

Cap-and-trade will only succeed if it is auctioned

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Economists understand that there is no such thing as a “free lunch.” Everything has a cost, and legislation to limit our nation’s global-warming pollution will be no different.

A growing number of elected officials, industries, utilities and interest groups all agree it is necessary to establish a federal cap-and-trade program to reduce carbon emissions. The most important policy decision in constructing such a cap-and-trade system will be how to distribute carbon-pollution credits in the most efficient and equitable manner.

Leading economists nationwide agree that the best policy solution to administer these credits is through auctions, not free handouts. Last month, the Southern Alliance for Clean Energy, based in Asheville, released a statement to Congress signed by more than 600 economists throughout the U.S. who endorse auctioning all of the pollution credits created in a cap-and-trade program. These economists argue that giving polluters free credits will only create huge windfall profits for shareholders while doing nothing to protect energy consumers.

As good as cash

Although some power companies would have us believe that free allowances will enable them to reduce pollution at low cost, while purchasing auctioned credits will force them to raise energy prices, recent experience in Europe’s carbon market suggests otherwise. Carbon credits are as good as cash, and credit-holders can sell them for a profit. If utilities receive these credits for free, they will still build that donation into their bottom line and pass the cost of those credits on to consumers.

When the United Kingdom gave away the vast majority of carbon credits to polluters under the European Union’s carbon-trading program, the result was higher costs for consumers and windfall profits for polluters. The EU Observer reported that the free allocations “led to price volatility in the carbon markets and record profits for utility companies.”

In 2008, the United Kingdom decided to reduce free credits and moved toward an auction-based system. The first auction, in December of 2008, netted \$81 million, which the government is using to offset the cost of capping carbon and transition to a clean energy system.

When the U.S. Senate debated climate-change legislation last summer, it nearly repeated the U.K.’s costly error. That Senate bill would have provided huge windfalls to the owners and shareholders of power and manufacturing plants by

allocating approximately 75 percent of the credits in the first year of the program and still more than 30 percent of the credits by the program's end.

These free allocations would have produced corporate welfare for the very industries that contribute most to global-warming pollution.

The truth is that any program to address climate change will affect carbon-based energy prices. However, by auctioning the credits, policymakers will be equipped with the resources they need to make investments in renewable energy and energy efficiency while protecting consumers from higher energy costs.

Pollution credits

Climate change is a serious problem, and it deserves a serious discussion, but those who say that free allowances to polluters will protect consumers are trying to mislead us. The only way to lead the world in solving climate change, while protecting consumers and strengthening America's economy, is to auction all pollution credits.

To view the Economist Statement on Cap-and-Trade Auctions, where 600 economists advocate for auctioning 100 percent of emission allowances in any carbon cap-and-trade program, visit:
www.cleanenergy.org/images/position_statements/SACE_EconStatement_FullList.pdf

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