

CAP AND TRADE

Prepared by

Jim Burnley

for

the BAC

April 23, 2009



CAP AND TRADE VS. CARBON TAX

- The key conceptual difference is that cap and trade sets fixed limits on emissions, and the prices of allowances float or otherwise change; a carbon tax is set at a fixed level, but there is no hard cap on emissions
- There are virtually an endless number of variations possible for each approach, as well as hybrids combining elements of each
- Many economists prefer carbon taxes, while most environmentalists prefer cap and trade



CURRENT STATE OF PLAY IN CONGRESS

- Congressman Henry Waxman, Chairman of Energy and Commerce Committee introduced a cap and trade bill in late March
- The Waxman bill omits many key details re cap and trade, but
 - It mandates a reduction in greenhouse gases of 20% below '05 levels by 2020, 42% by 2030 and 83% by 2050
- Waxman's stated goal is to report a bill out of his committee by Memorial Day



- No Senate bill yet
- Senator Barbara Boxer, who chairs the Environment and Public Works Committee, says the House must act first
- The door has not been completely closed on the use of a reconciliation bill to avoid a Senate filibuster
- There is some support in the Congress for a carbon tax instead of cap and trade, but the latter is getting most of the attention



OBAMA ADMINISTRATION POSITION

- It is aggressively pushing the concept of cap and trade
- Its initial position was that all emission allowances must be auctioned by the federal government, generating \$650 billion -- \$1.9 trillion in revenues over 10 years
- It has recently signaled flexibility on the auction issue, suggesting it might agree to a phase in
- It wants legislation by December, when the United Nations-sponsored conference on climate change will be held in Copenhagen
- It is simultaneously moving on the regulatory front, threatening to control greenhouse gases under the Clean Air Act, if Congress fails to enact cap and trade



INTERNATIONAL CONTEXT FOR U.S. DEBATE

- The U.S. never ratified the 1997 Kyoto Protocol, which the Copenhagen conference intends to replace with a new agreement
- European countries are already criticizing the reductions proposed by the Obama administration and Congressman Waxman as insufficient
- India and China are signaling they will not agree to significant reductions (many in Congress say they can't support cap and trade unless those two countries also agree to reductions)
- In reaction to those signals, some are proposing carbon tariffs
- The Waxman bill creates carbon tariff mechanisms and “rebates” for domestic manufacturers



SOME OF THE KEY ISSUES FOR CAP AND TRADE

- Are allowances for emissions given out without charge or auctioned?
- If auctioned, is the auction approach used for 100% of allowances from the beginning or phased in?
- How will secondary markets for the allowances be structured and regulated?
- What reporting requirements will be established?
- How will enforcement work and what entities will have authority?
- What will be done with the proceeds collected by the federal government from auctions?
- What entities, if any, will be exempted?
- Will state and regional controls be preempted?

