

Op-Ed: Handling Climate Change

OPINION EDITORIAL

Handling Climate Change

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Miami Herald

July 12, 2007

The climate change debate has shifted. No longer is the argument about whether or not the world is warming, and whether or not this is a problem. It clearly is. Now, the debate is about how to address it.

As Congress moves closer to enacting a "cap-and-trade" program aimed at limiting U.S. greenhouse gas emissions, a number of commentators are touting a carbon tax as a preferable policy. Their key arguments in support of such a tax: 1) it would be simpler; and 2) the European Union has tried the cap-and-trade approach, and it has failed.

Both arguments are wrong.

Under a cap-and-trade program, the government sets an overall emissions cap and issues tradable allowances that grant businesses the right to emit a set amount. Those who can reduce their emissions more cheaply are able to sell extra allowances to others who would otherwise have to pay more to comply. Because of this market-based approach, a cap-and-trade system helps assure that you can achieve your overall cap at the lowest possible cost. Cap-and-trade is the basis of the U.S. effort to control acid rain pollution, which has achieved greater reductions at lower costs than anyone anticipated.

Under a carbon tax, emitters are required to pay a tax for every ton of pollution they emit. Neither system is inherently more complex than the other. Both require monitoring and enforcement -- to determine taxable emissions and to guarantee payment in the case of a tax, or to ensure that allowances match overall emissions in the case of cap-and-trade. Both approaches also must address the question of how to distribute costs and benefits. For cap-and-trade, that means figuring out how to distribute and/or auction emission allowances; under a tax, it means figuring out who pays and what to do with the revenue.

Yes, under a cap-and-trade program, exemptions and special treatment are possible, and even likely. But the same goes for a tax. Only someone who has never filled out a tax form or helped write a tax bill could expect a tax to be simpler than cap-and-trade.

As for the cap-and-trade system in Europe, it is actually a major success. The system covers more than 10,000 sources and has spawned a robust emissions trading market with millions of transactions per month.

So why the bum rap for cap-and-trade in Europe? It is a classic case of no good deed going unpunished. Cap-and-trade is the EU's primary means of complying with the Kyoto Protocol, which requires emissions reductions between 2008 and 2012. Looking ahead to the five-year "compliance period," the EU wisely launched a "learning phase" for its emissions trading system. And, it has learned a lot.

For example, the European Union learned that its emissions data were flawed and

that companies could reap windfall profits by reducing emissions much more cheaply than had been expected. The EU thus is rapidly improving its emission data, and in 2008 it will allocate a smaller percentage of emission allowances.

To commentators appalled that the EU's system thus far hasn't achieved significant emissions reductions or caused industry much pain, the response is clear: they weren't trying to reduce emissions yet. They were just getting their system up and running.

Both a carbon tax and a cap-and-trade system would use economic incentives to drive emission reductions. Cap-and-trade, however, has some important advantages. It's more flexible for one, allowing you to link your system to other cap-and-trade systems around the world. In today's global economy, where companies operate in multiple countries at once, this kind of system has obvious advantages. Cap-and-trade also allows the "banking" of emission allowances - reducing emissions early and using the saved emission allowances for later.

But the key difference between a carbon tax and the cap-and-trade approach comes down to the issue of certainty. A tax provides for cost certainty; the cost is fixed because of the tax. Cap and trade, on the other hand, provides for environmental certainty. What's fixed is the cap itself -- and it is based on an assessment of the level of emissions you need to get to in order to protect the climate.

In response to a carbon tax, many emitters will reduce their emissions rather than pay the tax, but that result is not guaranteed. With Alaska and Greenland melting, and with droughts and other weather extremes on the rise, environmental certainty would seem to be the more compelling imperative.

Combine that with the fact that taxes are awfully hard to get through Congress, and the case for cap-and-trade is even stronger. Which just goes to show: We shouldn't let carbon-tax enthusiasts use false arguments to trash a politically feasible approach in favor of one with a snowball's chance in a warming world.

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