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Carbon Markets: IETA's Hunter discusses rebuilding dialogue on climate (OnPoint, 03/08/2011)

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About this video



After the collapse of cap-and-trade talks in Congress last year, can the dialogue on climate change and emissions regulation be rebuilt in the United States? During today's OnPoint, David Hunter, U.S. Director of the International Emissions Trading Association, explains why carbon market discussions are still relevant in the United States. He also discusses how a clean energy standard would affect existing carbon markets.

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Transcript

Monica Trauzzi: Hello and welcome to OnPoint. I'm Monica Trauzzi. With me today is David Hunter, U.S. Director of the International Emissions Trading Association. David, nice to see you, thanks for coming on the show.

David Hunter: Hey, Monica, thank you.

Monica Trauzzi: David, you're putting together an event in Washington next week, Carbon Forum North America. It's about carbon markets. But with cap and trade essentially dead in the U.S., is an event like that still relevant?

David Hunter: Well, it's an excellent question. I think I might disagree on part of the premise, which is that cap and trade is dead in the U.S. It's actually moving forward in California. Well, in the Northeast there's already an existing cap and trade program and there are other states that may follow California.

Monica Trauzzi: But federal discussions have been thoroughly broken.

David Hunter: But federally, yes. It's hard to dispute that cap and trade took a very bad pounding over the last two years. But I think you have to look at what it has been replaced with instead. So what's now happening is that you've got intermittent state action. You have a series of lawsuits. You have the EPA greenhouse gas regulations moving forward and then you have talk in Congress either of taking the greenhouse gas regulations and delaying them or getting rid of them entirely or replacing them by legislation or passing new legislation, a clean energy standard. And the result of that is that it's a much more complicated picture for business than it had been. So if you're a business and, I mean businesses need to invest hundreds of billions of dollars in the coming years to build the energy infrastructure that this nation will need for the next 30 or 40 years. And you've got basically three options for doing that. You can either invest it in low-carbon energy sources, in high-carbon energy sources or just wait and not do anything at all. And the trouble is, if you invest in low carbon, you're not sure whether that will qualify under some rules yet to come. If you invest in high carbon, assuming there are some rules in the future or assuming how these different lawsuits work out, you don't know what sort of, you know, penalties or regulations you'll be hit with in the future. So, as a result, a lot of companies are just sitting on their hands, stuck in inaction.

Monica Trauzzi: So, it sounds like though you're stepping away from using the phrase cap and trade, talking about cap and trade directly. So how do you really rebuild the dialogue without scaring people off by mentioning cap and trade?

David Hunter: Right. Well, I mean I think the thing is and the thing that this country recognizes quite well is that markets generally work quite well. That markets drive innovation, markets drive creativity and markets are a very efficient way of directing capital. So, I mean I think part of it is no matter what way you move forward, whether it's through a clean energy standard or state regulations or a federal clean energy standard, you need to

find a way to unleash the power of the market and bring that market creativity in there. And that's part of what we're trying to do with this conference, is to reopen the dialogue on market mechanisms, on how can we find the most efficient way, going forward, of reducing our emissions.

Monica Trauzzi: And how would a clean energy standard impact carbon markets? Is it one or the other or can they work together?

David Hunter: Also a good question. It's hard to say exactly how they work together and it's not really very simple. We have more than 20 state renewable energy programs, some of them allow for market trading, some of them don't. You have also, of course, the state greenhouse gas programs, which some are coming into existence faster than others. You have a potential clean energy standard and then at some point, possibly in the future, you know, more federal action on greenhouse gases. If nothing else, then you have the EPA regulations. So how all of those things interact is complicated. IEDA has actually just created a new clean energy market's working group to look at those questions. But I think, you know, a fundamental underlying point is that we need to find a way to tap the power of markets to have more efficient reductions in emissions.

Monica Trauzzi: And could one solution for this issue surrounding EPA's regulation of greenhouse gas emissions be for them to adopt a market-based approach?

David Hunter: Well, I think it could be. It's not very simple though. I mean EPA certainly has a track record in creating market-based approaches. The original cap and trade system was designed by EPA. It worked very well. That was the SOX and NOX greenhouse gas markets, sorry, the SOX and NOX clean air markets. It has been widely lauded by both environmentalists and industry. So EPA does have a track record in creating a market-based approach under the Clean Air Act. But the exact extent to which they can apply that to greenhouse gases is not clear at all.

Monica Trauzzi: So, with the shift in focus to the states then on emissions regulation, how does that impact the international community and how they think and feel about what the U.S. is doing?

David Hunter: Well, I think it's made the U.S. a more difficult partner. It's more difficult for other countries to have confidence that the U.S. will meet the commitments that President Obama made in Copenhagen a little over a year ago. So, I mean it creates more uncertainty not only for American businesses, but for the international community as well.

Monica Trauzzi: Europe has had some pretty serious problems with their emissions trading system with theft of carbon credits earlier this year. Has this highlighted some fundamental issues with carbon markets and would we risk having a similar problem in the U.S.?

David Hunter: Well, it certainly has highlighted a fundamental issue and the fundamental issue is that you need to have good regulation. If you have proper regulation and, in this case it should probably be by the CFTC, over the markets, then, you know, you're much less likely to have any sort of problem with theft. I mean one other thing that the thefts highlighted is that, in a way, Europe has actually now succeeded in placing a value on carbon. The thing about placing a value on something is that then people will try to steal it. So, in a way, it shows that it is driving decisions, it is influencing sort of the fundamental, underlying thought process and decision making in Europe. In the U.S., we've actually, in our SO2 markets, in the clean air markets we've never had any sort of theft. So I think if you have a strong regulatory body, then those are sort of problems you can prevent against.

Monica Trauzzi: OK, we're going to end it right there. Thank you for coming on the show.

David Hunter: Thank you, Monica.

Monica Trauzzi: And thanks for watching. We'll see you back here tomorrow.

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