

9/3/99

FACT SHEET

DRAFT GUIDANCE FOR IMPROVING AIR QUALITY USING ECONOMIC INCENTIVE PROGRAMS

TODAY'S ACTION

- ! The Environmental Protection Agency (EPA) today released draft guidance for states that want to use economic incentive programs to improve air quality and visibility.
- ! Economic incentive programs include a variety of measures designed to increase flexibility and efficiency, while maintaining accountability and enforceability of traditional air quality management programs.
- ! EPA drafted the guidance to encourage cost-effective and innovative approaches to achieving air pollution goals.
- ! The new guidance document outlines economic incentive programs that states may incorporate in their strategies for meeting air quality standards and visibility goals. (These strategies are known as state implementation plans, or SIPs.) The guidance provides advice on choosing an appropriate type of incentive program, what emission sources to include in that program and how to make a program successful.
- ! The draft guidance has no direct regulatory consequences. It is designed to help states incorporate economic incentive programs as they develop or revise state implementation plans.
- ! The guidance is a comprehensive update of EPA's 1994 Economic Incentive Program rule. It also incorporates some components of EPA's 1995 proposed model rule for open-market trading and comments EPA received on that proposed rule. Since that time, several states have developed Economic Incentive Programs and open market trading rules, and the new draft reflects the knowledge gained from those experiences.

KEY ELEMENTS & PRINCIPLES

The guidance outlines four main types of economic incentive programs:

- ✓ *Emission trading programs* create transferable emission reductions. The cost of emission reductions may be relatively low for some sources but may be high for others. In these situations, both types of sources may benefit by trading emission

reductions.

- ✓ *Financial mechanism programs* include fees paid by emitters for each unit of emissions. A source may decide to reduce emissions in order to avoid paying the fees (usually to a regulatory agency), thereby lowering costs. Financial mechanisms also may include subsidies that promote pollution-reducing activities or products.
- ✓ *Clean air investment funds* provide cost relief for sources when the cost of emission reductions is very high. Sources pay into the fund in lieu of emission reductions, and the fund manager procures emission reductions elsewhere.
- ✓ *Public information programs* include educational programs such as product certifications, product labels, announcement of “ozone action days” or other information people can consider when making choices that affect air quality.

! The guidance also outlines key principles that must be incorporated in an economic incentive program in order for EPA to approve it for use.

- ✓ Emission reductions obtained through economic incentive programs must have “integrity,” meaning they must be quantifiable, enforceable and permanent. The reductions also must be “surplus,” meaning they were not already required under another program.
- ✓ Each program must seek to protect all segments of the population equally from health and welfare impacts caused by emissions.
- ✓ And each program must achieve an environmental benefit - e.g., reduce emissions faster, achieve a emission reduction of 10% or more, or other environmental management improvements.

BACKGROUND

! The draft guidance released today is rooted in provisions of the Clean Air Act that encourage the use of incentive-based approaches to control air pollution. Examples of Clean Air Act programs using such approaches include the acid rain emissions trading program and the nitrogen oxides (NOx) budget trading program.

! Under the Clean Air Act, each state is required to submit to EPA a state implementation plan, or SIP, that outlines the means and measures for attaining national ambient air quality standards for six pollutants. Those pollutants are: ozone; carbon monoxide; lead; sulfur dioxide; nitrogen dioxide; and particulate matter (both coarse and fine).

- ! The Clean Air Act encourages the use of economic incentive programs in state implementation plans, and even requires their use under certain circumstances.
- ! In 1994, EPA issued rules for three types of economic incentive programs: emission limiting strategies; market response strategies; and public information/directionally sound strategies. The rules were mandatory in some states that missed milestones and served as guidance for all other states voluntarily adopting incentive programs.
- ! In 1995, in support of White House regulatory reinvention initiatives, EPA proposed a model rule for open market trading. The proposed program provided a voluntary compliance option for trading emissions of volatile organic compounds and nitrogen oxides – both precursors to ozone, or smog.
- ! On July 1, 1999 EPA finalized its regional haze rule to address visibility impairment caused by pollution in national parks and wilderness areas. This program, which will require states to develop implementation plans to achieve “reasonable progress” toward improved visibility, includes options for emissions trading.
- ! The National Environmental Justice Advisory Committee and the Clean Air Act Advisory Committee reviewed earlier drafts of this guidance. This draft reflects their comments. The National Environmental Justice Advisory Committee is a federal advisory committee created to advise EPA on environmental justice issues. The Clean Air Act Advisory Committee, representing major groups concerned with air pollution regulation, is the principal external advisory body to EPA’s assistant administrator for air and radiation.

FOR MORE INFORMATION

- ! The *Federal Register* notice, draft guidance and the background documentation are available on EPA’s World Wide Web site at the following address:
<http://www.epa.gov/ttn/oarpg/ramain.html>.
- ! These documents are also available through EPA’s Air and Radiation Docket and Information Center (Docket Number A-97-27) by calling 202-260-7548 or FAX 202-260-4000. A fee may be charged for copying.
- ! **To comment:** EPA is providing 60 days for the public to comment on the draft guidance. To comment, contact the Air and Radiation Docket and Information Center, 202-260-7548. EPA plans to issuing the final guidance document by the end of the calendar year.
- ! For technical questions about the proposed economic incentives program guidance, contact Nancy Mayer at 919-541-5390 or Eric Crump at 919-541-4719.