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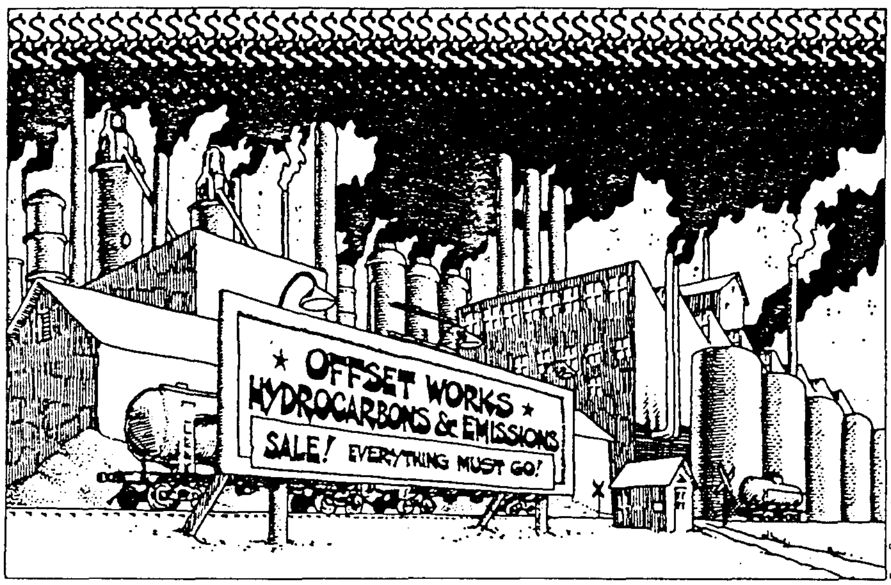


Ben Sargent

*Environment*

# Where There's Smoke...

The Texas Air Control Board has lost its lonely battle against the Environmental Protection Agency's offset policy, and the defeat may have serious repercussions for the state's economy—particularly the petrochemical industry.

Under the EPA's offset policy, any heavy industry that plans to build or expand in a polluted area must first arrange for a corresponding reduction, or offset, of pollution elsewhere in the region. It works like this: suppose Exxon wants to add to its Baytown refinery, but the proposed addition will spew 100 units of hydrocarbons into the atmosphere. Before Exxon can expand, it must first find a way to reduce hydrocarbon pollution in the area by at least 101 units. Perhaps Exxon can find ways of cleaning up its old plant, but if the current refinery already has the best technology available, then Exxon must search out other polluters and pay them to clean up their own plants.

The offset policy has made air pollution a commodity, and pollution rights are at a premium: in California, where the policy has been in effect for more than a year, one company faces $100 million in offset costs before it can build a $500 million oil terminal. The federal policy is expected to spawn a lively market in the buying and selling of emission rights, and lawyers fancifully speculate that there may eventually be pollution brokers regulated by the Securities and Exchange Commission.

The reason the federal policy may hit Texas especially hard is that the state has been relatively diligent about eliminating much of its readily preventable pollution. Sources of potential offsets aren't as available here as in states like Louisiana and Oklahoma, Texas' rivals in the petrochemical industry, where air pollution control has been notoriously lax. The EPA policy thus has the curious result of rewarding the states that have been least concerned with cleaning up and penalizing those that have already made serious efforts.

The policy has some other interesting twists as well. Obviously it eliminates an incentive for companies to clean up their own pollution voluntarily. It also insures that areas without industrial pollution are likely to remain that way—and without industries as well. In Austin, for example, at least 80 per cent of the pollution comes from automobiles; since so few offsets are available, a new industry would have trouble locating a source of pollution to offset and could well be forced to go elsewhere. The policy also may lead to some significant antitrust questions. What if, for example, a new refinery wanted to locate in the Brazosport area, where Dow is by far the major source of industrial pollution? Wouldn't Dow be able to freeze out potential competitors simply by setting the costs of its offsets prohibitively high or refusing to sell at any price?

The Air Control Board finally abandoned its opposition to the policy after the EPA threatened to cut off federal funds and made noises about moving in and administering the policy itself. Industry lobbyists had previously buttressed the board's opposition, but faced with a choice between dealing with federal or state authorities, they did an about-face and discouraged further resistance.

EPA Regional Administrator Adlene Harrison, former Dallas mayor pro tem, admits that the offset policy has its faults but defends it as "the best tool we have at this time to alleviate air pollution." Indeed, the policy seems to follow the advice industry lobbyists have given Congress (and the Texas Legislature) for years: the air will be cleaned up only when companies have an economic incentive to clean it up. ✦

*Geoffrey Leavenworth*

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