2ARMS 562

RECORD TYPE: FEDERAL (NOTES MAIL)

CREATOR:Kenneth L. Peel (CN=Kenneth L. Peel/OU=CEQ/O=EOP [CEQ])

CREATION DATE/TIME: 7-APR-2003 18:00:25.00

SUBJECT:: Re: Fw: Marlo Lewis - Better no bill than an anti-energy bill

TO:Phil Cooney (CN=Phil Cooney/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TEXT:
I had received it. Thanks, Ken

Phil Cooney
04/07/2003 05:59:35 PM
Record Type: Record

To: Kenneth L. Peel/CEQ/EOP@EOP
cc:
Subject: Fw: Marlo Lewis - Better no bill than an anti-energy bill

---------------------- Forwarded by Phil Cooney/CEQ/EOP on 04/07/2003 05:58 PM ---------------------------

Kameran L. Onley
04/07/2003 03:26:47 PM
Record Type: Record

To: Phil Cooney/CEQ/EOP@EOP, Kenneth L. Peel/CEQ/EOP@EOP, Debbie S. Fiddelke/CEQ/EOP@EOP
cc:
Subject: Fw: Marlo Lewis - Better no bill than an anti-energy bill

----- Original Message -----
From: "Marlo Lewis" <mlewis@cei.org>
Sent: Friday, April 04, 2003 6:35 PM
Subject: Marlo Lewis - Better no bill than an anti-energy bill

I thought this article might interest you.

http://www.nationalreview.com/comment/comment-lewis040403.asp

April 4, 2003, 9:20 a.m.
Nix the Energy Bill
Better no bill than an anti-energy bill

By Marlo Lewis Jr.

The White House seems to believe that passing an energy bill - any energy bill - will help GOP candidates win in 2004. Because of this, Republicans on
Capitol Hill are likely to face increasing pressure over the coming year to accept "energy" policies that are, in fact, anti-energy. That would be a colossal blunder.

Energy, as the late Julian Simon observed, is the "master resource" - it enables mankind to transform all other resources into goods and services. Make energy scarcer and dearer, and you stifle enterprise, job creation, and
growth. Rising energy prices caused or contributed to every recession of the
past 25 years. If the 108th Congress enacts anti-energy policies - under the
guise of "climate" or "global-warming" policy - Republicans will take the heat in 2004 for the economy's poor performance.

Global-warming policy typically aims to restrict emissions of carbon dioxide
(CO2). But CO2 is the inescapable byproduct of the hydrocarbon fuels that supply 70 percent of U.S. electricity and 84 percent of all U.S. energy. The
Kyoto global-warming treaty, which would limit U.S. CO2 emissions to 7 percent below 1990 levels, is a gigantic energy-rationing scheme - the regulatory equivalent of regressive, growth-chilling energy taxes.

The Senate Energy and Natural Resources Committee has drafted "energy" legislation that will, if enacted, lead inexorably to Kyoto-style energy rationing. The draft bill directs the Department of Energy to award companies "transferable credits" for "voluntary" CO2 emission reductions. Under this scheme, companies that take steps now to reduce their CO2 emissions will earn regulatory credits they can later use to comply with Kyoto or a similar compulsory regime. This is fatal to sound energy policy because transferable credits will: (a) create the institutional framework for future Kyoto-type emissions cap-and-trade programs, and (b) grow the "greenhouse lobby" of Enron-like companies seeking to profit from energy suppression policies.

Here are nine reasons why policymakers should deem any transferable credit provisions as an energy-legislation deal breaker:

Transferable credits will mobilize lobbying for energy rationing. Credits attain full market value only under a mandatory emissions reduction target or "cap." In effect, credits are Kyoto stock that bears dividends if, but only if, Kyoto or kindred regulation is adopted. Every credit holder will have an incentive to lobby for Kyoto or its domestic equivalent.
Although touted as "voluntary" and "win-win" (good for business, good for the environment), transferable credits will create a coercive system in which one company's gain is another's loss. For every company that gains a credit in the pre-regulatory period, there must be another that loses a credit in the mandatory period (otherwise the emissions "cap" will be broken). Consequently, companies that do not "volunteer" will be penalized -
forced in the mandatory period to make deeper emission reductions than the cap itself would require, or pay higher credit prices than would otherwise prevail.

