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

Phase I Prices

Euros per metric ton CO2

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

$ per ton CO2e ($2005)

No Offsets

Offsets
Banking: No Offsets

Banking and Borrowing: No Offsets

mmt-CO2e

2012 2017 2022 2027 2032 2037 2042 2047
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