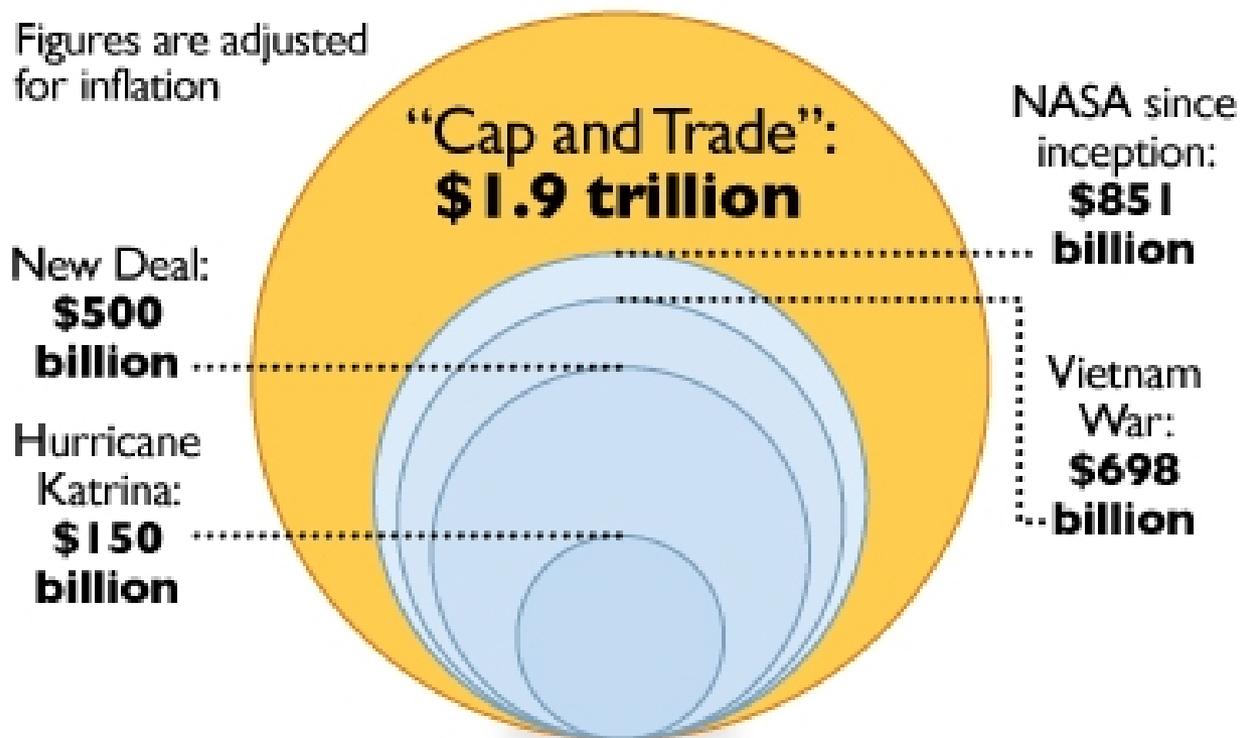


POTENTIAL COSTS FOR AMERICANS

The Cost of Global Warming: A Story in Pictures » The Heritage Foundation

Comparing 'cap and trade' costs

Figures are adjusted for inflation



Sources: CNBC, Naval History and Heritage Command, USA Today, Weather.com, National Weather Service, Heritage Foundation calculations.

 heritage.org



Calculating your share of “Cap and Trade”

“Cap and Trade” global warming regulations will cost Americans \$1.9 trillion. That amounts to \$1,960 per household, every year for eight years. To compensate, families must be able to add \$1,960 to their incomes or will have to make some cuts. For comparison’s sake, here are some average annual household expenditures.



