



The Big Picture

Global Warming "Cap and trade" Regulation

Why this type of legislation should be discouraged by members of our industry.

by Kirk Grundahl, PE.

Lawmakers on Capitol Hill are beginning to look at ways to legislate an end to global warming. One leading concept is called "cap and trade." Under a cap and trade system, the government would set a limit on carbon dioxide emissions (which are considered one of the leading causes of global warming) and allow companies to buy and sell rights to emit carbon dioxide.

The cap and trade system was originally designed, tested and shown to be somewhat successful here in the U.S. as a sulfur dioxide limiting program within the 1990 Clean Air Act. In the 1990s, the U.S. acid rain cap and trade program achieved 100% compliance in reducing sulfur dioxide emissions. In fact, power plants participating in the program reduced SO₂ emissions by 22%—7.3 million tons—below mandated levels.¹ This success convinced countries of the European Union to adopt a similar cap and trade system for carbon dioxide (CO₂) in 2004.

One big difference between the two programs is, of course, the emissions they are trying to control. Controlling CO₂ emissions is much different than reducing sulfur dioxide because CO₂ is produced naturally by many living things. For example, carbon dioxide is produced by all animals, plants and microorganisms during respiration and is used by plants during photosynthesis. Carbon dioxide is generated as a byproduct of the combustion of fossil fuels or vegetable matter, among other chemical processes.²

The CO₂ released in fossil fuel combustion is the type of CO₂ that is the target of the cap and trade proposals. Fossil fuel currently provides 85 percent of America's energy, and 98 percent of its transportation fuel.³ Creating caps will impose immediate restrictions on the use of coal, oil and natural gas for American businesses and consumers.

The leading proposal currently in Congress, America's Climate Security Act of 2007 (S. 2191), sponsored by Senators Joseph Lieberman (I-CT) and John Warner (R-VA), would establish a permit cost of \$30 per ton of carbon dioxide emissions in 2015, which would add \$0.25 to each gallon of gas.⁴

We are currently witnessing the detrimental effect of increased costs caused by fuel price spikes, from food to gasoline to manufactured goods. Further, independent firms like Charles Rivers Associates (CRA), have estimated that the cap and trade system will significantly increase energy prices by 36 to 65 percent by 2015 and by as much as 80 to 125 percent by 2050.⁵ According to CRA, a 15 percent reduction in carbon dioxide emissions through this measure would result in the 60 million Americans with the lowest incomes paying an additional \$800 to \$1,300 per household by 2015, rising to \$1,500 to \$2,500 by 2050.⁶

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¹ Environmental Protection Agency, "Sulfur Dioxide Emissions Reduction Program, Analyzing the 1990 Clean Air Act," September 19, 1997, p. 4.

² http://en.wikipedia.org/wiki/Carbon_dioxide

³ Lieberman, Ben. Beware of Cap and Trade Climate Bills. The Heritage Foundation, Dec. 6, 2007.

⁴ Environmental Protection Agency, "EPA Analysis of The Climate Stewardship and Innovation Act of 2007," July 16, 2007, p. 2.

⁵ Margo Thorning, "The Impact of America's Climate Security Act of 2007 (S. 2191) on the U.S. Economy and on Global Greenhouse Gas Emissions," Testimony before the Committee on Environment and Public Works, United States Senate, November 8, 2007, p. 3.

⁶ Ibid., p. 6.

at a glance

- Carbon dioxide emissions are believed to be a major contributing factor to global warming.
- Congressional proposals to limit carbon dioxide emissions of businesses are called "cap and trade" energy bills.
- Cap and trade policies would increase energy costs for companies and possibly even residences.
- United States' businesses would be at a competitive disadvantage to nations not operating under CO₂ regulations if cap and trade legislation is passed by Congress.

