



Senate Energy Committee considers alternatives to cap & trade

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Washington, Dec. 2 – Fighting the massive threat posed by global climate change will require equally massive global innovation and investment to curb greenhouse gas emissions. Therefore, Dr. Ray Kopp, Director of Resources for the Future’s Climate Policy Program, told a Senate Energy Committee hearing Wednesday that “we must gain the greatest reductions from the least expensive sources.”

Senate Energy Committee Chair Jeff Bingaman (D-NM) opened the hearing on “Policy Options for Reducing Greenhouse Gas Emissions” by stating his clear preference for “a cap-and-trade mechanism to reduce greenhouse gas emissions.” But acting on a joint request from the committee’s Ranking Member Lisa Murkowski (R-AK) and Sen. Byron Dorgan (D-ND), he called the hearing to consider alternatives including “carbon taxes, direct regulation, sector-specific approaches, and technological innovation.”

Murkowski welcomed the hearing and called for a thorough evaluation of alternative policies “actually capable of reducing emissions while protecting or even strengthening the economy.” She warned that if Congress passes legislation based on “blind faith in cap and trade” the result could be “layers of bureaucratic regulation which are duplicative, inefficient and counterproductive.” She said “Promoting cleaner energy is a laudable goal but measures to make it a reality must provide a net benefit to our economy.” She called for a carbon tax as the option offering the greatest efficiency, transparency and economic benefits.

The clearest statement from witnesses comparing the merits of different policy options came from Dr. Ted Gayer of the Brookings Institution who testified that:

- “Either a carbon tax or a cap-and-trade program will result in substantially lower economic costs than command-and-control regulations that mandate technologies, fuels, or energy efficiency standards.”
- “Given the uncertainty of the future costs of climate policy, a carbon tax is more economically efficient than cap-and-trade.”
- “Carbon allowances in a cap-and-trade program would be susceptible to price volatility. Price volatility causes economic disruptions and complicates investment decisions. It also could lead to political pressure on Congress to repeal or substantially loosen the cap.”

- “A carbon tax, in which the revenues are used to offset economically harmful taxes or to pay down our deficit, would substantially lower the cost of climate policy compared to a cap-and-trade program that gives away allowances for free.”
- “The currently proposed climate bills rely heavily on offsets to reduce the overall costs of cap-and-trade. Given the substantial potential value of offsets, there is a very real concern that offset integrity will not be maintained. This would result in a weakening of the cap, undermining its environmental benefits.”

After voicing his support for a carbon tax, Gayer then pointed out that “my arguments in favor of a carbon tax over cap-and-trade are made easier in that I am comparing my ideal hypothetical carbon tax to the actual cap-and-trade programs either passed by the House or proposed in the Senate.” He acknowledged that “a cap-and-trade program that included a safety valve and that auctioned allowances would achieve many of the economic advantages of a carbon tax.” He also told senators that while he has the luxury of simply analyzing the economics, “You, of course, have the more difficult task of determining what is politically feasible.”

Natural Resources Defense Council Director of Climate Programs David Hawkins warned against “selecting a single policy tool to attack the intertwined issues of energy supply, technology innovation, and reduction in global warming pollution.” He explained that NRDC supports “a comprehensive limit or cap on global warming pollution that becomes tighter each year, combined with complementary programs to drive improved performance in key sectors.” He said a dual-track approach as successfully used in the Clean Air Act is essential due to the political reality that “the cap enacted by Congress will involve compromises.”

Hawkins said the political compromises which have already watered down Congress’ initial cap-and-trade proposals would also impact a carbon tax, leading to “constant political pressures to lower the tax,” coming particularly from the coal industry.

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