

A Transatlantic CO₂ Market: Vision or Illusion?

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Topics

- A Political Update
- Main features of possible US system:
Waxman-Markey
- Prospects and Next Steps

Le Sénat et la Chambre travaillent en parallèle pour promulguer un loi

Chambre des représentants

Proposition législative sur le même sujet présentée au Chambre

Proposition envoyée au comité compétent pour examen

Le Président du comité décide si la proposition sera considérée

Si approuvée par le comité, la proposition est envoyée à la Chambre pour examen

Les leaders de la Chambre décident si la proposition sera considérée

Si approuvée par la Chambre, la proposition est envoyée en conférence avec le Sénat

La proposition de compromis est votée par tous les membres de la Chambre

Sénat

Proposition législative présentée au Sénat

Proposition envoyée au comité compétent pour examen

Le Président du comité décide si la proposition sera considérée

Si approuvée par le comité, la proposition est envoyée au Sénat pour examen

Les leaders du Sénat décident si la proposition sera considérée

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La proposition de compromis est votée par tous les membres du Sénat

Les comités du Sénat et de la Chambre rédigent un texte de compromis

Si approuvée par les deux chambres, la proposition de compromis est envoyée au Président

Le Président promulgue la proposition en loi, ou le Congrès peut passer outre le refus du Président avec 2/3 des voix en faveur de la proposition

Committees

Floor

Conference

Final Votes

Presidential

Signature/Veto

Current Status

- Legislation approved by the House (219-212)
 - More comprehensive than cap-and-trade alone
 - National renewable energy standard plus
- Senate bill voted out of committee (11-1)
 - Republican boycott
 - Cap-and-trade only: follows House bill
 - To be melded with RES/Energy bill and other provisions on Senate floor

What are the Problems?

- Senate vs. House procedure (60% vs. 50%)
- Regional differences need to be reconciled
 - 41 yes or probably yes (all Dems)
 - 27 fence sitters (17 Dems, 10 Reps)
 - 32 no or probably no (2 Dems, 30 Reps)
- Higher priority to healthcare & economy
- Contentious allocation of allowance value
- Enviro willingness to compromise (nuclear/oil-gas drilling)

