

Kyoto-by-inches is just as foolish

By Marlo Lewis Jr.

The current energy-bill debate may be mostly about pork, but vital issues of principle are in play.

Real reform would remove political barriers to the production and distribution of affordable energy. Its guiding philosophy would be supply-side economics. But in today's political climate, many influential interests view energy policy as an exercise in "demand-side management." Tacitly or openly, they favor some kind of energy rationing.

In their ideal world, Congress would enact energy taxes. But after Bill Clinton and Al Gore got their ears pinned back in 1993 for proposing an energy tax, the demand-side crowd has promoted regulatory forms of energy rationing less easily understood by the public.

Their boldest initiative to date is the Kyoto climate treaty, which would require the United States to reduce emissions of greenhouse gases, chiefly carbon dioxide (CO₂), to 7 percent below 1990 levels during 2008-2012.

Because CO₂ is the inescapable byproduct of the carbon-based fuels that supply about 85 percent of all U.S. energy, the power to regulate CO₂ is the power to restrict Americans' access to energy. Thus, it is a power to cripple U.S. productivity, competitiveness and growth.

In the United States, Kyoto has been politically defunct since 1998. In July of that year, Tom Wigley of the National Center for Atmospheric Research calculated that Kyoto would avert only 0.07 degrees Celsius of global warming by 2050 — too small an amount for scientists to detect. And in October 1998, the Energy Information Administration (EIA) estimated that Kyoto in 2010 would reduce the U.S. gross domestic product (GDP) by approximately \$100 billion-\$400 billion, depending on the extent to which U.S. firms could comply by pur-

chasing emission permits from abroad.

The combined force of those two analyses nixed U.S. participation in Kyoto before President Bush had anything to say about it. Most senators would rather be caught kiting checks than vote for a treaty costing untold billions for an unverifiable 0.07 degree Celsius temperature reduction five decades hence. President Clinton knew better than to shop so bad a bargain to the Senate and declined to submit the treaty for a ratification vote.

Since then, the demand-side camp has promoted scaled-down policies that cost less than Kyoto but that, if adopted, would have the political virtue (in their eyes) of establishing the critical legal precedents and regulatory machinery. All such proposals are camel's-nose-under-the-tent strategies to align U.S. law with Kyoto's aims and mechanisms.

The seminal Kyoto-lite scheme was the Climate Stewardship Act (S. 139), introduced in January 2003 by Sens. John McCain (R-Ariz.) and Joe Lieberman (D-Conn.). Sens. Lieberman and McCain mothballed their bill after the EIA estimated it would eliminate 80 percent of all electric generation from coal, America's most abundant fuel. They then introduced a pared-down version, Senate Amendment 2028. However, even this Kyoto-extra-lite bill would reduce GDP by \$76 billion in the peak impact year, according to the EIA. The Senate rejected it by a vote of 55-43.

Now along comes Sen. Jeff Bingaman (D-N.M.) with an even more "modest" proposal to save the planet. Sen. Bingaman's bill — let's call it Kyoto-by-inches — features a cap-and-trade plan developed by a group pretentiously calling itself the "National Commission on Energy Policy" (NCEP). The group proposes a cap softened by a "safety valve" whereby the government commits to printing more emission permits as needed to keep the purchase price within certain preset limits.

The EIA found that the NCEP policies



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Carbon-based fuels supply 85 percent of all U.S. energy

"would not materially affect average economic growth rates for 2003 to 2025," prompting Sen. Bingaman to proclaim: "This EIA report validates the widely held view that it's possible to have a meaningful program to reduce greenhouse-gas emissions without harming the economy."

Not so. All it shows is that Kyoto-by-inches is less expensive than Kyoto, Kyoto lite or Kyoto extra lite. The cap-and-trade program's costs are still huge — a cumulative \$331 billion GDP loss during 2010-2025.

More important, as a climate policy, the bill is meaningless because it would not "materially affect" potential global warming from greenhouse-gas emissions. Based on Wigley's analysis, I estimate that the NCEP cap would avert 8/1000ths of a degree Celsius of global warming by 2050. That would not benefit people or the planet one whit.

However, enacting a cap of any size would fundamentally change what the fight in Washington is about. Instead of debating whether to suppress U.S. energy supply — the central issue up to now — Congress

would continually have to debate *how much* and *how fast* to suppress it.

Indeed, since even Kyoto itself can have no measurable climate effect, Sen. Bingaman's plan has no intelligible purpose except to break the political ice for a long series of increasingly costly energy-suppression measures.

Is an unverifiable 0.008 degree Celsius reduction in average global temperatures 45 years from now really worth \$331 billion in lost GDP? If not, is the Bingaman bill's real objective to establish the legal and regulatory framework for much deeper, economy-chilling cuts in CO₂ emissions?

