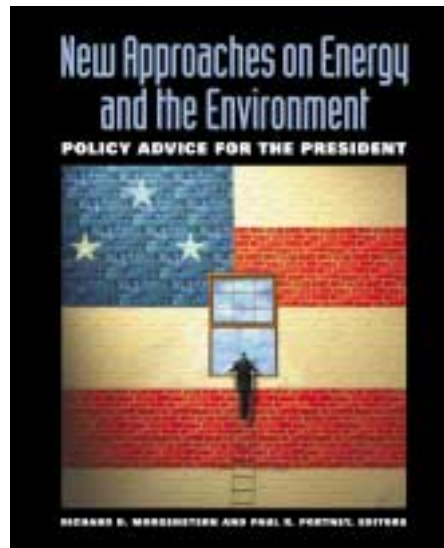


RFF Scholars Offer President Sound Advice on Solving Major Energy and Environmental Problems

Just after the election, RFF released a comprehensive set of detailed policy recommendations for the Bush administration and Congress, laying out an energy and environmental blueprint for the nation. *New Approaches on Energy and the Environment: Policy Advice for the President* was launched at a Washington Press Club briefing, and the book has since been distributed to all congressional offices, key DOE and EPA staffers, and media across the country.

New Approaches on Energy and the Environment, a collection of 25 analytical, stand-alone “memos to the President,” encompasses topics ranging from global warming, oil dependency, electricity regulation, brownfields revitalization, and forest management, to environmental health issues, such as water quality, food safety, and the growing threat of antibiotic resistance. It was published by RFF Press.

“We believe that Americans want actionable solutions to such concerns as energy independence, climate change, air and water quality, and stewardship of land and forest,” said Paul Portney, president of RFF and coeditor of the new book. “Although many of these issues were not central to the debates of the 2004 election, the re-election of George Bush signals a prime opportunity to push forward on a range of environmental and energy issues that have languished in



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RFF scholars chose policy subjects for the book based on their areas of expertise. Each contributor addressed the question, “Based on your own research and knowledge, what policy recommendation would you like to make to the next U.S. president?” Writing in advance of the 2004 election to keep their essays free of partisan interpretation, authors were asked not to confine their suggestions to what prevailing wisdom says is politically possible. They also took pains to make their ideas accessible to a busy president—as well as a wide range of readers interested in a concise and authoritative overview of energy and environmental policy choices.

“The fact is, Americans want cleaner air and water and healthy and attractive surroundings, but they also want inexpensive fuel, comfortable cars and houses, and continued economic growth,” noted Richard Morgenstern, RFF senior fellow and coeditor of the book. “This collection of policy advice is intended to refocus public attention on how we can achieve those goals.”

“As our colleagues point out in their recommendations, President Bush will confront competing perspectives about the priorities and approaches that should apply to energy and environmental policy,” Portney says. In the aftermath of the 2004 campaign, *New Approaches on Energy and the Environment* seeks to provide thought-provoking, commonsense contributions—and needed course corrections—to the critical energy and environmental issues confronting the United States today. ■

New Approaches on Energy and the Environment is available from RFF Press. Please visit www.rffpress.org or call 800.537.5487. Each chapter of the book may be downloaded on a complimentary basis—see www.rff.org/newapproaches for more information.

RFF Policy Conference Tackles Challenges to U.S. Auto Industry

Few other industries have shaped economic and social growth in the United States as the auto industry has. Yet increased competition from overseas, technological challenges, calls for increased fuel economy, and environmental concerns now threaten the future of this pivotal part of the American economy. These concerns brought together auto and fuel industry leaders, technological experts, environmental experts, and others in November for RFF's Policy Conference, titled "Autos, Energy, and the Environment: Challenges for the 21st Century." The seminar was cohosted by New York University's Leonard N. Stern School of Business, and was held on the NYU campus.

The event kicked off with a dinner and keynote address by Allan D. Gilmour, retired vice chairman of the Ford Motor Company. Panel participants the next day included Thomas Sidlik, executive vice president of global procurement and supply, DaimlerChrysler Corporation; Donald Paul, vice president and chief technology officer of the Chevron Texaco Corporation; Charles Shullock, vehicle program specialist with the California Air Resources Board; and Christopher Grundler, deputy director of the Office of Transportation and Air Quality at EPA.

