



May 26th, 2009

Why Cap & Trade is a Failure Waiting to Happen

“The European Union started with a high-minded ecological goal: encouraging companies to cut their greenhouse gases by making them pay for each ton of carbon dioxide they emitted into the atmosphere.

But that plan unleashed a lobbying free-for-all that led politicians to dole out favors to various industries, undermining the environmental goals. Four years later, it is becoming clear that system has so far produced little noticeable benefit to the climate — but generated a multibillion-dollar windfall for some of the Continent’s biggest polluters.” (“The Energy Challenge: Money and Lobbyists Hurt European Efforts to Curb Gases.” The New York Times December 11, 2008).

This New York Times article goes on to describe Europe’s debacle in even greater detail:

- **Consumers in Germany have seen 5 percent yearly increases in electrical bills.**
- RWE, Europe’s largest carbon emitter, received \$6.4 billion from the program.
- Individual countries distributed emission permits to companies with strong political connections.
- Electrical utilities, which were supposed to cut emissions three percent, were given three percent more emission permits than needed.
- Actual carbon dioxide emissions in Europe rose 0.4 % in 2006 and 0.7 % in 2007.

Although there are many possible variations for a cap and trade scheme, the concept is fairly straightforward. Government caps, or limits, the total emissions in a given economy. This cap could be implemented on a statewide, regional, national or global level. Next, emission permits are created and then distributed or sold across the economy. In sum, these permits equal the total allowable emission cap. As seen in Europe, an uneven playing field can be created if the government decides to distribute more permits to preferred companies and industries, and less permits to others. Finally, a company wishing to legally emit above the number of permits in their possession would be forced to purchase additional permits through market trade.

This increased cost to companies emitting above the cap is passed onto consumers in the form of higher electric bills. Furthermore, there is a lot of money to be made by certain sectors of the economy, most notably lobbyists, lawyers and brokers who facilitate the trades.

Cap and trade is a destructive regulatory policy because it creates arbitrary decisions over who produces at artificially lower costs and who produces at artificially higher costs. The policy creates arbitrary winners and losers. No longer do you win or lose by the quality of your product, you win or lose by obtaining the proper political goodwill. With the amount of money involved, obtaining that political goodwill encourages corruption and has led to some of the unintended consequences of the European system.

We can see from the European experience that emissions actually *increased*. In spite of this experience, many politicians are working to implement a cap and trade system in the United States. The Waxman-Markey Energy Bill was debated by the House Energy Committee last week. The bill includes a very aggressive cap and trade scheme, has many supporters, and may move forward. Fortunately, the bill has run into some opposition in Congress.

If you are thinking we will be off the hook if the federal cap and trade scheme is rejected, think again. Governor Doyle's Global Warming Task Force has set ambitious goals for Wisconsin to reduce greenhouse gas emissions in the coming decades. Unfortunately, they estimate that about half of those reductions will have to be achieved by implementing a cap and trade scheme.

And how will we do that if a federal cap and trade is not enacted? This statement is from the Final Report of the Task Force to Governor Doyle: "*At the same time the Task Force recommends that Wisconsin continue to actively participate and provide leadership in the effort to develop a regional Cap and Trade Program under the umbrella of the Midwestern Governors Association.*" That's right; Governor Doyle's Task Force would like us to join with some surrounding states and come up with our own cap and trade scheme, leaving the participating states at an economic disadvantage compared to other parts of the country.

The failure of the European cap and trade scheme has led to finger pointing and accusations between lobbyists and politicians, and questions about how some of the biggest emitters actually made money on the scheme. Is there any reason to believe the results would be different in the United States or Wisconsin?

"Fighting global warming" has become a mission for those who believe human use of fossil fuels has put us on the brink of destroying the Earth by causing devastating climate changes. It may also become a source of big bucks for the "fighters." Guess who will be paying the bills?

Next Week: More on why cap and trade is a failure waiting to happen. Access my reports online, at: <http://www.legis.state.wi.us/assembly/asm23/news/media.htm>.

If you wish to remove yourself from the mailing list, please respond back to this email with the subject line "REMOVE".

State Capitol • Room 317 North • Post Office Box 8953 • Madison, WI 53708
(608) 266-0486 • District: (262) 240-0808 • Toll Free: (888) 534-0023
Rep.Ottj@legis.wi.gov