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Don't blame Romney

THE TIME is ripe for progressive policy action on global climate change. A scientific consensus points to the likelihood of future climate change due to emissions of greenhouse gases, such as carbon dioxide, released by power plants, motor vehicles, and other sources. Likewise, economic analysis increasingly points to the wisdom of policy action.

This week Montreal hosted international negotiations to build on the Kyoto Protocol, the international agreement on climate change that the United States has declined to ratify. In this domestic policy vacuum, the states have taken the lead. Most prominent, the Regional Greenhouse Gas Initiative, a pact among nine Northeast states, would cut CO₂ emissions 10 percent below current levels by 2020 through an emissions trading program among power plants. This is the same approach now used to reduce acid rain by 50 percent (under a national sulfur dioxide emissions trading program), at a savings of \$1 billion per year, compared with a conventional approach. So far so good.

But there are legitimate concerns with the program, including uncertainty about its cost. The companies that would have to implement the emission cuts are worried that the costs might turn out to be very high. We should all be worried about that because many of those costs would be passed on to consumers. Fortunately, this is a case where we can have our cake and eat it, too.

Massachusetts Governor Mitt Romney should be commended — not condemned — for putting the brakes on the initiative long enough for the states to consider an innovative and important improvement to the program: a safety-valve mechanism that will greatly reduce the program's cost uncertainty, while still delivering the environmental goods.

The governor's proposed safety-valve would address this key concern through a simple mechanism. After allocating emissions permits freely to power plants, the state governments would announce that they will sell — not give away — additional permits at a fixed price. That price instantly becomes a cap on compliance costs, and eliminates the cost uncertainty that otherwise plagues the program. It's as simple as that. Such mechanisms have long been studied and advocated by economists, including the Chairmen of the President's Council of Economic Advisers under both Presidents Clinton and Bush, and were recently endorsed by the National Commission on Energy Policy in its bipartisan recommendation for a national CO₂ program.

This mechanism is only triggered if

costs are unexpectedly high, whereby the safety-valve offers important economic protection, while still providing powerful incentives for emissions reductions. On the other hand, if environmental advocates are right, and compliance costs are low, the safety-valve will not be activated.

Remarkably, critics have claimed that the safety-valve would discourage technology innovation, but nothing could be further from the truth. By placing a price on emissions, the safety-valve — like the permit trading program itself — provides the ultimate incentive for companies to adopt innovative methods to reduce emissions.

A key issue is the actual "trigger price" of the permits to be offered for sale, that is, the level of the cap on costs. Clearly, this should be negotiated by the states. It should be set high enough so that it will be triggered only by unexpectedly high compliance costs, in other words, as an insurance policy. It should rise gradually over time, in order to move along a sensible path to more ambitious emissions reductions.

Some critics have lamented that a safety-valve would "blow the emissions cap." But the program can be structured so that additional permits bought through the safety valve are treated as borrowed from the future permit pool, to be repaid in subsequent periods. In reality, the plan would only shift emissions over time in the same way ordinary trading shifts emissions among locations. Similarly, the Romney plan has been criticized for allowing companies to "buy the right to pollute." Do environmentalists really prefer that companies be given that right for free?

Finally, some have complained that the negotiations have been going on for two years, and it is too late for the Romney administration to introduce new ideas. But climate change is a long-term problem the environmental consequences are linked not with emissions this year or decade, but with the stock of emissions accumulated in the atmosphere over the past century. With a serious, long-term problem such as this, it is shortsighted and ultimately irresponsible to rush forward with a flawed approach, rather than do the work to get it right.

The governor's safety-valve plan for the initiative is good news for the environment and the economy. Environmentalists and business leaders alike should get behind him on this progressive policy.

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He wants a better plan.