

## J. SCOTT CHRISTIANSON

### New system of credits uses market to control pollution



When the Clean Air Act of 1990 was passed, it set a new precedent for the use of market forces in pollution control. This law depends on a system of pollution credits to reduce the emissions of one of the main chemicals responsible for acid rain, sulfur dioxide. The goal is to reduce the 18 million tons released each year to 8.9 million tons per year by the year 2000.

The pollution credit system works by issuing pollution credits to polluters, mainly utilities and factories, based on the historical average emissions of the industry. One credit allows a company to release one ton of sulfur dioxide per year. Companies whose emissions exceed the number of credits they are issued must make up the difference by purchasing credits from cleaner companies or by installing pollution control systems to reduce emissions.

Companies that have low sulfur dioxide emissions can sell their surplus credits. This allows utilities to install pollution control equipment, burn low sulfur fuel or switch to a renewable energy source to recoup some of their costs by selling excess credits to dirtier utilities.

Each year, fewer pollution credits will be issued, thereby reducing the overall emission of sulfur dioxide; companies that emit more sulfur dioxide than they have credits for are subject to a stiff \$2,000 fine per ton of sulfur dioxide.

Most important, the pollution credit system allows polluters to decide what is the most cost-effective strategy for meeting emissions restrictions. For some polluters, installing scrubbers to remove sulfur dioxide from their emissions will be the most efficient means of balancing credits with emissions. For others, switching to low sulfur coal will be the best alternative. Some utilities will find it most cost effective to just purchase more credits.

This free-market approach is a historic departure from the "command-and-control" regulations of the past, which set emission standards and often prescribed pollution control methods regardless of cost-effectiveness. Command-and-control approaches also didn't provide an incentive for polluters to reduce emissions below the maximum allowed.

"Utilities that continue to pollute must pay for the privilege of using

the atmosphere's waste disposal capacity, while those utilities that reduce pollution get rewarded monetarily for their investment," commented Daniel Dudek, senior economist for the Environmental Defense Fund.

In New York, pollution credit trading is a controversial topic. The Long Island Lighting Company, Lilco, plans to sell 50,000 sulfur dioxide emissions credits to a company in the Midwest. Environmentalists working to restore the Adirondack region — where a quarter of the area's 2,800 lakes are severely polluted by acid rain — argue that trading pollution credits from the East to the Midwest will increase acid rain in the Adirondacks. "We have Lilco, whose pollution will go out to sea, trading to the Midwest, where the pollution will fall on us," said John Sheehan of the Adirondack Council.

However, this shift in emissions is minimal compared with the net decrease in the sulfur dioxide released by Midwestern companies. "Even if New York eliminated all of its emissions, which is impossible to imagine, it would only have 300,000 allowances to sell," said Joseph Goffman of the Environmental Defense Fund. "The utilities in Ohio, Indiana and Illinois have to cut 3 million tons" of sulfur dioxide.

Environmental organizations that want emissions to be reduced even further can now purchase pollution credits in order to keep the credits from being used. When the EPA auc-

tioned off 275,000 pollution credits last March, one environmental group joined the bidding in hopes of retiring the credits.

"Historically, environmental groups have only been able to litigate or lobby. But now we can actually buy pollution rights and let them expire, thereby keeping tons of pollution from being released into the atmosphere," said David Webster, president of the group that bid on the pollution credits.

In Connecticut, a utility company recently donated 10,000 pollution credits to local chapters of the American Lung Association. The lung association is planning to retire the credits as part of a fund-raising activity. And because the pollution credits are considered a commodity, the utility is allowed to take a tax deduction for the donation. "We didn't think about the possibility that some allowances might be donated to charity," said Sen. Joseph Lieberman, D-Conn. "But charitable contributions are part of the market."

Although the Clean Air Act's pollution credit system is not without flaws, it is a free-market approach to pollution control that is far more constructive than previous air pollution regulations.

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