EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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(Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 3036 – Lieberman-Warner Climate Security Act
(Sen. Boxer (D) CA)

The Administration believes that climate change is an important issue and is taking significant domestic and international actions to address it. As Congress debates this important issue, it must recognize that bad legislation would raise fuel prices and raise taxes on Americans without accomplishing the important goals the Administration shares. This debate should be guided by certain core principles and a clear appreciation that there is a right way and a wrong way to approach reducing greenhouse gas emissions.

The right way is:

- to set realistic goals for reducing emissions consistent with advances in technology, while increasing our energy security and ensuring growth in our economy;
- to adopt policies that spur investment in new technologies needed to reduce greenhouse gas (GHG) emissions without unreasonable burdens on consumers and workers;
- to expand emission-free nuclear power generation and encourage the investments necessary to produce electricity from coal without releasing carbon into the air;
- to ensure that all major economies are bound to take action and to work cooperatively with our partners for a fair and effective international climate agreement;
- to lower trade barriers and create a global free market for clean energy technologies, making advanced technology more affordable and available in the developing world; and
- to prevent the misapplication of other environmental laws, such as the Clean Air Act, the Endangered Species Act and the National Environmental Policy Act, not designed to address greenhouse gases as part of any new GHG specific framework.

The wrong way, as reflected by S. 3036 and the Boxer Amendment, is:

- to sharply raise the price of gas, raise taxes, or demand drastic emissions cuts that have no chance of being realized and every chance of hurting our economy;
- to impose burdensome new mandates on top of ones that were enacted just last year;
- to leave limitations on nuclear power generation and waste disposal unaddressed;
- to establish unrealistic timeframes for massively restructuring the economy that assume the use of technologies not yet developed or demonstrated to be economically feasible;
- to create a system that will squeeze household income, cost many jobs, reduce growth in the economy, impose a huge new tax, and create uncontrolled spending;
- to take unilateral action that will undercut efforts to get developing countries to limit their emissions while having negligible effect on GHG concentrations and global temperatures;
- to impose counterproductive provisions that could ignite a carbon-based trade war; and
- to allow the misapplication of a patchwork of 30-year-old laws that were not designed to regulate greenhouse gas emissions.

For these and other reasons stated below, the President would veto this bill.

The Administration is taking serious steps to address climate change. By the end of this Administration, the Federal government will have spent almost $45 billion to support climate change-related programs, with $40 billion in loan guarantees made available to support investments in technologies that will reduce greenhouse gases. Further, the recently enacted Energy Independence and Security Act of 2007, which generally followed the President's "Twenty in Ten" Initiative, will reduce GHG emissions by billions of tons. Additionally, the Administration is working with all major economies and through the United Nations negotiation process to ensure a new international climate change framework is both environmentally effective and economically sustainable.

At the outset, S. 3036 fails to address the misapplication to GHG emissions of statutes that clearly were not designed specifically to regulate these global emissions, such as the Clean Air Act, the Endangered Species Act, and the National Environmental Policy Act. It also fails to align its new mandates with those enacted just five months ago governing fuel economy, alternative fuels production, and energy efficiency. The bill would add to, rather than substitute for, a 30-year patchwork of environmental laws that would impose a great cost on the economy, and would create misallocations of economic resources, statutory conflict and confusion, and perpetual litigation. The bill also permits a State, without any precondition, to impose more stringent GHG emission restrictions, thereby rendering the bill potentially a mere floor to fifty separate regulatory regimes, in which one state could seek to regulate the economies of others.

Hurts Consumers

Legislation on this important issue should balance three goals: address climate change, increase energy security, and facilitate economic growth. This legislation lacks this balance and sacrifices consumer welfare and economic growth for marginal reductions in future global GHG concentrations. Consequently, the impact on consumers from the combination of the high compliance costs and the new tax and spend programs would be enormous. The current national average gasoline price is nearing $4 per gallon. This bill would increase gasoline prices another $0.53 per gallon relative to the expected price in 2030 and another $1.40 per gallon relative to the expected price in 2050. Furthermore, it would increase electricity prices 44 percent in 2030 and 26 percent in 2050. The combined effects of this bill would diminish household disposable income - EPA estimates this bill would reduce a typical American household's purchases by nearly $1400 in 2030 and as much as $4400 in 2050.

Shrinks the Economy

S. 3036 is likely to severely damage the economy and drive jobs overseas. As an example, the Environmental Protection Agency (EPA) and the Energy Information Administration have estimated, respectively, that the bill as reported could reduce U.S. Gross Domestic Product by as much as seven percent (over $2.8 trillion) in 2050, and reduce U.S. manufacturing output by almost 10 percent in 2030 -- before even half of the bill's required reductions have taken effect.

