



UNITED STATES SENATE
**REPUBLICAN
POLICY COMMITTEE**

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Clinton Announcement Expected Wednesday

**Administration Expected to Defy Byrd/Hagel Resolution,
and to Sell Climate Change Treaty as Painless**

On Wednesday, the President is expected to announce his proposal of targets and timetables for reducing emissions of greenhouse gases. This announcement will coincide with the opening of the Climate Change "workshop" in Bonn, the last scheduled negotiating session prior to the Meeting of the Parties of the Framework Convention on Global Climate Change in Kyoto, Japan, in early December. Although it is not yet known what the specifics of the Administration's position will be, the best guess is that it will propose a target of achieving 1990 levels of emissions by 2010, or perhaps 2015.

Defying Byrd/Hagel Resolution. On July 25, 1997, the U.S. Senate sent the President a clear message in passing S. Res. 98 (the Byrd/Hagel Resolution, Roll Call Vote No. 205), by a vote of 95 to 0. The resolution expresses the sense of the Senate that the United States should not be a signatory to any treaty that "would result in serious harm to the economy of the United States" or that would impose new greenhouse gas emissions reductions on the economically developed countries unless it "also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for Developing Country Parties within the same compliance period."

In apparent defiance of this, the President earlier this month announced his determination to commit the United States to "realistic and binding goals" for greenhouse gas reductions in a treaty that will legally bind the United States and the other economically developed nations. The President did not condition such a treaty on new commitments by the developing countries of the World. The hubris of this President on this issue appears to be based on his confidence that he can use his bully pulpit not only to indoctrinate the American people with the controversial view that Global Warming is catastrophic and immediate, but also on the notion that curtailing energy use will be practically painless, and even good for us.

How "Painless" Will Clinton's Kyoto Targets and Timetables Be? For purposes of

reaching an agreement in Kyoto this December, the European Union has decided to pursue a greenhouse gas emissions target of 15 percent below 1990 levels by the year 2010. Japan has announced it will seek a target of 5 percent below 1990 levels by 2010. As reported in the *Washington Times* (10/15/97), the President intends to take a "strong" position that is likely to "please environmentalists but anger many in Congress."

The President Ignores the Plain Reading of Byrd/Hagel

Keynoting his Climate Change Conference on October 6, President Clinton declared that the United States "must be prepared to commit to realistic and binding goals on our emissions of greenhouse gases." During the speech, the President explained his interpretation of the two conditions for Senate approval of a Kyoto treaty as contained in the Byrd/Hagel Resolution:

- **Byrd/Hagel Condition #1:** The United States should not be a signatory to a treaty that mandates new commitments on the United States unless it "also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for Developing Country Parties within the same compliance period."
- **Clinton's Spin:** On October 6, the President declared that the United States "expects all nations, both industrialized and developing, to participate in this process in a way *that is fair to all.*"
- **Byrd/Hagel Condition #2:** The United States should not be a signatory to a treaty that "would result in serious harm to the economy of the United States."
- **Clinton's Spin:** Since his presidential bid in 1992, Bill Clinton has dismissed any concern that there can be significant trade-offs between environmental and economic goals. Instead, he simply asserts that the goals are totally compatible. On October 6, 1997, he declared that we "*must embrace solutions that will allow us to continue to grow our economy as we honor our global responsibilities.*" He further described these "solutions" as including emphasis on market-based approaches, working with industry, and "promoting technologies that make energy production and consumption more efficient."

Administration Searching for "Cost-Free" Emissions Reductions

It is generally agreed that reducing U.S. emissions to 1990 levels by 2010 will require at least a 20-percent overall reduction in fossil fuel use between now and 2010. A later date, such as 2015, would allow more time for turn over of capital stock to replace inefficient equipment. Recent economic studies analyzing the effect of higher energy costs on the U. S. economy [released by DRI/McGraw-Hill, WEFA (formerly Wharton Economic

Forecasting Associates), the Economic Policy Institute, the Economic Strategy Institute, and Charles River Associates] all forecast large losses in heavy manufacturing jobs and GDP losses of several percentage points by 2010, with greater losses as the controls continue. The studies are based on the assumption that the cost of fossil fuels must be increased by between \$100 and \$200 per metric ton of carbon in the fuel (coal has about two times the carbon per BTU as natural gas) until there is sufficient conservation and fuel substitution to reach the target of 1990 emissions levels by 2010.