Transferable credits will disadvantage small business. Participants gain at the expense of non-participants. Most small businesses will not participate,
because they cannot afford to hire carbon accountants and engineers, yet all
will have to pay higher energy prices if emission caps are imposed.
Transferable credits will limit energy diversity. Because coal is the most carbon-intensive fuel, Kyoto would decimate coal as a fuel source for electric-power generation. If adopted, transferable credits will send a political signal that coal's days are numbered. Companies will thus switch from coal to natural gas, further aggravating the existing natural gas-supply crunch and price spikes that have already cost consumers billions
of dollars.
Transferable credits will corrupt the politics of U.S. energy policy. Since the scheme penalizes non-participants, many businesses will "volunteer" just
to avoid getting shoved to the shallow end of the credit pool later on. Many
companies will end up holding energy rationing coupons that mature only under Kyoto or comparable regulation. Credits will swell the ranks of companies lobbying for anti-consumer, anti-energy policies.
Transferable credits are a political ploy by the Green Left. During the 105th and 106th Congresses, Environmental Defense, the Pew Center on Global Climate Change, the Clinton-Gore administration, and Senators John Chafee (R., R.I.) and Joseph Lieberman (D., Conn.) devised and marketed transferable credits to build a pro-Kyoto business clientele.
Transferable credits empower politicians to pick economic winners and losers. Sen. James Jeffords's (I., Vt.) "Clean Power Act, " which would impose Kyoto-like CO2 controls on power plants, is a case in point. Up to 99
percent of the CO2 credits would go to persons and entities that produce little or no electric power.
Transferable credits increase the risk of future Enron-type scandals. Firms might "earn" credits by not producing things, outsourcing production, shifting facilities overseas, or "avoiding" hypothetical future emissions. A
market in such dubious assets will be fertile soil for creative accounting.
*Transferable credits have no environmental value. As a study in the November 1, 2002, issue of Science magazine explains, world energy demand could triple by 2050, yet "Energy sources that can produce 100 to 300 percent of present world power consumption without greenhouse emissions do not exist operationally or as pilot plants." Hence, any serious attempt to stabilize CO2 levels via regulation would be both futile and economically devastating. No good purpose is served by creating a pre-regulatory ramp-up
to unsustainable regulation. An early start on a journey one cannot complete
is not progress; it is wasted effort.

Why did Republican staff include transferable credits in its draft energy legislation? Surprisingly, the big push for credits these days comes not from the Green Left but from the Bush administration.

The administration seeks to replace Kyoto's mandatory emissions-tonnage-reduction targets, which are inimical to growth, with voluntary emissions intensity reduction goals, which can accommodate growth.
The administration views credits as a way to motivate companies to reduce

emissions per dollar of output, and the draft Senate energy bill reflects this thinking.

However, credits would be awarded only for "real" (i.e. tonnage) reductions,
so the scheme would ratify rather than replace the Kyoto framework. More critically, an emissions-intensity goal provides no alternative to Kyoto if it is coupled with a crediting plan that fuels pro-Kyoto lobbying.

There is a better way to encourage emission-intensity reductions. Expensing (accelerated capital-cost recovery) would help companies reduce their emissions per dollar of output - without picking winners and losers, setting
the stage for cap-and-trade, or building political support for energy rationing.

By reducing the tax penalty on capital investment, expensing would speed up turnover of plant and equipment. In general, newer, more modern facilities are cleaner and more productive than older units, delivering more output per
unit of input, including energy inputs. Expensing would accelerate carbon-intensity decline while boosting productivity and wages. Expensing is, thus, a true "no regrets" policy - desirable whether global warming ultimately proves to be a serious, minor, or imaginary problem. This is the path pro-energy policymakers should pursue.

- Marlo Lewis is a senior fellow at the Competitive Enterprise Institute.