



BRIEF ANALYSIS

No. 407

For immediate release:

Wednesday, July 24, 2002

Kyoto Misses Targets — Hits Poor Instead

by J O U g t r i p i ' D w t p g w

In March 2001, President Bush announced that the United States would not be a party to the Kyoto Protocol on Global Climate Change. Although Canada is on the fence, and Australia has rejected the Protocol outright, the European Union, Russia, Japan and other countries are poised to implement it in the near future.

In order to reduce the alleged impact of human activities on the climate, the Protocol requires signatories to cut carbon dioxide emissions an average of 5 percent below 1990 levels between 2008 and 2012. Developing nations are exempt from emission reductions.

Economic and scientific studies indicate that Kyoto will harm economies worldwide and only minimally — if at all — reduce global warming. More than 4,000 scientists, including 72 Nobel Prize winners, signed the Heidelberg Appeal warning industrialized nations that no compelling scientific evidence exists to justify mandatory cuts in greenhouse emissions.

Kyoto demands that the United States reduce its overall greenhouse gas emissions by 43 percent, according to Patrick Michaels of the Cato Institute. According to an NCPA study by Dallas Federal Reserve economist Stephen Brown, if the United States met Kyoto's standards by 2010, its gross domestic product (GDP) would be 3.6 to 5.1 percent lower than otherwise. But the earth's temperature would only decline 0.07°C to 0.19°C over the next 100 years as a result, according to the National Center for Atmospheric Research.

Rising Energy Costs. Kyoto imposes costs on all signatory nations, but it especially harms the poor. According to the U.S. Department of Energy, any policy to reduce carbon emissions will significantly affect the entire U.S. energy market. Kyoto will raise

energy costs, increasing the price of housing, heating and cooling, electricity, transportation and consumer products. According to recent studies by the Heritage Foundation and the Competitive Enterprise Institute, by 2010 the Protocol is likely to increase gasoline prices as much as 66 cents per gallon, electricity 52 percent, household fuel 50 percent, grocery bills 9 percent and housing costs 21 percent.

- Direct energy price hikes alone could cost the average U.S. household an extra \$1,000 per year.
- Including effects on all consumer prices, the Heritage Foundation found that increased energy costs

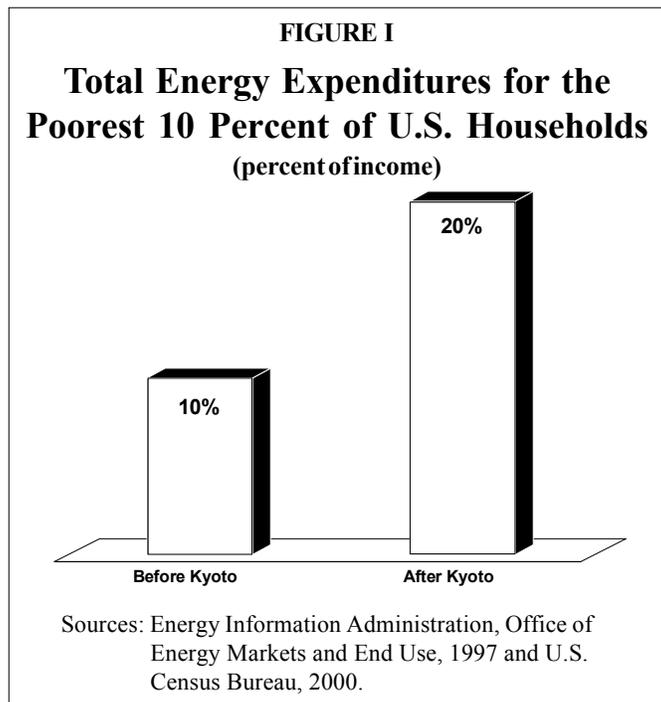
could reduce average household income by \$1,620 per year.

■ Cumulatively, Heritage found that by 2020 the Protocol could cost the average household \$30,000 (in today's dollars) — equivalent to an income tax increase of 14.5 percent.

The effects of rising energy prices are regressive. Low- and fixed-income households spend a larger portion of their incomes on such necessities as heating and cooling, food, transportation and laundry. Also, they use relatively more energy and more energy-intensive products per capita. For instance, energy costs are higher for people who live in older homes and own older appliances than for those living in newer homes with more efficient technology.

The portion of income consumed by energy costs could increase 10 percentage points for the poorest 10 percent of Americans, according to the Department of Energy. Families with annual incomes of less than \$10,000 spend, on average, nearly \$1,000 each year on energy. Kyoto could double this cost to 20 percent of disposable income, or almost \$2,000 per year. [See Figure I.]

Decreased Incomes. Research indicates that mandatory greenhouse gas emissions cuts also would reduce economic output, causing wages and living standards to fall. In his NCPA study, Brown found that under Kyoto the GDP loss for the U.S. in 2010 would be between \$330.2 billion and \$467.8 billion (in 1992 dollars), or \$1,105 to \$1,565 per person. That



would make GDP losses between 2001 and 2012 more than \$4,000 per person and nearly \$11,000 per household.

