**Environmental Finance Personality of the Year**

18 July 2012

**WINNER: Mary Nichols**

Cap and trade may be politically toxic in much of the US but, through Mary Nichols’s deliberate policy-making and coalition-nurturing, California is on course to create the world’s second largest emissions trading system.

The future of carbon markets in the United States, it’s fair to say, rests in the hands of Mary Nichols, who chairs the California Air Resources Board (ARB), and her team. From next January, the state’s cap-and-trade programme begins in earnest – cornerstone of a suite of policies to meet California’s target to reduce greenhouse gas emissions to 1990 levels by 2020, about 15% below current levels.

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| Mary Nichols |

In 2006, when work began with California and its partners in the Western Climate Initiative, the main concern, Nichols says, was how an emissions trading system (ETS) would be incorporated into a federal programme. Now, following the disastrous management of federal cap-and-trade legislation by Democrats in Washington in 2009–10, most analysts believe a national programme is at best years away – leaving states like California as torch-bearers for market-based approaches to addressing climate change.

“I believe that there’s going to be an increase in the number of states and countries that are implementing cap-and-trade schemes, and that will build in the direction of a federal programme”, says Nichols. “But our focus right now is on California and getting our programme up and running.”

Given how politically toxic cap and trade is in much of the US – and given the ups and downs of Europe’s trailblazing ETS – market-watchers say that any missteps in California could spell the end of carbon trading as a policy tool in the US. And most have been impressed by the deliberate, considered approach taken by Nichols and her team in developing its programme, in the face of brickbats from left and right.

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Part of her success must be attributed to her keeping together of the coalition of individuals and organisations that passed California’s Global Warming Solutions Act in 2006 – despite the efforts of left-wing environmental justice groups bitterly opposed to market mechanisms, and the oil companies that funded 2010’s unsuccessful Proposition 23 campaign to delay the law.

“We continue to enjoy a great deal of political support for this effort,” which Nichols suggests is built upon successful measures by California regulators over the past 30 years to “dramatically rein in” the smog caused by vehicles and industry.

While some legal experts believe ARB has seen off legal challenges that could delay the start of trading – which ARB has already postponed by 12 months – Nichols expects lawsuits from the private sector once emissions allowances are allocated. “Any time you create a new programme that is going to be generating billions of dollars worth of value … there’s a reason for people to litigate, and our court system contemplates that.

“I do think it’s important not to make it sound like if a lawsuit is filed then there is a terrible problem or flaw in the system,” she adds. “This programme is not going to be fully established in the sense of being free of controversy, probably for another few years.”   
  
While the Air Resources Board’s championing of market mechanisms has, naturally, pleased carbon market advocates, the ARB has not shied away from unpopular decisions. Nichols says that the market manipulation that led to California’s electricity market crisis of 2000–01 was “weighing on our minds” when her team was designing the system.

One particularly unpopular mechanism to prevent market abuse is the ‘buyer liability’ provisions in its offset rules – which means that an emitter is held responsible if it surrenders a carbon offset from a third-party emissions reduction project that is later found to be out of compliance. “We think if you’re serious about running a market programme, you should look to the private sector to police itself,” she says. “Without buyer liability, you’re basically making the government the guarantor [of] offsets.”

However, she adds that: “I do want to make sure that the issues about the market don’t overshadow the goal of the programme, which is to reduce greenhouse gas emissions at a reasonable cost … This is not really a programme that’s designed to get people excited about the daily ups and downs of allowance prices. It’s … designed to reduce emissions using the benefits of the market, using what we know works about markets.

“I’m hoping that we will be able to look back and say that we were able to create this market in a way that benefitted the economy of the state as a whole and that helped steer us in the direction of clean energy and clean technology and … away from our utter dependence right now on fossil fuels.” EF