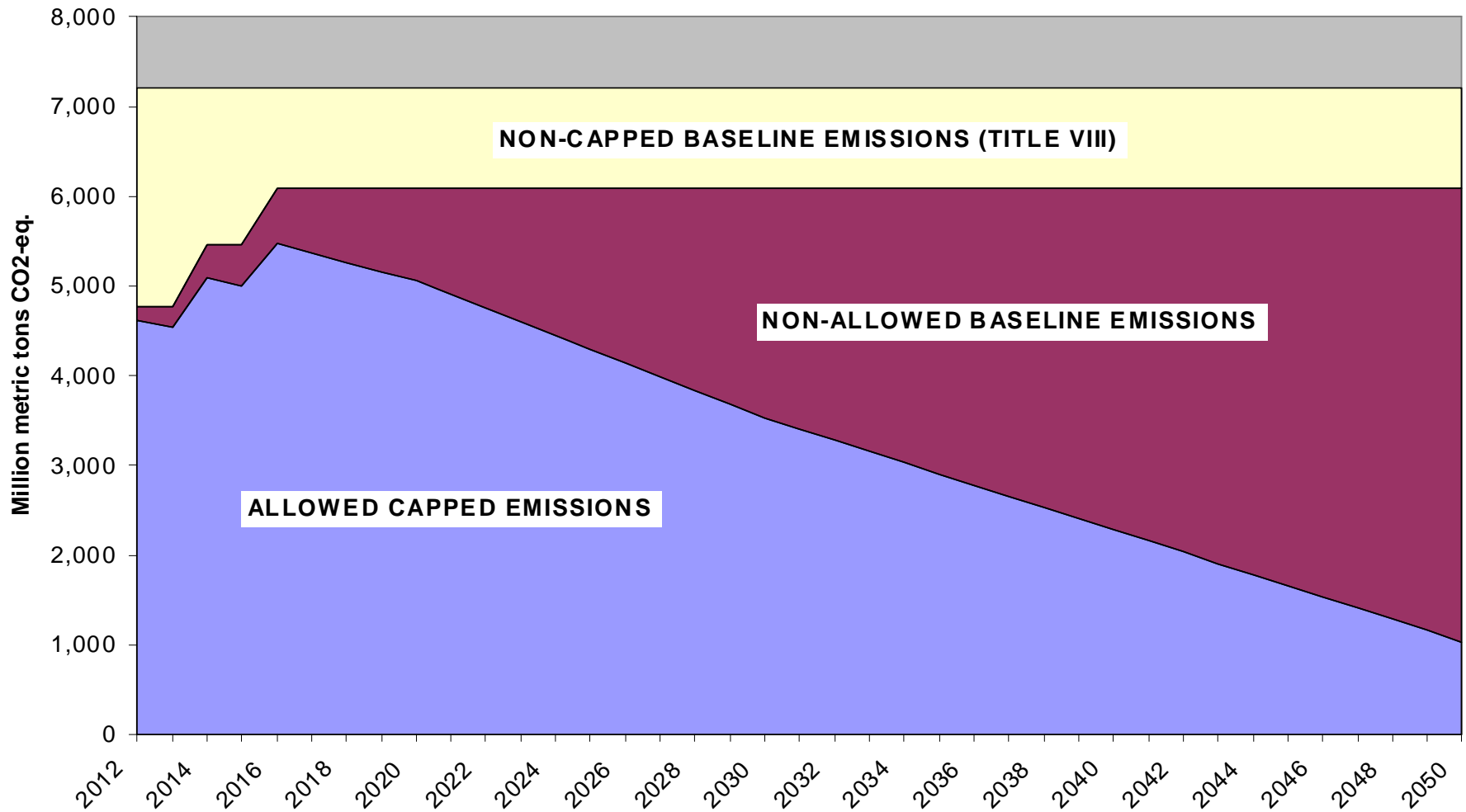
Curious Phenomenon

- Most design features agreed:
 - coverage,
 - level of cap
 - Cost containment & leakage provisions
- Main points of contention
 - Agricultural offsets
 - Pre-emption from CAC regulation
 - Allocation, especially regional splits
- How nuclear and oil/gas drilling are treated will likely feature in final compromise

W-M: Key Features

- Coverage: Kyoto GHGs + NF3
 - CO2 emissions from large stationary sources > 25000 t/yr
 - CO2 content for petroleum products and natural gas distribution
 - Producers of fluorinated gases (SF6, PFCs, by-product HFCs, & NF3)
 - Methane and Nitrous oxide as feasible
- The Cap and Total GHG Targets
 - 85% of 2005 baseline emissions are capped
 - 3% reduction by 2012, 17% by 2020, 42% by 2030, 83% by 2050
- Phase-in Schedule:
 - 2012: electricity, petroleum products, and fluorinated gases
 - 2014: industrial installations (including refinery emissions)
 - 2016: natural gas distribution companies

