

Cap and Trade Summary

The global warming scare has politicians around the world looking for a method to reduce greenhouse gases (GHG), primarily carbon dioxide created by the burning of fossil fuels. In Washington, some believe that the creation of a cap-and-trade system will efficiently reduce GHG emissions. The concept sets limits (cap) on emissions and allows people to buy, sell, borrow or trade the made-up credits. In theory, it reduces GHG emissions while raising funds from polluter to pay for funding of research and development for clean energy. It sounds too good to be true, because it is.

As the Senate and House debate these issues, please keep in mind these points:

1. **Increased costs to consumers and energy producers will be unavoidable.** The Environmental Protection Agency predicts gross domestic production reduction of \$1 trillion to \$2.9 trillion by 2050.
2. **There will be increased volatility in energy prices.** Energy demand is inelastic, so that even small changes in demand relative to supply can result in sharp price movement.
3. **H.R. 2454 discriminates against natural gas.**
4. **U.S. refineries will be at a competitive disadvantage with foreign refiners.**
5. **The U.S. will need to import more foreign oil.**
6. **Raising the price of energy during a recession will damage U.S. economy further.**
7. **The goal to reduce GHG 80% by 2050 is impossible.** Carbon emissions have not been that since 1910 when the U.S. population was 92 million.
8. **Food prices will rise.** More farmers will plant corn to meet ethanol demand, replacing wheat and soybeans.
9. **It is imperative that the top 15 carbon-producing countries participate.** Allowing competing countries to operate in an economy without cap and trade restrictions will give them a competitive advantage.
10. **Protection against fraud and cheating will be expensive.** Just as the Commodities Futures Trading Commission and others must oversee trading on the futures markets, some agency will have to be responsible for overseeing the trading of emission allowances.
11. **Claims of increase in jobs misplaced.**
12. **Big Government gets bigger.** Many new organizations would be created to protect against fraud and cheating.
13. **Big business gains another advantage over small business.**
14. **No free market.** Markets set by government through allocation of emission allowances.
15. **Economic pain without environmental gain.** When the President and Congress mandated huge increases in ethanol usage, they failed to realize the full impact on grain prices and food supplies. Cap-and-trade programs will have enormous impact throughout the economies of the world.

80%-by-2050 Goal Impossible to Achieve

Steven Hayward, fellow at the American Enterprise Institute, quoted Department of Energy (DOE) figures that show the U.S. emitted 5.8 billion metric tons of carbon dioxide or just under 20 tons per capita. An 80% reduction from 1990 levels means that the U.S. cannot emit more than about one billion metric tons of carbon dioxide in 2050. Carbon emissions have not been that low since 1910 when the population was 92 million people and the per capita income was about \$6,000 (in current dollars). By 2050, U.S. Census Bureau projects 420 million people, which means that per capita emissions will have to fall to about 2.5 tons to meet the 80%-reduction goal. “It is likely the U.S. per capita emissions were never that low – even back in colonial days when the only fuel burned was wood,” Hayward wrote.

By dissecting the American economy into residential, commercial, industrial, and transportation sectors, it becomes obvious how ridiculous these goals are to achieve. Residential: Currently, American households emit 1.2 billion tons of carbon dioxide, which is 20% higher than the entire nation’s 80% reduction target by 2050! “If households are to emit no more than their present share of carbon dioxide, emissions will have to be reduced to 204 million tons by 2050. But in 2050 there will be another 40 million residential households in the U.S. Today, the average residence in the U.S. uses about 10,500 kilowatt hours of electricity and emits 11.4 tons of carbon dioxide per year (much more if you are Al Gore or John Edwards and live in a mansion). To stay within the magic number, average household emissions will have to fall to no more than 1.5 tons per year. In our current electricity infrastructure, this would mean using no more than 2,500 kilowatt hours per year. This is not enough juice to run the average hot water heater.” (emphasis added) Transportation: With consumption of motor fuel at 180 billion gallons, consumption must be reduced to 31 billion gallons unless a genuine carbon-neutral liquid fuel can be produced. Ethanol isn’t it. “To show how unrealistic this is, if the entire nation drove nothing but Toyota Priuses in 2050, we’d still overshoot the transportation emissions target by 40%,” according to Hayward’s study. He noted that the commercial and industrial sectors would have to replace the entire fossil fuel electricity infrastructure with an energy source that does not emit carbon dioxide – a multi-trillion dollar proposition, if it can be done at all.