To counter concerns that such higher energy prices would cause "serious harm" to the U. S. economy, the Administration officially abandoned its own computer modeling efforts in June (which kept giving the wrong answers) and has substituted rhetorical packaging that promises small negative economic effects. The Administration's ameliorative promises have been based on pie-in-the-sky "market trading" schemes and a highly-optimistic energy conservation technology study, discussed below.

- **International CO2 Trading Program, Now Seen as Unworkable:** What was to be the Administration's "cost-effective" means by which the U.S. economy could reduce its fossil fuel use at minimal cost to the economy has run into two basic problems. First, most analysts believe the proposals are totally unworkable (e.g., a study by Dr. David Harrison of the National Economic Research Association, which this month concluded that the many difficulties "constitute major, if not insurmountable barriers, to the successful development and implementation of an international trading program for greenhouse gases"). And, second, the rest of the world's negotiators appear to have completely rejected the Administration's proposal, as well as a similar "joint implementation" idea.
- **Overly Optimistic Energy-Efficiency Technology Insufficient:** On September 25, the Department of Energy released an energy conservation study conducted by six of the Department of Energy's National Laboratories. This study concluded that energy conservation technologies currently in existence, or that will exist by 2010, such as the just-announced gasoline-powered fuel cells for automobiles, could result in reductions in fossil fuel use equal to about one-third of the 20-percent reduction necessary to reach 1990 levels by 2010. The National Lab study concluded that, under ideal conditions ("aggressive policies"), achieving the other two-thirds of the reductions needed to reach 1990 levels would require the equivalent of a \$50-per-metric-ton carbon fee, exactly one-half the \$100-per-ton carbon fee that the Argonne Laboratory study had concluded earlier in the year was necessary for achieving and maintaining 1990 levels by 2010, and one-quarter of the \$200-per-ton cost that is being used by private-sector analysts. The Energy Department's low-ball \$50-per-ton estimate, if evenly spread out among energy sources, would increase petroleum about 13 cents per gallon and increase each kilowatt by one cent (a 12 percent increase in residential rates). In other words, despite reliance on admittedly optimistic assumptions, the Administration's most

favorable study shows that the United States will be unable to meet a target of 1990 levels -- much less 5 or 15 percent below 1990 levels -- without raising energy prices substantially.

Proposal Expected to Raise Energy Prices Without New Taxes

Since even this Administration's most optimist study admits there is a need for at least a \$50 per-ton of carbon increase in fossil fuel prices before there is sufficient conservation and energy technology penetration to meet the goal of 1990 emission levels by 2010, just how does the Administration propose to increase fuel prices? The three classic ways to raise energy prices are: 1) impose excise taxes on fuels; 2) restrict the use of energy by imposing quotas; or 3) raise energy costs through increased regulations on fuels production, refining, retailing, and use.

Option 1. Propose Direct Energy Taxes: *The Clinton Administration is not expected to propose new direct energy taxes to raise the cost of fossil fuels.* Still smarting from the disastrous 1993 BTU tax proposal (which was to start at about 8 cents per gallon of gasoline, an amount which is anywhere from one-half to one-fifth the minimum energy tax needed to force emissions reductions to 1990 levels by 2010, depending on which study one cites), the Administration has repeatedly indicated that "direct energy taxes" are not being considered.

Option 2. Impose Quotas on Fossil Fuel Use: *Energy prices can be increased (and energy conservation enforced) by artificially limiting fossil energy supplies through rationing or a quota system. To achieve the result of reducing emissions to 1990 levels by 2010, the price of the right to emit CO2 (the "credit" price) would have to increase the price of fuel to the same level as a tax would, that is, between \$100 and \$200 per ton.* The Administration has been trying to build support for an "emissions cap and trade" system with marketable "credits" for CO2 emissions. It is important to remember that while the "trade" is a "market-based solution" for reducing energy use, it is the "cap" on total CO2 emissions that gives the emissions credit its value. This "cap and trade" scheme is really just an energy quota system, that would operate much like the New York City taxi medallion program.