\$1,764

All meat, poultry, fish, eggs, dairy products, fruits and vegetables



\$1,797

All furniture, appliances, carpet, and other furnishings



\$1,881

All clothes and shoes



\$1,783

All electricity and natural gas

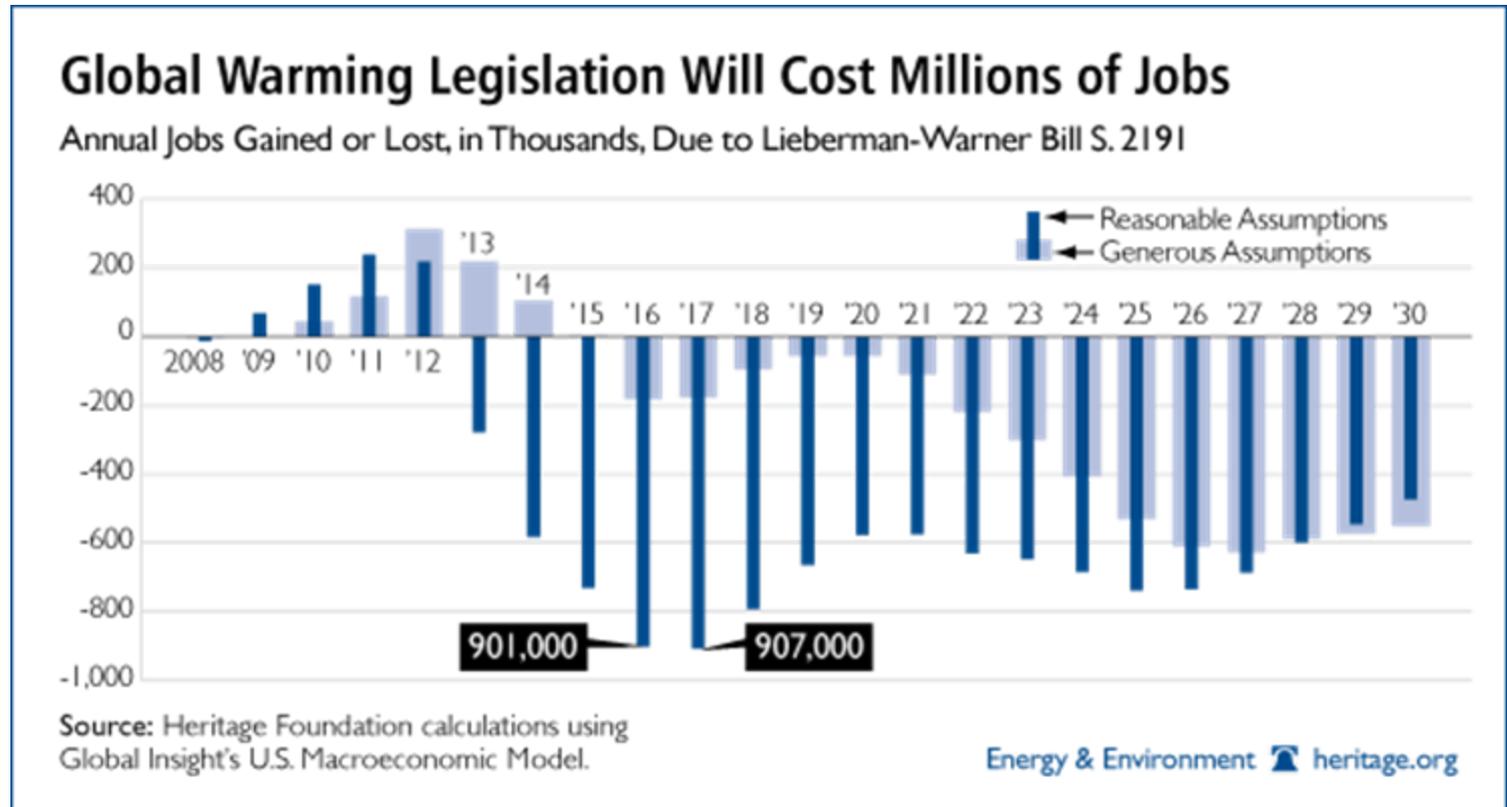


\$1,709

All property taxes

Source: Bureau of Labor Statistics, Consumer Expenditure Survey, 2007, at <http://stats.bls.gov/cex/2007/Standard/age.pdf> (March 31, 2009); calculations for \$1.9 trillion “cap and trade” figure by The Heritage Foundation

