

How to Fix U.S. Climate Legislation



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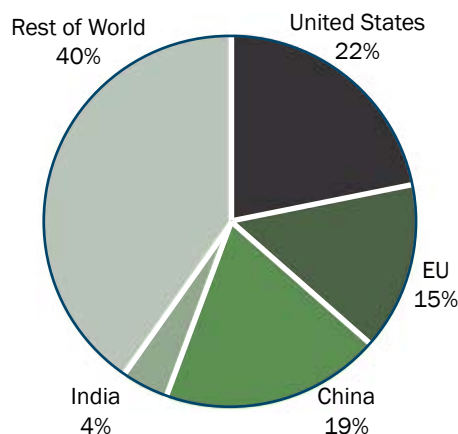
Some in Congress and in the Obama administration are pushing the Senate to pass ill-considered legislation aimed at a worthy objective: slowing the rate of global climate change. There is plenty of time to fix the bill before it is sent to the White House for signature, but it will require significant surgery. The U.S. should lead with modest reductions in greenhouse gases (GHGs) between now and 2020 but no binding commitments should be made beyond 2020 until it is apparent that businesses in Europe, China and India are reducing their emissions significantly.

Authored primarily by Henry Waxman (D-CA) and Edward Markey (D-MA), the bill passed by the House of Representatives compels the United States – primarily businesses – to reduce GHGs in two stages, the first reduction by 2020 and the second reduction by 2050. Compared to 2005 U.S. emission levels, the required reductions are 17% and 83%, respectively, and will be accomplished by issuing a declining number of emissions allowances each year.

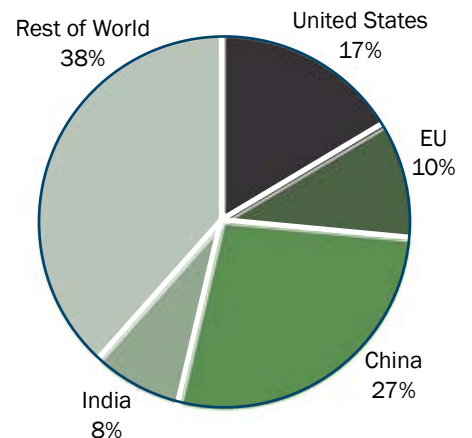
Under the Waxman-Markey plan, each source of emissions will face a cap each year. The source must reduce its emissions below the cap or purchase unused allowances from another source. This “cap-and-trade” approach is intended to accomplish the environmental objective at minimum cost, since firms facing higher compliance costs are expected to purchase allowances from firms that face lower compliance costs.

Even with the trading opportunity, which is useful, the costs of the plan will be enormous. The U.S. Congressional Budget Office estimates that the plan will cost businesses and consumers tens of billions of dollars. In the year 2020 alone, the net economy-wide

Estimated 2005 CO₂ Emissions



Projected 2030 CO₂ Emissions

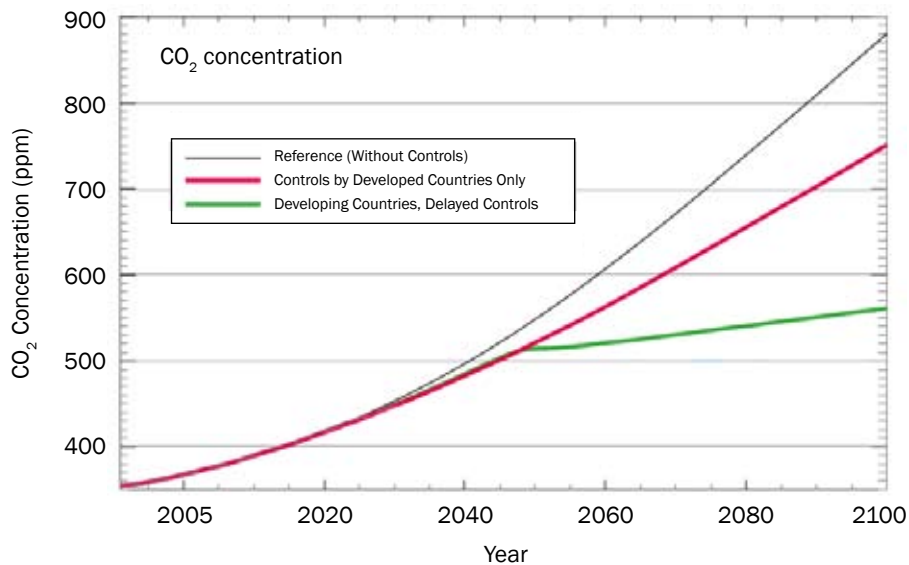


Source: International Energy Agency, World Outlook 2007

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Projected Global CO₂ Concentrations, 2005-2100*



*CO₂ concentrations in several scenarios using the MIT Integrated Global System Model (IGSM). Economic aspects of the CO₂ assessment rely on the MIT Emissions Prediction and Policy Analysis (EPPA) model. The implications of different emissions paths for atmospheric greenhouse gas concentrations and potential climate change are explored using the earth science portions of the MIT IGSM, of which EPPA is a component.