Imposes Excessive Regulatory Costs

S. 3036's approach to reducing greenhouse gases would force drastic and costly emission cuts. EPA estimates the costs necessary to achieve this GHG abatement are on the order of $10 trillion through 2050. This would make S. 3036 by far the single most expensive regulatory bill in our Nation's history. These costs would be passed on to consumers through higher electricity and heating bills and increased gasoline costs. In fact, the abatement costs for this bill are estimated to be approximately three times as much as previous Senate climate bills analyzed by EPA.

Implements a Tax and Spend System

S. 3036 and the Boxer Amendment would, in effect, constitute one of the largest tax and spend bills in our Nation's history, costing Americans dramatically more than the BTU energy tax proposals rejected by the Congress in 1993. Furthermore, the bill's inefficient allocation scheme for emission allowances would create arbitrary winners and losers and inefficiently distort economic incentives for production and innovation.

Based on EPA's recent analysis, the bill would raise approximately $6.2 trillion in constant dollars ($11.8 trillion with inflation) through the auction of GHG emission allowances to owners and operators of utilities and factories who would have to purchase allowances to stay in business. In addition, the bill gives away allowances valued at $3.2 trillion for auction by States, foreign governments, and private entities. The cost of purchasing these allowances also would be passed on to consumers as higher prices. This would amount to a regressive "stealth" tax that would hit low and middle income working families hardest.

Expands Mandatory Spending Irresponsibly

This new tax would take funds out of consumers' wallets to add $2.6 trillion through 2050 in new mandatory, automatic spending, which already consumes 62 percent of the Federal budget. For example, the bill includes $346 billion in entitlement spending on new training and income support programs at the Department of Labor, and $750 billion in new mandatory foreign aid financed by auction revenue and emission allowance giveaways to foreign countries, without any control or oversight through the annual appropriations process.

Creates New Bureaucracies

The bill creates a new Climate Change Technology Board, as a so-called independent agency, with the authority to distribute $750 billion worth of funding and emissions allowances through 2050 to finance various energy efficiency programs. The bill also creates a new International Climate Change Commission, which would have the authority to determine whether foreign countries are taking sufficient action to prevent climate change and to undertake enforcement actions, such as the prohibition of certain imports, as a penalty for countries that do not take sufficient steps. The establishment of these unaccountable entities raises serious constitutional concerns, particularly with respect to the restrictions placed upon the President's authority to both appoint and remove members of these entities.

Risks Trade Conflicts

The provisions for international reserve allowances would harm efforts to persuade major developing countries to take action to limit their GHG emissions. Reserve allowances effectively impose an import surcharge which would lead to higher prices for U.S. consumers and could lead targeted countries to impose similar restrictions on U.S. exports based on their own unilateral definitions of comparable action. That would result in serious trade conflicts and impose significant costs on the U.S. and global economies. Major developing economies would be less, not more, amenable to make hard choices in international climate negotiations. Thus, these provisions would be counterproductive to U.S. efforts to ensure that all major GHG emitting developing countries commit to concrete national actions to limit emissions. Rather than relying on the prospect of punitive trade sanctions, an effort should be made to foster trade liberalization to promote economic growth and the deployment of clean technologies.

Fails to Achieve Stated Goals

The bill's unilateral approach would jeopardize American competitiveness and drive jobs abroad, often simply relocating greenhouse gas emissions to other countries, rather than reducing them. These steep domestic costs would thus be accompanied by only minuscule changes in global concentrations of greenhouse gases – between 7-10 parts per million (ppm),or 1-2 percent, in 2050, and 25 – 28 ppm, or 3-5 percent, in 2095, as estimated by EPA. For comparison, an increase of 90 ppm would result in roughly a one degree Celsius increase in the global temperature, based on Intergovernmental Panel on Climate Change estimates.

Expands Davis-Bacon Act

The substitute would expand Davis-Bacon Act prevailing wage requirements to cover several new programs of grants and “rewards” for projects relating to renewable energy, low or zero carbon generation technology, and carbon capture technologies that are authorized under the bill. Such an expansion is contrary to the Administration’s longstanding policy of opposing any expansion of the application of the Davis-Bacon Act’s prevailing wage requirements.

Creates Legal Problems

Several provisions in the bill purport to direct or burden the conduct of foreign relations relating to climate change in a manner inconsistent with the constitutional authority of the President to conduct foreign policy and to safeguard sensitive diplomatic information. In addition, the bill, as amended, would authorize the President to modify any requirement of this bill, for a specified time period, if he determines that a national security, energy security, or economic security emergency exists and that doing so is in the paramount interest of the United States. However, the bill raises practical and constitutional concerns by making the President’s decision subject to legislative and judicial oversight.

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