

Shaping New York Cap and Invest: Linkage in the Wake of Overallocation

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Introduction

- As New York State designs their cap-and-trade initiative, policymakers plan to link these programs to create a larger shared market of emission credits.
- The dominant theory is that linkage should be pursued because it enhances the economic and environmental effects of cap-and-trade programs by lowering compliance costs.
- Because of these benefits, New York Cap and Invest (NYCI) administrators are now considering linkage with California and Quebec, who have already linked to form the Western Climate Initiative (WCI).
- However, previous linkage research and opinion has failed to consider California's chronic oversupply of emission credits.

Materials and Methods

1. Created an annotated bibliography of academic literature related to the linkage of cap-and-trade programs, with a focus on the successes and failures of linkage policy in previous and existing programs.
2. Quantified and compared the projected environmental effects of WCI and NYCI's individual cap-and-trade programs, first without linkage and second with linkage, by analyzing past emissions data and results from California's emission credit auctions, as well as WCI and NYCI's future emission-reduction targets.

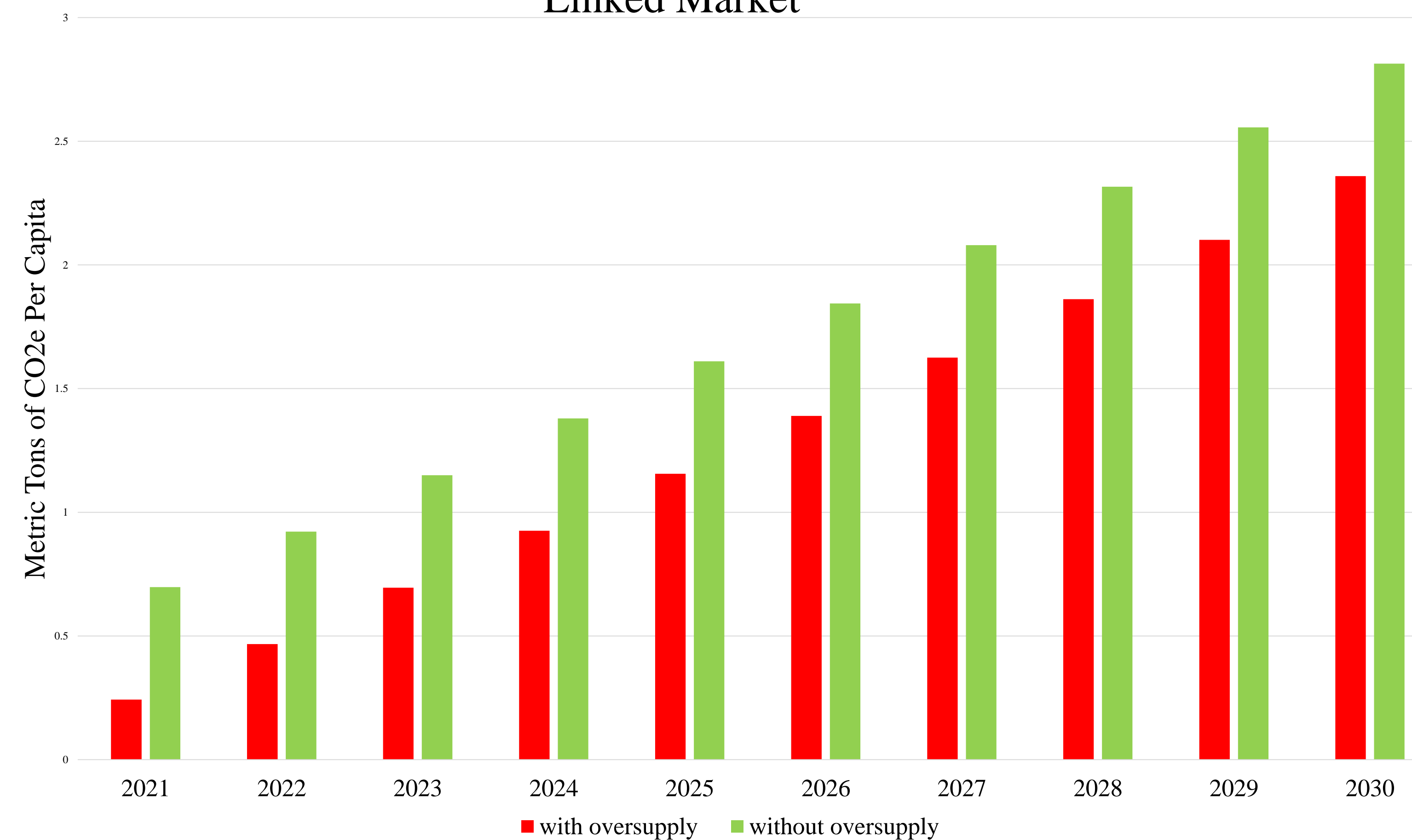
A note on the data: Projections are based on each jurisdiction's emission reduction goals and emission credit supply schedule. These projections are intended to get a sense of the proportion of the effect of linkage, but not to predict exact emissions.

