUME 2, ISSUE 4, AUGUST 1998

GUEST ARTICLE

Emissions Trading and Environmental Policy

BY DENNY ELLERMAN,
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MASSACHUSETTS INSTITUTE
OF TECHNOLOGY

The experience with Title IV has given emissions trading prominence in environmental policy to a degree that would have been inconceivable ten years ago. Yet, that success has not been such as to overwhelm resistance to proposals to apply the instrument to other environmental problems.

Outside of economists, emissions traders and the U.S. government, almost everyone else remains unconvinced that carbon dioxide trading should be the instrument of choice for implementing the Framework Convention on Climate Change. And, within the U.S., a NO_x cap and trade system is far from being a done deal.

Emissions trading will likely figure more prominently in the implementation of policy for these and other environmental problems; however, progress towards that expanded role will be slow and arduous for several reasons.

The first reason is that, contrary to some early, overly enthusiastic statements based on allowance prices, emissions trading does not make costs disappear, as if it were some magic regulatory wand. Recent allowance prices may dampen the tendency to make such statements, but the costs have always been there. As

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EMA Fall Meeting
November 9-10, 1998



Hilton Hotel
Walt Disney World Resort

THE FALL EMISSIONS TRADING
CONFERENCE IS CO-SPONSORED BY

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Euro Brokers

See You in Orlando!

The Emissions Marketing Association will be holding its Second Annual Fall Conference November 9-10, 1998 in Orlando, Florida at the Hilton Hotel at Disney World Resort (reservations... 1-800-782-4414, see page 4).

The one and a half-day educational and technical program will feature more than twenty presenters covering a wide range of emissions trading issues. Topics will include Near Term - SIP Call, OTC Implementations, Living with New Programs (SIP and OTC), Developments heading into Buenos Aires and Emission's Trading and the Public (see page 3).

"The Fall Meeting Program Chairman, **Carlton Bartels** of Cantor Fitzgerald Environmental Brokerage Services, has done an outstanding job in putting together a great meeting," said EMA President **Dan Chartier**, "and thanks to the generosity of our corporate sponsors, we are in the position of providing the best educational and social program ever."

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THE PRESIDENT'S CORNER...



I am very pleased to announce that we have received notification that the Emissions Trading Education Initiative (ETEI) grant application (see the July issue of **The Emissions Trader** for a complete description of this initiative) has been approved by the EPA. The kick-off meeting of the joint EMA - EDF governing board has been scheduled, and by the time this issue of **The Emissions Trader** reaches you, work should be in full swing on making this project a reality. We are still seeking additional industry sponsors for this work. If you are interested in this opportunity please call **Dave Baumann** at the EMA office.

If we do not receive additional industry funding, it is possible that we will have to reduce work scope. Given the importance of this work to educating others on the benefits that market-based emissions reductions systems can bring, it would be a terrible waste to have to reduce work scope. If you consider the cost increase your company will face if market-based systems do not succeed or expand, its easy to justify the small cost of participating in this project.

And speaking of resistance to emissions trading, please see the Guest Article by **Denny Ellerman** of MIT. His frank assessment of slow acceptance of emissions trading should be carefully considered. Many think that emissions trading is a done deal that will be expanded and always be around. But without much work on the part of EMA members to continue to promote understanding of emissions trading concepts by industry, regulators and the public, we are just setting ourselves up for failure. All the more reason to sponsor the work on the EMA's education initiative!!

The EMA Membership Directory should now be in the hands of all members. I hope this resource of phone, fax, address and e-mail information (on every member that returned a release form) is of value to you. New members, and those that forgot to return their release form, will be included in an update set to be mailed in September. If you want to be listed in the directory please submit the membership application included with this issue of **The Emissions Trader**, or if you are an existing member return the authorization form previously sent to you. Contact **Linda Terry** or **Dave Feldner** in the EMA office for additional information.

If you are considering going to COP-4 in Buenos Aires this fall you are invited to attend as an official delegate of the Emissions Marketing Association. We have submitted our application for NGO (non-governmental organization) status, and expect final approval soon. If you are unfamiliar with the process for admittance to the meetings in Buenos Aires, you either need to be a part of a government delegation or part of an NGO delegation. Without sponsorship you cannot get credentials. Without credentials you cannot get past the security checkpoint. We already have had interest from several individuals that plan to be in Buenos Aires to represent the EMA and their own companies. If you are interested in this opportunity please contact **Dave Baumann** in the EMA office.

