



## Climate Change: Western Climate Initiative Matters

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By Arthur O'Donnell

The whole world is watching Durban.

Or is it?

Virtually no one outside of the participants in the 17th Convention of Parties to the United Nations Framework Convention on Climate Change (COP-17) knows or cares much about what's going on in Durban, South Africa, this week.

World attention is focused on European leaders meeting to try to get the International Monetary Fund to support the failing Euro. In light of how the Euro's travails have whipsawed international currency exchanges and stock markets, it is little surprise that the United States has sent Treasury Secretary Timothy Geithner to Berlin, but only a small and mostly anonymous set of negotiators to COP-17.

That's why it is essential that the Western Climate Initiative be successful.

Nobody else seems to care.

Two years ago, hopes were high at COP-15 in Copenhagen, and it even seemed (fleeting) that the United States might enact comprehensive climate change legislation that featured a cap-and-trade program for carbon emissions.

Both efforts fizzled, the political backlash against climate science took precedence over continually mounting evidence, and carbon markets elsewhere have languished in low price signals, questionable offset enforcement mechanisms, and negligible impact on global greenhouse gases.

Then there is the Western Climate Initiative.

California and maybe four Canadian Provinces are all that's left of the original WCI parties. In 2007, they promised to cut greenhouse emissions by at least 15 percent by 2020, using inter-regional cap-and-trade carbon markets.

The formal withdrawal of Arizona last month signaled a similar, if less noisy, retreat by Montana, New Mexico, Utah, Oregon, and Washington. Those states instead have joined something called North America 2050, a joint voluntary pledge to reduce carbon emissions somehow, sometime in the next 40 years.

No, I never heard of it either.

Cap-and-trade was supposed to offer the viable alternative to command-and-control dictates or valiant-but-ineffective promises, to win over the "markets not mandates" crowd. More than that, it was also a way to create societal value through innovation and possibly allocate some portion of

market proceeds to addressing economic or environmental disparities.

Exactly where this all leaves WCI is uncertain, except the organization--which recently incorporated as a non-profit public benefit entity--is left without formal, financial or in-kind support from any of the departed state governments.

WCI Inc. doesn't even have a staff yet. The search is on for an executive director who will pretty much have to create the new non-profit organization, hire incredibly dedicated personnel, recruit a full and active board of directors, raise money and herald the new market.

A secular John the Baptist is in order.

This is not easy, but it certainly is not without precedent. Every start-up profit or nonprofit goes through the same process. The WCI challenge will be to apply lessons learned from other commodity markets to the carbon market. Some of the core services that WCI expects to provide include offset certification and a tracking network, compliance verification, and coordination among its members.

These same services have been pioneered--without government intervention or regulation--in the voluntary markets for renewable energy and green power.

The Center for Resource Solutions, an organization I served for three years, essentially created independent certification of renewable energy nearly 15 years ago with the Green-e program. This established common definitions and standards for credible resources, and it documented private transactions through independent verification. Then, as a national market developed for renewable energy certificates, the Green-e Energy program set the standard for RECs and provided credibility for both sellers and consumers. It helped establish the Environmental Tracking Network of North America (ETNNA) to streamline transactions by establishing consistent standards and compatible policies in several discrete geographic markets--a "common currency for environmental commodities."

Before cap-and-trade was even adopted, Green-e Climate applied these same systems to the voluntary carbon offset market, providing valuable experience and endorsing common standards and protocols that should inform regulated markets.

WCI doesn't have to invent these things, just take what works best and apply it among its members' programs. Some of it is already done, as can be seen in the market design and offset criteria papers available on the WCI website.

Whether this works or fails may depend entirely on whether market participants, stakeholders, and politicians believe in the credibility and integrity of the markets --not just on what price signal is elicited.

Independent market monitoring is key.

Once California's cap-and-trade program launches, in beta mode next year and for keeps in 2013, there needs to be some third-party monitor to keep the system honest. And some entity must work vigorously to bring design consistency (if not uniformity) to trading programs that develop outside the state.

The California Air Resources Board, which spawned this market as a cornerstone of AB 32 implementation, is simply not equipped to do the job--and would be suspect if it tried to enforce trading programs and policies in other jurisdictions.

WCI needs to step up to the role of policing the market, to ensure that cap-and-trade is more than an economist's irrelevant exercise in creating price signals that do nothing to actually reduce greenhouse gases. And it needs to use its success to convince reluctant jurisdictions to rejoin the

fold and to expand both the geographic market and the market of ideas, incentives, and innovation. Only a great, lasting, demonstrable success is going to make any impact nationally or internationally.

That's a tall order.

California's carbon market by itself cannot sustain the WCI that its founders envisioned, and trade among far-flung provincial partners will only complicate rather than streamline the coordination effort at the start. A national program under federal law is off the table and voluntary efforts will not do the job.

We have only this opportunity to create a lasting foundation for action. Let's make it work.

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