



## Cap-and-Trade Would Weaken America

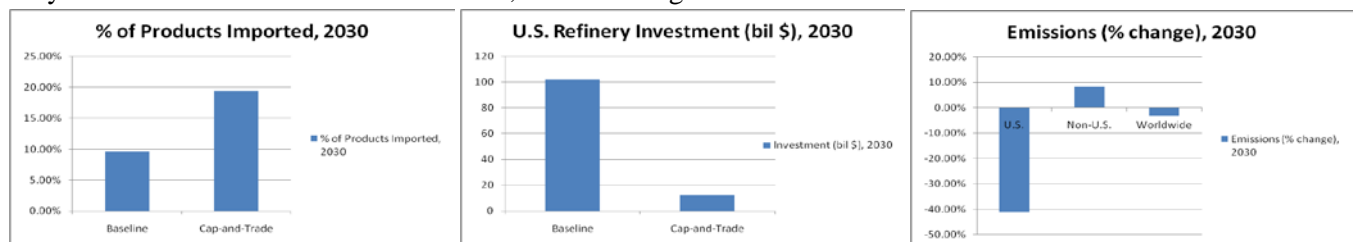
Proponents of cap-and-trade argue that it is critical to national security.<sup>1</sup> But, in fact, cap-and-trade would weaken America by increasing our dependence on foreign fuels and manufactured goods, sending billions of U.S. dollars overseas, and shrinking our economy, all without achieving its environmental goals.

### More Dependent on Foreign Fuels

EPA analyzed cap-and-trade provisions in the Waxman-Markey bill,<sup>2</sup> on which the Kerry-Boxer<sup>3</sup> bill is modeled, and found that it did not significantly reduce petroleum usage.<sup>4</sup> Moreover, the Obama Administration has proposed additional taxes on oil and gas production, which would reduce domestic production.<sup>5</sup>

In addition to failing to decrease petroleum demand significantly or increase domestic supply, cap-and-trade would actually increase our dependence on foreign refineries because domestic refineries would be less competitive due to skyrocketing compliance costs. A recent study concludes that refineries are responsible for 43 percent of emissions covered by Waxman-Markey, but receive only 2.25 percent of free allowances in early years.<sup>6</sup> Refiners would have to purchase or obtain the vast majority of the allowances they need, increasing their costs substantially. As a result, the study predicts that imports of refined products could double as our domestic industry becomes less competitive (see chart below).<sup>7</sup>

The U.S. imports nearly twice as much crude oil as we produce, but at least much of the oil is refined here, providing American workers with good jobs.<sup>8</sup> Cap-and-trade would dramatically reduce investment in American refineries, and existing refineries would be less utilized, threatening jobs.<sup>9</sup> All of this economic pain would be for very little worldwide emissions reductions, since refining activities would continue outside the U.S.<sup>10</sup>



Source: Ensys Study (see endnote 6) – figures are for 2030 under No International / Limited Case scenario.

### More Dependent on Foreign Manufacturing

The National Association of Manufacturers (NAM) examined the likely impact of Waxman-Markey on industrial output and concluded that domestic industrial production would be reduced by up to 6.5 percent by 2030.<sup>11</sup> While all American businesses would be hurt by higher input prices for electricity, natural gas, and other fuels, American manufacturing would be especially vulnerable and likely to head overseas. “By 2030, some of the largest hit sectors are transportation equipment manufacturing (\$83 to \$114 billion), chemical manufacturing (\$48 to \$61 billion), petroleum and coal products (\$26 to \$627 billion), and metals (\$37 to \$48 billion).”<sup>12</sup> The Waxman-Markey and Kerry-Boxer bills implicitly acknowledge that energy intensive manufacturing is at risk and provide for some free allowances to protect industry.<sup>13</sup> Those allowances, however, fall short and end quickly.<sup>14</sup>

To counter this harsh reality, some Senators advocate border tariffs on goods that are manufactured in countries without costly carbon constraints.<sup>15</sup> Even if such measures complied with trade agreements, they could start a trade war, hurting farmers and exporters and imposing higher prices on Americans.

