OREGON PROGRESSIVE PARTY

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Oregon Progressive Party
Position on Bill at 2018
Session of Oregon Legislature:

HB 2020: Needs Work and Many Changes

Dear Committee:

The Oregon Progressive Party favors immediate and very significant action to reduce the emission of greenhouse gases. HB 2020 is a lengthy and complex response to that need, which includes giving away carbon credits to the utilities and major industries and the need to supervise a large market in carbon offsets that is subject to great uncertainty and even manipulation.

We prefer a straight tax or fee on emission of greenhouse gases. For the transportation sector, the fee would apply to combustion fuels (gasoline, diesel, aircraft fuel, etc.). For the electricity sector, the fee would apply to emissions from generators of power using combustion sources. For the industry sector, the fee would apply to emissions from each facility.

We oppose the granting of "allowances" to any utility or industry. The point of greenhouse gas taxes is to increase the cost of production or utilization that also emits greenhouse gases. Awarding credit to polluting facilities defeats the purpose. It also stifles competition from new industries that may be cleaner.

Free allowances are particularly harmful in the utility sector. First, they would amount to a reward for past pollution. Second, free allowances would remove the incentive the utility would otherwise have to reduce its greenhouse emissions, either through operational changes or improved planning of new facilities.

We also oppose allowing greenhouse emitters to instead earn carbon credits by funding "offsets projects." It is often difficult to determine whether or not an offset project actually reduces emissions over what they would have been anyway. Government programs recognizing offset projects are subject to large uncertainties, manipulation, and even fraud that Oregon authorities would be unlikely to detect. In January 2015, Foreign Policy magazine reported:

> Europe’s carbon-trading market was supposed to be capitalism’s solution to global warming. Instead, it became a playground for gangsters, international crime syndicates, and even two-bit crooks -- who stole hundreds of millions of dollars in pollution credits.

> The noteworthy potential for the carbon market to be exploited," Interpol says in its report, "rests on a single significant vulnerability that distinguishes it from other markets—the intangible nature of carbon itself." Put another way, if a man who buys a horse never receives it, he'll pick up on the scam. But if he buys the right, represented by a numerical code, to emit an invisible gas or the promise that someone else will emit less of that gas in the future, he might easily be fooled.

We have included a few excerpts from that article at the end of this testimony.

Some say that this bill is modeled after the cap and trade system in California. When it comes to regulation of markets, California is not necessarily a good role model. The California Legislature in 1996 "deregulated" the electricity sector. The result was years of artificial power shortages, rolling blackouts, the bankruptcy of the state's largest investor-owned utility and near-bankruptcy of the second largest, and an economic loss to California estimated at over $50 billion. In the 1997 and 1999 sessions, the Oregon Legislature was urged to adopt a similar system but refused. Sometimes California is wrong.

There are other problems with HB 2020. It apparently requires transportation funds to be used only for roads and bridges. That is not going to reduce carbon emission from the transportation sector. Instead, the funds should be used to facilitate greater use of transportation methods that are less polluting, including bicycles, e-bikes, tricycles, and e-tricycles, both for transporting persons and cargo. Dozens of European cities are now using e-trikes (human and electric-powered tricycles) for cargo deliveries in urban areas. DHL, Inc., claims this system is 30 times more energy efficient that diesel trucks and even 16 times more efficient that electric cargo vans. DHL uses e-trikes to deliver cargo in 80 European cities and has replaced 60% of its urban vehicle routes in some of those countries. See http://www.dhl.com /en/press/releases/releases_2017/all/express /dhl_expands_green_urban_delivery_with_city_hub_for_cargo_bicycles.html. Instead of e-trikes, Oregon allows use of dirty diesel trucks (see today's *Oregonian)* and has no program whatever to encourage efficient and non-polluting "last-mile" delivery of cargo.

Excepts from *The Hack That Warmed the World* in **Foreign Policy**, January 2015 (http://foreignpolicy.com/2015/01/30/climate-change-hack-carbon-credit-black-dragon):

> In the EU, whose cap-and-trade system is the world's largest, French analyst Marius-Cristian Frunza, author of the book *Fraud and Carbon Markets*, estimates that some $20 billion was lost to carbon fraud between the system's launch in 2005 and 2011. According to Interpol, the list of possible carbon crimes goes well beyond stealing and reselling credits: It includes, among other offenses, tax fraud, securities fraud, transfer mispricing, and money laundering, plus phishing and theft "of personal information or identity theft." And cash procured can end up lining dangerous pockets: In September 2014, prosecutors in Italy announced they were seeking the perpetrators of a roughly $1.4 billion carbon-trading scam suspected of helping fund terrorist groups in the Middle East.
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> Among the most galling crimes, from an environmental perspective, are sales of nonexistent credits. Most such crimes involve carbon offsets—when polluters, usually in the developed world, pay for emission cuts elsewhere. (Offset projects have included tree

planting in Uganda and South Sudan and biogas projects, in place of coal plants, in India.) Critics of offsets say they only allow rich countries to feel better about bad behavior, rather than encouraging governments to correct that behavior. Environmental writer George Monbiot has compared offsets to indulgences sold centuries ago by the Catholic Church—cash for forgiveness. But the real problem with offsets has been fraud. For instance, back in 2007, fittingly, a Vatican cardinal stood before cameras and received a certificate declaring the Holy See the world's first carbon-neutral sovereign state, thanks to offsets promised by an American businessman who ran a reforestation project in Hungary. But not one tree of the "Vatican Climate Forest" was ever planted. In Africa, some reforestation projects have reportedly sold the same offsets to two or three different buyers. U.K. regulators announced in November 2013 that they had shut down 19 companies for using offset sales to scam investors out of some $38.7 million.

These crimes point to an inherent flaw in cap-and-trade systems: the difficulty of substantiating transactions that involve nothing palpable.

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As the forerunner in carbon markets, however, the EU ETS is also where the first cracks in trading became visible. After peaking near 30 euros in 2008, the price per ton of carbon dioxide in the EU ETS now hovers around 5 euros—too low to provide much incentive for companies to lower emissions. The major reason for the price crash was the global recession that began in 2009; power and cement plants had less production than projected, thus fewer emissions and less need for carbon credits. Handouts to industry are also partly to blame. When the EU ETS began, major European emitters lobbied for and were allocated free credits—too many, critics say—as a political compromise to ease the transition to the new carbon economy. This led to deceit: An investment banker I spoke to said he helped power plants cook their books to show a need for more handouts. Today, the system is awash with excess credits.

The European price for carbon has recovered to about 22 Euros per ton as of today.

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