

Mitigating Costs in a U.S. GHG
Trading Program:
Carbon Market Efficiency Board

Resources For the Future

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CMEB Activities

- Information gathering
- Quarterly information reporting
- Cost relief activities
 - Loosen borrowing restrictions for covered facilities
 - Allow increased amounts of foreign credits and offsets
 - Borrow against future aggregate allocations for current permit allocations

Information Role Valuable



Source: European Climate Exchange.
Dec '07 contracts

Can the CMEB Push Emissions Forward in Time?

- CMEB is constrained to a fixed stock of allowances over the control period
- Any allowances used earlier can't be used later
- Will firms want to use allowances early?
- Evidence from modeling suggests CMEB may have limited power to reduce carbon price through market intervention

Some Modeling Results

- Appendix D: Analysis of the Cap and Trade Features of the Lieberman-Warner Climate Security Act (S. 2191)

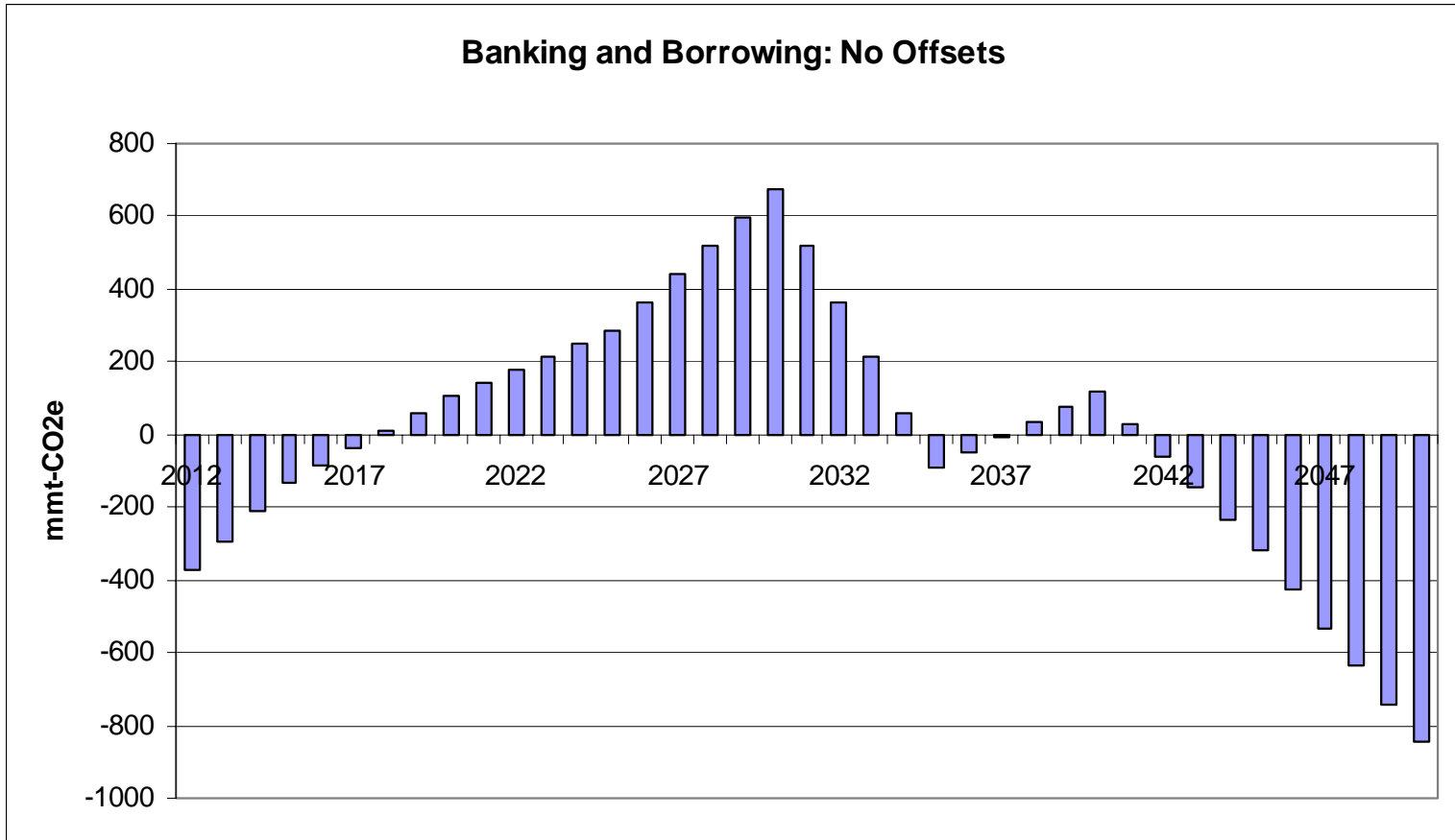
<http://web.mit.edu/globalchange/www/abstracts.html#a146>

- No consideration of international permit use
 - Whether foreign permits are used in U.S. depends on relative prices of foreign and domestic permits
- Other assumptions as in JP 146
 - Increased emissions stringency in developing countries in 2035.