### **Billions in Climate Reparations & Taxes Go Overseas**

One study analyzed the dollar value of free permits directed overseas (to be sold back to American companies) and the likely cost of offset projects that U.S. companies would fund overseas in lieu of obtaining permits. It found that Waxman-Markey would send between \$36 billion and \$59 billion overseas each year.<sup>16</sup> In addition, developing countries have insisted that they be given foreign aid of \$100 billion a year or more for adaptation and mitigation as part of a climate treaty.<sup>17</sup>

### **Cap-and-Trade Will Weaken our Economy**

Study <sup>18</sup>	Years	GDP Loss (max. 1 yr)	GDP Cumul.
EIA <sup>19</sup>	2012-30	\$453 billion (~2.3%)*	\$3.024 trillion*
NBCC <sup>20</sup>	2012-50	\$630 billion (1.5%)	n/a
NAM <sup>21</sup>	2012-30	\$571 billion (2.4%)*	\$3.1 trillion*
Heritage <sup>22</sup>	2012-35	\$712 billion (~2.8%)	\$9.4 trillion
Brookings <sup>23</sup>	2050	2.5%	n/a
CBO <sup>24</sup>	2012-50	1.1-3.4%**	n/a
EPA <sup>25</sup>	2012-50	\$1.1 trillion (3.5%)*	\$18.18 trillion*

\* figures are "up to" this amount, as multiple scenarios were run.  
 \*\* based on review of other studies.

Analysis from multiple sources indicates that cap-and-trade will reduce the size of our economy (see chart).

The results demonstrate that a Waxman-Markey-style cap-and-trade bill would severely impact the economy. A smaller economy damages America's security because revenue for defense, intelligence activities, and homeland security is generated from the economy. As the economy shrinks, so do the resources available for these activities.

### **U.S. Cap-and-Trade Alone Means No Gain for Climate**

The goal of climate policy is to reduce *global* emissions of greenhouse gasses. The national security threats (such as more droughts) raised by, among others, Senator Kerry,<sup>26</sup> will not be addressed by unilateral U.S. cap-and-trade. Developing countries like China (the world's largest emitter) are responsible for about half of global emissions and their emissions are rising rapidly.<sup>27</sup> China, India and other countries, however, have largely refused to reduce their emissions and have suggested the United States should cut its emissions by 40 percent by 2020 (compared to Kerry-Boxer's seven percent reduction), implying such a step would be necessary before they will act.<sup>28</sup> Any action on their part, moreover, would likely be short of an actual emissions reduction.<sup>29</sup> Most tellingly, EPA is on record affirming that a U.S. cap-and-trade policy would not impact world CO<sub>2</sub> levels.<sup>30</sup>

### **Bottom Line: Cap-and-trade would weaken America.**

<sup>1</sup> See, e.g., July 21, 2009 Senate Foreign Relations Committee Hearing.

<sup>2</sup> The American Clean Energy and Security Act of 2009, H.R. 2454.

<sup>3</sup> The Clean Energy Jobs and American Power Act, S. 1733.

<sup>4</sup> As explained in the RPC Fact Sheet, "Cap-and-Trade: Little to No Help on Foreign Oil Dependence," available here: [http://rpc.senate.gov/public/\\_files/EnergyFactsForeignOilDependencedraft7.pdf](http://rpc.senate.gov/public/_files/EnergyFactsForeignOilDependencedraft7.pdf).

<sup>5</sup> The Administration proposed billions in increased taxes on the oil and gas industry and actually proposed getting rid of a tax credit for enhanced oil recovery projects, arguing that it could encourage "overproduction of oil" that would be "detrimental to long-term energy security and is also inconsistent with the Administration's policy of reducing carbon emissions and encouraging the use of renewable energy sources through a cap-and-trade program." General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals, Department of Treasury, May 2009, p. 60. Available here: <http://www.treas.gov/offices/tax-policy/library/grnbk09.pdf>.

