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HEADLINE: Banking on emissions trading; Environment: A market scheme for curbing global warming could be the key to bridging the gap between the United States and other nations at the climate change conference in Kyoto, Japan.

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BODY:

Imagine some future landfill crisis, where you and your neighbors had to cut back on the amount of trash you put on the curb for pickup.

Every household -- no matter how big the family, or how much recycling it does -- could be ordered to reduce its throwaways by the same amount. Those who slipped up could be heavily fined.

That sounds like a sure recipe for community bickering, if not civil war.

But what if every household gets an allotment of tags to be attached to its trash bags, with only tagged refuse accepted for disposal? And what if people are free to buy, sell or swap these tags among themselves based on their needs? (Out-of-town visitors, for instance, or a new baby would temporarily boost a household's waste volume.)

Diplomats from 160 countries meeting in Kyoto, Japan, are considering just such a market scheme for curbing global warming. Advocates argue that it could be the key to bridging the gap between the United States and other nations at the summit.

Seeking to avert the threat of a catastrophic change in Earth's climate, delegates began haggling last week over how to slow the buildup in the atmosphere of carbon dioxide, methane and other man-made gases that many scientists have said are heating up the planet. Such a cutback could be painful, as these gases are the byproducts of burning coal to generate electricity and gasoline to run motor vehicles.

The pain could be particularly intense for the United States, which with less than 5 percent of the world's population accounts for 22 percent of all carbon dioxide released globally. And emissions are rising, contrary to a U.S. pledge made five years ago to voluntarily reduce to 1990 levels.

The Clinton administration has proposed stretching out the timetable for reaching its 1990 greenhouse-gas target. The U.S. position has been attacked by environmentalists and by European leaders, who have publicly pledged to cut their region's emissions 15 percent below 1990 levels over the next 15 years.

But the administration's call for creation of a "Green Bank" for trading carbon-gas emissions is gaining a more favorable, if still cautious, reception. Formally known as the International Bank for Environmental Settlements, it would organize and regulate buying and selling among nations of permits to emit greenhouse gases.

"It's a win-win proposal," says Graciela Chichilnisky, a professor of mathematics and economics at Columbia University in New York, and one of the primary architects of the bank concept. She predicts that it would reduce greenhouse gases by promoting energy conservation and efficiency, and that it would do so more quickly and cheaply than any government regulations or taxes adopted for the same purpose.

Chichilnisky says that the emissions-trading bank appears to be gaining support among developing countries, who have been skeptical -- if not outright hostile -- of other U.S. overtures.

In simple terms, this is how it would work:

Once an overall global limit on greenhouse gases is agreed upon, the bank would allocate emissions allowances among the countries. Countries that reduce their emissions, or that do not emit all they are allowed to, would be able to sell their allowances.

The same allocation and trading could go on within individual countries, Chichilnisky explains, as permits to emit carbon dioxide are distributed among electric utilities, the coal and oil industries, and other major emitters, including auto manufacturers.

The value of the emissions allowances would be determined by supply and demand, not by any government fiat. Those that succeeded in reducing emissions would be able to earn income from selling their unneeded allowances.

"It will reward those who behave better," Chichilnisky says.

There is a precedent for the greenhouse gas bank: this country's crackdown on acid rain.

When Congress called for a sharp reduction in sulfur-dioxide emissions in 1990, it opted for letting targeted electric utilities decide how to allocate those curbs among their coal-burning power plants, rather than order a new round of air-pollution regulations.

The Environmental Protection Agency distributed sulfur-dioxide "allowances" to 110 utilities with the highest emissions. Companies were allowed to buy permits from other utilities that did not need them to cover excess pollution.

Before Congress acted, the power industry had warned that controlling sulfur dioxide at power plants could cost \$ 1,500 per ton or more. But the new permits wound up selling for less than a tenth of that by 1995, and the price has fallen still further. The costs were lower than expected, in part because many utilities switched to cleaner-burning coal rather than install costly pollution-control equipment.

Advocates of market-based pollution controls, such as Chichilnisky, say that by giving affected parties flexibility, they can speed development of cleaner technology at a fraction of the cost that might result from government mandates. By raising costs indirectly, market controls also are more politically acceptable than an imposed tax on carbon emissions, as some environmentalists have proposed.

Some form of emissions trading is likely to be approved in Kyoto, but the U.S.-backed bank plan faces opposition from the European Union, which sees it as a potential loophole permitting U.S. industries to avoid real reductions.

"It's one thing, in the United States, to make this thing work with a limited number of power plants and EPA to act as an enforcement agency, and another to do it on a global [level]," says Alden Meyer, with the Union of Concerned Scientists, who is in Kyoto monitoring the talks.

Another major hurdle is the current chasm between the United States and developing countries over getting all nations to set limits on greenhouse-gas emissions.

Developing countries have refused so far to agree to any curbs that might limit their fledgling economies. Chichilnisky says that under her plan, Third World nations could be allowed to increase emissions -- up to a point. And they could profit from their less industrialized status.

One such country, Costa Rica, already has proposed selling certificates guaranteeing that it will hold down its emissions of carbon by 1 ton each.

But the Latin American nation got a cool reception when it tried to sell them on the Chicago Board of Trade. Chichilnisky said traders wanted some independent assurance that the promised emission reductions took place. An international banking organization operating under the auspices of the United Nations could monitor and police the process.

The Columbia professor says she realizes that there are many uncertainties yet to be settled about how a bank would work -- and even about how harmful climate change might be.

"The science is uncertain," Chichilnisky says, "but the risks are real. The sooner we start the further we will get."

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GRAPHIC: PHOTO 1, 1996, Smokestacks: A Chinese coal-powered cement factory spews smoke into the atmosphere, adding to the buildup of greenhouse gases that many scientists have said are heating up the planet.; PHOTO 2, ASSOCIATED PRESS, Pollution protest: Ecological Youth members hold up posters as South Korean university students form a human chain to block access to a gas station in Kyoto, Japan, as the climate conference gets under way.

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