 heritage.org

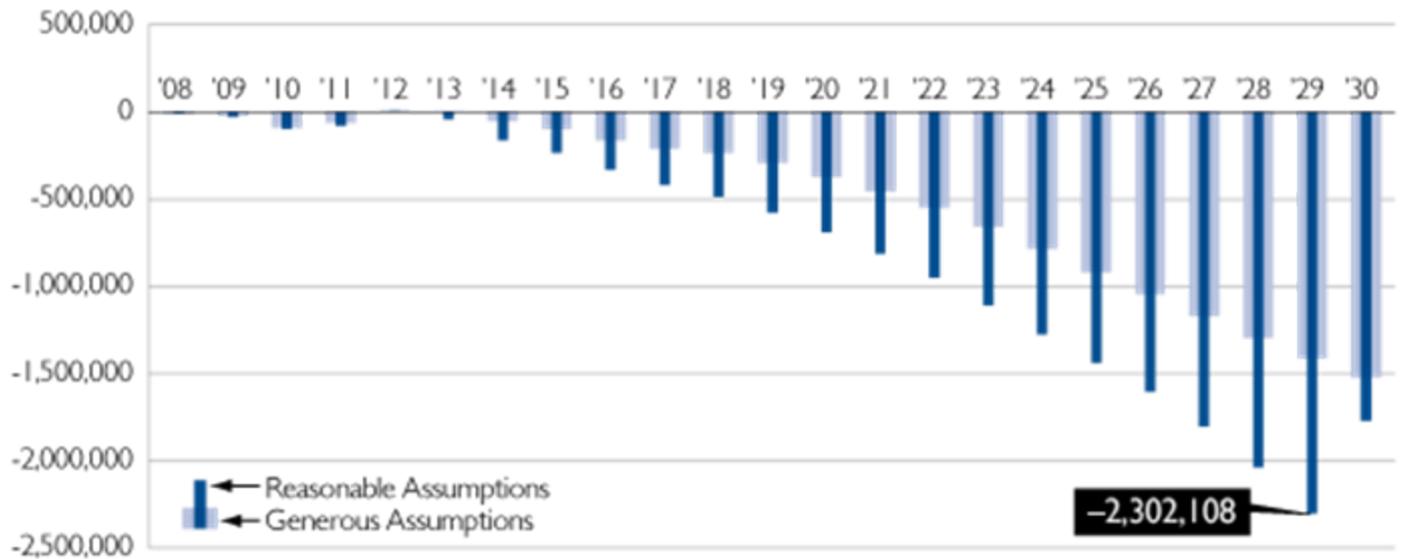


Whether they fall on businesses or consumers, higher taxes reduce economic growth. Higher taxes force companies to cut costs elsewhere, typically by reducing production and therefore cutting jobs. According to The Heritage Foundation's Center for Data Analysis, job losses resulting from cap and trade will surpass 900,000 in some years. Keep in mind; this is net of any "green jobs" created.



Manufacturing Jobs Will Suffer Most Under Global Warming Legislation

Annual Durable Manufacturing Jobs Gained or Lost, Due to Lieberman-Warner S. 2191



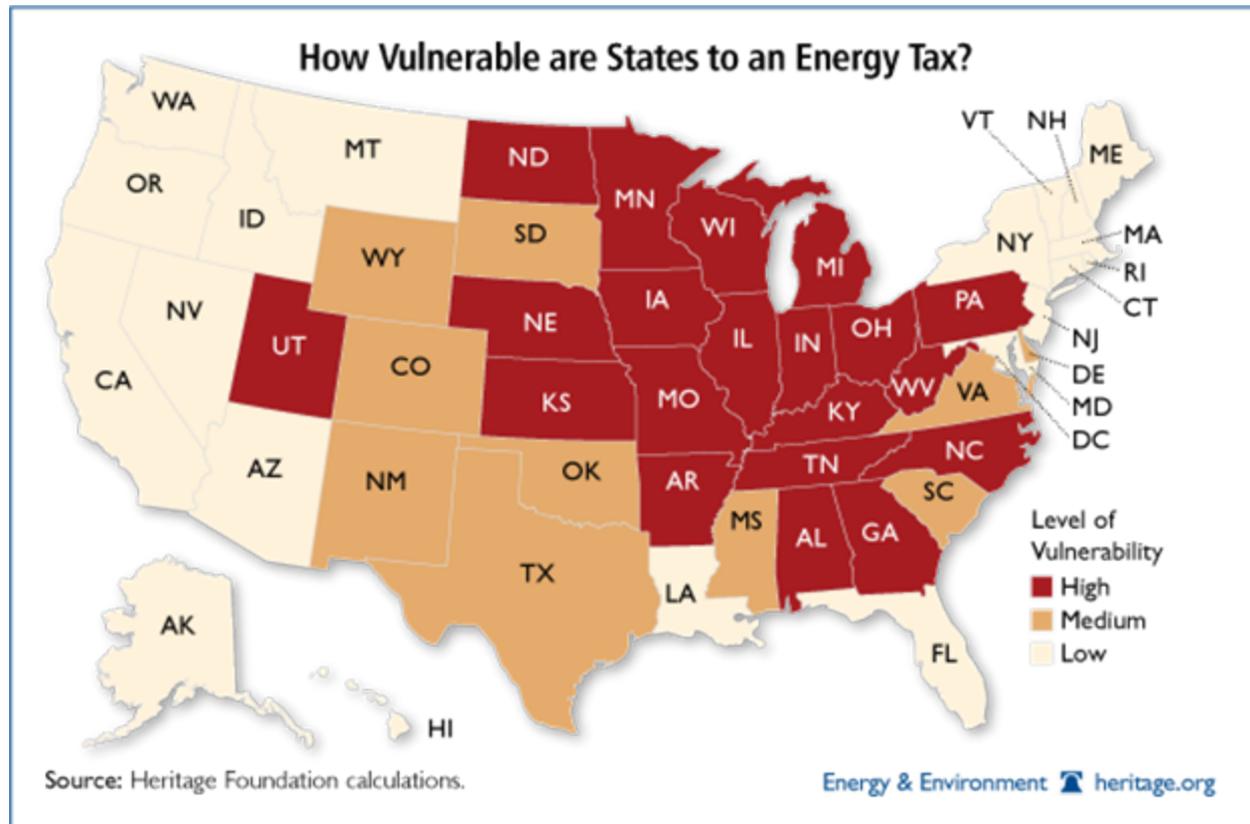
Source: Heritage Foundation calculations using Global Insight's U.S. Macroeconomic Model.