Discussions over the course of the



three panels centered on two topics: financial concerns within the industry, and the challenges of meeting the environmental requirements of policymakers and consumers. Auto executives touched on the pressures they feel from stagnant volume sales, competition from foreign manufacturers, steeply rising health care costs, and pension issues as large numbers of employees reach retirement age. Maryann Keller, president of Maryann Keller & Associates, noted that after accounting for unprofitable sales to rental car fleets or friends and family discounts, U.S. auto manufacturers aren't really selling more cars in the United States than their foreign counterparts.

Declining market share means that production costs per unit are rising, making it more difficult for auto manufacturers to invest in alternative technologies. Meanwhile, fuel industry experts acknowledge an increased demand for energy security and "zero impact" environmental performance. Grundler believes that at

this stage, winners and losers in future fuel and technology sources cannot be predicted. RFF Senior Fellow Raymond Kopp noted that there are currently no viable fuel alternatives to petroleum. Despite this, said Dennis Cuneo, senior vice president of Toyota Motor North America and Toyota Motor Manufacturing North America, there is a waiting list for hybrid vehicles, such as the Toyota Prius. Cuneo believes a viable hydrogen market is going to require competition within the auto industry and help from the government, to truly be successful.

While answers to these issues will not be easy to find, conference participants did clearly convey that the challenges facing U.S. automakers in the future are sizable and are being felt throughout the industry. Energy efficiency, alternative fuel sources, and the future of American carmakers depend upon their ability to meet economic and research challenges at home and abroad in the years ahead. ■

Regional Greenhouse Gas Initiative: Prelude to a National Program?

Joseph Kruger and William A. Pizer

Over the past few years, state programs addressing climate change in general and emissions from greenhouse gases more specifically have proliferated. They run the gamut from renewable energy portfolio standards in about 20 states to a proposed carbon dioxide (CO₂) emissions standard for automobiles in California. Perhaps the most significant of these programs is the joining together of nine northeastern states to develop a regional cap-and-trade program known as the Regional Greenhouse Gas Initiative (RGGI). It was launched in April 2003 when New York Governor George Pataki sent letters to fellow governors in the region proposing an emissions trading program. Initially, RGGI seeks to address CO₂ emissions from the electric power sector. Ultimately, the program may be expanded to include additional sectors and other greenhouse gases (GHGs). RGGI advocates argue that the program could serve as a model for a future national GHG cap-and-trade program.

Programs such as RGGI have engaged state policymakers and stakeholders in the important task of reducing greenhouse gas emissions. However, they also raise a number of questions, including what the role of state governments should be in climate change, which is essentially a global problem. Also, given the need

for a national if not international solution, will state programs help or hinder the development of effective national institutions for emissions trading? In particular, can states pioneer innovative approaches to some of the unique issues associated with emissions trading of greenhouse gases?

Our answer to these questions is that despite some significant challenges, efforts like RGGI can offer the chance to experiment with some of the features and institutions that will be needed for future national efforts to address greenhouse gases.

Does State Action Make Sense?

Unlike many of the pollutants we are used to dealing with, greenhouse gas emissions are a global phenomenon. Ton for ton, CO₂ emitted in the northeastern United States matters no more for climate change in the region than CO₂ emitted in China; emissions from cars and power plants are the same as emissions from residential furnaces. If state actions do not lead to longer-term, comprehensive federal and international action, they will not make a significant impact on climate change. This differs dramatically from smog, particulates, and acid rain: the emissions that cause these problems are created locally from smokestacks and traffic and have mostly local and regional impacts.

A regional greenhouse gas cap-and-trade program like RGGI poses additional challenges because companies can simply shift emissions to unregulated emissions sources outside the region, causing what is known as leakage. For example, limits on power plant emissions in the RGGI region may simply shift power generation to other parts of the country. In theory, total emissions could even increase, if regulated gas generation in the Northeast, for example, is shifted to unregulated coal generation in the Midwest. This problem is considerably less important under a national pro-



gram, where the flexibility to move economic activity out from under the cap is lower.

Ultimately, whether leakage is a small or large problem for RGGI will be determined by a number of factors, including the level of the emissions cap and constraints on the electricity transmission system that may mitigate leakage. Stakeholders have suggested several solutions, including regulating distribution rather than generation of electricity within the region or regulating regional electricity imports as well as generation.

Although such solutions are feasible if leakage is deemed a significant problem, we believe that care should be taken to avoid complex design features that would complicate implementation, particularly because these features would become obsolete if the United States adopted a national program. Instead, RGGI could focus on innovative solutions to problems more relevant to a national program and address leakage by implementing a more modest cap level.

