POLICY**BRIEF**
HOUSE REPUBLICAN CONFERENCE | *Mike Pence, Chairman*

The Waxman-Markey Climate Legislation: Increasing the Price at the Pump

June 25, 2009

BACKGROUND

Soon to be considered by the House of Representatives, the Waxman-Markey "cap-and-tax" legislation (H.R. 2454) would raise gas prices by an estimated 74 percent. H.R. 2454 requires all carbon emitters, including domestic oil refineries to purchase allowances for every ton of carbon emitted—the cost of which they would have to pass on to consumers. The bill would distribute only 2.25 percent of the emission allowances to domestic oil refineries between 2014 and 2026. This is only a tiny fraction of the allocations which would be needed to cover the direct cost of all emissions and the emissions resulting from the combustion of any fuels produced or imported by these facilities. Combustion of these fuels, including the transportation sector, accounts for roughly 40 percent of all current emissions and thus would require far more allowances to avoid passing significant costs on to consumers. It gets even worse—even if 100 percent of the industry's emissions were initially covered by free allocations, the bill's declining carbon cap will force higher and higher costs onto the American public.

According to the American Petroleum Institute, the "cost impacts [H.R. 2454] could be as much as 77 cents for gasoline, 83 cents per gallon of jet fuel and 88 cents for diesel fuel." With gas prices already on the rise over the last few months, $4 per gallon prices may soon return and be here to stay.

SUMMARY

- **Raises Prices at the Pump:** H.R. 2454 would significantly raise the price of gasoline at the pump which would be passed on to Americans at the pump by up to 77 cents per gallon. The Heritage Foundation has estimated that as a result of these increased prices the average household would cut consumption of gasoline by 15 percent, while forcing a family of four to pay $596 more in 2035, and $8,000 more between 2012 and 2035. While these are averages, it should also be noted that this increase in fuel prices would be disproportionally born by low-income families who, as a percentage of income, spend a larger percentage of their income on energy.

- **Increases Cost of Air Travel:** This bill would also result in an increase in air travel and cargo costs. The cost of jet fuel represents a significant portion of total costs for most air carriers. Fuel expenses have historically ranged from 10 percent to 15 percent of operating costs for U.S. passenger airlines. According to the Air Transportation Association, such expenses averaged more than 35 percent in the third quarter of 2008. During that year, every penny increase in the cost per gallon of jet fuel drove up annual expenses by $195 million. Given the importance of fuel costs to air carriers, the substantial increase in fuel prices caused by H.R. 2454 would significantly affect air travel and freight in the United States.

- **Increases Shipping Costs:** H.R. 2454 would significantly impact the U.S. trucking industry (estimated to contribute less than six percent of total U.S. carbon emissions today). This industry has more than 600,000 vehicles on the road, employs nine million people and transports 11 billion tons of freight annually across the nation. Moreover, because 80 percent of the communities in the U.S. receive their goods exclusively by truck, the trucking industry is integral to the economy as it exists today.

The fuel price increases certain to occur under H.R. 2454 could have devastating impact on the trucking industry and serious impacts on the economy. A one-cent increase in the average price of diesel alone costs the trucking industry an additional $390 million in fuel expenses. Last year when fuel prices spiked, the industry spent $151 billion on fuel, a $36 billion increase from 2007. The industry cannot absorb such rapid increases in expenses as demonstrated in 2007 and 2008, when more than 5,000 trucking companies, with at least 5 trucks each, failed. If diesel prices are not kept in check this would likely have a significant effect on the movement of goods across the country and a detrimental impact on economy.

- **Fails to Increase American-Made Production:** At a time when families are struggling to make ends meet they need relief at the pump, not escalating fuel prices. Increasing the supply of American energy, including oil, is the best way to stabilize and reduce the price of fuel and make the U.S. more energy independent. Conspicuously, H.R. 2454 fails to increase any such energy production. It is estimated that the Outer Continental Shelf holds up to 86 billion barrels of oil, while the Arctic Coastal Plain could provide an additional 1 million barrels of oil per day, and oil shale on federal land could yield 1.23 trillion barrels of oil if developed. Instead of encouraging production from these vast American resources to lower prices, H.R. 2454 would continue the U.S.'s dependence on foreign oil.

  In addition, H.R. 2454 would significantly impact the U.S.'s current refinery capacity. While refineries would pass on some of the additional costs to consumers, according to the National Petrochemical and Refiners Association, they would not be able to pass on all of the additional cost. U.S. refineries compete directly with refineries around the world because they can produce identical fungible grades of fuel. Therefore, if U.S. refineries scale back production or go out of business due to high operating costs that cannot be passed on to consumers, a refiner somewhere else in the world would make up for that reduction and the U.S. would import that fuel—shifting emissions to another country without similar environmental standards. H.R. 2454 does attempt to deal with this "shifting" of emissions overseas by creating an international reserve allowance scheme. However, the nonpartisan Congressional Research Service notes that "whether this scheme would actually work is unclear."

THE REPUBLICAN ALTERNATIVE

The American Energy Act (H.R. 2846)—the Republican "all-of-the-above" alternative—would lower fuel prices while investing in new alternative and clean technology.

H.R. 2846 would make the Outer Continental Shelf, the Arctic Coastal Plain, and the U.S.'s substantial oil shale deposits available for development and production immediately. These steps would lower the price paid for gasoline by increasing supply.

Not only does H.R. 2856 drive down fuel prices, it also invests substantially in alternative fuels, conservation and new technology. The bill encourages American ingenuity by awarding a $500 million prize to the first U.S. automobile manufacturer to sell 50,000 economically feasible, super fuel-efficient vehicles that get 100 mpg. This prize is in addition to encouraging clean transportation by extending tax credits for alternative fuel vehicles, hydrogen and alternative vehicle refueling properties; and new plug-in vehicles.

For questions or further information contact Lisa Tanner at 6-0979.