<sup>6</sup> "Waxman-Markey (H.R. 2454) Refining Sector Impact Assessment," August 21, 2009, Ensys Energy, p. 18. (Ensys Study) Available here: [http://www.api.org/Newsroom/refining\\_sector.cfm](http://www.api.org/Newsroom/refining_sector.cfm).

<sup>7</sup> Ensys Study, p. 54.

<sup>8</sup> Source EIA, Petroleum Statistics, available here: [http://tonto.eia.doe.gov/energyexplained/index.cfm?page=oil\\_home#tab2](http://tonto.eia.doe.gov/energyexplained/index.cfm?page=oil_home#tab2).

<sup>9</sup> Ensys Study, pp. 10-12.

<sup>10</sup> The study concluded that U.S. refining throughput, by 2030, would decrease by up to 4.4 million barrels per day (mbd) while refining throughput would increase worldwide by up to 3.3 mbd. Ensys Study, p. 48. While U.S. refinery emissions would, by 2030, go down by 20.1 to 41.2 percent, the much larger non-U.S. refinery emissions would increase by 2.5 to 8.3 percent. Overall emissions by 2030 would decrease in total by 2.7 to 3.1 percent worldwide. Ensys Study, p. 59.

<sup>11</sup> "Analysis of The Waxman-Markey Bill," Summer 2009, p. 5. (NAM Study) Available here: [http://www.accf.org/media/dynamic/3/media\\_387.pdf](http://www.accf.org/media/dynamic/3/media_387.pdf).

<sup>12</sup> NAM Study, p. 28. Even if the bill is somehow successful in generating a green economy, the nation could be in danger of over-reliance on suppliers of minerals necessary for green technology, such as China and Russia. Green technology requires many rare minerals, such as quartz for photovoltaic panels (100% imported), platinum for fuel cells (91%), indium for LED lighting (100%), and rare earth minerals for advanced batteries (100%). See "Mineral Commodities Summary 2009," U.S. Department of Interior, U.S. Geological Survey. Available here:

<http://minerals.usgs.gov/minerals/pubs/mcs/2009/mcs2009.pdf>. This would leave America dependent on supply disruptions based on geopolitical factors.

<sup>13</sup> See H.R. 2454, Title IV, Subtitle A, Sec. 401; S. 1733, Sec. 311-313.

<sup>14</sup> See RPC Fact Sheet, "Kerry-Boxer's Bait and Switch on Manufacturing," available here:

<http://rpc.senate.gov/public/ files/BaitandSwitchManufacturing.pdf>.

<sup>15</sup> "Midwestern Senator Puts Manufacturing Issues at Forefront of Climate Debate," New York Times, 10/14/09. Available here:

<http://www.nytimes.com/cwire/2009/10/14/14climatewire-midwestern-senator-puts-manufacturing-issues-33943.html>.

<sup>16</sup> CRA Study, p. 38.

<sup>17</sup> See, e.g., "Biggest Obstacle to Global Climate Deal May be How to Pay for It," *The New York Times*, 10/15/09. Available here:

[http://www.nytimes.com/2009/10/15/science/earth/15climate.html?\\_r=2&ref=todayspaper](http://www.nytimes.com/2009/10/15/science/earth/15climate.html?_r=2&ref=todayspaper).

<sup>18</sup> The studies were conducted at different points of the legislation so should be viewed as approximations. The Brookings Institution study was a study of a more generic cap-and-trade regime, and did not model any legislation.

