State and Local Climate Policy under a National Emissions Floor

Dallas Burtraw
Resources for the Future
Burtraw@RFF.org

Climate Change Policy: Insights from the U.S. and Europe
Paris, 23-24 March 2009
Sponsored by the French-American Foundation and the France-Stanford Center for Interdisciplinary Studies
Presentation Roadmap

1. Floor and trade
2. Strengths of local and state governments (might be under utilized under a federal cap)
3. Examples of sub-national GHG action
4. Fixes to national cap and trade to engage local action
The Logic: Emissions Cap = Emissions Floor

Main Advantage of Federal Cap
- Single price, national market

Consequence
- Effective Preemption:
  - State reductions do not lower aggregate emissions
  - “(Under a national cap…) A more stringent California cap…would result in higher costs for zero environmental benefit.”
    - Joe Nation and Roger Noll, 2009

Dilemma
- Price signal may not invoke efficient local innovation
State and Local Government Retain Motivations, even under An Emissions Floor

- Plan for economic development in changing economy
- Plan for quality of life & better communities
- Push technology toward lower cost along learning curve, perhaps eventually lowering the cap

=> Nonetheless, a federal cap may erode the ability and the incentive for local action.
What State and Local Governments Do*

*That the federal government CANNOT

Land use

Facility and transmission siting

Zoning

Transportation networks

Street alignment for southern exposure

Building codes

Building footprints

Eave design to maximize solar gain

Covenants about clotheslines

+ Landscaping to buffer against exposure

= Infrastructure that determines GHG emissions for years to come
The Problematic
“Laboratory of the States”

Laboratory Criticisms

- Local experiments follow local interests
- States may not evaluate outcomes; these are copied in follow-the-leader adoption
- Entitlements tend to be sticky.

Laboratory in Practice

- Some regional programs address their subsidiary role (e.g. RGGI MOU)
- History indicates that federal policy & preemption is a two-edged sword.
Map of State Activities

Pledges by 900+ city mayors

Many state climate action plans

Three regional initiatives to launch cap and trade in U.S.

- Western Climate Initiative (7 states plus 4 Canadian provinces)
- Midwest Greenhouse Reduction Accord (6 states plus Manitoba)
- Regional Greenhouse Gas Initiative (10 northeast states)
  - Implemented January 2009
  - 10% reductions in electricity GHGs
  - 85 percent auction; many revenues to program goals
The Special Case of California

- **Economy-wide State law**
  - 1990 GHG levels by 2020

- **Vehicle emission standard**
  - 30% emissions reduction by 2016

- **Energy efficiency, appliance standards**
  - Up to 40% departure from trend in MWh per capita over three decades

- **GHG performance standard in electricity**
  - SB 1368 governs emission rates from long-term contracts

- **Low Carbon Fuel Standard in transportation**
  - 10% reduction in carbon content by 2020

- **Land use and transportation plans**
  - SB 375: CARB will set emission reductions goals, deliver incentives
Evidence of Incremental Progress for CO₂: The Slow, Stop Regime in California
The Troubled Path from Federal Policy to Local Innovation

- Federal Policy
- Federal Emissions Cap
- Regulation
  - Many layers of agency
- Local Planning Officials
- Price Signal
- Developers & Consumers
  - Price Signal
  - Regulation

- Might take too long along this path
- Evidence it’s muted along the way
Remedies to ignite local innovation

1. Preserve the *ability* to “meet or exceed” federal target
   - Allow states to impose *surcharge*
   - Allow states to retire allowances they might receive in allocation
   - Allow for carve outs (states implementing independent policy frameworks)
2. Provide *incentive* to “meet or exceed” federal target

- Apportion allowance value to states
- **Measure Actions?**
  - Specific policies, detailed criteria
- **Measure Outcomes?**
  - Ex: State-level annual rate of progress (% reductions in emissions/capita or emissions/GDP)
    - Aligns better with market-based philosophy
Toward Global Climate-Federalism?

- Disadvantages of democratic systems exacerbated in a federalist system
- State and local governments can interfere with national markets
  - But they also can be tapped as source of innovation
- *Is federalism a microcosm for global governance?*

Thank you!