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Is cap and trade necessary to ease climate change? Two views

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Yes: Tough caps would likely curb pollution and cool warming

By William Buzbee and Victor B. Flatt

Congress is beginning to grapple with climate change. Reps. Henry Waxman (D-Calif.) and Ed Markey (D-Mass.) have introduced a bill that would establish a cap-and-trade mechanism for significant reductions in U.S. global warming emissions. The bill is smart and comprehensive, covering energy, fuels, cars and more. Despite some shortcomings, it's a good place to start the discussion about how to fix the most serious environmental problem the planet has ever faced.

Polluting industries have mounted a scare campaign to persuade us that it's too severe, will cost jobs, choke the economy — the same complaints we hear every time industry worries about being inconvenienced. But the truth is that in important ways, the bill doesn't go far enough.

The core of the bill is a cap-and-trade system, under which big polluters will acquire allowances that would permit them to emit greenhouse gases — carbon dioxide, for example. If polluters emit less than anticipated, they can sell excess "credits" to other polluters, who can use them to effectively raise their own caps. The question is where the caps are set, and the bill ultimately sets the cap considerably above the levels recommended by scientists and international negotiators. The effort will be for naught if developing countries such as China balk at emissions targets because they believe the United States isn't shouldering its fair share.

The bill also embraces the sorts of offsets we've already seen in the markets, where a product's associated greenhouse gases are "offset" by carbon absorption from say, planting trees. Polluters could buy carbon offsets — from wind farms, for example — and use the saved emissions as a credit against their own emissions. The bill also discounts offset-created pollution rights with respect to ordinary allowances. This gives polluters sound incentives to cut their own emissions, and it adjusts offset credits to account for risks that offsets aren't as beneficial as hoped. But the bill needs to do better to ensure that environmental harms associated with offsets can be addressed.

Industry is hoping that a federal bill will have a generous cap and that it will preempt state efforts. Waxman-Markey would indeed require states to surrender their own cap-and-trade markets for five years, but otherwise preserves the possibility of state legislation. In addition, the draft bill's language needs to be strengthened to ensure states retain their usual powers to otherwise protect their citizens and the environment. Without such clarification, wasteful litigation over retained state power is likely.

One reason a cap-and-trade scheme makes sense is that it doesn't really matter where carbon emissions occur; it's the cumulative effect that matters. Unfortunately, the co-pollutants that go up the smokestack with carbon dioxide can have a severe impact on nearby communities, and those communities are usually poor. And since some polluters will accumulate credits or offsets allowing them to burn more fuel, there's good reason to worry about "hot spots" where co-pollutants get out of control.

April brought news that climate change has brought a major ice shelf in the Antarctic to the verge of collapse, while a six-year-long study by NASA concludes that Arctic ice is melting faster than thought. Climate change is upon us, and Waxman-Markey could be the vehicle by which the United States finally takes action.

William Buzbee, a law professor at Emory, and Victor B. Flatt, University of Houston Law Center, are scholars with the Center for Progressive Reform.

No: Caps could hinder jobs, energy sector in U.S. economy

By Donald Hertzmark

Congress is about to debate a bill that promises to remake the most fundamental resource in the U.S. economy: energy. In this, we might learn a few things:

- » Energy is the largest sector of the U.S. economy, even greater than the primary energy output of the Middle East, including the Persian Gulf oil producers.
- » Jobs that leave the U.S. because of cap and trade will result in more pollution worldwide than if those jobs remained here.
- » The revenue base for cap and trade is only temporary, as the bill promises to kill the industries that

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As California has shown, premature zeal about carbon dioxide reductions can be a big job killer. For states with a lot of heavy industry and power generation, cap-and-trade legislation, in which climate costs would be distributed across regions and income groups, is likely to force wholesale shifts in economic activity. But where will these jobs go? And will the world's environment be better or worse off?

All indications are that cap-and-trade will lead to wholesale >shifts in jobs to nonparticipating countries that decline to sign a climate-change treaty. China is a nonparticipant. When industry moves to China, its carbon dioxide emissions will go up compared to the U.S. China's economy as a whole uses about twice as much energy per dollar of GDP as the U.S. manufacturing sector. This means that energy-related emissions will double or more due to this shift in activity. Moreover, since China relies on coal for almost 70 percent of its primary energy, compared to 32 percent in the United States, not only carbon dioxide, but many other emissions will more than double.

A skilled U.S. workforce will eventually find something else to make. Unfortunately, as a recent University of Massachusetts study found, the average wage in "green energy" jobs is about 65 percent of that in the industrial and energy jobs that are lost.

Alas, only the lawyers will do well, for cap-and-trade promises to ignite a global trade war, one already promised by Secretary of Energy Steven Chu. The cap-and-trade bill specifically permits the government to levy carbon fees on imports from non-complying countries, such as China. Such duties are contrary to world trade agreements and will lead to endless litigation and, possibly, a trade war with China, our country's largest creditor.

Europe tried cap-and-trade for its carbon dioxide program a few years back, allocating permits by firm and industry. For a few years there was a thriving market in these tradable permits, mostly to sell excess carbon dioxide permits, purchased from firms that had not used up their allowances, or to "offset" emissions in Europe with reductions in other countries, by investing in various clean energy projects elsewhere. When it was discovered that the initial allocation of permits had been far higher than Europe's industries actually generated, the price of permits collapsed.

Proponents in the U.S. claim that they have learned these lessons. Perhaps, but are we really serious about tacking on new costs to already struggling industries such as autos and primary metals? Or will we find a way to make special considerations for weak industries, and regions, and states? And pretty soon we will be back to the European system that reduced carbon dioxide by not one bit, but produced a whirlwind of regulations and trading activity.

Donald Hertzmark, an energy economist, consults for government and oil, gas and power businesses.

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