



# Supply-Side crediting for accelerated decarbonization: A political economy perspective

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## Abstract

Climate policy ambition lags behind committed decarbonization targets, due in large measure to the unfavorable political economy of climate policies that require a reduction in emissions or increase their cost, such as phase-out mandates or carbon pricing. This paper describes a policy innovation, supply-side crediting, that can improve the political economy of climate action, catalyze innovation, and contribute to the objective of a just transition. By creating a revenue stream for the decommissioning of fossil fuel reserves, supply-side crediting alters the incentive structure and generates political buy-in from key stakeholders in the energy economy. Revenue from supply-side crediting can scale up climate finance and accelerate the commercialization of necessary low-carbon solutions, such as carbon dioxide removal technologies. Through various impact channels, supply-side crediting can help overcome resistance against climate policy ambition and address socioeconomic impacts of the energy transition. Over time, supply-side crediting can thus unlock a virtuous sequence that enables increased viability of demand-side carbon constraints such as carbon pricing.

**Keywords** Supply-side approaches; fossil fuels; offset credits; political economy

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