



Supply-Side Offset Crediting to Manage Climate Policy Spillover Effects

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Abstract

Two types of spillover effects influence progress towards decarbonization: greenhouse gas emissions leakage as well as low-carbon technology innovation and diffusion. Emissions leakage caused by uneven imposition of carbon constraints limits their climate benefits, undermines political support, and gives rise to equity concerns. Solutions to address emissions leakage, meanwhile, are incompatible with global decarbonization or face serious implementation challenges. Diffusion of low-carbon technology averts emissions leakage, but depends on scaled up investment in research, development and deployment to drive down technology cost. Supply-side offset crediting can address both spillover effects, reducing emissions leakage by increasing global fossil fuel prices, and generating revenue for investment in low-carbon technologies to accelerate their diffusion and further limit emissions leakage.

Keywords Climate change; spillover effects; emissions leakage; supply-side approaches; technology; offset credits

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