Increase Costs to Consumers and Energy Producers

Because fossil fuels provide about 85% of the energy used in the U.S. economy, any program that constrains carbon dioxide emissions will effectively constrain U.S. energy use and result in higher prices and less economic output.

The National Association of Manufacturers and the American Council for Capital Formation conducted a study of S. 2191, the cap and trade bill offered by Lieberman and Warner. The study predicts that the gross domestic product would drop by \$151 billion to \$210 billion each year by 2020 and \$631 billion to \$699 billion per year by 2030. The reduction in disposable household income would be \$739 to \$2,927 per year in 2020 and \$4,022 to \$6,752 per year by 2030.

The Environmental Protection Agency predicts gross domestic production reduction of \$238 billion to \$983 billion in 2030 and \$1 trillion to \$2.9 trillion in 2050.

Gasoline costs would rise 60% to 144% by 2030 (NAM-ACCF study) and \$0.53 per gallon (EPA).

Market Volatility for Crude Oil and Natural Gas Increases

Most macroeconomic models estimate the effects of constraints on fossil energy use on aggregate output, stated a study by Michael E. Canes of the George C. Marshall Institute. “However, economists warn that the volatility of fossil energy prices associated with a cap on their use may generate additional large costs. Energy demand is inelastic, so that even small changes in demand relative to supply can result in sharp price movement. Volatility associated with permits would cause large relative price swings among economic sectors, create uncertainty among investors, and adversely impact aggregate demand.”

“Green Jobs” Claim Not So Great

President Obama has claimed that tax subsidies to alternative energy and environmental penalties to fossil fuels “can create millions of additional jobs and new industries.” Obama has even cited the government of Spain “where they are making real investments in renewable energy.” However, a new study of the subsidy program implement by Spain reveals that every new job created by the Spanish government in the alternative energy area destroyed an average of 2.2 other jobs.

The study – prepared under the direction of Dr. Gabriel Calzada, an economics professor at Juan Carlos University in Madrid – discovered that only one in 10 jobs created by the program in Spain were of a permanent nature (operations, maintenance, etc.), and two-thirds consisted of temporary jobs in construction, fabrication and installation.

“Spain’s experience (cited by President Obama as a model) reveals with high confidence, by two different methods, that the U.S. should expect a loss of at least 2.2 jobs on average, or about 9 jobs lost for every four created, to which we have to add those jobs that non-subsidized investments with the same resources would have created,” the study stated.

“The study’s results demonstrate how much ‘green jobs’ policy clearly hinders Spain’s way out of the current economic crisis, even while U.S. politicians insist that rushing into such a scheme will ease their own emergence from the turmoil... This study marks the very first time a critical analysis of the actual performance and impact has been made,” Dr Calzada wrote in the study’s introduction.

Dr. Calzada notes that no other country has given very broad support to the construction of alternative fuels to generate electricity.

Spain has spent about \$774,000 to create each “green job” since 2000, including subsidies of more than \$1.3 million per wind industry job. However, about 113,000 other jobs elsewhere in the Spanish economy were destroyed because of the subsidies, or 2.2 jobs destroyed for every “green job” created.

“The loss of jobs could be greater if you account for the amount of lost industry that moves out of the country due to higher energy prices,” Dr. Calzada said.

“The price of a comprehensive energy rate, paid by the end consumer in Spain, would have to be increased 31 percent to begin to repay the historic debt generated by this rate deficit mainly produced by the subsidies to renewables, according to Spain’s energy regulator. Spanish citizens must therefore cope with either an increase of electricity rates or increased taxes (and public deficit), as will the U.S. if it follows Spain’s model,” the study found.

Cap-and-Trade Programs Will Cause Food Prices to Rise

In addition to making fossil fuels more expensive and more volatile, a cap-and-trade system will put more pressure on the price of ethanol and biodiesel. U.S. ethanol producers have it pretty good right now: a \$0.51 per gallon (\$7 billion total) federal tax exemption; a \$0.54 tariff on imported ethanol; rising demand; and rising prices. U.S. farmers planted 25% more corn in 2008 than in 2007. However, as farmers plant more corn and less wheat and soybeans, the price of everything – corn, wheat and soybeans – increases. News reports of worldwide food shortages began appearing in early 2008, which caused many policymakers to question the logic of using food to make energy. Additionally, studies were released in 2008 that show that it takes more than a gallon of energy to produce a gallon of ethanol – not an efficient use of energy.

