FACT SHEET

PROPOSED OPEN MARKET TRADING RULE FOR OZONE (SMOG) PRECURSORS

TODAY'S ACTION...

- EPA is today proposing a model rule for emissions trading of smog-creating pollutants. Highlighted as a key component under President Clinton's Reinventing Environmental Regulation Initiative, EPA's proposed open market trading program provides States and industry with another innovative compliance option for meeting their Clean Air Act requirements for ground-level ozone (smog) in the most cost-effective manner possible.

- EPA's open market program is the first strictly voluntary, compliance option for emissions trading of ozone precursors (volatile organic compounds and nitrogen oxides) that does not require source-specific revisions to State Implementation Plans (SIPs) or operating permits.

WHAT ARE THE HEALTH AND ENVIRONMENTAL BENEFITS?

- EPA's model rule would require that for every 10 tons of emissions reductions that are traded in the system, 1 ton must be "retired." This means that any facility participating in the open market program would be required to set aside 10% of each trade for the benefit of the environment.

- Today's proposal does not in any way change States' requirements to meet deadlines under the Clean Air Act for ground-level ozone, but provides an alternative, cost-effective way of doing so. By lowering the overall cost of compliance with the national air quality standard for ground-level ozone, communities may be able to achieve the standard faster than otherwise possible.

HOW DOES THE PROPOSED RULE PROVIDE FLEXIBILITY TO INDUSTRY?

- EPA's model rule offers facilities subject to Clean Air Act requirements for ground-level ozone an alternative means of compliance. The open market trading program creates incentives for businesses to achieve more emissions reductions than they need to meet these requirements. "Surplus" or extra emissions reductions can then be sold as "credits" on the market. Instead of installing control equipment to meet required emission limits, some facilities would find it more cost-effective to purchase emissions credits from facilities that have already overcomplied with their requirements. Therefore, facilities with high control costs can seek reductions from facilities with low control costs. The required emissions reductions are still achieved, but at a lower overall cost to industry.

HOW DOES THE PROPOSED RULE ASSIST STATES?

- Any State that chooses to adopt the model rule for an open market trading program into their SIP would receive automatic approval from EPA. States would also be permitted to make some changes to the model rule to fit their unique circumstances. Today's proposal should significantly reduce the time it takes a State to get an open market trading program set up and running.

- The open market trading system established by the proposed model rule would allow emissions trades to occur without time consuming changes to a relevant SIP or changes to a trading facility's operating permit. This lowers both public and private transaction costs.

WHAT ARE THE MAIN COMPONENTS OF THE PROPOSED RULE?

- Any State that chooses to adopt a rule identical to this one would receive automatic approval of its State Implementation Plan (SIP) revision. States that choose to modify the model rule to fit their unique circumstances would receive expeditious review of their SIP revision.

- EPA's open market trading program would begin immediately---facilities participating in the program could begin generating emissions credits in the Summer of 1995.

- Ten percent of the emissions reductions from every trade would be retired for environmental benefit.

- Facilities that buy emissions credits ("discrete emission reductions" or DERs) would be responsible for ensuring the quality of the credits they use for compliance. Therefore, "buyers" in the open market trading program have the incentive to impose quality control measures normally provided by the Federal government.

- EPA would continue to work with facilities and States to develop protocols for quantifying emissions reductions and will issue guidance to provide greater certainty that emissions reductions are properly measured and quantified.

BACKGROUND: EPA'S MARKET-BASED PROGRAMS

- The Clean Air Act Amendments of 1990 recognizes the merit of using market-based approaches to help achieve clean air goals. For example, the Amendments introduced a market-based allowance trading system for controlling sulfur dioxide emissions that contribute to acid rain. Reductions are achieved through an "emissions budget" or "cap" trading system that places a "cap" on emissions for a specific category of sources, power plants. In contrast, an open market system allows, but does not require, any emissions source or facility, including mobile sources, to participate and does not set a limit on the number of emissions credits generated or sold. The 1990 Amendments also includes a requirement, in certain cases, for economic incentive programs to be used as part of States' plans to meet requirements for ozone and carbon monoxide in areas of the country that fail to meet the national standards set for those pollutants. EPA issued the economic incentive program rule in 1994, which provided rules and guidance for establishing economic incentive programs, such as the open market trading program.

FOR FURTHER INFORMATION...

Anyone with a computer and a modem can download the rule from the Clean Air Act Amendments bulletin board (under "Recently Signed Rules") on EPA's Technology Transfer Network (TTN) by calling (919) 541-5742 or internet access via TELNET ttnbbs.rtpnc.epa.gov. For further information about how to access the bulletin board, call (919) 541-5384. For further information about the proposed model rule, call Nancy Mayer at (919) 541-5390 or Scott Mathias at (919) 541-5310.