

Remarks by Eileen Claussen

Workshop on Assessing the Benefits of Avoided Climate Change

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As Prepared

I. Introduction

Welcome, thanks for joining us today, and, most important of all, thanks for the excellent papers a number of you have prepared. We are fortunate to have many respected scholars and practitioners, including several IPCC authors participating in this effort. I also want to thank the Energy Foundation for their support of this effort.

II. An Idea Whose Time has Come

Placing a value on the benefits of reducing carbon emissions is quickly moving from the pages of academic journals and IPCC reports to the front burner in regulatory decision-making. What brought about this change? How did regulating carbon go from being something regulators weren't allowed to even think about to something that some are now mandated to consider? This evolution began with the growing acceptance of the science linking climate change to adverse impacts on public health and welfare. Yes, uncertainties remain, and we can't attribute specific weather events to climate change, but a clear and convincing picture has emerged linking human activities to a changing climate and identifying potentially severe risks associated with continued GHG emissions.

Lawyers then inserted themselves into the picture and through the Courts, agencies have been ordered to begin considering the damage caused by greenhouse gases. The Supreme Court

decision in *Mass v EPA* set down a clear marker that action on climate change cannot simply be wished away. Finally, we now have an Administration and a Congress that are seriously grappling with how best to bring about the transformational changes we need in shifting to a low carbon economy. We are living in interesting times. Finally.

III. Role of Cost Benefit Analysis in Regulations

I stand before you today as an unrepentant [or reformed] regulator. Yes, in my past life I managed the writing of regulations – even some pretty good ones like the acid rain trading program and the phase-out of CFCs. A critical element in each of these rules -- and in all rules developed across the government -- is the use of cost benefit analysis. Rules live or die, expand or contract, sink or swim, depending on their cost benefit numbers.

While fraught with problems, cost benefit analysis will be used to evaluate climate rules in the new administration. Courts have already mandated NHTSA to look at the benefits from reducing carbon in setting CAFE standards. DOE will be under pressure to consider CO₂ reductions as a benefit in setting appliance efficiency standards. And EPA, if they begin directly regulating CO₂, CBA will also be a critical factor in any future decisions they make.

IV. The Bigger Picture for Domestic Policy

Congress also is hard at work promising new economy wide climate policy. Yet especially in these trying economic times, any effort to enact a reasonable carbon pricing policy in Congress will be met with opposition that it is too expensive. The only viable counter to this claim is that inaction is also very expensive, and the risks of severe outcomes are much greater if we don't act. Because of the potential damages, which are themselves growing increasingly

certain, inaction is reckless. Therefore, as complete an accounting of benefits as possible is critical to the passage of meaningful climate legislation from Congress.

V. Your Charge Today

So how should we go about incorporating the benefits of reducing ghg emissions in making climate policy? OMB is nearing the end of its 100 day review of what it will require for proposed new rules, so now is the time to bring forth our best ideas. As the experts, you must bring forward now your best insights for how we can make the best possible decisions given our current understanding of climate change and the economy. We will help you shape those insights into actionable recommendations.

VI. To Conclude

Let me end by giving you just a few thoughts to consider from my days as a regulator. First, I believe for better or worse that CBA will remain the bedrock for regulatory decisions. I realize there are big problems in applying this to climate change. For example,

1. We do not have 100% certainty about the timing and magnitude of most types of impacts;
2. Further, some potential impacts do not have market prices (can you tell me precise value of a frog or a polar bear?); and
3. Finally, because a changing climate has long-term implications we need to think about the time value of money – or as you economists call it, the discount rate.

How much emphasis should we apply to a climate damage (or benefit to taking action) that occurs 10, or 20 even 100 years in the future and that would continue to exist for 1,000 years even if emissions were eliminated. Should we say that the value of the environment is less for

our children's children? This is a normative issue and not one that has a "right answer". Nevertheless, cost-benefit analysis is the established framework and is not likely to be thrown out for climate. I believe that CBA will remain the primary analytical tool for making policy decisions. And while it may be difficult to quantify and monetize these benefits - it is important to try or at least give special consideration to these issues- or else their value in the decision making process will be zero.

Now I know, and you know, that that is ridiculous. So my second point is that we need to ensure that this is not the default position by making specific recommendations how best to value these problematic, but important impacts.

Third, don't allow the perfect to be the enemy of the good. The need for a better quantification of benefits from greenhouse gas reductions is now urgent. It is time to work with the regulators to best apply your knowledge and insights to help craft the best possible tools for use in rulemaking. Are there ways to generalize about risks? What we are willing to spend to buy insurance or to hedge against extreme losses? We cannot do detailed studies about the costs of each impact at each location, so how can we best come up with a defensible number that reflects the risks we know exist?

Looking forward to seeing what you produce during the next day and half and in seeing how this issue gets resolved in the coming weeks and beyond.