If this is just a "first step," how many more steps does Sen. Bingaman want U.S. firms to take? And what would be the cost of those subsequent steps in lost GDP, higher energy prices and lost jobs?

Sen. Bingaman's colleagues — and the public — deserve answers to those questions.

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One stone, many birds with carbon tax

By Paul R. Portney

President Bush and his economic team can now do what it was impossible to do before the election: get specific about their plans to reduce both the federal budget deficit (in excess of \$400 billion for fiscal year 2004) and the equally alarming trade deficit (now running at an annual rate of more than \$600 billion).

Most senators and congressmen from both parties know they must tackle these twin problems, and Federal Reserve Chairman Alan Greenspan is reminding those who haven't yet gotten the picture. There's no easy way to deal with either deficit, but a federal tax on the carbon content of fossil fuels — one that starts small and grows over time — would help on both counts and have other favorable effects as well, most notably environmental.

Here's how such a tax would work: Domestic producers or importers of coal, natural gas and petroleum would be taxed based on the carbon content of the fuel they sell.

Suppose the tax went into effect in 2006 and started at a level of \$5 per ton of carbon in the fuel. Ini-

tially, that would amount to less than a \$1-per-month increase in the price households would pay for electricity generated from coal. The price of natural gas would increase by much less than that (because it has much less carbon per unit of energy than coal), and the increase in the price of gasoline would be on the order of a penny per gallon.

By starting small, at \$5 per ton, a carbon tax would raise no more than \$9 billion in 2006. However, suppose the tax rose by \$5 per ton every two years for the next 20 years? By 2010 it would be raising \$25 billion annually, and revenues would grow to \$75 billion each year by 2020 (when the federal budget will be under much greater pressure than today from the rapidly retiring baby boomers). Each of the dollars collected through a carbon tax, of course, is \$1 less that must be raised through higher taxes on work or savings, or one dollar less that must be cut from already pared-down discretionary spending or popular entitlement programs.

Because a significant portion of our trade deficit is energy-related, a carbon tax will help there, too. Currently, for instance, the Unit-

ed States is sending \$190 billion abroad each year for imported oil, nearly \$40 billion of which goes to Saudi Arabia, Iraq and Kuwait. There is now growing concern that the market for natural gas, in which current supplies come exclusively from North America, is also evolving in the direction of a global market — wherein the major suppliers to the United States will be many of the same OPEC producers upon whom we're reluctant to rely for so much petroleum.

By increasing the prices of gasoline and natural gas, a carbon tax will dampen demand for both fuels. Accordingly, the trade deficit will shrink as the U.S. government collects dollars that would otherwise be streaming abroad.

There's even more to like. By gradually increasing the price of gasoline, a carbon tax would boost demand for more fuel-efficient vehicles, eventually obviating the need to tighten fuel-economy standards for new cars, trucks and SUVs. It would also reinforce President Bush's commitment to a hydrogen-powered future for motor vehicles.

Additionally, by making electricity from fossil fuels more expensive, a carbon tax would give a

leg up to wind power and other renewable sources of electricity as well as nuclear power, since all are carbon-free.

Finally, a carbon tax would have significant environmental benefits. In no more than a decade, carbon-dioxide emissions in the United States would be 5 percent lower than in the absence of the tax (and more in future years), and emissions of nitrogen oxides, mercury and other heavy metals would be reduced as well.

Because British Prime Minister Tony Blair cares deeply about climate change, a carbon tax would indirectly show our appreciation for his courageous support for the Iraqi war, since it would immediately establish the United States as a fully engaged participant in international climate discussions.

It's always wise to reach for your wallet whenever someone describes a plan that's said to be a "winner" for everyone. It's no different for a carbon tax. Because coal is high in carbon, electricity from coal will become more expensive, especially in later years when the tax has grown.

That poses problems for the Southeastern and Midwestern states (such as Ohio) because that's where much of their elec-

tricity comes from and where a lot of coal is mined. Higher natural-gas prices will also be felt by electricity customers and especially by petrochemical manufacturers that depend on natural gas as their principal feedstock. Finally, of course, a carbon tax — like almost any consumption levy — will fall more heavily on those at the lower end of the income scale. Careful thought must be given to cushioning these impacts.

But ask yourself this: Since reducing the serious budget and trade deficits will require expenditures cuts and tax increases, none of which will be pleasant, shouldn't one of the measures we use to attack these problems be something that will also help reduce our dependence on possibly unreliable foreign energy suppliers; encourage cleaner power and more fuel-efficient cars, homes, offices and factories; protect the environment; and even reward a steadfast ally? The answer seems obvious.

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