Testimony

before the
Select Committee on Energy Independence and Global Warming
Honorable Mr. Edward J. Markey, Chairman
United States House of Representatives

on
After Bali – the UN Conference and the Impact on International Climate Change Policy

by
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Chairman Markey and Members of the Committee, thank you for inviting me to testify today on the important topic of the outcomes of the global warming talks in Bali last week. My name is Myron Ebell. I have served as director of energy and global warming policy at the Competitive Enterprise Institute (CEI) since 1999. CEI is a non-profit, non-partisan public policy institute that concentrates on regulatory issues from a free-market perspective. CEI does not accept government funding. CEI is an NGO accredited to the United Nations Framework Convention on Climate Change, and CEI's President, Fred Smith, attended the 1992 Earth Summit in Rio de Janeiro. CEI has sent NGO participants to many of the succeeding Conferences of the Parties, including COP-3 in Kyoto in 1997. I have been an observer of the Kyoto process from the beginning, and, although I did not attend this year's COP in Bali, I have attended several previous COPs since joining CEI.

The general outcome of COP-13 in Bali seems to me to be remarkably similar to the outcomes of most previous COPs. What usually happens is that, at the last minute and on

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the brink of failure, triumph is snatched from the jaws of defeat by the extraordinary negotiating efforts of the UNFCCC secretariat and the government ministers attending. The triumph is embodied in a document, the substance of which is that a new consensus has been reached that represents a breakthrough or a conceptual agreement or the way forward or a road map. When this consensus is examined a little more closely, it is almost always found to consist of the intention to continue negotiating plus a pledge to reach agreement on all outstanding issues by a date certain.

Bali followed this generic script. As Fiona Harvey and John Aglionby reported in the *Financial Times*: "At last, the world had agreed to talk again about the shape of a new international framework to avert dangerous climate change."

Another notable aspect of these negotiations in recent years has been their insulation from reality. It has often seemed that the negotiators have been determined to produce another piece of paper without taking any notice of whether the commitments made in previous pieces of paper are being fulfilled or even paid any attention. At Bali, I think, a glimmer of reality made its way into the negotiations. This is a most welcome change and will lead to further positive changes in the negotiations if pursued. Therefore, before discussing the specific outcomes in Bali, the roles of the United States and other key countries, and what I believe should be the goals for future climate policies, I would like to discuss some of the realities that provide the backdrop to Bali and all future negotiations on a post-Kyoto global warming treaty.

It is now apparent that the Kyoto Protocol is a dead end. The reality is that, since Kyoto was agreed in December 1997, greenhouse gas emissions have continued to increase in every nation that undertook commitments to reduce emissions. In many countries that ratified Kyoto, emissions have actually increased at a faster rate in percentage terms than in the United States, which did not ratify Kyoto. In Canada, neither the current government nor its more pro-Kyoto predecessor has developed a plausible plan to meet Kyoto's targets. The United States and Canada have had similar rates of population and economic growth from the Kyoto baseline year of 1990 through 2005, but Canada's greenhouse gas emissions have increased 26%, while those of the United States have only increased by 16%. Japan has had little population growth and far less economic growth than the U. S., yet Japanese emissions are up 7%.

The failure of Kyoto's mandatory targets and timetables is nowhere more apparent, yet nowhere less acknowledged, than in the European Union. In Spain, to take the most extreme example, emissions have increased 53%, closely tracking economic growth of just over 50%. For comparison, the U. S. economy has grown roughly 3% for every 1% increase in emissions. Moreover, population growth has equaled emissions growth in the U. S., so that per capita U. S. emissions have remained steady since 1980.

The European Commission continues to assert that the EU will meet its Kyoto targets with "continuing and additional measures". This is highly unlikely without a major economic recession. The EU's principal continuing measure is its Emissions Trading

Scheme. A recent exhaustive analysis by Open Europe, a London-based think tank, concluded that the ETS had failed miserably in its first commitment period and was almost certain to continue to fail in the 2008-12 Kyoto compliance period. Open Europe's report, "Europe's Dirty Secret: Why the EU Emissions Trading Scheme isn't Working," also details how some special interests are making huge profits at the expense of consumers.

Another continuing measure to reduce emissions is high gasoline taxes. Taxes have been increased to exorbitant levels in most western European nations, so that the typical price of gasoline is now over $7 per gallon. Yet emissions from the transportation sector have increased 26% since 1990, according to the European Environment Agency. It should be noted that each one dollar of tax per gallon of gas translates into a tax of approximately $100 per metric ton of carbon dioxide emissions.