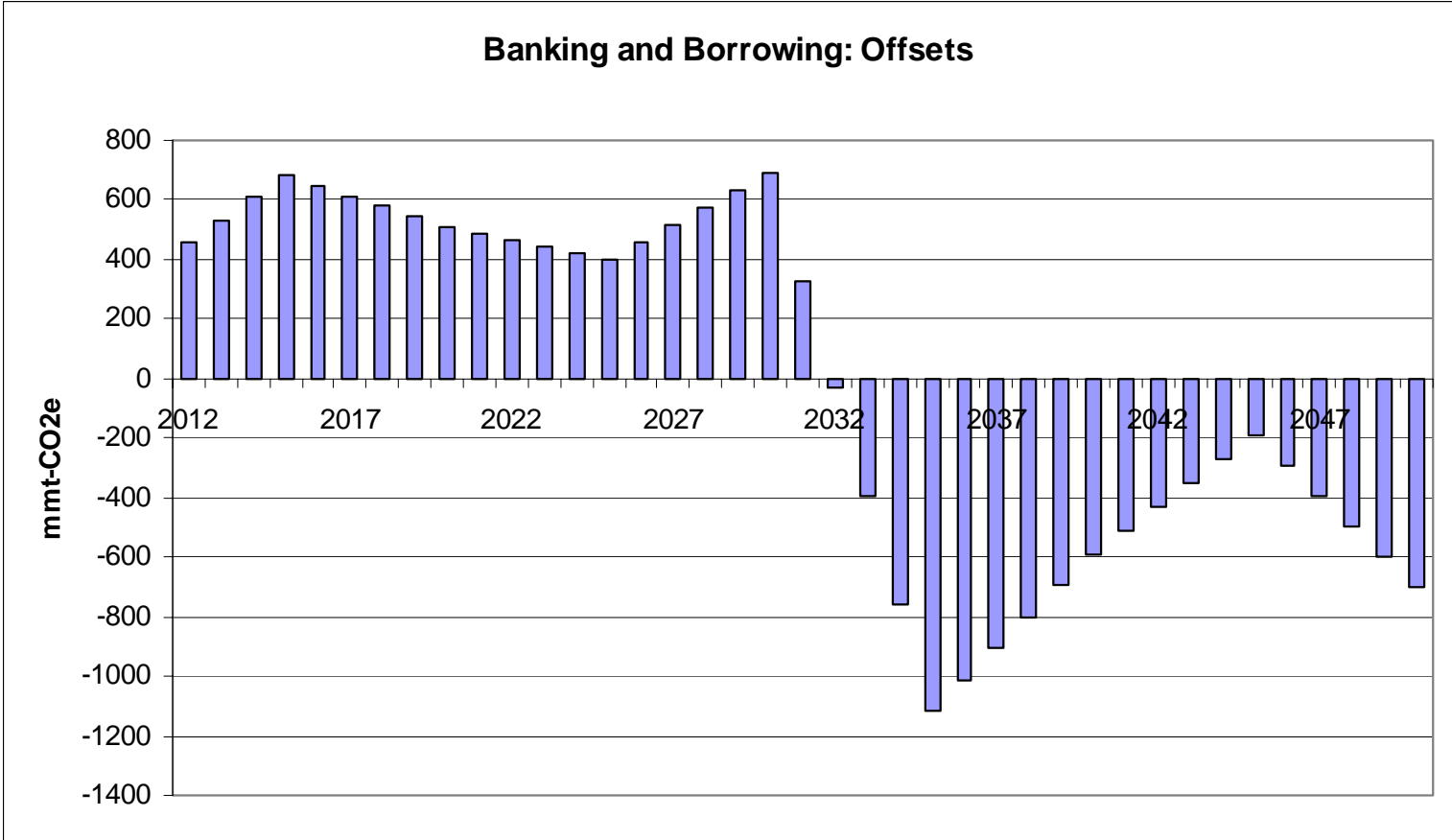
Permit Prices



Banking: No Offsets



Banking: Offsets



Other Challenges

- Allowing firms to borrow against future allocations raises credit-worthiness issues
- How will the CMEB handle default risk?
- Who bears default risk?
 - Society: higher aggregate emissions
 - Other covered facilities: cuts in future allowances
- Credibility and transparency will be very important for the CMEB to be effective and trusted