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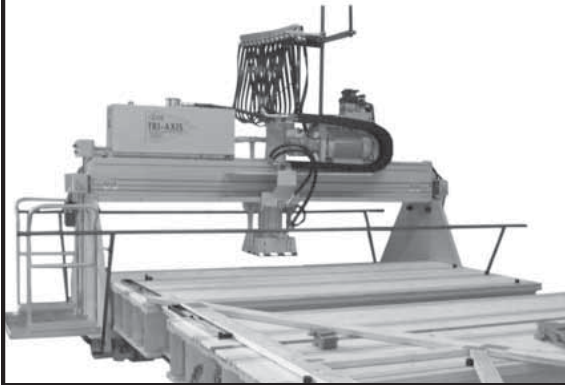
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The European Union is already experiencing significant problems with their CO₂ cap and trade system. Electricity has already become so expensive in some countries, it has forced some manufacturers to negotiate energy prices daily and shut down during the day when energy prices spike. French cement workers are losing their jobs because workers in nearby Morocco don't have to meet the EU restrictions, and energy prices in Germany are nearly 25 percent higher than before the cap was put in place.⁷

Analyzing S. 2191 further, CRA estimates that net job losses will be between 1.2 million and 2.3 million in 2015, directly caused by implementation of this legislation. In addition, the stringent cap on carbon emissions will create a competitive disadvantage for U.S. manufacturers against their foreign competitors, much like that faced by the French cement workers.

What's more, if other developing nations fail to pass similar restrictions, it is likely that many domestic manufacturers will relocate their facilities to other countries, taking away jobs while not limiting global production of carbon dioxide. When considering the structural building components industry, if restrictions are only put in place in the U.S., without reciprocal participation by Canada and Mexico, component manufacturers will be forced to compete at a competitive cost disadvantage.

Finally, hasty and piecemeal adoption of a cap and trade system in the U.S. could have disastrous unintended consequences on the current residential housing industry. Here is a scenario that could easily happen:

There appear to be very real unintended consequences with respect to solving global warming through governmental regulation.

Businesses will move their manufacturing to locations that do not have cap and trade regulations to remain competitive. This means more U.S. jobs will move offshore, resulting in less demand for domestic housing and less taxes. We have already seen a similar shift in software and manufacturing jobs moving to Southeast Asia due primarily to lack of ability to immigrate to the U.S. to provide these jobs and lower operating costs.

Higher fuel and energy costs will likely alter residential construction due to rising transportation costs, pushing home buyers toward more urban single-family homes that are high-rise/high-density oriented.

These higher costs will also make housing construction materials more costly to produce and will make it harder for the average American family to buy a home. The higher downstream home ownership costs will also affect the percentage of families that can afford to purchase a home.

In addition to the impact it would have on U.S. home ownership and manufacturing, an entire cap and trade economy will be created that will essentially be a separate currency. For instance, an entirely new CO₂ accounting system will need to be created. This may have great value to those that have CO₂ credits, but it will be costly for those that do not, particularly if the supply of CO₂ credits is at all constrained. You can also expect that there will be speculators buying and selling CO₂ credits creating supply/demand imbalances and generating profits by manipulating this imbalance. We may also see hedge funds and futures markets, created with unknown consequences. An entirely new economy is sure to emerge in very interesting and diverse ways. Hang on!

In the end, legislation like S. 2191 will probably prove extremely costly to U.S. consumers because it creates a very difficult goal to attain (15 percent reduction in overall carbon emissions below 2005 levels by 2020, even as the population increases), while diverting scientific research dollars toward short-term fixes instead of long-term solutions. Meanwhile, our nation risks losing millions of real jobs, faces spiraling energy prices, and a potential exodus of U.S. industry overseas. In addition, without adoption of reciprocal restrictions in other nations like India and China, our reductions in emissions will simply be replaced by theirs.

There appear to be very real unintended consequences with respect to solving global warming through governmental regulation. We will do our best to closely watch cap and trade legislation unfold and provide perspective as early as we can so that needed business adjustments can be made. **SBC**

⁷ Mufson, Steven, "Europe's Problems Color U.S. Plan to Curb Carbon Gases," Washington Post, April 9, 2007, p. A01.



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