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AB 32 / Combating global warming

Addressing change will not be cheap or easy

By Robert Stavins

Today, the California Air Resources Board likely will approve its proposed Scoping Plan to reduce greenhouse gas emissions under Assembly Bill 32. While this marks a significant milestone in AB 32's implementation, a long road lies ahead.

Over the coming years, the CARB will make many decisions to identify the specific elements of regulations that its plan broadly outlines. The stakes associated with these decisions are enormous. They could alter the annual cost of implementing AB 32 by literally billions of dollars.

Because substantial economic risks will accompany AB 32's implementation, the board must decide on the kinds of safeguards it will adopt to protect against unanticipated costs. Finally, the cost of implementing AB 32 will be unevenly distributed across California, and the board will face important decisions about how it will mitigate impacts on the most vulnerable households and businesses.

Given the stakes associated with the CARB's implementation of AB 32, it is essential that the board base its decisions on the best possible analysis. In light of this, I was saddened by the economic analysis that the board's staff released along with its Proposed Scoping Plan. That analysis suggested that the plan's implementation would be costless, indeed that it would save Californians money.

Along with five other economists, I was asked to participate in a peer review of the staff's analysis. After a careful review, I came to the inescapable conclusion that the analysis was deficient in critical ways and should not be used for the purpose of assessing the Proposed Scoping Plan's likely cost.

The fundamental flaws plaguing the staff's analysis reflected acts of both commission and omission. For example, many choices that the staff made in conducting its analysis systematically led it to underestimate the cost of meeting AB 32's emissions target. At the same time, the analysis offered no assessment of the economic risks that AB 32's implementation poses as a result of substantial uncertainties about the cost of reducing emissions.

The methodology behind the staff's analysis would be disturbing to any economist, and the process employed should cause concern for all citizens. Despite the fact that AB 32 requires the CARB to identify regulations that achieve cost-effective emission reductions, the selection of measures to include in the Proposed Scoping Plan preceded the staff's analysis of those measures. Also, the board publicly released its staff's analysis before receiving feedback on that analysis from the peer review it had requested. The result was unfortunate but predictable. In the words of two of the other peer reviewers from the highly respected, nonpartisan Pew Center on Global Climate Change, the staff's analysis "gives the

appearance of justifying the chosen package of regulatory measures rather than evaluating it” and produces results that “contradict a wide body of economic modeling.”

Climate change is an important threat meriting serious attention by policy-makers in California and around the world. Indeed, I am writing from Poznan, Poland, where negotiations under the Framework Convention on Climate Change are being held to work on the design of a meaningful international climate agreement. But meaningfully addressing climate change will neither be easy nor cheap, as negotiators here in Poznan from around the world recognize.

The decisions that the California Air Resources Board will face in the coming years as it implements AB 32 will have a substantial effect on AB 32's ultimate economic impacts. By claiming that AB 32's implementation will be costless, the staff's economic analysis unfortunately obscures the real and substantial stakes associated with how the board chooses to implement AB 32.

Given that the debate about whether to implement AB 32 is over, the CARB should shift its attention away from defending its position that AB 32's implementation will save Californians money – a position based on flawed analysis and inconsistent with decades of economic analysis on this important challenge. Instead, it should focus on analyzing how it can design policies that minimize the cost of meeting AB 32's target, assessing the economic risks associated with implementing AB 32 and how best to reduce those risks, as well as evaluating the distributional and competitiveness impacts of AB 32's implementation and how best to mitigate those impacts. That would be a sound and constructive path forward.

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