A Simple Plan

BRINGING CARBON CAP-AND-TRADE BACK ON TO THE POLITICAL AGENDA IN THE US WILL NOT BE EASY. **BRUCE BRAINE** OUTLINES ONE APPROACH THAT COULD BE TAKEN

Cap-and-trade proved to be a cost-effective, market-based approach that reduced sulphur dioxide (SO_2) emissions in the US in the last two decades. When adopted in 1990, it had full support of then President George HW Bush, a Republican, and bipartisan Congressional backing. But today the same mechanism has been vilified as part of a plan to address greenhouse gas (GHG) emissions. It has been branded during current political campaigns as "cap and tax" or as a "national energy tax."

What happened to splinter bipartisan support for a successful emissions reduction programme? And can cap-and-trade be salvaged for inclusion in future schemes to address GHG emissions?

The "what happened?" is simple: Through efforts of many in Congress, the cap-and-trade system was structured to not only achieve emission reductions cost-effectively, but also to produce revenues for government.

Cap-and-trade bills created allowances, many of which were to be auctioned to bring additional funds for government. These funds would be used for deficit reduction or, in some cases, for activities unrelated to climate.

Unlike SO_2, where system costs addressed environmental concerns, the efforts to use climate cap-and-trade to fill government coffers made it easy to attach a tax label.

Consumers would see increased energy costs, in part to fund GHG reductions, but also to fund other programmes. This led to lengthy proposals – both the Senate and House of Representative bills were 1,000+ pages long – that created the perception that the legislation was "tax-and-spend" politics rather than a serious energy/environmental bill.

The allowance provisions in cap-and-trade also became linked to the Wall Street banking meltdown. Opponents equated allowances to a new "derivative" that would enrich Wall Street at the expense of Main Street.

Cap-and-trade is an important option that provides financial flexibility for compliance and should be the centrepiece of any GHG reduction plan. But salvaging it in the US will be difficult and a lengthy process.

Bruce Braine, AEP: An emissions credit system may be preferable to an allowance scheme

First, any renewed effort to include market-based mechanisms in future legislation must strip away all revenue-producing elements that have burdened GHG emissions trading proposals, leaving a simple, basic plan.

Second, it may be preferable to design an emissions reduction credit system rather than an allowance system. In this process, only facilities that reduce carbon dioxide (CO_2) beyond what is required would create emissions credits that could then be sold to others to offset emissions.

For instance, if a facility faced a requirement to reduce CO_2 emissions by 50 tons, but managed a 70-ton reduction, that facility would create 20 emissions credits that would have value on the market. Other facilities facing similar reduction requirements could comply either by making physical reductions or by offsetting reductions by buying these credits.

This approach creates cost-effective options for compliance, while producing revenue to offset compliance costs for those creating credits. Similar to allowances, credits could be earned for emission offset activities outside the cap, such as tree planting and methane destruction.

This system retains all the benefits of a cap-and-trade programme, but eliminates the allowance system's biggest pitfall – the temptation for lawmakers to auction allowances – that is to say, tax consumers – for other governmental purposes. It ensures that consumer costs are directly tied to the costs of emissions reductions and not to filling government coffers.

An emissions reduction credit system would not be as simple as I've described. Details would have to be fleshed out so the scheme would work effectively and equitably across industry sectors.

The challenge for developers of this or any other related concept will be to keep the focus on emissions and on energy. It must not be hijacked for federal budget purposes. We've been down that road before. It's a dead end. ●

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