Source: *Assessment of U.S. Cap-and-Trade Proposals*, Report No. 146, April 2007. MIT Joint Program on the Science and Policy of Global Change.

cost of the cap-and-trade program is estimated at \$22 billion, a figure that is even lower than recent estimates prepared by the U.S. Energy Information Administration and the U.S. Environmental Protection Agency. By way of comparison, the first phase of the Waxman-Markey program will be one of the most expensive U.S. regulatory programs since the U.S. Office of Management and Budget began to keep records in 1981. And these costs are not distributed evenly throughout the United States. The burdens will impact the Midwest and some southern states most, and disproportionately affect the coal, steel, oil, chemicals, cement and other manufacturing sectors.

Although many modifications would improve the bill, the most important change relates to the global negotiation now underway among the United States, the European Union, China and India. The United States should exercise leadership by unilaterally reducing greenhouse gas emissions between now and 2020. However, Congress should refrain from making any legally binding commitments beyond 2020 – commitments that are likely to be even more expensive than the pre-2020 requirements – until it is clear that the European Union, China, and India are also reducing their emissions. Alternatively, the 2050 targets should be set as an aspirational goal that is not legally binding on the U.S. economy until other key nations act decisively on climate change and incur significant compliance costs.

Let's face it: The USA and other regions of the world are in something like a poker game, and we should not play with our hand exposed and all our chips on the table. Our businesses operate in a global economy. If we subject our businesses to an expensive

regulation that is not imposed on businesses in China, India, and Europe, we will hurt U.S. workers and consumers without slowing the pace of climate change. While the National Academy of Sciences does conclude that GHGs are exacerbating global climate change, scientists also agree that large reductions of GHGs by the United States will do little good unless China, India, and Europe control their emissions.

There are some indications that the Chinese government is beginning to take the risk of climate change more seriously, but both China and India remain opposed to an ambitious program such as the Waxman-Markey plan. Even Chinese advocates of cap-and-trade are not suggesting an 83% reduction from 2005 levels. In China alone, each month brings four additional coal-fired power plants and hundreds of thousands of new cars.

The European Union has already adopted a limited cap-and-trade program that has placed a modest price on GHGs. Some member states, such as the United Kingdom, are implementing serious controls on GHGs. But throughout much of Europe, there is more political talk about reducing GHGs than there is action. New coal-fired power plants are planned throughout Germany and Eastern Europe, more than are being launched in the United States.

The EU's voluntary plan to reduce GHGs from cars in Europe has failed to achieve the EU's 1996 commitments. EU politicians have recently passed a new mandatory plan covering the auto sector with extended deadlines but it was watered down to appease the slumping auto makers in Germany, France and Italy.

Given the international landscape, we believe that Congress should pass a bill with modest reductions in GHGs between now and 2020 but remain silent about the period after 2020. U.S. negotiators should then do their best to mediate an international framework that covers the entire period to 2050. Congress can decide whether binding legislation covering 2020–2050 should be passed in 2015 or only after it is clear that China, India and all of Europe are imposing similar costs on their businesses, workers, and consumers.

Some advocates would prefer to keep the 2050 rule in the Waxman–Markey plan but combine it with new tariffs on imports to the United States from countries that do not control GHGs. We agree with President Obama that border tariffs are an invitation to a trade war, not a serious tool for making international climate policy.

The only effective way to slow the pace of climate change is collective international action that follows modest, unilateral leadership by the United States as well as Europe. And all countries will need to be monitored closely for implementation, since “talk is cheap” in the history of environmental policy.

Further Reading

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Fischer, Carolyn and Alan K. Fox. *Comparing Policies to Combat Emissions Leakage: Border Tax Adjustments Versus Rebates*, Resources for the Future, Washington, DC, February 2009.

Nigel Purvis. *Mind the Gap: The Case for Climate and Competitiveness Protection Authority*, Resources for the Future, Washington, DC, July 2008.

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