Also, ethanol proponents touted the environmental advantages of ethanol over gasoline, but another study in 2008 found that ethanol produced more greenhouse gases than gasoline.

Any Carbon Reduction Program Must Have the Involvement of the Top 15 Carbon-Producing Countries if Reduction Targets are to be met

The Environmental Protection Agency found in 2007 that without China taking aggressive action, carbon dioxide emissions would continue to increase even if the U. S. adopted aggressive standards. If China is given a pass and the U.S. complies, the U.S. will have economically retrenched without any environmental gain. China and India have grown their economies. In 1990, China and India's combined energy consumption was about 13% of the world's total and it is expected to grow to 30% by 2030. Energy and environmental issues of all producing countries must be considered and debated.

The United States economy, and the fate of American workers, should not be expected to absorb the economic consequences of emissions regulations merely to see other countries benefit at America's expense.

Protections Against Fraud and Cheating will be Expensive

The challenges and associated costs of policing an international and national cap-and-trade system will be formidable. Fossil fuel use would have to be closely monitored. Trading of emission rights also would have to be monitored to ensure the rights exchanged are real and not bogus. Because fraudulent allowance sellers can earn considerable wealth while buyers have weak incentives to assure that allowances are legitimate, the scope of fraud is great.

A cap-and-trade system will include thousands of participants (emitters, who are required to participate, and others who will participate to make money). Internationally, there will be millions of players. Tracking the allowances must be accurate and the players in the market must have confidence that the allowance being bought, sold, traded, etc. are legitimate and not stolen or fraudulent.

Big Government gets Bigger to Insure Legitimacy of Allowances

For example, under S. 2191, 110th Congress, the Environmental Protection Administration would have been required to establish a federal greenhouse gas (GHG) registry

with an advisory body from private enterprise, agriculture, environmental groups, etc. to “guide the development and management of the Registry.”

The new Carbon Market Efficiency Board will be established to ensure the implementation and maintenance of stable, functional, and efficient market for emission allowances.

The new Climate Change Credit Corporation will be created to auction emission allowances

The new Climate Change and National Security Council will be created to study and submit a report to the President stating the extent that other countries are complying with GHG reductions; extent that global warming is causing political instability in countries around the world; conflicts over water, food and other resources; recommendation if increased national security measures need to be taken.

In addition to the EPA, current federal agencies involved in cap-and-trade monitoring are Department of Treasury, Department of Energy, Department of Labor, State Department, Defense Department, Director of National Intelligence, the Federal Trade Commission and the Commodity Futures Trade Commission.

Big Business Gains Another Advantage over Small Business

Large, publicly-held, international companies will be able to set up emission trading departments with the latest in technology and will hire the leading experts in the field of trading. This will become another “profit center” for these companies as they buy, sell and trade carbon emission allowances. Meanwhile, small companies will be in the dark unable to find the light switch. They will not be able to hire trading experts, set up trading departments or even understand the basics of this new trading system. Small companies will be at a considerable disadvantage in this new world of carbon emissions trading.

No Free Market

The U.S. government dictates the number of emission allowances that will be auctioned; the U.S. government sets the number of emission allowances that each person must purchase; the U.S. government requires reports to be filed by those that are required to be in the program; big government must monitor the program to prevent fraud and cheating.

The federal government likes cap and trade, because it yields large amounts of money to redistribute to voters.

In spite of all the problems created by a cap-and-trade system, politicians like it because it creates massive amounts of revenue - by the way, it is not called new taxation - from a group of “polluters” and redistributes those funds to voters. Conservatives like it because they can claim it is a “free market” approach to address the global warming issue. Liberals like it because it attempts to put producers of fossil fuels, which have political opponents of liberals, out of business, or at a minimum reduces their influence. From a political sense, it theoretically achieves the goal of reducing greenhouse gas emissions and saves the world from destruction at the hands of producers of fossil fuels.

Economic Pain without Environmental Gain

Policymakers must take into consideration many social and economic goals as it debates the implementation of a cap-and-trade system. Economic growth is key to the success of any plan designed to reduce greenhouse gases. If a cap-and-trade program rapidly reduces fossil fuel supplies and demand remains high and other forms of energy do not or cannot replace fossil fuels, prices will rise to astronomical levels creating all enormous problems in the U.S. At the same time, carbon emissions are only reduced slightly. Will the small environmental gain be worth the economic pain?