As for the EU's additional measures, these are proving difficult to adopt. Instead, the British government is on the verge of approving a new runway at Heathrow Airport and is considering applications to build a number of new coal-fired power plants. The German government has applied for special exemptions for its coal industry and on behalf of its auto industry is resisting the European Commission's new proposal to regulate auto emissions.

As a recent article in *Nature* magazine titled "Time to Ditch Kyoto" noted, the Protocol "has produced no demonstrable reductions in emissions or even in anticipated emissions growth." And thus, "the Kyoto Protocol was always the wrong tool for the nature of the job." The authors conclude that it is necessary "to radically rethink climate policy."

The reasons why these command-and-control regulations are failing to reduce greenhouse gas emissions are simple: (1) central planning doesn't work; (2) the alternatives to hydrocarbon fuels cost far too much; and (3) the necessary technology isn't available yet. Those are the realities, but I am aware that claims to the contrary have been made constantly for the past decade. Therefore, let me briefly review these claims.

The major source of economic optimism about the costs of reducing emissions is provided by the Stern Review of the Economics of Climate Change. Sir Nicholas Stern and his team of two dozen or so professional economists produced a most impressive 700-page report that displays all the technical tools of the economics profession. It concludes that the costs of global warming between now and 2200 will be from 5% to 20% of total global economic output, whereas the costs of reducing emissions by 60% below 1990 levels by 2050 would amount to only 1% of total global economic output. Thus reducing emissions is a great deal.

The Stern Review's conclusions have not stood up to professional scrutiny. Professor Richard S. J. Tol's review of 102 econometric studies of the costs of global warming published in peer-reviewed journals concluded that the negative externalities, that is the costs, of global warming would be equivalent to a tax of no more than $12 per metric ton of carbon dioxide emissions. That would depress demand for coal somewhat, but would

do little to reduce auto emissions, since it would only raise the price of gasoline by 12 cents per gallon. Setting a realistic price on emissions would, Tol concluded, thus do little to reduce emissions.

Similarly, Yale University's Professor William Nordhaus, one of the world's leading economists, recently published a study that estimates that the damages to 2100 caused by a global warming of 3 degrees C will be $22 trillion. Achieving the Stern Review's emissions targets by 2050 would reduce the damages to $9 trillion, but the measures necessary would cost $27 trillion.

Another way of analyzing the Stern Review's conclusions was provided by Sir Partha Dasgupta, the Frank Ramsey Professor of Economics at Cambridge University. Sir Partha noted that Stern's estimated costs of only 1% of total global economic output to 2200 would have to be paid by 2050. Thus the costs should have been averaged over the next 43 years rather than the next two centuries. Since the model Sir Nicholas used projects much higher global economic output in the 22nd century than in the 21st, the effect of paying for emissions reductions between now and 2050 is a massive re-distribution of wealth from the current relatively poor generation to much wealthier future generations. Sir Partha estimated that it would require a 97.5% savings rate in the current generation to pay for the necessary emissions reductions. As my colleague Marlo Lewis has remarked over the years, this truly is a policy of all pain and no gain.

The news is no better from the technology end of the debate. Claim after claim is made about one alternative technology or another being available now or right around the corner. It is true that there are many promising technologies, but they do not begin to meet more than a small fraction of the world's future energy needs. The Energy Information Administration's most recent International Energy Outlook forecast that world energy demand would increase 71% between 2003 and 2030. Currently, approximately 85% of the world's energy is supplied by hydrocarbon fuels. EIA forecasts that in 2030, approximately 85% of the world's energy will be supplied by hydrocarbon fuels.

The Department of Energy has recently produced some estimates of what would be required in terms of alternative technology to reduce emissions by 59% below 1990 levels by 2050. Global emissions in 1990 were roughly 21 gigatons of carbon dioxide-equivalent. In 2005, global emissions had increased to 27 gigatons. EIA forecasts emissions in 2050 of 48 gigatons. To reach the target will therefore require global emissions reductions of 35 gigatons below the EIA baseline projection. A slide show I recently saw given by Stephen D. Eule of DOE listed what would be needed to reduce emissions by just one gigaton—and 35 are required. For example, build 136 new nuclear plants of 1 gigawatt capacity instead of new coal-fired power plants. Or build 14 times the current total number of windmills in the world. Or replace 273 million cars that get 20 miles per gallon with 273 million cars that get 40 miles per gallon. Or build 273 new zero-emission 500 megawatt coal-fired power plants. Currently, there are three or four demonstration coal-fired power plants that can capture and store about two-thirds of their carbon dioxide emissions. To again quote my colleague Marlo Lewis, setting mandatory

targets and timetables before the technology is available to meet those targets and timetables is setting the regulatory cart before the technology horse.

