TEXAS PUBLIC POLICY FOUNDATION
PolicyBrief

June 2008
Center for Natural Resources Policy

Staggering Cost and the Benefit?

Lieberman-Warner America's Climate Security Act

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NOTE: Proponents and many opponents of L-W predicted the inevitability of passage—if not this year, then next year with a new President. So much for the inevitability to date. Last Friday, June 6, a preliminary cloture vote to end debate failed 48-36. The same day, 10 Democratic Senators signed a letter withdrawing their support for this bill. Without votes for final passage, Majority Leader Harry Reid likely will pull L-W from the Senate floor. Renewed efforts to pass a re-worked version of L-W are expected in early 2009 because both presidential candidates have supported L-W.

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PB06-2008

Now on the floor of the U.S. Senate, America's Climate Security Act merits sober scrutiny. Sponsored by Senators Joe Lieberman and John Warner and supported by Senators Obama and McCain, this bill would create the world's most stringent, enforceable greenhouse gas (GHG) regulatory regime, far more ambitious than Kyoto or the European Union's. George Will called this bill "an unprecedentedly radical government grab for control of the American economy." *The Wall Street Journal* called it "the most extensive government reorganization of the economy since the 1930s." No part of the political spectrum denies the high cost of Lieberman-Warner's cap and trade scheme to mandate reduction of carbon dioxide (CO2). As the country's leading energy producer, Texas would be disproportionately impacted.

Economic Impacts on Texas

A *low* average of six macroeconomic analyses reviewed estimate that Lieberman-Warner's CO2 cuts would decrease GDP by 1.5-2.5 percent annually. That translates to annual costs of $160 billion to $250 billion by 2015 with job losses of 1.2-2.3 million. Even the Environmental Protection Agency—never known to exaggerate economic impacts of its regulation—predicts a reduction of GDP up to 3.8 percent by 2030 and 6.9 percent by 2050. In dollars, that amounts to $1-3 trillion loss in productivity. Gas and electricity prices could increase 50-150 percent within 10 years. Significantly lower estimates downplay the stringency of the CO2 caps, exaggerate the roles of renewables, or overlook growth.

Texas would undergo more economic loss than any other state. In production and use, Texas is the most energy intensive state, accounting for 11.6 percent of U.S. anthopogenic CO2 emissions. Not surprising, Texas produces almost 30 percent of U.S. transportation fuels and over 60 percent of all chemicals. The Texas Gross State Product (GSP) is the size of Canada's Gross Domestic Product (GDP).

Using the National Energy Modeling System (NEMS), The National Association of Manufacturers (NAM) completed a comprehensive analysis of the economic impacts of L-W on individual states. In NAM's analysis, Texans would experience a decrease in disposable household income per year of $1,044-$3,384 by 2020 and $4,395-$8,015 by 2030. Nationally, the household income reduction would average $739-$2,927 by 2020 and $4,022-$6,752 by 2030.

Sharp and steadily increasing energy prices account for such impact. **According to the NEMS model, Texas gasoline prices would increase 76-147 percent and electricity prices would increase 101-145 percent by 2030.** Texas' gross state product (GSP) would fall by $12 -$16.6 billion per year by 2020 and $44.2-$52.2 billion by 2030. Texas job losses would be high. The many trade-exposed manufacturing industries in Texas may be forced to relocate to countries without expensive carbon mandates.

CO2 Control Technology Not Yet Available

So why the massive costs? The answer is simple: the magnitude of reductions and the absence of CO2 control technology. Lieberman-Warner's hard limits on CO2 begin in 2012 and end with a 70 percent reduction by 2050. As in nature's chemistry, CO2 is a ubiquitous by-product of our energy based 85 percent on oil, natural gas, and coal. Unlike pollutants such as nitrogen oxides (think ozone), emission controls capable of reducing CO2 so much and so fast do not yet exist on any commercial scale. And contrary to 'quick switch' to renewables policies, there are no realistic *near term* alternatives to the fossil fuel dominance of the U.S. energy system.

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Renewables Cannot Provide Near-Term Alternatives

Crunch the numbers on wind energy. At 4,446 megawatts in 2007, Texas has more installed wind generation capacity than any other state. In the same year, actual generation from wind in Texas was only 2 percent of total generation. The national average was less than 1 percent of actual wind generation. Electric generation from wind always requires a back-up source to prevent outages. When wind stops blowing, as occurred last March 26 in Texas, back-up generation (usually from natural gas) is needed to keep electricity flowing.

