

BUSINESS



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State, EU talk about pollution

Schwarzenegger, German minister are to meet today

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California, required to draft a plan by 2011 to drastically reduce greenhouse gas emissions, is getting some welcome advice from a European ally: Germany.

Frank-Walter Steinmeier, Germany's foreign minister, is scheduled to meet with Gov. Arnold Schwarzenegger today to begin talks about how California could work with the European Union to create a system that would allow companies to buy and sell credits for emission reductions.

"This would be really good for California. It makes what we are doing much more relevant," Aaron McLearn, a spokesman for Schwarzenegger's office, said Wednesday.

California is perceived as an environmental leader in a country that has stayed out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change.

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mate Change. In their efforts to bring the United States into global climate protection regimes, European politicians have closely followed California's progress in environmental legislation, such as AB32, a bill signed last year that requires the state to reduce emissions of carbon dioxide and other gases to 1990 levels by 2020. One key requirement is to draft the plan by 2011.

The German minister, who is putting a strong focus on energy-related issues in his foreign policy, chose California as the second stop of a trip that also took him to the Norwegian city Spitsbergen, where the effects of climate change can be witnessed in the form of the Arctic region's melting glaciers.

California has yet to devise an emissions-trading system; the EU states have been dealing with such certificates since 2005. "We look very closely at the lessons learned from existing programs in Europe," said Lawrence Goulder, professor of environmental and resource economics at Stanford University and a member of the state's Market Advisory Group.

"A big push in reduction will come from a carbon-trade system," said BreAnna Northcutt, spokeswoman California's Environmental Protection Agency. "It is the most effective way to achieve our goals."

Under a trading system, companies can buy and sell certificates allowing them to produce specified quantities of carbon dioxide.

Europe's experience offers lessons of what could serve as a model, and what should be avoided.

"California should start to sell certificates in an auction as early as possible," advises Ottmar Edenhofer, chief economist at the Potsdam Institute for Climate Impact Research, who is traveling with Steinmeier.

In Europe, emissions certificates initially were given free to companies in relation to their estimated need. "So there was no pressure on companies to think about innovative solutions for avoiding emissions," Edenhofer said.

It will also be crucial to make sure that the system for measuring emissions is compatible, said Nancy Whalen, marketing manager of the California Climate Action Registry, a nonprofit group that helps companies measure how much pollution they generate.

"The carbon market has to avoid the problem we have today with financial currency trading where currencies are being discounted against one another," she said. "When trading carbon, we must make sure that a ton is a ton."

Many North American companies already are trading offsets in voluntary carbon markets, such as the Chicago Climate Exchange. Offsetting is the idea of paying for emissions-reductions elsewhere instead of reducing your own.

Even though they are not forced to reduce emissions, U.S. companies have been active in these markets because it helps them achieve a carbon-neutral image. According to a recent study by the environmental information provider Ecosystem Marketplace, 68 percent of the customers of voluntary carbon markets in 2006 were from the United States.

California companies like Yahoo, Google and Pacific Gas and Electric Co. have announced that they will buy offsets from voluntary markets, according to the report.

The Regional Greenhouse Gas

Initiative, an alliance of nine northeastern states, wants to start a cap-and-trade emissions program in January 2009.

Edenhofer said he is impressed with the suggestions Schwarzenegger's Market Advisory Committee has come up with but have yet to be approved by the state Legislature.

"The Californians want to include more sectors than the Europeans," he said. The European system involves mostly the electricity sector and other heavy industries. But industries such as transportation are not covered.

For California, transportation's contribution will be crucial, as it generates 40 percent of the state's greenhouse gas emissions.

Working out how to make the systems compatible will be the tricky part, said Stanford's Goulder.

"If enforcement were less strict under U.S. law, the EU would lose its environmental integrity. Or if the U.S. system were more liberal in what can count as offsets, again the European system would be undermined," he said.

An area where the two sides differ widely is the respective goals for emissions reduction. California and the members of the Western Regional Climate Initiative have agreed to cap greenhouse gas emissions at 15 percent below 2005 levels by 2020.

Meanwhile, the 27 EU member states have agreed to cut emissions by 20 percent from the 1990 level by 2020; Germany is aiming for 40 percent.

Edenhofer argues that systems with different caps could still be linked in a way beneficial to both sides — "as long as the caps don't differ too widely."

Industry representatives generally welcome the political cooperation. "Any trading system in California must be created in a way so that it can be integrated in any national and international trading regime," said Vince Sollitto of the California Chamber of Commerce.

But businesses also are asking for other measures.

Andreas Klugescheid, spokesman for BMW in California, said his company has called on governments to extend their cooperation to regulatory issues.

Before BMW can introduce its diesel models in California next year, for example, it had to invest heavily in a technical solution to meet strict standards for nitrogen oxide emissions.

"We are aware that regulation is necessary, but our dream would be a worldwide standard for the automobile industry," Klugescheid said.

Climate expert Edenhofer voiced his concern that it is the responsibility of Europe and the United States to address all of these issues together before big developing countries like China or India can be persuaded to join the effort.

Said Edenhofer: "We have to come up with a prosperity model that shows the rest of the world that growth and sustainability are actually compatible."

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