

# **Environmentalists' Perspective on U.S. Proposal for an International Greenhouse Gas Emission Trading Program**

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## **Environmentalists' Perspective on U.S. Proposal for an International Greenhouse Gas Emission Trading Program**

### **Speaking Notes**

I was asked to provide environmentalists' perspective on U.S. proposals for greenhouse gas emission trading between nations. To begin with it should be pointed out that there is no single defined position of environmentalists, but instead a range of opinions. In the U.S., the Environmental Defence Fund has wholeheartedly supported the U.S. proposal; other organizations have been equally adamantly opposed. Environmentalists' divided attitude toward joint implementation and international greenhouse gas trading reflect different assessments of a myriad of concerns. Some of the concerns go to the very core of trading; others are dependent on design of a program.

The US proposal for greenhouse gas emissions trading has two aspects:

1. trading of allowable emissions, or allocations, among countries with binding emission reduction commitments (international allocation trading);and

2. countries subject to binding commitments meeting such commitments by supporting or undertaking emission reductions projects in countries not subject to binding emission reduction commitments (joint implementation).

Although the US proposal is couched in terms of trading between national governments, the ability to participate in trading is likely to devolve to the private sector. Despite the difficulty of making generalizations, environmentalists generally have less concern regarding a program involving international allocation trading and greater concerns regarding joint implementation. Support for either form of international emissions trading is greater if it is in the context of more significant emission reduction commitments.

## **The Pros of International Allocation Trading and Joint Implementation**

Before discussing environmental reasons for opposing some or all trading programs, it is worth noting the recognition by environmentalists of some advantages to trading. The purpose of trading is to reduce the costs of greenhouse gas emission reductions, not to reduce the emissions. From an environmental perspective, this is positive because it increases the political acceptability of more stringent targets and because it encourages non-Annex 1 countries to accept emission reduction commitments.

Second, joint implementation *may* help alter investment patterns in developing countries and help avoid these countries becoming locked into a pattern of high greenhouse gas emissions for many years into the future. Once a country builds a freeway or a coal burning plant, it has committed itself to a certain path of development, and is less likely to agree to necessary emission reductions. Joint implementation, combined with major emission reduction commitments from Annex 1 countries, may help avoid countries committing to high emission developments and help demonstrate that the desire for economic betterment does not conflict with a low carbon future.

## **The Cons of Trading and Joint Implementation**

Despite these recognized advantages, many environmentalists as well as economists believe that the most cost effective way to shape developing countries' investment decisions may be to invest in developing countries' institutional capacity - improving their planning and knowledge base - rather than investing large amounts of money on specific projects. The sorts of expenditures which improve institutional capacity will have widespread effects throughout developing countries' economy. They are, however, incompatible with generation of emission reduction credits in a joint implementation program, because their results are not sufficiently measurable. Moreover, environmentalists have a number of concerns regarding the effect of trading on meeting environmental goals.

### ***The Desire for Environmental Spin Offs***

The first concern regarding trading is simply environmentalists' desire to ensure that some or most of the environmental spin offs from reducing greenhouse gas emissions occur locally. I not only want to see a more energy efficient urban land form because it reduces greenhouse gas emissions, I also want reduced local air pollution and I want to avoid a freeway bifurcating my neighbourhood and increased road runoff wiping out the local salmon stream. Concerns like these shift environmentalists' focus from simply reducing greenhouse gas emissions wherever they occur to pursuing domestic improvements in energy efficiency and shifts to renewable energy for a host of related environmental reasons. There is a fear that trading will shift focus away from domestic measures which are worth doing from a societal perspective for reasons unrelated to climate change to measures which are least cost for private actors, but do not achieve other societal goals.

### ***Additionality and Joint Implementation***

The largest concern of environmentalists in regard to joint implementation is undoubtedly "additionality". If Canada meets its emission reduction obligations through the purchase of emission reduction credits from countries without binding commitments, and if those credits are generated by projects which would have occurred anyway, the effect is to negate the impact of Canada's emission reduction commitment.

"Additionality" is a measure of the extent to which a project would only have occurred because of the incentives offered by joint implementation credits. Ensuring that a project is additional is next to impossible without excluding cost effective projects. Experience with voluntary challenge registries and Actions Implemented Jointly programs buttresses the concern that credit may be given for projects which are not additional. For instance, under the U.S. program on actions implemented jointly, registrants have claimed that a project is additional simply because the project investor and host met at a workshop on joint implementation. This fails to give environmentalists any assurance that joint implementation projects will not undermine international targets. Environmentalists fear that non-additional joint implementation credits could vitiate emission reduction commitments, especially if those commitments are minimal.

### ***Additionality and International Trading***

U.S. proposals for trading allocations among countries with binding commitments are often less of a concern for environmentalists than proposals for joint implementation. Nonetheless, trading among countries with binding emission caps does raise some concerns. First, if binding international commitments are weak they may be further weakened by allowing trading. For instance, if all countries commit to stabilizing emissions at 1990 levels by 2010 but are not allowed to trade, aggregate emission levels may actually fall below 1990 levels. This is because some countries - particularly the nations of the former Soviet block - are projected to have emission reductions over the next 10 to 20 years. If these countries are allowed to trade their surplus allocations to other countries, no aggregate emission reduction will occur, because the business as usual reductions in the former Soviet bloc will be appropriated to offsetting increases in other nations.

The problem of binding commitments being less stringent than emissions under business as usual scenarios also arises as new countries are brought into an international trading regime and agree to binding commitments. Although some participants in an international trading regime will have incentives to ensure that emission allocations to countries entering the system are lower than their business as usual emissions, both the new entrants and countries with high marginal emission reduction costs will have an incentive to over allocate. A country which is given a budget of emissions higher than their business as usual scenario can make windfall profits by selling carbon allocations which they would not otherwise use. A country with high marginal emission reduction costs may be happy to agree to binding emission targets in order to ensure a supply of cheap tradeable allocation that will reduce their costs of compliance with international agreements.

### ***Monitoring and Enforcement of International Trading***

The acceptability of an international emissions trading program will also depend on the ability to adequately monitor and enforce commitments. If a program is comprehensive, applying to all carbon sinks and all greenhouse gas emissions, many environmentalists are concerned that it will be difficult to determine whether nations are in compliance could claim that their rising emissions of carbon dioxide from fossil fuel combustion are offset by less easily verified parameters such as increased levels of sequestration or emissions of trace greenhouse gases. Thus, generally environmentalists favour focussing international trading on readily verified emissions.

### ***Summary***

*In summary, most environmentalists acknowledge some advantages of the U.S. proposals for international emissions trading but are concerned that both joint implementation and international emissions trading have the potential to undercut the impact of internationally agreed emission reductions. Environmentalists would generally like to see emission reduction activities focussed on achieving domestic emission*

*reductions with shifts in investment patterns in developing countries being achieved by development of institutional infrastructure for intelligent energy planning.*