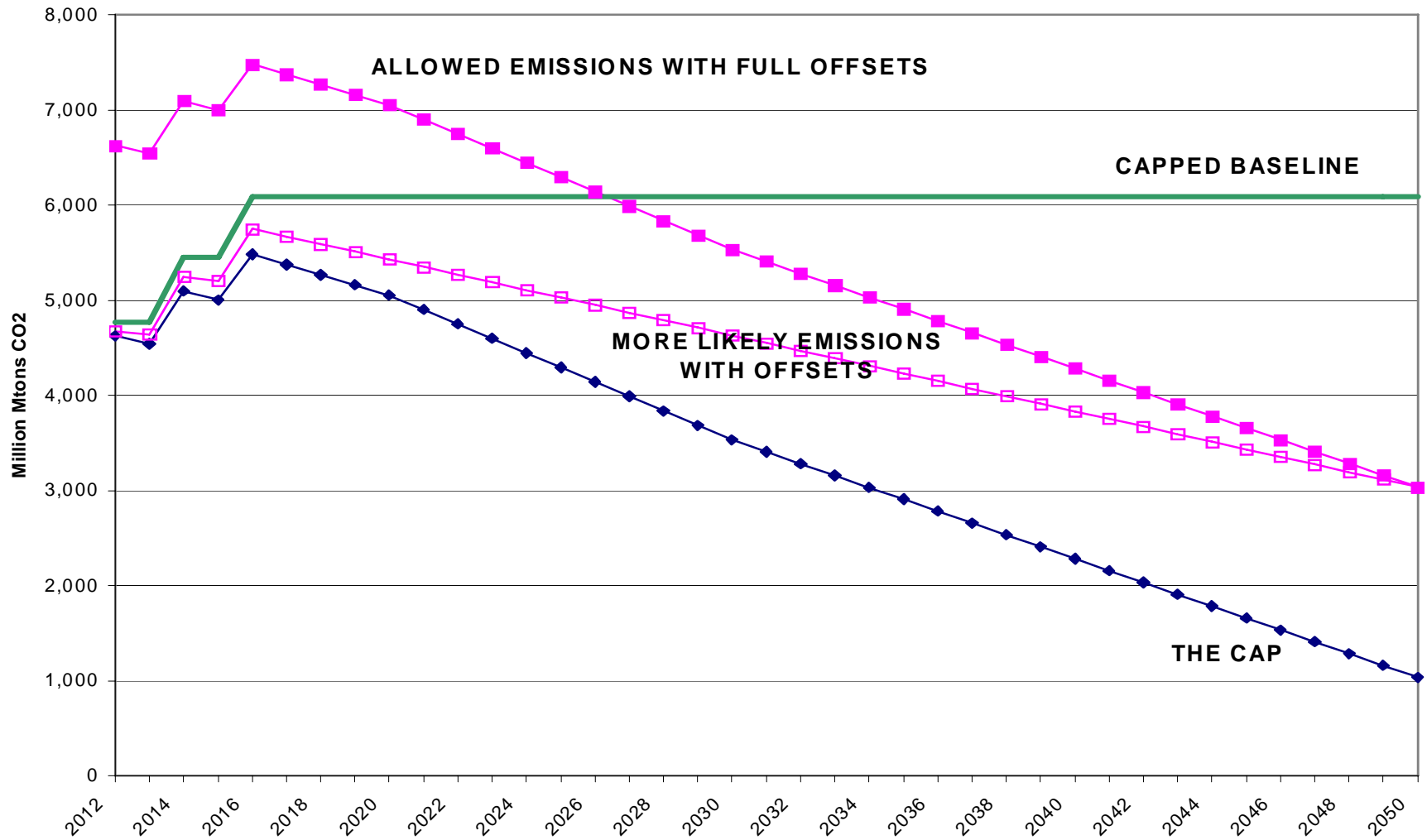
W-M: Coverage and Cap



W-M: Offset Provisions

- Up to 2.0 billion tons/annually
 - 50:50 domestic and international with 25:75 if insufficient domestic offsets
 - 1:1 basis for all through 2016; 5:4 for international after 2016
 - Installations % limit [2 b./((total cap + 2 b.)]
- Certified by EPA using CDM-type methodologies
 - Done by rule/regulation, can be petitioned
 - Usual conditions (verifiable, additional, permanent, etc.)
 - May be sector wide and may be delegated (ANSI or other)
- Unlikely to be many at start; aimed at 2050