Energy & Environment  heritage.org

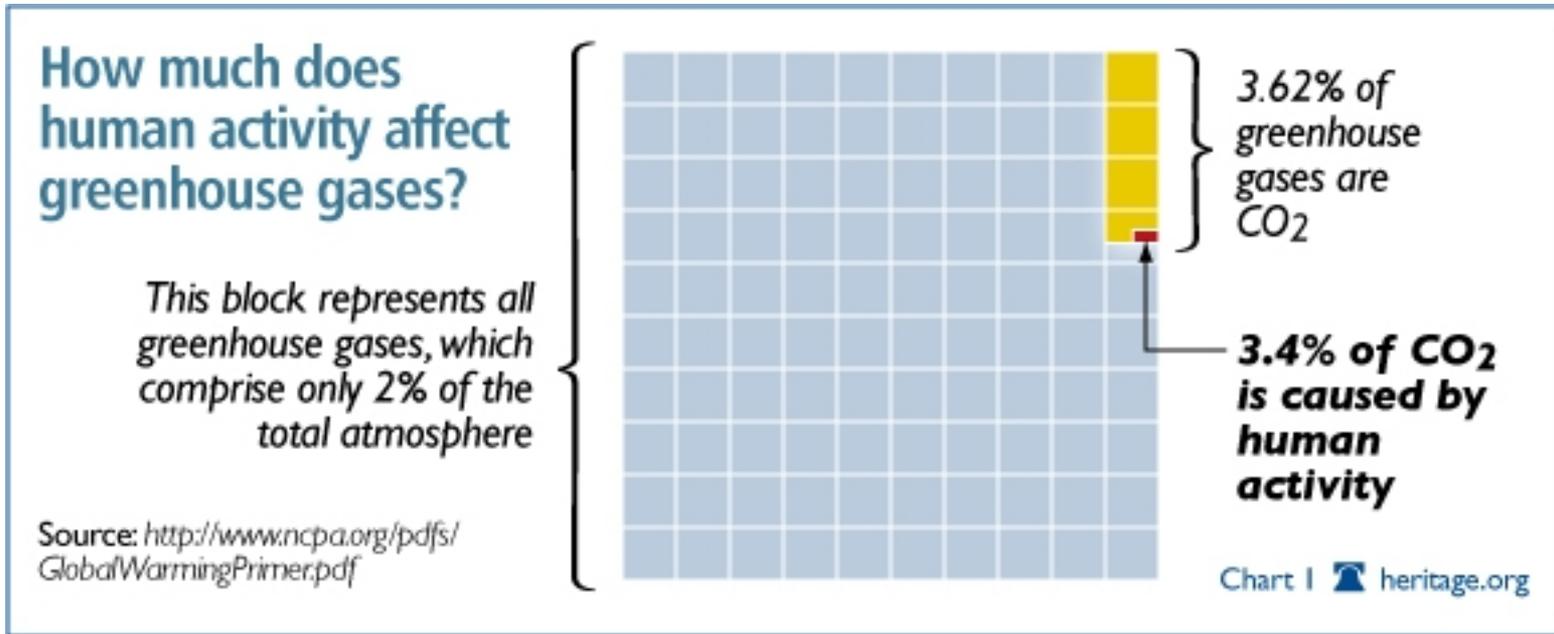


The Cost of Global Warming: A Story in Pictures » The Heritage Foundation

The Heritage Foundation's Manufacturing Vulnerability Index measures a state's direct and immediate vulnerability to an energy tax based on the extent of the state's manufacturing workforce and its reliance on coal power generation. Taking a look at the map, the Midwest will suffer most.



