Karen Telleen-Lawton: California's Carbon — Credit Where Credit Is Due

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 12.10.2012 3:24 p.m.

You may not have noticed a landmark day last month — I was busy greeting my newborn granddaughter. The important news: California joined the carbon credit world, selling the right to emit greenhouse gas pollution beginning in 2013.

The auction generated more than $230 million from 23.1 million credits sold to 350 industrial businesses, including utilities, food processors and oil refineries. They paid $10.09 per ton, barely above the minimum price of $10.

While the price was lower than expected by market watchers, the fact that all of the credits were sold means that the market was competitive, according to Air Resources Board chairwoman Mary Nichols.

Potential solutions for reducing carbon emissions have brewed since 1997, when the Kyoto Protocol set targets and asked that other nations sign the treaty. The Protocol went into effect in 2005 after 191 states ratified it. (The United States signed the protocol but failed to ratify). The European Union implemented its Emissions Trading Scheme in 2005.

California's cap-and-trade program was designed after the passage of AB 32, the Global Warming Solutions Act, in 2006. Its aim was to reduce the state's production of carbon dioxide, methane and related gases by 17 percent (to 1990 levels) by 2020. Administered by the Air Resources Board, the program permits businesses to emit a certain amount of carbon annually — initially, 90 percent of their historical usage. They can purchase or sell credits to make up the difference.

Will it work? Europe has encountered some fledgling-program problems. According to U.S. News' Joseph Mason, "Special interests and industry lobbies have pressured European lawmakers into giving companies their emission credits for free. These favors have been handed out more or less arbitrarily and have saturated the market, predictably dragging down the price of carbon permits and largely eliminating incentive for companies to cut emissions or invest in clean air technology."

An Environmental Defense Fund study also found the problems Mason reported, finding the "ETS handed out too many allowances, allowing some polluters windfall profits and causing carbon prices to collapse." But they say leaders have tightened up.

Since 2005, greenhouse-gas emissions in the covered sectors fell by 13 percent while the E.U. economy expanded slightly. That's evidence that economic growth does not have to come at the cost of increasing carbon emissions. Furthermore, the carbon reduction did not cause affected sectors to leave the European Union.

A Greenwire story documents that "not a single factory has moved out of Europe because of the ETS." (Some continue to threaten.) The same article investigates the cost of employing clean energy. One study found that cap-and-trade cost Europe just 0.01 percent of GDP between 2005 through 2007; the Greenwire article quotes a utilities analyst at UBS saying, "It does have an impact already, but it's rather tiny."

While high-pollution industries may be forced into unwanted changes, clean energy firms predict a leveled playing field. Black Coral Capital, a private equity firm focusing on the clean-tech and renewable-energy sectors, commented to the Los Angeles Times, "This does make me want to invest more in California and send more of my companies there." The Times, partnering with USC to poll registered voters after the first carbon credit auction, found that nearly two-thirds agree "the state needs to break from 'outdated energy policies' and reward companies that produce energy from wind, solar and other renewable sources and to decrease U.S. dependence on foreign oil."

The program will need close oversight, both to keep it fair and to resolve problems as they occur. These are the costs of being on the leading edge. But the potential benefits are even greater. Not only will Californians thrive from a cleaner environment, we will have developed new jobs and technologies in an industry that will be explosively important in this age of climate change. Clean energy will be a sustainable industry for centuries to come.

— Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com).