National Center for Policy Analysis

BRIEF ANALYSIS
No. 386
For immediate release:
Tuesday, December 18, 2001

S. 556: A Backdoor Attempt to Implement the Kyoto Protocol

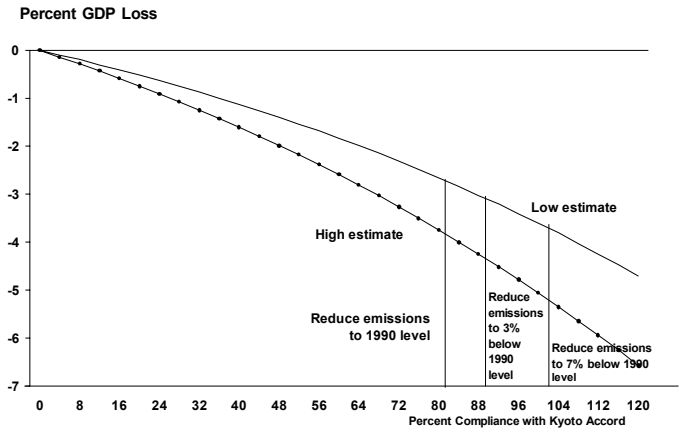
By H. Sterling Burnett

The Clean Power Act of 2001 (S. 556) is sponsored by Sens. Jim Jeffords, Joseph Lieberman and John McCain. Its supporters say it will reduce emissions of air pollutants from the nation's power plants. However, the inclusion of carbon dioxide (CO_2) as one of the "pollutants" to be reduced raises questions concerning the true goal of the bill. Regardless of any other merits of or problems with S. 556, many analysts view the inclusion of CO_2 as a regulated pollutant as an attempt to placate environmental lobbyists and certain international allies and to embarrass the president by implementing the Kyoto Protocol without Senate ratification.

Background on Kyoto. In December 1997, in Kyoto, Japan, the Clinton/Gore administration negotiated a treaty that would require most industrialized countries, including the United States, to reduce greenhouse gas emissions in an effort to avert human-induced global warming. More specifically, the U.S. agreed to reduce its greenhouse gas emissions by about 40 percent, to 7 percent below their 1990 levels, between 2008 and 2012.

Prior to the negotiations, the Senate unanimously passed a resolution setting a baseline for U.S. participation in any global warming agreement. Such an agreement should neither (1) harm the U.S. economy nor (2) fail to require meaningful participation by developing countries, the resolution said. Kyoto met neither of these conditions, and the Clinton/Gore administration never submitted it to the Senate for ratification.

U.S. CO_2 Abatement and GDP Losses



Source: Stephen P.A. Brown, "Global Warming Policy: Some Economic Implications," National Center for Policy Analysis, Policy Report No. 224.

Rather than continuing to expend diplomatic efforts to radically alter the Protocol in order to win Senate ratification, in March 2001 President Bush announced that the United States would no longer participate in negotiations to implement the Protocol since it was "fundamentally flawed" and not in the United States' interests.

What the Bill Would Do. The Jeffords-Lieberman bill would lump carbon dioxide in with mercury, nitrogen oxide and sulfur dioxide — air pollutants regulated by the Environmental Protection Agency (EPA) — and require power plants to reduce the emissions of these gases via a "cap-and-trade" mechanism. Under this plan, the government would determine the total amount of CO_2 that power plants would be allowed to emit. It would then auction "emission rights" or credits to emit carbon dioxide to energy producers, and permit them to trade these allowances among themselves. Less efficient power plants would face the choice of closing, reducing emissions to meet the carbon credits they bought at auction or buying additional credits on the market from more efficient plants. In any case, in theory, emissions are reduced.

Supporters of cap-and-trade approaches to reducing air pollution argue that emissions trading is a more cost-effective way of reducing total emissions than either specifying a particular technological fix or taxing fuels based on their relative emissions.