As always, I will sign off by encouraging you to become involved in the activities of the EMA. We are always seeking those interested in submitting a guest article for publication, or wishing to become involved in planning or speaking at an EMA conference. EMA is a membership organization that needs your input to ensure its success. Please enjoy your summer, and I look forward to seeing you in Orlando at the EMA Fall Meeting.

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Best regards,

DAN CHARTIER, dan.chartier@wepco.com

EMA Fall Meeting
November 9-10, 1998



Hilton Hotel 40
Walt Disney World Resort


See You in Orlando!

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The conference will kick off with "touching base" networking reception on Sunday evening sponsored by Exco Energy Products, Inc. **EXCO USA**

The Monday luncheon will feature **Dirk Forrister**, Chairman of the White House Climate Change Task Force, as our guest speaker.

GEM Co The luncheon is sponsored by Greenhouse Emissions Management Consortium.

Everyone knows what a great destination Disney World is, and with the support of our sponsors, EMA will be able to capture some of that Disney Magic during the meeting. A highlight of the meeting will be the EMA party sponsored by Prebon Energy at the Adventurer's Club on Pleasure Island. The special event for EMA conference attendees only will include a dinner buffet, hosted beverage service, and unique Disney entertainment featuring the world's most eccentric explorers welcoming you to their legendary club of the 1930s. Prebon Energy's event sponsorship will also include admission to other Pleasure Island clubs and venues for the balance of the evening, culminating with the "New Year's Eve Celebration and Street Party."  **prebon energy**

EMA Executive Director **David Baumann** noted, "while the quality of the meeting is high, registration fees, especially for members, will be very reasonable... to have the quality of presentations and social program attendees will enjoy in Orlando speaks well for the emissions trading community and its commitment to EMA."

Dan Chartier expressed the appreciation of EMA  **Euro Brokers** to Euro Brokers for providing a generous contribution to underwrite and sponsor the educational content of the meeting and to the presenters who will be in attendance at their own expense. The meeting will again be co-sponsored by the US EPA Acid Rain Division.

2nd Annual Fall Conference

EMISSIONS MARKETING ASSOCIATION

Serving the International Emissions Trading Community

NOVEMBER 9-10, 1998 • THE HILTON HOTEL AT WALT DISNEY WORLD • ORLANDO, FLORIDA

Preliminary Program

Sunday, November 8, 1998

5:00 PM - 7:00 PM – Meeting Registration Desk Open

6:00 PM - 7:00 PM – Touching Base Reception, **Sponsored by Exco Energy**

Monday November 9, 1998

8:00 AM - 9:00 AM – Networking and Coffee

9:00 AM - 9:15 AM – Opening Comments and Introductions,
Dan Chartier, EMA President, Wisconsin Electric Power Company

9:15 AM - 10:45 AM – Recent Developments

Robert LaCount, US EPA, Moderator

Near Term – SIP call, OTC implementation. Detailed discussion about the current and future direction for NO_x regulations and NO_x trading.

Federal Perspective – **Melanie Dean**,

US Environmental Protection Agency

OTC State Perspective – **Rob Sliwinski**,

New York Department of Environmental Conservation

Non-OTC State Perspective – **Roger Kanerva** (invited),

Illinois Department of Environmental Protection

Market Perspective – **Andy Kruger**,

Cantor Fitzgerald Environmental Brokerage Services

10:45 AM - 11:00 AM – Break

11:00 AM - 12:30 PM – Living with New Programs (SIP & OTC)

Janet Watts, TVA, Moderator

Market and company reaction to the finalized rules and anticipating future NO_x programs.

Industry Perspective – **Tony Kovach**, International Paper

Utility Perspective – **David Parks**, Baltimore Gas & Electric

Broker's Perspective – **Susan Wood**, Air Bank

12:30 PM - 2:00 PM – Lunch – Sponsored by GEMCo, Developments heading into the Conference of Parties in Buenos Aries

Dirk Forrister, Chairman White House Climate Change Task Force

2:00 PM - 3:30 PM – Predicting the Future

Tom Romero, US Generating Company, Moderator

The parameters for the new regulatory programs: the underlying issues.