Ethanol cannot any time soon displace the dominance of petroleum based fuels regardless of the mandated volumes in the federal fuel standard. Perhaps only four million of the 240 million vehicles on U.S. roads are flexible fuel capable of using up to 85 percent ethanol (E85). The engines in the remaining 236 million vehicles can only use a maximum of 10 percent ethanol. And only around 1,000 of our 72,000 service stations can dispense 85 percent ethanol fuel. Most stations are in the Midwest near ethanol production to avoid the costly but necessary transport of ethanol by truck or train. However many new vehicles can use E85, it will require decades for a substantial fleet turnover.

U.N. Science is the Policy Driver

Lieberman-Warner's objective is drawn from the U.N.'s Intergovernmental Panel on Climate Change (IPCC) recommendation that global CO2 must be reduced 50-85 percent below 2000 levels by 2050 "to prevent dangerous interference with the climate system." The same body predicts that by 2020, developing countries like China and India will emit 75 percent of global CO2.

Developed countries like the U.S. and Europe will emit only 20 percent of worldwide CO2 emissions. Thus, no 'temperature saving' benefit accrues from the stringent U.S. reductions unless the developing world similarly sacrifices and pays. Who believes that China and India will arrest their finally growing economies to avert the uncertain risk of global warming? L-W would make "the policy of the United States" binding international agreements through U.N. auspice to secure requisite global reductions. Although an unlikely first in world history, such globally binding agreements on energy are tantamount to global governance. Not an even playing field, the U.S. is almost the only country capable of effective enforcement of its laws.

Expansion of Federal Economic Controls

In addition to 'binding' U.N. agreements, L-W would dramatically enlarge the government's role in basic economic activity. Among many new federal entities, L-W would create two federal financial institutions with awesome authority: the Climate Change Credit Corporation and the Carbon Market Efficiency Board. This Corporation would auction carbon allowances and spend the revenue for things like re-training workers and providing "energy assistance" to low-income families. The auction proceeds would increase federal revenues by $1.21 trillion over the 2009-2018 period according to the Congressional Budget Office. Rare legislative recognition of a bill's potential to "significantly harm the economy," the Carbon Market Efficiency Board has the authority to intervene with "cost relief measures," a quantum leap for federal interference with markets.

Take note of the 'market façade'—as George Will dubbed it—in cap and trade schemes, a market controlled by those federal corporations and the EPA. And beware of smoke and mirrors in carbon credits. The Emission Trading System (ETS) of the European Union (EU) has not reduced CO2. Billions of Euros have been exchanged and some traders did quite well. Energy prices have increased and so has CO2.

European Union Carbon Cap & Trade Fails To Date

While the EU increased its carbon emissions in 2005 and 2006, America's declined 1.5 percent while our economy grew by 2.9 percent. The U.S. has long been the largest generator of CO2 but China surpassed us last year. China is building the equivalent of a 600 megawatt coal-fired power plant every week, with far less emission control than is now standard in the U.S.

As the IPCC's science is allegedly the justification for such a draconian CO2 reduction scheme, what climate benefits would result from the downturn of the yet robust Texas economy? Not really any. Using the IPCC model, a total elimination of all Texas CO2 emissions would result in an irrelevant temperature saving of 0.005 of 1 degree Celsius in 2025 and 0.018 degree Celsius in 2050.

General Public Does Not Support Costly Measures

Although the highly audible opinion of the nation's elite supports the Lieberman-Warner approach, how representative is this opinion? A recent nationwide survey of 1,000 registered voters found quite the contrary. When asked whether energy independence or action to address climate change was more important, 72 percent favored energy independence as their priority.

Lieberman-Warner is an ineffective way to address risk of adverse climate change. Market-driven development of carbon capture technology and of new energy sources with intensity comparable to fossil fuels is the most practical long-term approach.

The warming predicted by the models of IPCC is gradual and cumulative, allowing time to develop cost-efficient alternatives and to assess the relative certainty of the IPCC model. Never has relatively 'data-free' predictive science assumed such a mighty policy making role. Change of the magnitude dictated by Lieberman-Warner must be justified by far more empirical science than the IPCC model. Built on fossil fuels over 100 years, the U.S. energy system cannot be replaced overnight. Nor should the economic growth and quality of life made possible by our energy supply be ruptured by legislative fiat.