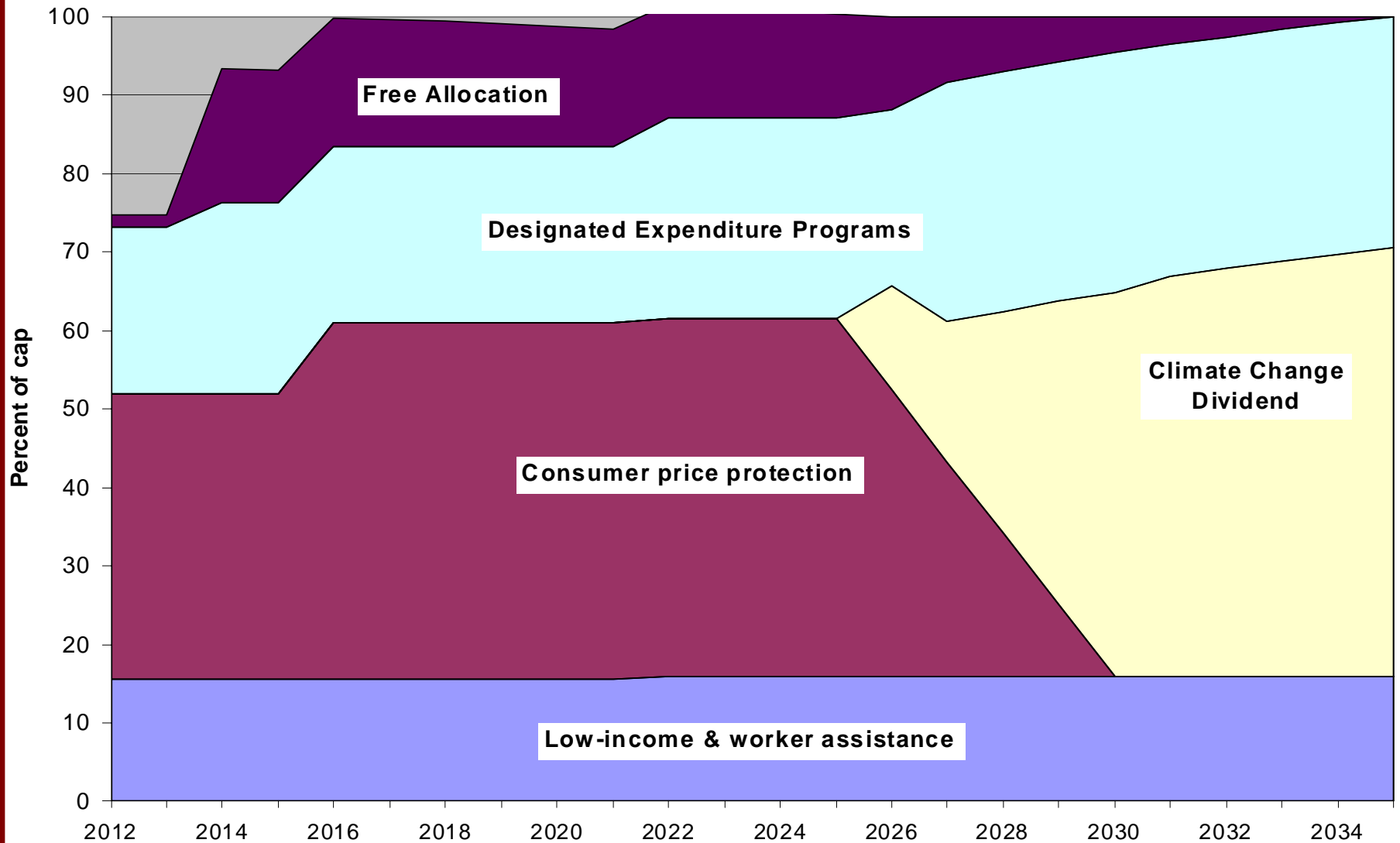
W-M: Practical Offsets



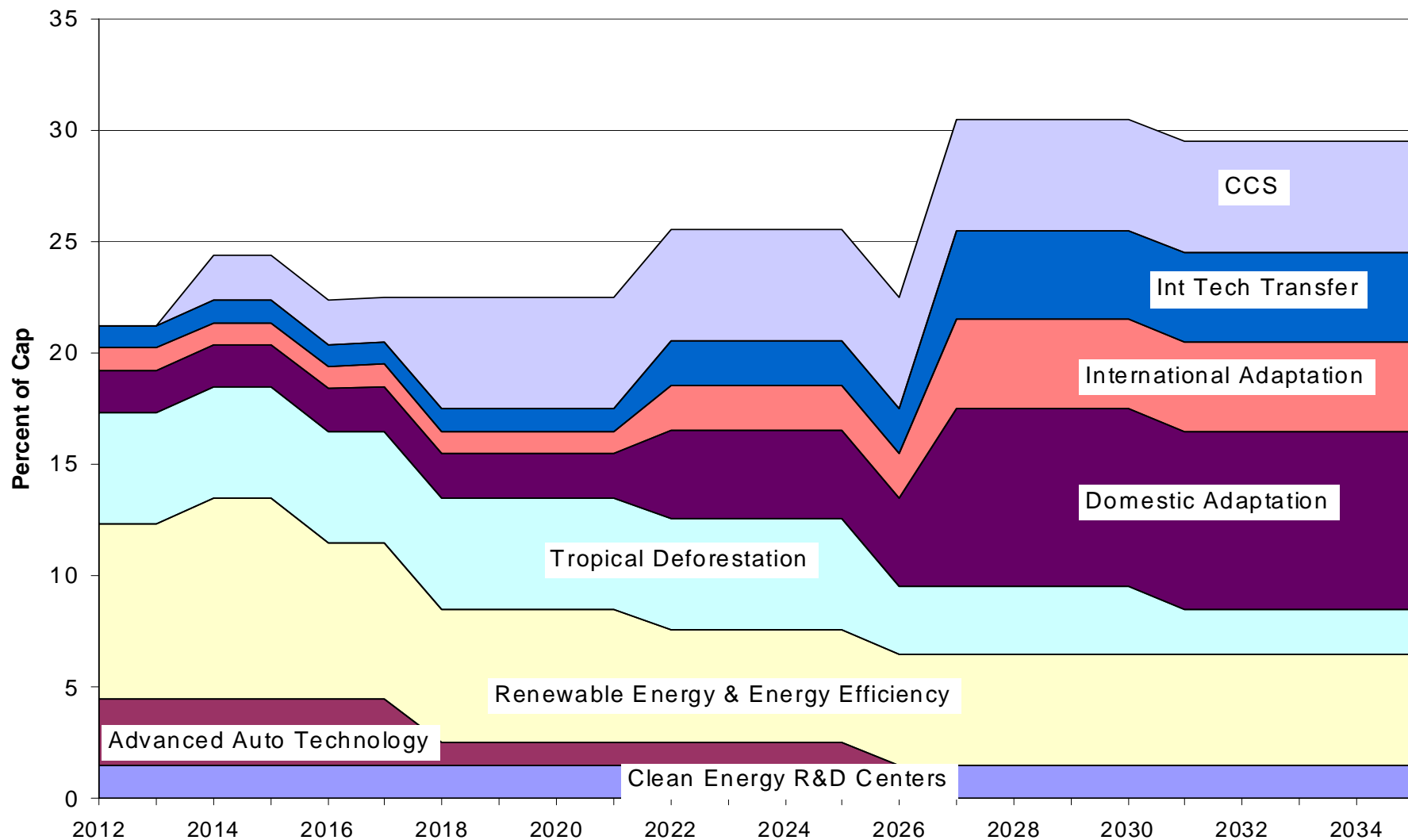
W-M: Main Allocation Features

- Auction/free allocation distinction has little meaning
 - Most required to surrender don't receive allowances
 - Most receiving allowance value aren't required to surrender
- From start 75% will be “auctioned,” rising to 100% by 2027
 - But not necessarily by the government
 - Nor for budget relief or tax reduction
 - Minimum reserve price of \$10 rising 5% annually plus inflation
- Approximately 50% to 70% returned to consumers
- New expenditure programs get 22%, rising to 29%
- Up to 27% direct, free allocation initially, then phased out

