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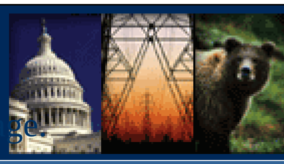

<< Back to Public index page.

1. LOBBYING: Chicago Climate Exchange seeks D.C. muscle on climate bill *(ClimateWire, 09/09/2009)*

Christa Marshall, E&E reporter

The Chicago Climate Exchange has hired its first Washington, D.C., lobbyists in an apparent effort to influence climate legislation.

According to congressional lobbying disclosures, the exchange this summer **secured** both McLeod, Watkinson & Miller and Patton Boggs to play a role in climate legislation now pending in the Senate. Those looking out for the exchange's interests include former Deputy Undersecretary of Agriculture for International Affairs and Commodity Programs Robert Green.

Officials with the Chicago Climate Exchange, also known as CCX, declined requests for an interview.

"We're advocating for a well-designed cap-and-trade system in the United States," CCX spokeswoman Brookly McLaughlin said in an e-mailed statement regarding the lobbying hires.

But the political move by North America's largest trading system for greenhouse gas credits is sparking concern among analysts who say CCX might provide a blueprint for a mandatory federal cap-and-trade system. Many said they are worried by three years of news reports that the exchange often relies on inadequate methods of measuring and verifying emission reductions, particularly in the agriculture sector.

Farm groups and other supporters say the exchange does an excellent job of protecting the environment. But critics fear that the lobbying push, if successful, could weaken the integrity of any global warming bill emerging from Congress.

"The Chicago Climate Exchange could substantially undermine the value and accomplishments of an entire cap-and-trade program," said Kenneth Richards, an associate professor at Indiana University who has written about the exchange. "They could help create a system where we spend a lot of money and not get many reductions."

'Misplaced criticism?'

Since 2006, CCX has been the target of several newspaper investigations questioning whether it approves carbon credits that do little to stop greenhouse gases from reaching the air. In several cases, farmers participating in the exchange's program said they received money for supposed new carbon-cutting activities that they actually had been doing for years.

Under a cap-and-trade system, entities could purchase such offsets, which pay for things like methane destruction at landfills, if they failed to meet planned emission cuts at their own facilities.

Academics and environmentalists said they fear the exchange could help set up a mandatory federal plan that parallels its current voluntary one. That, they charge, raises the possibility of millions of tons of dubious credits coming into a federal cap.

"That is what really worries me," Richards said. "The more loose the rules are, the easier it is to get in offsets and get in useless projects."

The issue is not entirely that a few questionable offsets would prevent the United States from reaching its emission targets, one independent analyst said, but that they could hurt the credibility of the entire climate plan with the international community.

"If we don't set up strong protocols domestically, how do we go to Brazil in terms of avoided deforestation and ask them to be tough?" added Mark Trexler, director of climate strategies and markets at DNV, an independent foundation specializing in risk management.

Chicago Climate Exchange facts

• It operates North America's only cap-and-trade system for all six greenhouse gases.

• In 2003, CCX launched trading operations with 13 charter members, including Ford Motor Co., DuPont and the city of Chicago.

• The exchange's external advisory board includes Joseph P. Kennedy II, chairman and president of Boston-based Citizens Energy Group and the son of the late U.S. Sen. Robert F. Kennedy, and Rajendra Pachauri, the current chairman of the Intergovernmental Panel on Climate Change, one of the recipients of the 2007 Nobel Peace Prize.

• The market value of CCX's transactions in 2008 was more than $306 million, according to the Katoomba Group's Ecosystem Marketplace and New Carbon Finance. That accounted for 43 percent of the total U.S. voluntary carbon market.

• Its chairman and CEO, economist Richard Sandor, was named a "Hero of the Planet" by *Time* magazine in 2002.

Source: Chicago Climate Exchange.

CCX's McLaughlin defended the exchange's offset protocols. She said the guidelines "integrate several internationally recognized best practices and were established with input from leading experts from various sectors, including academic, industrial, non-profits, governments and verification firms."

"Every project must meet eligibility standards and receive third-party verification," McLaughlin said.

That means that independent experts check out the exchange's offsets on the ground by engaging in site visits and records inspections to ensure that projects actually reduce greenhouse gases, according to CCX's official documentation.

National Farmers Union President Roger Johnson said some people dislike offsets generally and will criticize CCX on those grounds alone.

"I think there is a lot of misplaced criticism," he said.

Considering the institution's experience and reach, he and other supporters say it is only logical that the exchange's methods for approving offsets should be given serious consideration by the federal government if a federal law ever gets passed.

"I give these guys enormous credit with coming up with a model to determine the value of emissions reduction in a time where there are no legal requirements to do so," Johnson said. The National Farmers Union is the largest aggregator of agricultural soil carbon offsets on the exchange, meaning it pools credits from landowners who otherwise wouldn't be able to participate because of their small size.

'A real risk' in ag and forestry offsets

Founded by former University of California, Berkeley, economics professor Richard Sandor, the Chicago Climate Exchange began operations in 2003. Its nearly 300 members, which include some 11 percent of the nation's Fortune 100 companies and 20 percent of the largest C02-emitting utilities, commit to reducing greenhouse gas output below a prescribed baseline.

They do so by trading legally binding contracts known as carbon financial instruments (CFIs) that represent 100 metric tons of CO2 equivalent.

Under the proposed federal cap-and-trade system, entities hold carbon allowances equal to their emissions, with the number of allowances declining over time. If they fail to make enough cuts, they can purchase offsets to make up the difference. In the CCX version of the concept, the buying and selling of both allowances and offsets occurs through the CFIs.

