



Brief Policy Option Descriptions of State Actions Cap-and-Trade (C&T) Technical Work Group (TWG)

C&T-1 MARKET MECHANISMS AND RELATED ITEMS

1.1 GHG Cap-and-Trade

A cap-and-trade system is a market mechanism by which GHG emissions are limited or capped at a specified level, and those participating in the system are required to hold permits for each unit of emissions. Through trading, participants with lower costs of compliance can choose to over-comply and sell their additional reductions to participants for whom compliance costs are higher. In this fashion, overall costs of compliance are lower than they would otherwise be.

Among the important considerations with respect to a cap-and-trade program are: the sources and sectors to which it would apply; the jurisdictions that would participate; the level and timing of the cap; how allowances would be distributed; how new market entrants are accommodated; how leakage is addressed, and what if any offsets would be allowed. Other issues to consider include which GHGs are covered; the point of regulation or which entities would be required to demonstrate compliance; whether there is linkage to other trading programs; banking and borrowing; early reduction credits; what if any incentive opportunities may be included; use of any revenue accrued from permit auctions; and provisions for encouraging energy efficiency.

The farthest developed example of a GHG cap-and-trade system in the U.S. today is the Northeast States' Regional Greenhouse Gas Initiative (RGGI): <http://www.rggi.org/>

1.2 Carbon (GHG) Fee or Tax

A GHG fee or tax would be assessed on each ton of CO₂ equivalent emitted from certain sources. The tax could be imposed upstream, based for example on the carbon content of fuels (e.g. fossil fuel suppliers), at the point of combustion and emission, or at some other point. Although most taxed entities would pass some or all of the cost on to consumers, there would be competitive pressure to find cost-effective ways to lower (or offset) emissions. Consumers who see the implicit cost of GHG emissions in products and services could adjust their behavior to lower emissions and reduce cost. The program can be designed to be "revenue neutral" (not a net tax increase) for example by offsetting with an income or other tax reduction, can fund policies and programs to assist with reducing GHG emissions, or can be directed to helping the competitiveness of industries or assisting communities affected by the tax.

1.3 Create a Market Advisory Group

The C&T TWG may want to recommend that a “Market Advisory Group” of experts be formed to provide guidance to the state on the design of market-based compliance programs to manage GHG emissions. Note that the State of California has formed a Market Advisory Committee (MAC) to help develop a GHG Cap-and-trade system in California. The California MAC has formulated a set of guiding principles and has developed an initial set of recommendations for a California Cap-and-Trade program.

1.4 Carbon Offset Credit Program

Enable a wide range of quality offsets to be generated in Florida. GHG reductions from a wide variety of sources and actors could be undertaken in order to participate in state, regional, national or international offset programs or markets.