Climate bill a giveaway to big business

Dan Brennan
3 June 2009

After months of posturing and several days of intense negotiation, the US House of Representatives put forth a climate change bill that contained weak greenhouse gas reduction targets and huge concessions to big business. The bill, sponsored by Representatives Henry Waxman and Edward Markey, was passed out of the House Energy and Commerce Committee May 21 by a vote of 33-25, which split largely along party lines.

The bill would establish a cap on greenhouse gases, amounting to a 17 percent reduction in 2020 compared to 2005 levels. The emissions sources covered, which collectively account for 85 percent of the nation's inventory, include oil refineries, electricity producers and large industry. The government would distribute to these sources allowances, which are essentially permits to release one ton of emissions into the atmosphere. The allowances would be tradable, allowing businesses that under-emit to sell their allowances to those that over-emit.

One major point of controversy was how to allocate the allowances—whether to sell them at auction or give them away for free based on existing emission rates. Driven by concerns for the profitability of industry, the House Committee drew up a plan to give away 85 percent of the allowances for free in the first year. Not until 2030 would all allowances be auctioned. This compromise was necessary to gain support from Democratic Congressmen from the Rust Belt and coal producing regions.

As the Congressional Budget Office noted in 2007, giving away allowances for free "would transfer income from energy consumers—among whom lower income households would bear disproportionately large burdens—to shareholders of energy companies." Such a strategy also sets the stage for windfall profits by those industries with enough political influence to score excess allowances.

Another concession to big business involved amending the bill to include more international offset credits. These offsets would allow US companies to pay for emission reduction projects elsewhere, usually in developing countries, and in turn receive credits to use in meeting their emissions requirements.

But as the European Union's carbon trading system has demonstrated, this system is notoriously corrupt. Projects are frequently manipulated and overpriced by a factor of ten or even 100, while remaining still cheaper than cutting emissions at home. The process yields tremendous profits for factory owners and consultants, while the actual greenhouse gas benefit is often dubious.

Waxman and Markey originally sought to reduce emissions by 20 percent in 2020 (with a reference year of 2005). Once again they were forced to compromise, lowering it to 17 percent. The level, which exceeds President Obama's latest goal of only 14 percent, still falls well short of consensus scientific opinion.

The Intergovernmental Panel on Climate Change posited in their latest report that developed countries would need to collectively reduce their emissions by 10 to 40 percent by 2020 in order to stabilize carbon dioxide concentrations at a level likely to avoid the worst consequences (450-550 ppm). However, these percentages are compared to a reference year of 1990. In the intervening years between the IPCC's reference year of 1990 and Waxman/Markey's of 2005, emissions in the US increased by 17 percent. The Waxman/Markey bill would barely bring emissions back to 1990 levels.

While ineffectual at shrinking US emissions to a safe and equitable level, the cap-and-trade mechanism, regardless of the details, serves to enrich certain layers of business at the expense of the general population. Apparently oblivious to the economic crisis, the cap-and-trade proponents in the House remain wedded to the free market nostrums, replete with the financial speculation, that plunged the economy into the current disaster.

In the European experience, the speculation on carbon trading led to wild fluctuations in the price of allowances, fluctuations that may actually have discouraged investment in greenhouse gas mitigating technologies, counteracting any theoretical incentive to cut emissions beyond the cap.

Nonetheless, the scheme garners support as billions of dollars stand to be made—or rather siphoned off—by the bankers, lawyers and brokers dealing in financial transactions. The working class, already ravaged by attacks on its living standards, will necessarily shoulder a disproportionate burden in the form of price increases on fuel and energy-intensive goods.

The major international investment bank HSB, issued a report criticizing the measure from the standpoint of its impact on international negotiations for a global climate change agreement.

The bill, the "watered-down," the bank noted, "falls a long way short of Obama's election promises on most scores." It continued, "If the best that the US can bring to the negotiating table ahead of the talks on a new post-Kyoto emissions treaty is a 3 percent cut in emissions versus 1990 baseline, then this may not be enough to tickle out an agreement from China and India."

There is still quite a ways to go before Waxman/Markey or any other climate bill becomes law. Passing the Energy and Commerce Committee required a significant effort, but several other committee chairmen, including Representative Charles Rangel of the Ways and Means Committee and Representative Collin Peterson of the Agriculture Committee, are reportedly keen on marking up the bill in their respective committees. House Speaker Nancy Pelosi has yet to indicate exactly how she will proceed, saying only that she wants to act this year.

Obama, for his part, has taken a decidedly hands-off approach to the climate bill. This is despite apparent disagreements between the White House and Congress over important details, especially over the auctioning provisions. The free allocation of allowances would deal a blow to Obama's 2010 budget proposal that contained $624 billion over 10 years in revenues from auctioning the emissions allowances.

The president has not been entirely inactive on climate policy. On May 19 he ordered more stringent fuel economy standards for new cars and light trucks. The fleetwide average will increase roughly 5 percent per year to 35.5 miles per gallon (6.6 liters/100km) in 2016. The order, driven by corporate interests and impending court action, effectively reverses a Bush-era ruling denying California the authority to implement their own greenhouse gas standards, a decision that was most certain to be reversed in the courts.

The new rules match California's, thereby maintaining a single national vehicle standard, as demanded by the auto industry, rather than a "patchwork" of regulations among the states. However, by themselves the standards will have only a minor effect on climate especially in the short term.

While Congress and the President are busy drafting half-measures and handouts to business, the compelling need for robust action is ever more apparent. The Global Humanitarian Forum, a non-governmental organisation headed by Kofi Annan, released a study May 29 attributing more than 300,000 deaths each year to climate change. By 2030 the total is projected to increase to nearly 500,000.

Oxfam's chief executive, Barbara Stocking, remarked recently, "Climate change is set to overload the humanitarian system and destroy the lives and livelihoods of people today and into the future. The system can barely cope with the current level of disasters and could be overwhelmed."

In face of these catastrophic implications of climate change, the lax attitude and tepid action of the US government are striking. The Waxman-Markey measure is one more demonstration of the incapacity of the present system, dominated by profit interests and economic rivalry between nations, to confront this immense global problem.