National Resources Defense Council Memo

States and Cities Should Not Join the Chicago Climate Exchange

The Chicago Climate Exchange (CCX) is a voluntary cap-and-trade program in which private companies can learn about carbon management in a low-risk environment. While we do not oppose CCX's efforts to recruit companies to their program as a learning experience, we strongly oppose state or municipal participation in CCX. Here's why:

Voluntary programs are not the solution – The history and features of the marketplace demonstrate that mandatory requirements are necessary if we are to reduce global warming pollution to the extent necessary to avoid catastrophic climate disruption. State or municipal participation in CCX would constitute a stamp of approval for voluntary approaches to combating global warming pollution and is likely to be used to support those who contend that such efforts alone are sufficient to address this problem.

States and cities interested in demonstrating leadership in this arena should focus on developing mandatory policies, and many are doing just that. Eight northeast states have joined the Regional Greenhouse Gas Initiative, committing to develop the nation's first cap-and-trade program to reduce carbon dioxide emissions from power plants. California adopted its landmark cap on carbon dioxide emissions from vehicles; 10 other states – representing one third of the nation's automobile market – have followed suit. New Mexico, Arizona and Montana have launched statewide initiatives to develop specific policy proposals to reduce global warming pollution, and several other states are expected to do so shortly. Many states are considering mandatory reporting of global warming emissions. And over 225 mayors have signed the Climate Protection Agreement, committing to meet or beat the Kyoto Protocol pollution reduction targets in their own communities, through actions ranging from anti-sprawl land-use policies to urban forest restoration projects to public information campaigns.

Governments should not participate in programs developed in a closed process – CCX was created in a closed process with little input from the environmental community or government. The expertise and personal integrity of individuals involved in CCX as staff or advisors is not a substitute for an open process in which stakeholders can contribute to the development of the program and fully understand the tradeoffs agreed to in the rule development process. While environmental groups are now able to purchase the rulebook and freely discuss and evaluate the program without the burden of a non-disclosure agreement, it is still very difficult for the public to assess CCX in its entirety. We are concerned about any state joining and thereby providing a stamp of approval to a program that was developed through such a closed process and that has not yet enjoyed the benefit of open public review. We hope that we can fully address this concern over time as stakeholders review and comment on the CCX rules, although it is not clear whether CCX will be in a position to address any comments with respect to existing participants prior to a second phase of the program.

CCX goals are too modest to warrant government support – We are also concerned about the relatively modest level of emission reduction required by CCX. While it is laudable that CCX requires absolute, entity-wide emission reductions (as opposed to rate reductions), provisions for baseline adjustment and other forms of flexibility could wholly undermine this requirement (see discussion of rules below). Current commitments to reduce emissions 1% per year from baseline levels are not significant for many participants. We do not want any state or city's participation in CCX to be construed as an endorsement of such modest reduction levels, especially when some of them have already established more ambitious goals, such as those included in RGGI, the New England Governors/Eastern Canadian Premiers Climate Action Plan, individual state climate plans, and the Mayor's Climate Protection Agreement.

CCX rules are not sufficiently stringent to warrant government support – The flexibility incorporated into some of the CCX rules also presents an inappropriate precedent for states. These could allow companies to meet their greenhouse gas emissions targets on paper without actually delivering new emission reductions, above and beyond the business-as-usual scenario.

For example, various rules for inclusion of facilities in the baseline and the reporting of emissions could reduce the net effect of the CCX program. These include: the exclusion of significant emissions increases above baseline levels; exemption of some or all of emissions from a new unit; exclusion from the baseline of any facilities that account for less than 5 percent of total emissions; possible exclusion of facilities with less than 50 percent ownership; and voluntary opt-in of additional emissions sources. These provisions allow CCX companies to "comply" with their emissions caps even if, in reality, they are emitting far more pollution than permitted by the cap.

The CCX rules governing offsets are also of concern. We are not confident that CCX offset investments will deliver environmental benefits comparable to reductions of direct GHG emissions at CCX company facilities. The CCX rules do not appear to include an "additionality" requirement that would ensure that they deliver environmental benefits above and beyond the business as usual scenario. For example, forestation projects earn credit for incremental carbon storage on any land reforested since 1990 (if that land was not in forest prior to that point), without any attempt to screen out land reforested as part of non-climate related commercial operation. Similarly, soil carbon projects can earn offsets without reference to pre-existing levels of conservation tillage. The potential for reversal of carbon storage beyond 2006 is only addressed by non-binding requirements for lands in the baseline. The requirements for forest offsets are somewhat stronger, although they do not directly address the loss of carbon stocks. In addition, several renewable energy sources with potentially significant lifecycle emissions are incorrectly defined as having zero net emissions, including non-cellulosic ethanol and wood.

Government participation in CCX jeopardizes local action – We are concerned that any state's participation in CCX could be construed as an endorsement of modest reduction levels that are not consistent with a state's own emission reduction targets. State participation in CCX would confer unwarranted legitimacy on the use of offsets and early action credits in general, and on the evaluation rules used in the program in particular. This might adversely affect the development of future regulatory programs in which early action credits or offsets are under consideration. We are also concerned about the prospect of states selling offsets through CCX that they have created with public funds, such as energy efficiency investments supported by ratepayer-funded system benefit charges. The emission reductions that result from these investments are public goods, secured through the implementation of public policies designed at least in part to provide environmental benefits, all of which could be negated if states sell the reductions to CCX companies that consequently increase their emissions.

States and cities can achieve their climate goals without joining CCX – If states are interested in recording their emissions over time and demonstrating net reductions across all state facilities and vehicles they can do so without joining CCX. The northeast states are developing an Eastern Climate Registry and, in collaboration with the California Climate Action Registry, a Registry Alliance that any state can join. If states are interested in third party certification they can directly contract with firms to certify emissions reports.

We support every state and city's interest in learning more about measurement and reporting of emissions and emissions trading. However, they should do so by hearing from a variety of individuals and organizations working in this arena, in the context of developing their own climate policies rather than by participating in private sector initiatives. We strongly encourage CCX to participate in these efforts and help states learn from their experience.

We recognize that CCX is a pilot program that provides a platform for learning about carbon caps and trading, and that as such it is not going to be perfect. However, if a state joins CCX notwithstanding all of the questions and concerns that remain unresolved we believe it will be under tremendous pressure to accept CCX rules and procedures in the context of future regulatory programs, and this would be a terrible detriment to state and local policy.