<sup>19</sup> "Energy Market and Economic Impacts of H.R. 2454, the American Clean Energy and Security Act of 2009," August 2009. Available here:

[http://www.eia.doe.gov/oiaf/servicert/hr2454/pdf/sroiaf\(2009\)05.pdf](http://www.eia.doe.gov/oiaf/servicert/hr2454/pdf/sroiaf(2009)05.pdf). These figures are compiled from data spreadsheets, available here:

<http://www.eia.doe.gov/oiaf/servicert/hr2454/excel/reference.xls> (reference) and here: <http://www.eia.doe.gov/oiaf/servicert/hr2454/excel/hr2454nibiv.xls>

(No International Offsets / Limited Technology)

<sup>20</sup> "Impact on the Economy of the American Clean Energy and Security Act of 2009 (H.R. 2454)," August 2009, p. 5. Available here:

[http://www.nationalbcc.org/images/stories/documents/CRA\\_Waxman-Markey\\_Aug2008\\_Update\\_Final.pdf](http://www.nationalbcc.org/images/stories/documents/CRA_Waxman-Markey_Aug2008_Update_Final.pdf).

<sup>21</sup> NAM Study, pp. 4-5.

<sup>22</sup> "The Economic Consequences of Waxman-Markey: An Analysis of the American Clean Energy and Security Act of 2009," August 6, 2009. Available here:

<http://www.heritage.org/Research/EnergyandEnvironment/cda0904.cfm>.

<sup>23</sup> "Consequences of Cap and Trade," June 8, 2009. Available here:

[http://www.brookings.edu/~media/Files/events/2009/0608\\_climate\\_change\\_economy/20090608\\_climate\\_change\\_economy.pdf](http://www.brookings.edu/~media/Files/events/2009/0608_climate_change_economy/20090608_climate_change_economy.pdf).

<sup>24</sup> "The Economic Effects of Legislation to Reduce Greenhouse-Gas Emissions," statement of Director Douglas W. Elmendorf before the Senate Energy & Natural Resources Committee, October 14, 2009. Available here: <http://www.cbo.gov/doc.cfm?index=10561>.

<sup>25</sup> "EPA Analysis of the American Clean Energy and Security Act of 2009," available here:

<http://www.epa.gov/climatechange/economics/economicanalyses.html#hr2452>. These numbers are from the data annex, "H.R. 2454 EPA Data Annex – ADAGE & IGEM v. 2.3.xls" – "Macroeconomic – IGEM Scn07" tab. Data Annex is zipped, and available here:

<http://www.epa.gov/climatechange/economics/downloads/HR2454Analysis-DataAnnex.zip>.

<sup>26</sup> July 21, 2009 Hearing, prepared remarks can be found here: [http://www.boston.com/news/politics/politicalintelligence/2009/07/kerry\\_panel\\_loo.html](http://www.boston.com/news/politics/politicalintelligence/2009/07/kerry_panel_loo.html).

<sup>27</sup> See generally, RPC Fact Sheet "U.S. Cap-and-Trade Without International Action: All Pain and No Gain," available here:

<http://rpc.senate.gov/public/ files/EnergyFactsInternationalAction.pdf>.

<sup>28</sup> "China Hopes U.S. to Commit to 'Postive' Emission Cut," Bloomberg, October 8, 2008. Available here:

[http://www.bloomberg.com/apps/news?pid=20601130&sid=aWRAX35\\_fLp0](http://www.bloomberg.com/apps/news?pid=20601130&sid=aWRAX35_fLp0). Kerry-Boxer calls for a 20% reduction from 2005 levels by 2040, which amounts to about 7% reduction from 1990 levels.

<sup>29</sup> See note 27.

<sup>30</sup> See EPW minority staff press release: [http://epw.senate.gov/public/index.cfm?FuseAction=Minority.PressReleases&ContentRecord\\_id=564ed42f-802a-23ad-4570-3399477b1393&Region\\_id=&Issue\\_id.](http://epw.senate.gov/public/index.cfm?FuseAction=Minority.PressReleases&ContentRecord_id=564ed42f-802a-23ad-4570-3399477b1393&Region_id=&Issue_id.)