For a more in-depth explanation, see my blog post:

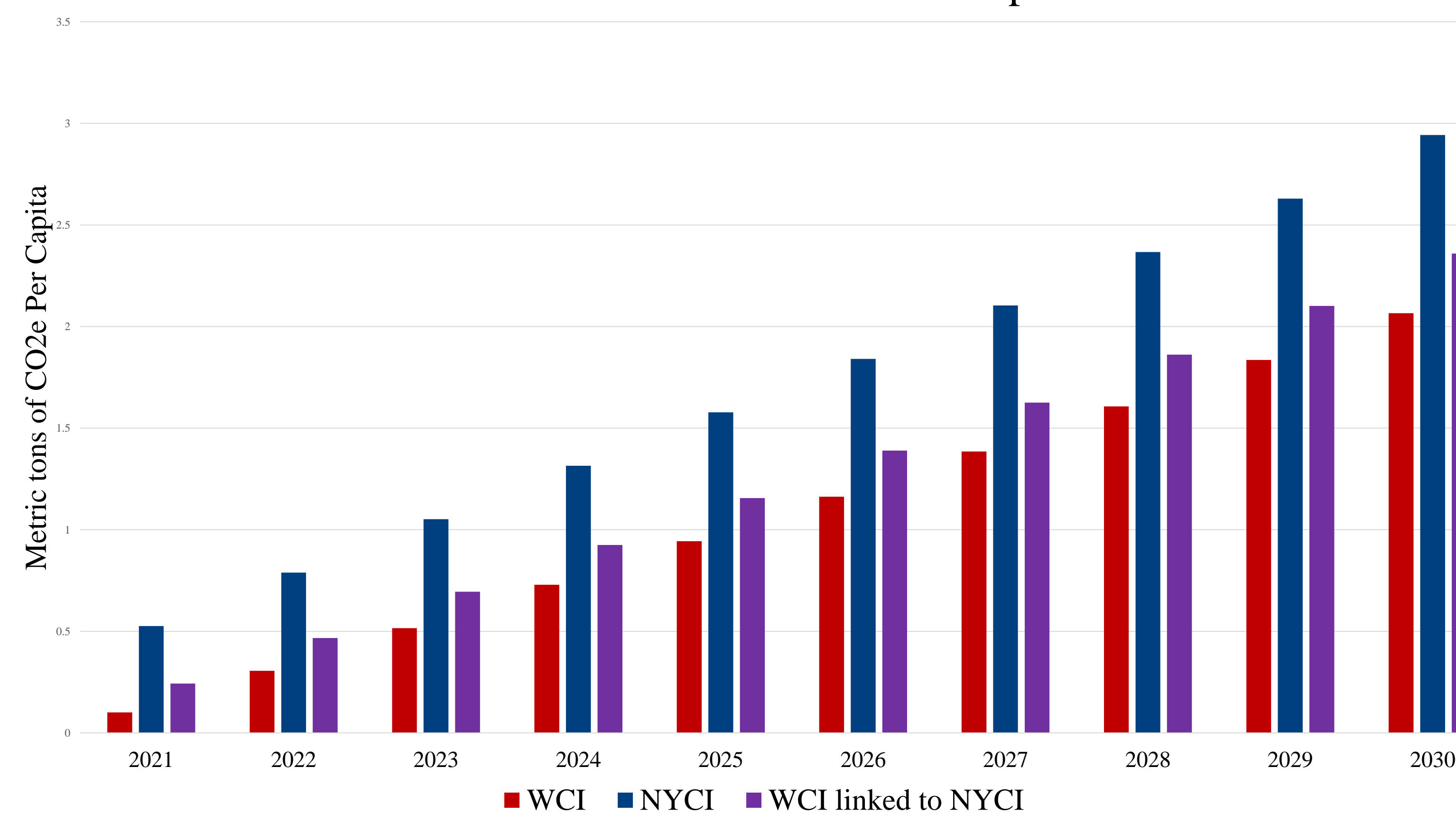
Kaste, Grace. "New York Cap and Invest Should Think Twice before Linking to the Western Climate Initiative." *Climate Law Blog*, Sabin Center for Climate Change Law, 28 Aug. 2023, blogs.law.columbia.edu/climatechange/2023/08/28/new-york-cap-and-invest-should-think-twice-before-linking-to-the-western-climate-initiative/.

Results

Emission Reductions Accomplished by WCI and NYCI in a Linked Market



Annual Emission Reductions Due to Cap and Trade



Conclusions & Policy Recommendation

An analysis of the collected data and the relevant academic literature suggests that New York should pursue linkage with WCI due to its economic benefits to both parties:

1. Linkage will lower the compliance costs for New York State residents and consumers.
2. Linkage will reduce price volatility in the emission credit market.
3. Linkage would increase long-term political confidence in the cap-and-trade system, which would further encourage emission reductions.

An analysis of emission data and emission reduction goals in New York State and in California shows:

1. If NYCI links with WCI, the resulting shared market will accomplish significantly higher emission reductions if WCI's oversupply is removed.
2. If oversupply in WCI continues, NYCI will achieve dramatically fewer emission reductions while linked to WCI as compared to NYCI unlinked.

Policy Recommendation:

New York State should make linkage with WCI contingent upon California eradicating its oversupply. This has the potential to restore the environmental effectiveness of California's cap-and-trade program while making NYCI more affordable for New York State residents.



Literature cited

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