An Overview – **A. J. Jablonowski**, EarthTech

Regulatory Perspective – to be announced

Utility Perspective – **Dan Weiss**, Cinergy

Broker Perspective – **David Oppenheimer**, NatSource

Regarding Specific Pollutants...

Anne Smith, Charles River Associates (SO₂)

Regarding Control Technologies...

Tom Girdlestone, Goaline (SCONO_x)

3:45 PM - 5:00 PM – Living with an Uncertain Future

Carlton Bartels, Cantor Fitzgerald Environmental Brokerage Services
Moderator

An examination into the interplay of the different regulatory programs.

The panel is intended to stimulate thought and discussion from the floor.

Trader Perspective – **Scott Kushnick**, Enron

Trader Perspective – **Curt Kaminer**, Arizona Public Service

Utility Perspective – **Joe DeNavas**, Potomac Electric Power Company

Technology Outlook – **William DePriest**, Sargent and Lundy

7:00 PM - 9:00 PM

EMA Party at Pleasure Island, **Sponsored by Prebon Energy**

Tuesday November 10, 1998

8:00 AM - 9:30 AM – Networking and Coffee

9:00 AM - 9:30 AM – EMA Business Meeting

9:30 AM - 10:30 AM and continued 10:45 AM - 12:00 NOON

Emissions Trading and the Public

Brian McLean, Environmental Protection Agency, Co-Moderator

Josh Margolis, Cantor Fitzgerald, Co-Moderator

A discussion of emission trading issues as perceived by industry, the general public and public advocacy groups.

Mary Nichols, Environment Now,

formerly EPA Assistant Administrator for Air and Radiation

Corporate Views on Trading – **Renee Richardson**, Merck

Environmental Groups on Trading – **Bernard Melewski**,

Adirondack Council

Environmental Groups on Trading – **Sarah Wade**,

Environmental Defense Fund

Utility Perspective – **Marty Smith**,

Niagara Mohawk Power Corporation

Regulatory Perspective – **Pat Leyden**, Children's Hospital San Diego

Media Perspective – **John Nielsen** (invited), National Public Radio

12:00 NOON – Adjournment

Look for Program Updates
at www.emissions.org

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EMA Fall Meeting Factoids

Disney World Web Site
www.disneyworld.com

Hilton Web Site
www.hilton.com

Hotel Address
Hilton Hotel at Disney World Resort
1751 Hotel Plaza Blvd.
Lake Buena Vista, FL 32830
Phone 407-827-4000 • Fax 407-827-6369

Hotel Reservations
1-800-782-4414
Attendees are responsible for making
their own hotel reservations.

Room Rate
\$170.00 single or double occupancy.
Reservations must be made by October 5, 1998
to receive the quoted rate. You must request
the Emissions Marketing Association meeting rate
when making your reservation. This special rate is
available for November 6-11, 1998.

Meeting Attire
Business casual for all educational
and social functions.

Paper on Kyoto Protocol Published

The Environmental Defense Fund (EDF) has recently published a paper entitled "Cooperative Mechanisms Under The Kyoto Protocol – The Path Forward." The paper was prepared as a "contribution to the debate leading up to the Fourth Conference of the Parties to the United Nations Framework Convention on Climate Change." The sixty-nine page paper builds on EDF's February, 1997 publication, Emissions Budgets: Building an Effective International Greenhouse Gas Control System which sets forth a proposal for an international greenhouse gas emissions "budget" and trading system.

EDF is a not for profit, non governmental organization with more than 300,000 members with a focus on development and implementation of innovative, economically sensible approaches to solving environmental problems.

For a copy of the paper, call **Kim Brooks** at EDF at 202-387-3500 or visit the **EDF Website** at www.edf.org

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EMA Call for Abstracts

The Emissions Marketing Association will be initiating its first ever **Call for Abstracts** in September of 1998. Selected abstract authors will be asked to present their paper at the Emissions Marketing Association Spring Meeting and International Conference, June 7-9, 1999 in San Diego, California.

Presenters will receive free conference registration. The Call for Abstracts and submission guidelines will be published on the EMA website at www.emissions.org on September 15, 1998.

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GUEST ARTICLE

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BY DENNY ELLERMAN, MIT

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remarked felicitously by a colleague, “the costs are in the cap.” Emissions trading does reduce costs, but not by orders of magnitude; and, for that reason, it may become the instrument of choice for implementing environmental policy. Nevertheless, the necessity of balancing costs with benefits will remain; and it is unlikely that this debate will proceed any more rapidly than before.

