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OP-ED

A backwards step in U.S. energy policy
By Marlo Lewis, Jr.

Which climate-related initiative poses the biggest threat to America's economic future?

Is it:

(a) the Kyoto Protocol, with its growth-chilling restrictions on carbon-based energy use;

(b) Sen. Jim Jeffords's (I-Vt.) "Clean Power Act," which would impose Kyoto-like carbon dioxide (CO2) controls on the electric power industry; or

(c) the McCain-Lieberman "Climate Stewardship Act," which would cap CO2 emissions from the electric power, manufacturing, and transportation sectors?

Surprisingly, the most toxic climate policy is none of the above headline grabbers but rather one most people have never heard of - "transferable credits" for "verified" greenhouse gas reductions. If enacted, this plan will mobilize corporate lobbying for Kyoto and dozens of kindred energy rationing schemes like McCain-Lieberman.

Surprisingly, the chief sponsors of this political force-multiplier for the Kyoto agenda are three anti-Kyoto stalwarts: President Bush, Sen. Chuck Hagel (R-Neb.), and Sen. Pete Domenici (R-N.M.). The motives of these honorable men are not in question. However, on this issue they have been deplorably advised.

On Feb. 14, 2002, Bush directed several agencies to transform the Department of Energy's Voluntary Reporting of Greenhouse Gases Program (VRGGP) into a program awarding "transferable credits" for verified greenhouse gas emission reductions.

Responding to the president's initiative, several months later Hagel introduced an amendment to the Senate energy bill directing the Department of Energy to expand the VRGGP into a crediting program - only to withdraw the amendment a week later due to lack of support. However, Domenici's recent staff-drafted energy bill revives the Hagel amendment. All of which just goes to show that bad policy ideas never die; they just get recycled.

Originally known as "credit for early action," transferable credits began as a strategy to win corporate and congressional support for Kyoto-style regulation. The strategy's chief architect was the pro-Kyoto activist group Environmental Defense. President Clinton endorsed the idea in 1997. Meanwhile, the Pew Center on Global Climate Change, headed by former Clinton-Gore Kyoto negotiator Eileen Claussen, marketed the plan to corporate America. Kyoto-leaning Sens. John Chafee (R-R.I.) and Joe Lieberman (D-Conn.) introduced early credit legislation in the 105th and 106th Congresses.

The basic idea was simple: Award credits to companies that begin to comply with Kyoto before it is even ratified, and allow those companies to sell or use the credits to offset future regulatory obligations. In effect, participating companies acquire Kyoto stock that bears dividends if - but only if - Kyoto or similar regulation is ratified or enacted. Credit-holders thus acquire cash incentives to support Kyoto, or lobby for its domestic equivalent.

Although touted as "voluntary" and "win-win" (good for business, good for the environment), transferable credits create a coercive system in which one company's gain is another's loss.

Tradable credits have value only in relation to an emissions reduction target or "cap." If the cap is not broken, then every credit awarded for "voluntary" reductions in the "early action" period must be subtracted from the total available in the mandatory period. Thus, for every company that gains a credit in the early action period, there must be another that loses a credit in the compliance period.

Consequently, companies that do not "volunteer" will be penalized - forced in the mandatory period to make deeper reductions than the cap itself would require, or to purchase credits at higher prices than would otherwise prevail.

The scheme has a vast potential to corrupt the politics of energy policy. Because it penalizes non-participants, many businesses will "volunteer" just to avoid getting shoved to the shallow end of the credit pool later on. The calculated political result is a critical mass of companies holding energy rationing coupons - assets that mature only under Kyoto or comparable regulation.

When it comes to climate policy, Lieberman, Environmental Defense, and the Pew Center on Climate Change may be wrongheaded, but they are not na<ve. They all advocate: (a) energy rationing - carbon "cap-and-trade" programs - and (b) government-certified energy-rationing coupons - what Domenici's draft bill calls "transferable credits with unique serial numbers for verified reductions." The two policies are so clearly linked that it's embarrassing to hear Bush advisors try to deny it.

When will the Bush administration and its pro-energy allies on Capitol Hill wake up? If they embrace Chafee-Lieberman, America will get stuck with McCain-Lieberman. If they create energy rationing coupons, America will end up with energy rationing.

Credits for early reductions are the pre-regulatory ramp up to an energy constrained future. They have no place in an energy bill worthy of the name.

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