W-M Allocations by Broad Use



Specified Expenditures in W-M



W-M: Trade Impact Provisions

- US policy to work proactively to establish binding agreements committing all major-emitting countries to equitable contributions
- Direct, free allocation if sector is eligible
 - Eligible sectors based on GHG *and* trade intensity
 - Refiners excluded, but fixed 2% allocation from 2014-2026
- Rebate on a product output basis x GHG and electricity intensity
- Presidential determination on continuation in 2022 and every 4 years thereafter
 - Phased out over 10 years if 70% of global, sector output meets conditions of low emissions or similar cost burden

W-M: Cost Containment

- Unlimited banking
- Two types of borrowing
 - Unlimited year-ahead borrowing w/o interest
 - Up to 15% of emissions from 2-5 years ahead at 8% annual interest payable in allowances
- Strategic Reserve Auctions
 - Borrowed from far-forward allocations; replenished with deforestation credits
 - Activated if price more than twice rolling 3-yr average price
 - Max supply is 5% of 2012-16 cap, 10% thereafter
 - Available only to covered facilities for only 10% of emissions
- International allowances may be recognized and used w/o limit

W-M: Other Provisions

- Extensive CCS provisions
 - Allowance awards
 - Carbon Storage Corp w/\$1 billion annually for large-scale demos
 - Extensive measures to fix regulatory/legal problems
- “Narrow” pre-emption of state cap-and-trade
- New source performance standard for new coal plants starting in 2020 (2025 for 2009-19 plants)
- Capped sources excluded from all other provisions of Clean Air Act as concerns GHGs

Learning from the EU ETS

- The quiet example: Economy not “wrecked”
 - Much interest in EU ETS, but not avowed
- An important innovation: Borrowing is OK
 - EU ETS experience reassured enviros
 - Became substitute for the “safety valve”
- Some problems avoided
 - Long horizons from the beginning
 - Upstream accountability for small sources

Is a US System an Illusion?

- Presidential authority is not enough
 - Exhibit A: Pres. Clinton and Kyoto
- Meaningful action depends on Congress
 - Learning that Pres. Bush was not the problem
 - Reconciling regional differences: the “Coasts” vs. the “Heartland” (the source of Democratic division)
 - New partisanship on environmental issues
- Presidential priorities (healthcare & recession)
- The allure of the command-and-control alternative

Any Basis for Hope?

- Debate is seriously engaged
- Political realism is emerging
 - Coupling with nuclear and oil/gas exploration
- 2010 is possible, but if not, future Congresses
 - Major legislation often requires consideration by several Congresses (10 years for Acid Rain)
 - Don't count on US system by 2012
- May also require a Republican president
 - The “Nixon-to-China” phenomenon
 - Assuming partisan split can be overcome

The Vision Is Global Trading

- Consider the alternatives
 - A global carbon tax? Differentiation?
 - Policies & measures? Comparability?
- The advantages of a trading regime
 - Operates through existing trade channels
 - Can differentiate without detracting from efficiency (viz.: the post-2012 EU ETS)
- This vision will appear an illusion before it becomes a reality

The Next Step

- EU ETS has cast the die for a global trading regime
- But no global regime without the US
- Once a US system is adopted, the next step—a transatlantic market—will require linkage with the EU ETS
 - Re-unification of global climate diplomacy after COP-6
 - Linkage will not be easy, but strong pressure (and logic) to do so
- Lessons from the EU-EFTA/Norway negotiation
 - Both will likely have to modify design features
 - In EU-US context: Integrity of permits not harmonization

Wrap Up

- Serious US debate is engaged
- As in all real politics, outcomes are not certain and always take more time than expected
- Example of EU ETS is very important for others (such as US) and for global regime
- Reminder for the EU: Leadership can be lonely