Reduced wages coupled with inflationary price increases would be an additional impediment to economic progress for those already struggling to make ends meet.

Job Losses. The large economic decline spurred by Kyoto would also increase unemployment. The National Black Chamber of Commerce and the United States Hispanic Chamber of Commerce estimate that as many as 3.2 million Americans could lose their jobs. Low- and moderate-income workers in blue-collar industries would suffer most of the job losses, with almost half of these jobs being lost by Hispanic and African American workers. High-income Americans would be largely shielded from the job cuts.

Effects on Trade. The Kyoto Protocol will affect the worldwide economy, including developing nations not required to cut emissions. By shrinking the economies and energy markets of Kyoto signatories, mandatory emission cuts will seriously curtail trade between industrialized and developing countries.

In 1998, the United States imported \$800 billion in goods from developing countries, more than any other nation. Any economic downturn caused by Kyoto will decrease U.S. demand for imports. According to research conducted by Charles River Associates:

- Most developing nations conduct 60 percent to 75 percent of their trade with industrialized nations.
- Developing countries face economic losses averaging 10 percent of the losses of Kyoto signatories.

Kyoto also will severely depress the international market for fossil fuels, causing energy-exporting coun-

tries to lose revenue. Some energy importing countries, such as South Korea, India and China, could enjoy lower energy costs than the industrialized nations with which they compete in world markets. However, in very few countries would the benefits of lower energy costs offset shrinking export markets. In fact, some of the world's poorest countries, such as Algeria, Congo, Venezuela, Nigeria and Angola, face losses in GDP of

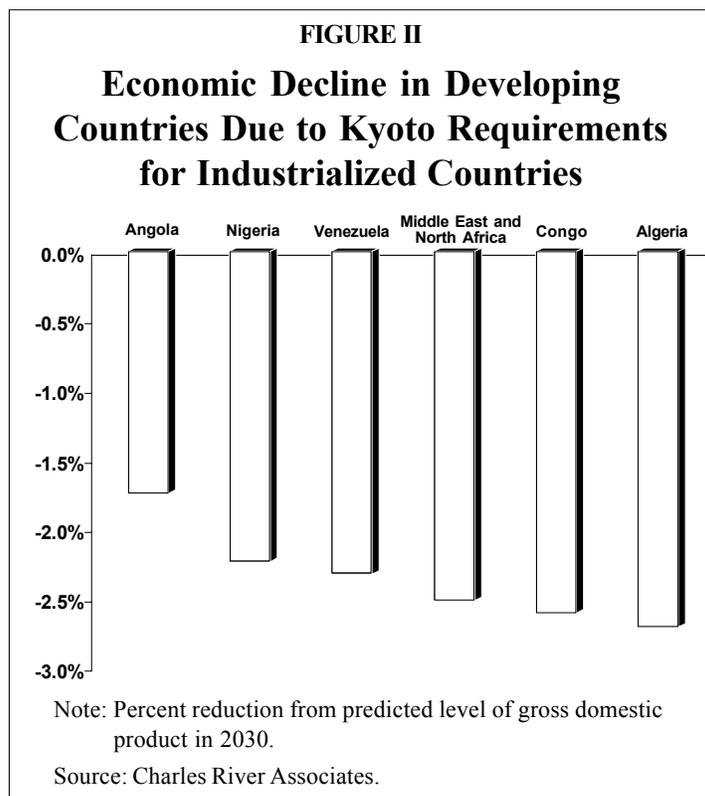
1.75 percent to 3 percent. [See Figure II.] Burdened by very low GDPs, developing nations cannot afford additional drops in their economies. Kyoto signatory nations are also likely to erect barriers that shield their domestic industries from rising energy prices and low-cost foreign competition, causing even more economic harm.

Thus the world's poor — who are concentrated in developing nations — would suffer the most from Kyoto through higher trade barriers, greater energy costs, lower energy demand and fewer job opportunities. Many developing nations' already shaky economies will shatter. And as economies of the industrialized nations also

contract, pleas for aid will likely fall on deaf ears.

Conclusion. The costs of Kyoto will be borne disproportionately by the poor. Low-income families spend a greater portion of their income on necessities than do the wealthy, so they suffer to a greater degree during economic slowdowns. Nor will the poor of the United States be the only victims; the Protocol will deny the poor in developing countries a chance to raise their standards of living. While Kyoto will miss its global warming target, it will score a bull's-eye on the world's poor.

H. Sterling Burnett is a senior fellow with the National Center for Policy Analysis.



Note: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any legislation.

The NCPA is a 501(c)(3) nonprofit public policy organization. We depend entirely on the financial support of individuals, corporations and foundations that believe in private sector solutions to public policy problems. You can contribute to our effort by mailing your donation to our Dallas headquarters or logging on to our website at www.ncpa.org and clicking "An Invitation to Support Us."