Efforts like RGGI can be constructive ways to experiment with some of the features and institutions that will be needed for future national efforts to address greenhouse gases.

Experimenting with Innovations Necessary for Greenhouse Gas Trading

Although a state approach to greenhouse gas trading presents challenges such as leakage, RGGI policymakers also have an opportunity to experiment with several innovative features that could be useful for a potential future national cap-and-trade program to address greenhouse gases. Several of these features are discussed below.

Testing Emissions Allowance Approaches

Allowance distribution is one of the most contentious issues policymakers face in designing a cap-and-trade

program. Allowances are a valuable asset, created alongside an equally large liability for future emissions, and the distribution of this asset has important implications. Even with a modest target, the value of allowances in a national GHG trading program could be 10 (or more) times larger than those in the sulfur dioxide trading program (currently the largest and most successful emissions trading program in the country). As a result, allowance distribution for a national program will raise significant issues of fairness.

Under RGGI, innovative allocation approaches at the state level could be tested, such as auctioning portions of the annual allocations or allocating some allowances (or the revenues from the sale of allowances) directly to groups that are adversely affected by the costs of a cap-and-trade program. State governments could also experiment with alternative formulas for allocating to existing sources and addressing new source needs. These approaches could be helpful to developing a strong national program in the future.

Developing an Effective GHG Offset Program

Offsets could be a particularly cost-effective way to reduce the costs of a mandatory greenhouse gas program. Unfortunately, there are no functional



models for offset programs to draw upon. Although project-based emissions offset programs for conventional pollutants have been around for many years, many have had limited effectiveness because of high transaction costs and uncertain environmental integrity. More recently, the Clean Development Mechanism (CDM), an effort to incorporate offsets from developing countries used under the Kyoto Protocol, has been costly and cumbersome.

If RGGI states advance an environmentally credible program with low transaction costs, they would make an enormous contribution to a future national program. To this end, RGGI policymakers and stakeholders have discussed developing performance standards and other transparent, objective criteria that would provide clear signals to investors about the types of projects that would be acceptable and the volume of credits that would be generated.

Exploring International Linkages

RGGI's launch has sparked great interest in Europe, where an even larger experiment with GHG trading began on January 1, 2005. There

have already been informal contacts between state officials and officials of the European Commission and European member states to share information on how the new European Emissions Trading System (EU ETS) is developing. These informal contacts may provide opportunities to explore linking issues that will be useful for any future greenhouse gas program seeking to trade with the EU ETS. A consensus is growing that if or when the United States adopts mandatory GHG reductions, the most likely approach to international trading would be to first develop the national program and then negotiate trading agreements with other countries. Questions on linking that might be explored in the RGGI effort include:

- What metrics will be used to determine whether cap levels are compatible in linked systems?
- What are the implications of using offset credits from the Clean Development Mechanism or allowances from the EU ETS in the RGGI program?
- What enforcement and compliance issues arise when there are trades that cross national boundaries?

The Keys to Success

Ultimately, we believe that RGGI can be a valuable building block for a national climate policy if it is designed in ways that allow it to be successfully scaled up to a federal, multisector cap-and-trade program. Policymakers and stakeholders should focus on keeping the design as simple as possible. An emphasis on creating the right institutions is more important than pushing for an overly stringent short-term emissions cap that might place the region at an economic disadvantage, require special mechanisms to combat leakage, and prove to be politically untenable.

Specifically, we believe RGGI should experiment with new approaches on allocation, offsets, and other features that could develop useful experience and set positive precedents for a future national effort. ■

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In Memoriam: Pierre Crosson 1926–2004

PIERRE CROSSON, a member of the RFF staff for 38 years and one of the country's leading agricultural economists, passed away in November 2004. A prolific scholar, he wrote or edited more than 100 articles and books on the economics of agriculture in the United States and developing countries. In recent years, he focused particularly on problems associated with sustainability, soil erosion, and environmental aspects of farming.

"Pierre was uncomfortable with the sense of despair associated with the neo-Malthusian, limits-to-growth model that asserts that unchecked population growth is bound to outstrip the world's carrying capacity," said his long-time RFF colleague Joel Darmstadter. "Still, he recognized that meeting the food needs of a world inhabited by many millions of poor and malnourished people confronted agricultural policy and practice with a formidable challenge. But it was a challenge, Pierre believed, that serious scholarship and enlightened policymaking could successfully help meet." ■