



The inevitability of carbon markets

By **THOMAS A. STONE**

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It's coming. It's inevitable. It can't be stopped. Climate change? No, that is here already (with 2010 as the hottest summer, the hottest year, the hottest decade, etc.) and will get worse. The science on this question is settled. The best that we can do is to prevent worst-case scenarios by reducing carbon dioxide emissions, increasing CO₂ uptake (such as through massive reforestation) and by adapting to the changes already built into the climate system.

What I am talking about as inevitable is a national carbon or CO₂ market where the price of carbon is defined. This could be a cap-and-trade or a cap-and-rebate or some other type of system, but it will happen. The future success of the U.S. economy depends upon it.

Ignoring the risk from climate change is unwise and irresponsible. A carbon market will make us more competitive and will guide the transformation of the economy by improving direct price signals about what helps us and what hurts us in the new world that we are entering. Despite the failure of Congress last year to enact legislation to create a carbon market or to curb CO₂ emissions, the primary cause of climate change, the writing is on the wall.

One reason the legislation failed is the entrenched interests of the dirtiest of the fuel companies (coal and oil) and their heavy and consistent lobbying about how this will hurt the economy "at a time when it can least afford it." But climate change denialists are not really conservative, but instead have a "stunning appetite for risk," as Bracken Hendricks wrote in *The Washington Post* last November. They have chosen only one possible result, the single, best-case scenario, from climate change. They deny that any other result could happen and they have all their eggs in the one basket that 99 percent of scientists say is dangerously wrong.

The failure of U.S. legislation has led some to put their hope in the U.S. Environmental Protection Agency. But there is only so much the U.S. can do by regulation, and the new rules are being vigorously challenged by conservatives who would love to do away with the landmark Clean Air and Clean Water acts. The U.S. midterm elections of last fall certainly mean a more difficult arena for the EPA to work within.

The push for a carbon market will come from the progressive side of the business sector and will be based on data from the science community. The Ceres group's efforts (www.ceres.org) are good examples of a very large and expanding group of progressive companies demanding disclosure of the climate change risks of all companies, trying to ensure that accounting includes environmental and societal risks, raising expectations of all companies, accelerating the use of renewables, and seeking needed regulatory clarity.

Standardized corporate environmental reporting is the goal and the key to a leveling of the playing field. The November 2010 "Global Investor Statement on Climate Change," a group representing \$15 trillion in assets, stated that private investments are essential as governments are now broke, and that clear, credible and long-term policy frameworks are needed to shift us to less-carbon-intensive investments. Their concerns are the material business risks and opportunities of climate change that they must consider as a part of their fiduciary responsibilities.

Peter Hoeppe of Munich Re, one of the world's largest reinsurance companies, wrote bluntly in 2008, "Climate change is a fact. Countering it is a must." In 2009, the U.S. National Association of Insurance Commissioners stated, "The U.S. government should also establish a national strategy to reduce U.S. (greenhouse gas) emissions, following the lead of the Regional Greenhouse Gas Initiative and the Western Regional Climate Action Initiative," as the job of insurance companies is "to manage climate change-related risks as part of an insurer's risk-management policy."

In sum, denying climate change is the riskiest possible strategy for our and our children's future. To avoid this, a carbon market is likely to be created, not first at the international or the politically volatile federal level but, given the demands of practical investors and corporations, assisted by scientists and nonprofit groups who clearly see the future and the ways to navigate what will be challenging and transformative times.

The need to move away from oil and other dirty carbon sources could not be more clear, especially now with our fragile reliance on Middle Eastern oil from dictatorial regimes under assault by their own citizens.

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