And what should be the final nail in the coffin: All this economic pain is for very little, if any, environmental gain. Analysis by the Environmental Protection Agency concludes that if the U.S. reduces CO2 emissions 60 percent by 2050, it will reduce global temperature by 0.1 to 0.2 degree Centigrade by 2095. A multi-lateral approach wouldn't fare much better. Why? Well, there's a lot of reasons. After all, the science behind global warming is anything but conclusive, but one reason could be how small man's contribution to carbon dioxide emissions is.



HOW MUCH PAIN WILL
AMERICANS TOLERATE TO
REDUCE GREENHOUSE GASES?



Climate Change

More Americans than in the past believe global warming is real, serious, and has already started to happen. But their personal concern about it has not changed substantially in the past twenty years. In the ABC News/*Washington Post* poll from January, the issue ranked last in terms of being the “highest priority” issue for President Obama and Congress. In Pew’s question, it ranked sixteenth of twenty issues. One of the most striking changes in surveys on global warming is the extent of partisan polarization we now see on the issue. In 1997, there was a 1 percentage point difference in the responses of Democrats and Republicans on whether global warming had begun. In their 2008 poll, the gap was 35 points. Forty-one percent, up from 31 percent in 1997, say the seriousness of global warming in the news is exaggerated, and 53 percent in another question say they distrust the mainstream media as a source of information about it.

Q: I’m going to read you a list of environmental problems. As I read each one, please tell me if you . . . ?

	Personally worry about global warming a great deal
1989	35%
2009	34

Source: The Gallup Organization, latest that of March 2009.

Q: Which of the following statements reflect your view of when the effects of global warming will begin to happen . . . ?

Already begun to happen

	Responses of		
	National	Republicans	Democrats
1997	48%	47%	46%
2008	61	41	76

Note: In 2009, 53 percent said it had already begun, 15 percent said it would happen within a few years or within their lifetimes, 15 percent not in their lifetimes but will affect future generations, and 16 percent never happen.

Source: The Gallup Organization, latest that of March 2009.

Q: Thinking about what is said in the news, in your view, is the seriousness of global warming . . . ?

Seriousness of global warming is generally exaggerated in the news

	Responses of		
	National	Republicans	Democrats
1997	31%	34%	23%
2009	41	66	22

Note: In 2009, 29 percent said news about its seriousness is generally correct, and 28 percent generally understated.

Source: The Gallup Organization, March 2009.

Q: How much do you . . . ?

As a source of information about global warming

	Trust	Distrust
Scientists	82%	18%
Environmental organizations	66	34
Al Gore	58	44
Family/friends	77	23
Television weather reporters	66	35
Religious leaders	48	52
The mainstream news media	47	53
Corporations	19	82

Note: Responses about Barack Obama and John McCain not shown. Sample is online.

Source: Yale University/George Mason, September–October 2008.

Q: For each issue I name, please tell me what kind of priority you think Obama and the Congress should give it—the highest priority, a high priority but not the highest, or a lower priority than that?

Percentage saying global warming as the highest priority

Percentage	Rank
17%	11 of 11 issues

Source: ABC News/*Washington Post*, January 2009.

Q: I’d like to ask you some questions about priorities for President-elect Obama and Congress this year. As I read from a list, tell me if you think the item that I read should be . . . ?

Global warming should be a top priority for Obama and Congress

	Percentage	Rank
National response	30%	20 of 20 issues
Republican response	16	20 of 20 issues
Democratic response	45	16 of 20 issues

Source: PSRA/Pew Research Center, January 2009.