Another reason for the slow acceptance of emissions trading is that it contains some truly controversial and little appreciated aspects... at least as implemented in Title IV, and more generally in allowance-based systems of emissions trading.

Perhaps, the most important element is that Title IV did create and allocate de facto property rights for the use of the environment, in this case, the use of the atmosphere as a sink for the disposal of sulfur residuals.

To say the least, this is controversial, particularly when so stated, although, somewhat paradoxically, nearly everyone readily accepts property rights as an effective way to determine the use of land, a similarly God-given resource. Still, until the fall of the Berlin Wall, such rights were illegal over a large portion of the globe; and it took more than a few centuries to delineate this right in countries that consider themselves advanced.

It probably won't take centuries to figure out how to allocate scarce environmental resources, but one should not be surprised if it takes decades.



These property rights are closely related to another controversial aspect of emissions trading, the construction of a market for environmental goods. Naturally, those who shun private ownership of the use of the environment won't be sympathetic to markets in environmental goods. But quite aside from questions of ownership, there will always be debate about the role of markets in allocating goods about which people care. More generally, property rights are not absolute, and both property rights and markets are social constructs.

Reconciling societal and private interests in market allocations of the use of the environment is a real issue, as it is in markets for land and other goods. Private ownership and market allocations of the use of the environment will be conditioned, as is the case with other goods, and perhaps heavily so.

In any case, it will take at least as long for society to conclude that markets can allocate environmental goods efficiently as it did for generally market-oriented societies to stop worrying about whether markets could or would allocate more familiar goods, like food, shelter and energy.

Another controversial aspect of emissions trading, at least as manifest in Title IV, is the transformation of the environmental regulator from hopefully enlightened despot to bank clerk. The regulator's role is no longer that of grandly

deciding what is best for firms and individuals, entertaining equitable appeals, and enforcing the result. Instead, the regulator simply measures emissions and deducts allowances.

If the public choice literature tells us anything, this reduction in the scope of action for regulators will be firmly resisted. In fact, the wonder is that Title IV ever got to be the way it is. The illusion of enlightenment dies hard, but it does. With experience, people do come to appreciate the great public service performed by unheralded clerks performing seemingly pedestrian tasks.

Alan Greenspan's near-star status is an encouraging sign, but no one should be surprised if it takes awhile for the EPA Administrator, and other environmental regulators, to aspire to similar fame.

Emissions trading will figure more importantly in future environmental policy, but that place will be achieved slowly because emissions trading is not a magic wand that makes costs disappear and because it contains truly controversial, even revolutionary, aspects.

The slowness with which emissions trading will become more widely accepted will temper today's enthusiasm, but we should always remember that true revolutions are achieved in painstakingly incremental steps.

The Emissions Trader encourages your comment on this and all ET content.



AIR AND WASTE MANAGEMENT MEETING

EMA President Dan Chartier discusses the Association at the recent Air and Waste Management meeting in San Diego. Board members have spoken or exhibited at numerous U.S. and international meetings on behalf of EMA in the last 18 months.



About the Hilton Hotel at Disney World Resort . . .

The hotel is 25 minutes from the Orlando International Airport and is located in the Disney World Resort. There are two heated pools, five restaurants, access to five golf courses, and daily supervised children's activities for resort guests.

All Disney attractions (Magic Kingdom, MGM Studios and EPCOT) are a short walk or free shuttle ride away. A Disney store is located in the hotel where guests can purchase Disney merchandise and theme park tickets.

While most visitors rent a car, shuttles and taxis are available at the airport. Car rental is available at the hotel.

For more information, visit the Disney www.disneyworld.com or the Hilton www.hilton.com website or call the Hilton at 407-827-4000.



“Vote in the EMA Election!”

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EMA on the WEB

Did you know when you visit the EMA at www.emissions.org you can find the online member directory, past issues of *The Emissions Trader*, along with other helpful sites and publications including a trader's sample purchase and sale agreement?

Some of the sites you can link to at www.emissions.org include:

Chicago Board of Trade

New York Mercantile Exchange

US EPA Acid Rain Home Page, EPA Allowance Tracking System Reports, and Federal Register On-Line.

The Fall Meeting updates will be posted beginning in August.

