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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF AIR AND RADIATION
WASHINGTON, D.C. 20460

March 6, 1984

MEMORANDUM

SUBJECT: Emission Trades in Post-1982 Nonattainment Areas
Lacking Demonstrations of Attainment

FROM: Joseph A. Cannon, Assistant Administrator
for Air and Radiation

TO: Milton Russell, Assistant Administrator
for Policy, Planning, and Evaluation

On February 3, 1984, I met with representatives of the Regional offices, OPPE/RRS, OAQPS, and OGC to review the issue of emission trades in post-1982 nonattainment areas lacking demonstrations of attainment.

I agree with the Regions and OAQPS that the criteria for an acceptable emission trade may be complicated, subjective, and difficult to develop and that bad trades should not pass the test. On the other hand, I agree with OPPE/RRS that there should be an opportunity and incentive for good progressive emission trades to be approved. As a result, I have concluded that the OGC option (Option II contained in the briefing paper for the February 3 meeting) is the proper position for EPA to follow.

The purpose guiding the policy option that I have chosen is to allow only exceptionally good trades that would achieve real progress toward an approved attainment plan and achieving air quality standards. In articulating the policy in the Federal Register, EPA should establish criteria that clearly describe those trades that would or would not pass this "progress" test. (For example, the Agency might presume that trades involving credits for shutdowns that occurred before a certain date would not achieve progress). These presumptions should be clear enough to encourage applications for some types of trades while strongly discouraging sources from even applying for other types. Moreover, we should emphasize that the burden is on the applicant to meet the test, so that marginal cases should not even be submitted. The primary effort of EPA and State agencies should be to channel attainment plans and in improving air quality.

Under the test described above, EPA will credit an emission reduction against the requested emissions increase only if that reduction would not have occurred but for the opportunity to obtain tradeable credit. EPA will then approve the trade only if, using this credit, the resulting trade would achieve a net air quality benefit.

In order to properly finalize this policy for inclusion in the Emissions Trading Policy Statement and the Technical Issue Document, it will be necessary for OGC, OPPE/RRS, OAQPS, and representatives from the Regions to develop a set of criteria to define those emissions trades that satisfy the principles of this option. I realize it will be a difficult task to develop a test which separates "progressive" from "regressive" trades; therefore, it will be necessary to begin work on this matter as soon as possible. Moreover, we should plan to have members of the Standing Committee on Emissions Trading (which includes the Regions) review these draft criteria. In addition, the Regional Offices have requested a meeting to review the draft policy statement prior to its finalization, including these criteria, and to discuss the implementation of this policy so that its application will be consistent across the country.

In conclusion, I request that we work together on an expedited schedule to finalize these criteria so that they can be enclosed in the final policy statement prior to Steering Committee and Red Border Review.

cc: Director, Air and Waste
Management Division
Regions II, IV, VI-VIII, X
Director, Air Management Division
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