# U.S. Perspectives on Global Climate Change Policy Regimes

**Robert N. Stavins**
*Albert Pratt Professor of Business and Government*
*John F. Kennedy School of Government, Harvard University*
*Director, Harvard Environmental Economics Program*
*Director, Harvard Project on Climate Agreements*

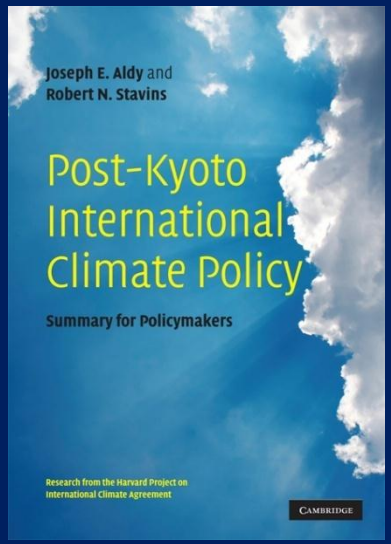
**The Global Development of Policy Regimes to Combat Climate Change**
*London School of Economics and Warwick University*
*London, United Kingdom, March 13, 2012*

# A View of the International Domain: Placing Climate Negotiations in Perspective

- Cliché about baseball season applies to international climate change policy: it's a marathon, not a sprint
  - Scientifically: stock, not flow environmental problem
  - Economically: cost-effective path is gradual global ramp-up in target severity (to avoid unnecessary capital-stock obsolescence)
  - Economically: technological change is key, hence long-term price signals
  - Administratively: creation of durable international institutions is essential
- International climate negotiations will be an ongoing process – much like trade talks – not a single task with a clear end-point
  - So, sensible goal for climate negotiations is progress on sound foundation for meaningful long-term action, not necessarily an immediate "solution"

# Searching for the Path Forward

- The Harvard Project on Climate Agreements
- Mission: To help identify key design elements of a scientifically sound, economically rational, and politically pragmatic international policy architecture for global climate change
- Drawing upon research & ideas from leading thinkers around the world from:
  - Academia (economics, political science, law, international relations)
  - Private industry
  - NGOs
  - Governments
- 48 research initiatives in Australia, China, Europe, India, Japan, and the United States



# Potential International Climate Policy Architectures

- **Centralized architectures**
  - Kyoto Protocol
  - Formulas for Assigning Targets
  - Portfolio of International Agreements

- **Harmonized national policies**
  - Harmonized National Carbon Taxes
  - Trading Regimes
  - Standards

- **Decentralized architectures and coordinated national policies**
  - Linkage of Regional, National, & Sub-National Cap-and-Trade Systems
  - Linkage of Heterogeneous National Policies
  - Portfolio of Commitments:  Pledge & Review

# Four lessons that have emerged

1. **Market-based approaches are probably essential**

2. **Getting (carbon) prices right is necessary, but *not* sufficient**

   - Because of *public-good nature of R&D*, private sector will under-invest
   - Possible need for *government-funding of private-sector R&D,* such as for CCS

3. **"Developing county" participation is essential**

   - *Impossible* to address climate change *without* meaningful participation by China & other key emerging economies (*even if* OECD emissions were *zero*)
   - *Central task* in international negotiations is developing means of bringing key emerging economies on board to fulfill the Durban Platform for Enhanced Action (e.g., growth targets) *– Important in **U.S.** bi-partisan political context back to Byrd-Hagel (1997)*

4. **Defacto *interim* (or post-2020) policy architecture *may* already be emerging**

   - Linkage of national and regional cap-and-trade *and other* systems through common ERC system (such as enhanced CDM)
   - May be simultaneous with Copenhagen-Cancun pledge & review system (***U.S.** support*)

**But is U.S. position on international cooperation credible w/o domestic U.S. action?**

# The U.S. National Context

- **Most U.S. economists & other policy analysts favor *carbon-pricing*. Why?**
  - No other feasible approach can provide truly meaningful emissions reductions (such as U.S. target of 80% cut in national $CO_2$ emissions by 2050)
  - It's the least costly approach in short term (heterogeneous abatement costs)
  - It's the least costly approach in the long term (incentive for carbon-friendly technological change)
  - So, it's a necessary (but not sufficient) component of sensible climate policy

# **The National Context** (continued)

- **But carbon-pricing is a hot-button political issue in the U.S.**
  - It makes the costs transparent (unlike conventional policy instruments, which *hide the costs*)
  - And so cap-and-trade is easily associated with the T-word; indeed, in Washington, cap-and-trade was *demonized* as "cap-and-tax"
  - *Antipathy by conservatives* to cap-and-trade was *ironic*, given experience
    - *President Reagan*: leaded gasoline phase-out with cap-and-trade
    - *President George H.W. Bush*: acid rain cut by half with cap-and-trade
    - *President George W. Bush*: Clean Air Interstate Rule (cap-and-trade)
  - Cap-and-trade was *collateral damage* in battle against climate action.
  - So, a meaningful carbon-pricing policy is *very unlikely* before 2013, if then.
- **Does that mean there will be no U.S. climate policy? *No.***

# Other Important Climate Policy Developments

- **Stimulus Package** – $80 billion committed for renewables and energy-efficiency (but delays and Federal budget have intervened)
- **Energy Policies** (variety of standards & subsidies, not targeted at $CO_2$)
  - National renewable electricity standard
  - Clean Energy Standard
- **Carbon Tax** – will fiscal realities eventually lead to look at Federal "consumption taxes?"
- **Technology Policies**
  - Carbon-pricing necessary, but not sufficient – information is a public good
  - Technology innovation subsidies – *politically palatable*

# Federal Regulations Already in Place or On the Way

- **Automobile and Appliance Energy Efficiency Standards**
- **U.S. Supreme Court decision, EPA endangerment finding, & CAA**
  - Mobile source standards
  - Stationary sources (January, 2011, with "tailoring rule")
- **Air pollution policies for correlated pollutants under CAA**
  - Rules in regulatory pipeline – $SO_x$, $NO_x$, Hg, PM, coal ash, & cooling water
  - Could have very important $CO_2$ impacts (w/o any $CO_2$ requirements)
    - Impacts on *investment* in new coal-fired power plants
    - Impacts on *retirement* of existing coal-fired power plants
    - Impacts on *utilization* (*dispatch)* of coal-fired power plants

# Other Legal Mechanisms in Place

- **Public Nuisance Litigation**
  - Lawsuits pursuing injunctive relief and/or damages
  - In flux – recent court decisions, and Supreme Court
- **Other Interventions**
  - Intended to block permits for new fossil energy investments
    - Power plants
    - Transmission lines
  - Largely NIMBY, but some may be strategic
- **Sub-National Policies: RGGI ↓ , AB-32 ↑**
- **Finally, not public policy, but Key Reality: Low Natural Gas Prices**
- **Bottom Line on U.S. Action: The Reality Surpasses the Rhetoric!**

# For More Information

Harvard Project on Climate Agreements
www.belfercenter.org/climate

Harvard Environmental Economics Program
www.hks.harvard.edu/m-rcbg/heep/

www.stavins.com