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A GLOBAL CLIMATE CHANGE POLICY FRAMEWORK

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CLIMATE POLICY OPPORTUNITY

Offering an economically efficient policy initiative on climate change would confer both diplomatic and domestic policy advantages. The Administration's rejection of both the Clean Air Act-based approach to carbon and the Kyoto Protocol opens paths to new and better climate policy solutions. At the same time, the reaction to these decisions has created an imperative to find good solutions quickly.

The critically important point about this task is that both domestically and internationally, the right policy architecture is more important than achieving immediate emission reductions.

This statement outlines possible climate policy architectures for both the domestic and the diplomatic spheres.

DOMESTIC POLICY ARCHITECTURE

Establishing a domestic system of tradable carbon emission allowances² would, in the international arena, vault the United States from the position of being an outcast (or scapegoat) to that of international leadership. Yet without such a proposal, neither domestic nor diplomatic policy initiatives seem likely to command political credibility.

Under a carbon emission control plan, any entity introducing fossil fuels into the United States would have to obtain and submit to the government emission allowances equal to the carbon content of that fuel. The government could make emission allowances available by some combination of grandfathering to industry and selling them to fuel suppliers or emission allowance traders.

The principal barrier to enacting such a plan is that efficient carbon emission controls would raise some energy prices. However, several policy mechanisms are available for ameliorating the associated political problems. These include:

1. **Plentiful numbers of allowances — relative to current emission levels — could initially be put into circulation.**
2. **A variety of mechanisms could use revenues from the sale of allowances to:**
 - a. Cushion economic transition away from carbon-intensive technologies;
 - b. **Restore consumer purchasing power diminished by higher energy prices;**
 - c. **Fund research on nuclear power and other alternative energy supplies.**
3. **The Treasury could stand ready to sell unlimited numbers of emission allowances at a low ceiling price.**
4. **The plan could be enacted soon, but actual implementation of the limitations on emissions could be deferred until energy prices stabilize.**

The program would be subject to periodic reviews in which the Executive Branch submitted reports to Congress describing and evaluating:

1. **The emission control policies of other nations;**
2. **Changes in the state of scientific knowledge about climate change and its consequences for society;**

The imposition of this system should be accompanied by a vigorous research effort to narrow the range of uncertainties about both climate science and the national and international implications of climate change. This research process should be informed by a U.S. effort focused on the general need for better understanding of climate and independent of the parallel international processes.

² Although at the current time controlling carbon dioxide is the correct focus, the policy architecture should be structured to allow for eventual inclusion of the trace greenhouse gases and sinks.

INTERNATIONAL POLICY ARCHITECTURE³

As already noted, a domestic policy initiative is a prerequisite for establishing America's international credibility on climate. Yet emission reductions by the United States will be of little avail unless they stimulate emissions reductions by other nations. So a domestic policy initiative must be accompanied by a workable international strategy.

The best initial pattern for international greenhouse gas emissions control is "broad and shallow" because:

1. The cheapest opportunities for reducing greenhouse gas emissions are in developing countries.
2. Overly stringent emission controls in the developed world and none in the developing world would drive carbon-intensive industries to developing countries, where they would reinforce barriers discouraging those nations from making commitments to reduce emissions.
3. The agreement must initially limit itself to shallow commitments because most developing countries are currently unwilling to make economic sacrifices for climate protection.

This context suggests two principles that should guide U.S. strategy toward international climate agreements. These are:

1. The United States should create financial incentives to encourage developing nations to adopt policies, measures, and projects, and strongly encourage other developed nations to participate in this or similar incentive programs.
2. The most promising negotiating framework is a process of **pledge and review** with rigorous, transparent and regular reviews at the ministerial level under the Framework Convention on Climate Change.

³ This section is heavily based on "Kyoto's Unfinished Business" by Henry D. Jacoby, Ronald G. Prinn, and Richard Schmalensee, published in *Foreign Affairs*, July/August 1998, Vol. 77, No. 4.