Absent inexpensive and popular energy conservation technologies or lower priced alternatives to fossil fuels, the Administration's domestic CO2 trading program would require everyone wishing to use fossil fuels to: 1) submit to a limit on CO2 emissions that is 20 percent less than current usage; or 2) buy CO2 "credits" (a tax) from the EPA if you want to purchase the right to use fossil fuels. As the bidding price for these credits increases, small businesses and manufacturers subject to international competition will be especially disadvantaged.

An emissions trading mechanism does provide a more economically efficient means of complying with and setting the right price for national emissions reductions requirements than would a broad-based tax. However, the energy conservation effect does not occur unless the energy price is increased to the "right" level, regardless of whether the price increase is achieved by a direct tax or a the purchase of a "credit" to emit. This cap and trade proposal would mean that to reduce carbon emissions to 1990 levels by 2010, it will cost between \$100 and \$200 per metric ton of carbon reduction, whether that price increase is in the form of a tax on fuels or is imbedded in the price of the CO2 emission credits. In both forms, the costs ultimately will be paid by consumers.

The Administration has been claiming that their "cap and trade" proposal would be similar in concept to the SO2 (sulfur dioxide) trading scheme used since the Clean Air Act of 1990, which currently has a credit price that is much lower than many initial forecasts. However, it is inappropriate for the Administration to claim that a CO2 credits will also be much lower in cost than current estimates. Although the SO2 credits are currently only about \$100 a ton of sulfur emissions, the reason for the low price is attributed to the availability of a competitively priced substitute for expensive pollution controls-- Western low sulfur coal (decontrol of railroad rates helped to increase the market share of Western coal following the 1990 Clean Air Act). Unfortunately, there is not an abundance of reasonably priced substitutes for fossil fuels.

Option 3. Impose Regulatory Restrictions on Fossil Fuels: *Already, the Clean Air Act is being used aggressively to reduce coal and petroleum use and increase their costs, irrespective of real benefits to human health.* The Administration has been moving quickly to implement its CO2 reduction objectives by using the Clean Air Act to increase restrictions on fossil fuel emissions and increase energy costs by regulating combustion gases other than CO2. For example, on June 14, the EPA issued its final National Ambient Air Quality Standards (NAAQS) rules on urban and suburban nitrogen oxides and volatile organic compounds that make ozone (62 FR 38856, July 18, 1997), and on fine particulates (PM 2.5) that are mostly the result of fossil fuel combustion (62 FR 38651, July 18, 1997). In addition, the EPA has recently issued a new regulation on sulfur emissions from off-road diesel (62 FR 50151, Sept. 24, 1997), a proposed rule ordering reductions in fine particulates in areas of the country that already have healthy air (62 FR 41137, July 31, 1997), and is proposing targeted rules against coal-fired utilities in the Midwest and Northeast under a nitrogen oxide emissions reduction rule to implement the majority view of the Ozone Transport Assessment Group (OTAG) participants (to be published by the end of October 1997).

EPA regulatory zeal in the face of weak human health data supporting the NAAQS rules, and the absence of human health justification for the other rules, can perhaps be explained only if it is first acknowledged that this Administration is using the Clean Air Act to control greenhouse gases rather than focusing on pollution that is harmful to human health.

This dramatic expansion of the Clean Air Act not only increases the cost of using fossil fuels in these affected areas -- which is now virtually the entire country -- but it also has expanded EPA's ability to control fossil fuels through stationary source permits and new State Implementation Plans affecting almost every county in the entire United States. Once the EPA has firmed up this control matrix, it is in position to crank down on standards and thus crank up the costs of fossil fuel use. In fact, EPA is limited only by what is politically acceptable. Recall that the health standard in the Clean Air Act permits -- actually requires -- EPA to set ozone and particulates to a zero-emissions level to protect human health with an adequate margin of safety. Since ozone and particulates appear to have human health effects all the way down to the lowest detectable limits, EPA could set ambient air standards down to a zero level, and, of course, economic costs cannot be considered in setting the "health" standards.

Conclusion

The President's announcement tomorrow is likely to be warm and fuzzy. He will likely promise "realistic" emissions limits that will be "painless" because of market trading and new technologies. While promising environmentalists he will deliver a "legally binding" treaty, he may tell the unions he will offer carrots (from American taxpayers) to developing countries that pledge to undertake their own commitments some day down the road. If so, it is fortunate that the next turn for such a treaty on the road from Kyoto is into the Senate parking lot.