These are the realities that I think need to be considered as the Parties to the UNFCCC embark on a new round of negotiations on a post-2012 agreement. Although the Bali Action Plan largely follows the failing framework of the Kyoto Protocol, there are several glimmers of hope. The plan recognizes the importance of adaptation. Efforts to prevent deforestation are also in the plan. Most encouragingly, the European Union's insistence that the action plan commit the Parties to a long-term target of mandatory emissions reductions of 50% below 1990 levels by 2050 was dropped. For countries that are failing to meet their Kyoto targets by picking the low-hanging fruit that we hear so much about to then promise to meet much harder targets is just lunacy. Moreover, it seems almost impossible that rapidly developing nations such as China and India would take seriously such a mandatory target when they can see clearly that the European Union, Japan, and Canada are not meeting the much easier Kyoto targets.

While the EU and its member nations continued to play an irresponsible role at Bali, I think it is fair to say that the delegations representing United States, Canada, and Japan made positive and constructive contributions to the negotiations. Together, they can be seen to be trying to get the world off its Kyoto fixation and to begin looking for alternative policies that might address the potential challenges of global warming in ways that will not consign hundreds of millions of people in poor countries to perpetual energy poverty.

To build on these promising beginnings during the course of the negotiations will in my view require several further recognitions and realizations. First, the major developing nations need to recognize that playing the game they have been playing may seem clever now, but won't work over the long haul. China and India have enthusiastically supported a second round of mandatory emissions cuts for the developed nations, but not for them. They hope that in a second round the developed economies will have to pay billions and billions of dollars to them to install modern emissions-saving technologies and also that energy-intensive industrial production will continue to move from carbon-constrained economies to theirs. China, India, and other developing and poor countries understand that going on an energy starvation diet when you are already energy poor offers far more pain than gain. The potential harms caused by global warming are minor annoyances when compared to the immense benefits of affordable energy. Instead of playing a cute double-faced game, China and India should articulate the reasons why the demands from the energy-rich nations for them to accept mandatory emissions reductions before the technology is available to make those reductions affordably are simply another form of eco-imperialism.

Second, the United States needs to adopt the same positive approach rather than continuing to insist that no second round of mandatory emissions reductions can be agreed unless China, India, and the other major developing nations also agree to some level of mandatory reductions. I think that Senator John Kerry was correct when, as reported by the Associated Press, he remarked in Bali that the United States Senate would

probably never ratify a deal that didn't require America's growing economic rivals to make comparable sacrifices. A recent study produced by the Pacific Northwest National Laboratory for the Department of Energy demonstrates conclusively that pursuing emissions reductions in the U. S. without requiring reductions by the major developing economies would in fact be pointless. That is because emissions growth in the developing economies is going to swamp proposed reductions in the developed economies.

But standing on that position in international negotiations will only lead to endless and increasingly acrimonious disagreements. The United States needs to realize that it is also a major developing economy and should make common cause with India and China to pursue policies that are based on the world's energy needs. As long as population continues to increase in the United States, emissions are going to increase as well. The developing countries, including the United States, should agree on an agenda that is based on the simple facts that the world is not energy rich, it is energy poor, and that for the foreseeable future most of the energy the world uses is going to come from hydrocarbons.

Those simple facts should be the starting point for producing realistic and positive global warming policies. The goals of the new round of negotiations in my view should therefore address global warming as a potential problem within the context of the energy needs of the world's poorest people as well as of the world's richest people. What do I think those policies would look like? Because access to energy is so important, I think the first emphasis should be on avoiding regulatory climate policies that would have high costs in the near term in order to avoid potential problems in the long term. These problems may turn out to be real, but future societies will be much better equipped to handle them than we are.

The second emphasis should be on developing and deploying new energy technologies. That has been President Bush's position since 2001, and it was given institutional form with the creation of the Asia-Pacific Partnership for Clean Development and Climate. Special attention should be given to reducing the tax and regulatory policies that discourage investment in new technologies. As new technologies become commercially viable, they will be adopted without requiring regulatory mandates.

The third emphasis should be on increasing adaptive capacity and building resiliency in societies. As several important papers by Indur M. Goklany have shown using official IPCC and British government data, the costs of addressing potential adverse impacts caused by global warming directly are much lower than by addressing them indirectly through emissions reductions. Mr. Goklany has also shown that the IPCC computer model forecasts of future temperature increases predict that a richer-but-warmer world will be better off than a poorer-but-cooler world. Modern industrial societies are already resilient, not least because they have lots of energy. Subsistence societies, on the other hand, are vulnerable to bad weather and to changes in climate. Building resilience in poor societies requires access to modern energy.

Thank you, Mr. Chairman, this concludes my testimony. I would be happy to try to answer any question that you or other Members of the Committee may have.