They may be right. But whatever the merits of a cap-and-trade approach to reducing emissions of pollutants already regulated by the EPA, their argument is flawed when applied to CO_2. Unlike other gases regulated under the bill, CO_2 is neither a pollutant nor toxic at any foreseeable atmospheric levels. Indeed, CO_2 is a naturally occurring

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gas that is critical for plant life and thus necessary for life on earth.

Since CO_2 is not a pollutant, the only justification for forcing power plants to radically reduce emissions is to comply with the Kyoto Protocol. This wouldn't be a good idea even if the administration and the Senate weren't on record as rejecting the Protocol.

Backdoor Kyoto: No Environmental Benefit, Much Economic Pain. Neither the unilateral U.S. emissions reductions that the Jeffords-Lieberman bill would demand nor the international emissions reductions forced by the Kyoto Protocol would have any effect on future global warming. According to the National Center for Atmospheric Research, if all of the signatories to the Kyoto Protocol met their greenhouse gas reduction targets, the temperature difference would be so small it couldn't be measured by ground-based temperature gauges.

Indeed, according to the International Energy Agency, as much as 85 percent of the projected increase in CO_2 emissions will come from developing countries exempted from the Protocol, including China, India, South Korea and Brazil. Thus, if developed countries unilaterally stopped *all* their greenhouse gas emissions (something no one seriously proposes), total greenhouse gas concentrations would continue to rise.

In addition, America is currently experiencing a recession. By forcing power generators to cut CO_2 emissions — which means reducing energy use — the Jeffords-Lieberman bill would only exacerbate our country's economic woes. In June, the nonpartisan Congressional Budget Office (CBO) published a study analyzing various cap-and-trade proposals. The CBO's conclusion was clear: "[T]he economic impacts of cap-and-trade programs would be similar to those of a carbon tax: both would raise the cost of using carbon-based fossil fuels, lead to higher energy prices, and impose costs on users and some suppliers of energy."

As the bill now stands, power plants would have to reduce CO_2 emissions to 1990 levels. The economic costs of such reductions would be substantial.

At an October 31, 2001, Senate hearing, the Environmental Protection Agency forecast that the bill would raise electricity prices in 2015 by 32 to 50 percent. The Energy Information Administration (EIA) estimated that S. 556 would reduce gross domestic product by 0.8 percent, or about $100 billion, in 2007, with a loss of about one million jobs. Most of the increased cost comes from the necessary substitution of new natural gas-fired power plants for existing coal-fired plants. By 2020, the EIA estimates electricity prices would rise by 33 percent and natural gas prices by more than 20 percent.

A 1999 study for the National Center for Policy Analysis by Dr. Stephen Brown of the Federal Reserve Bank of Dallas estimated that cutting CO_2 emissions to 1990 levels would reduce U.S. GDP between 2.7 percent and 3.7 percent by 2010. This represents a loss to the economy of approximately $250 billion to $340 billion, or as much as $1,135 per person — $4,540 per family of four [see the figure].

Effects on the Poor. Higher energy prices fall heavily on the poor, a disproportionate share of whom are minorities. For instance, the National Black Chamber of Commerce and the U. S. Hispanic Chamber of Commerce, among other minority groups, sponsored a study, *Refusing to Repeat Past Mistakes*, which estimated the consequences that implementation of the Kyoto Accord would have on black and Hispanic communities. The study estimates that meeting Kyoto's emission reduction goals would require a roughly 30 percent reduction in energy use and result in a $348 billion GDP decline. This would cost up to 3.2 million jobs, with almost half of them lost by Hispanic and African-American workers. The cap-and-trade approach contemplated by the Jeffords-Lieberman bill may or may not result in lower program costs than other options like carbon taxes, but its cost would significantly decrease the well-being of the poor.

Conclusion. Whatever the cause of the earth's current warming trend, the Jeffords-Lieberman bill will not reduce the threat of global warming. It will, however, make a bad economic situation worse.

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