Currently, more than 70 million tons of greenhouse gas equivalent are registered as offsets via CCX, more than all other domestic exchanges combined. An analysis on 2008 carbon markets from Katoomba Group's Ecosystem Marketplace and New Carbon Finance reported that the exchange accounted for 56 percent of the trading volume in the United States last year, a tripling from 2007.

In 2007, *Time* magazine dubbed Sandor one of its "Heroes of the Environment." Last month, he penned an **op-ed** about the importance of federal action on global warming.

Many of CCX's operations, such as its powerful computer platform on which companies buy and sell CFIs, provoke little controversy.

The institution's support of agriculture and forestry offsets shunned by other cap-and-trade programs is a different matter.

"Their methodologies have not followed as rigorous a process as we think are needed," said Emily Figdor, federal global warming program director at Environment America. "There's a real risk of questionable environmental integrity."

Questions of validity

For example, the Regional Greenhouse Gas Initiative, a mandatory cap-and-trade system in the northeastern United States, limits agricultural offsets to a few projects, like destruction of methane from animal manure, according to its Web site. CCX, by contrast, backs offsets that pay landowners to engage in a range of activities, like no-tillage farming, which aims to store more carbon in soil by reducing plowing.

The problem is that greenhouse gas levels with those types of offsets are some of the toughest things to measure and verify over the long term, according to analysts. Their storage properties also are easily reversed through fires and altered land practices.

A 2008 report about the voluntary offset market from the Government Accountability Office, a congressional watchdog, ranked forestation and "agriculture soil carbon" near the bottom of a list of "very credible projects" after the agency interviewed people familiar with the issue.

"While these projects have the potential to provide low-cost emissions benefits, they also present a number of technical challenges to assuring their quality," World Resources Institute analysts wrote earlier this year. The institute did not comment on the exchange specifically.

CCX has faced repeated allegations that its agricultural offsets were not additional, meaning they would have occurred regardless of the actions of an offset developer. That quality of additionality is considered critical in the offset world for assurance of valid projects.

A September 2009 **story** in the *Milwaukee Journal Sentinel* reported that Wisconsin farmers participating in CCX's offset program received cash payments for activities they had been engaging in for years.

"They don't have any credibility," said Joseph Romm, a senior fellow at the left-leaning Center for American Progress, citing the investigations. "They never cared about additionality."

Romm has blasted the exchange's offsets repeatedly on his **blog**. He said he is not worried about the institution's influence, and predicted it would continue to operate voluntarily or play a limited role.

Farm groups see CCX rules as a blueprint

Yet under the mandatory climate framework envisioned by the recently passed House climate and energy bill, more than 50 percent of emission reductions by 2030 could come from offsets, according to the Congressional Budget Office. The Senate has yet to release a version of the measure.

It is unclear from the current text what percentage of offsets might come from projects rooted in CCX, although there are several pathways in which a large number of them could come into the system.

One is through the House bill's "early actor" provisions, which allow businesses to obtain some credit for emissions reductions prior to 2012, when the climate law would kick in under current legislative language. Those provisions would reward prior behavior, not just through offsets, but through a percentage of the carbon allowances.

Also, the Agriculture Department could look to CCX's protocols on agriculture and forestry offsets as a model. Under a late deal before the House vote, the agency gained jurisdiction over all domestic offsets in those sectors.

Johnson of the National Farmers Union and other farm associations say they would like to see the exchange's protocols serve as a blueprint for the department.

According to Trexler, if the farm lobby and CCX are on the same page, "you can see the CCX being pretty influential."

Others say the exchange is more concerned with becoming known as a legitimate trading platform than with advocating its offset program. That could be particularly useful in a mandatory cap-and-trade system that will need middlemen to provide companies with a place to buy and sell carbon credits like brokers trade stocks.

"They are concerned that rules for trading flourish," said Michael Wara, a law professor at Stanford University. "They want to ensure that regulation of commodities isn't so strict."

Friends in high places

CCX's newly hired advocates come from influential positions within Congress and the executive branch.

Green, the former USDA undersecretary, also formerly served as a staff member on the Senate Agriculture Committee on behalf of Sen. Richard Lugar (R-Ind.), a potential swing vote on a climate bill. Lugar himself owns carbon credits on the exchange via trees planted on his property, although the senator has never cashed in on the project.

The team also includes Joshua Greene, a former advocate for oil tycoon T. Boone Pickens, and Nicole Silver, a former aide to ex-House Minority Whip David Bonior (D-Mich.).

The amount paid to Green's company, McLeod, Watkinson & Miller, is yet to be reported. Greene and Silver's firm, Patton & Boggs, received $20,000 from the exchange in the second quarter of 2009, according to official congressional documents.

The exchange also has reach in Washington beyond its lobbying firms. President Obama praised the greenhouse gas trading system when he was a U.S. senator from Illinois, and sat on the board of the Joyce Foundation, which helped set up the exchange via monetary grants. Sandor gave the maximum $50,000 to attend Obama's inauguration.

The farm lobby has close ties to the exchange, as well, and large companies like utility giant American Electric Power are exchange members. CCX's directors include Stuart Eizenstat, a Washington, D.C., attorney who headed the U.S. delegation to climate talks in Kyoto, Japan, and previously worked for Presidents Carter and Clinton.

Trexler said that the exchange's fingerprints already can be seen on the federal climate bill.

"One way or the other, the CCX has dramatically influenced the whole approach, just because of their historic association with farmers," Trexler said.

Back to Public index page
