

Environmental Watch

Examining Environmental Claims and Their Costs • March 2009

Justifying Washington Cap-and-Trade with European Myths and Shoddy Science

by Todd Myers

Claim

“The most current data we’ve been look at, as of today, this week, shows that they are reducing emissions.”

Jay Manning, The Conversation, KUOW, February 20, 2009

“Cap-and-trade has not had an adverse impact on the European economy.”

Jay Manning, The Conversation, KUOW, February 20, 2009

“We haven’t seen any, that I know of, abuses of the market in Europe... We haven’t seen any abuse that I am aware of.”

Jay Manning before the Washington State House Transportation Committee, February 9, 2009

“It is a scientific fact that the atmospheric concentration of CO₂ at this point is about 360 parts per million. Pre-industrial revolution, which is easy to measure from tree cores and ice cores, it was between, for hundreds of thousands if not millions of years, between 190 and 200. Incredibly stable.”

Jay Manning before the Washington State House Transportation Committee, February 9, 2009

Facts

The State Department of Ecology, led by Director Jay Manning, is making an all-out push to salvage a cap-and-trade proposal designed to reduce greenhouse gas emissions in Washington. What seemed likely last year is now a tough sell, with the economic downturn and the prospect of significant new government costs, making a new regulatory scheme unappealing to most legislators.

Sensing the difficulties, Director Manning has tried to reassure legislators that cap-and-trade will work, will create jobs, can’t be manipulated and that there is an urgent need to do something now. Unfortunately, he has repeatedly strayed from the facts when making these claims or misused statistics in his effort to bolster cap-and-trade’s image.

If legislators cannot rely on the information they are given, the result is likely to be bad policy. Cap-and-trade advocates need to be honest about the shortcomings of that system or Washington will end up with a system that is not only costly, but fails to achieve the goal of reducing carbon emissions.

Europe’s Cap-and-Trade Fails to Meet Targets

Much of the debate in Olympia about cap-and-trade has been about the cost of the system. A more fundamental question, however, has been overlooked: will it work? The answer at this point, based on how it is working elsewhere, is “no.”

In a number of instances, Director Manning has told the public and the legislature that cap-and-trade is working in Europe. He told the legislature that Europe was “on track” to meet its emissions reduction targets and repeated that claim on KUOW radio (NPR), when he said that the most recent data showed a reduction.



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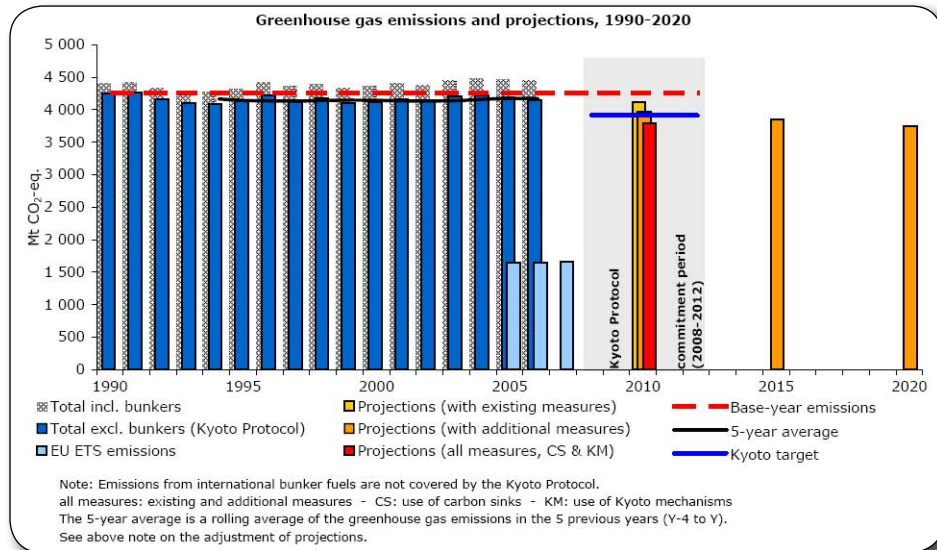
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The reality is otherwise.

Manning first made the claim that Europe was “on track” to meet its emissions reduction targets in January before the legislature. The official accounting of the European Union shows that through 2006, the most recent year with certified data, emissions fell only 0.4 percent.

As the graph below shows, the black line represents the five-year average. The trend will miss the targets unless there is a dramatic improvement in emissions reductions. Europe will have to improve the results by at least ten-fold to meet the target.



What’s more, emissions from factories and power stations rose in 2007 according to estimates. Those areas had been the best performing sectors, with transportation emissions rising fairly consistently.

When asked for the basis of the KUOW claim, the Department of Ecology provided a blog entry from *The New York Times* noting that early projections for 2008 emissions were downward, showing “that the largest cause of a reduction in emissions in the European Union last year was attributable to the trading system — because it had encouraged greater use of gas in power generation rather than dirtier fuels like coal.”¹ This data, however, is not very useful for Washington’s experience.

First, this data was not available at the time Manning made his initial claim. The most recent data at that point showed an increase in recent emissions.

Second, Washington uses very little coal-based energy, the source of the emissions reductions in the recent report. The carbon-based energy we do use is primarily from natural gas, with about 80 percent of our energy coming from carbon-free sources like nuclear and hydroelectric. The reductions highlighted in this data are, by and large, irrelevant to Washington.

Finally, most of Washington’s emissions are from transportation. Europe’s transportation emissions have actually increased under cap-and-trade. In the report cited by Ecology, transportation emissions rose but were mitigated by the increase in fuel prices. Cap-and-trade did not stop the increase and the only force keeping the prices from rising further were gas prices.

¹ Kanter, James, “Group Says European Cap-and-Trade System Reduced Emissions,” *The New York Times*, February 16, 2009, <http://greeninc.blogs.nytimes.com/2009/02/16/group-says-european-cap-and-trade-system-reduced-emissions/>

Widespread Abuses Plague the European System

One additional challenge is that the carbon reductions that have been claimed may not be real. One element of cap-and-trade allows third parties, often outside Europe, to reduce their carbon emissions and sell them to European companies who need carbon reduction credits. The system is known as the Clean Development Mechanism (CDM) because it is supposed to encourage growth in developing countries that is “clean.”

There are widespread reports of abuse of this system. Those reports led one legislator to ask Director Manning about the issue. Manning responded that he was not “aware of” any abuses. This would be surprising, because reports of abuse are numerous.

For instance, free credits (i.e. permits to emit CO₂ that can be sold) were allocated politically, leaving organizations who lobbied effectively with extra carbon allocations to sell and receive a windfall. The director of Germany’s carbon trading authority commented last month that, “It was lobbying by industry, including the electricity companies, that was to blame for all these exceptional rules,” which “enabled companies to get allowances that did not reflect the real situation of their emissions.”²

In addition to the political gaming that has occurred, others have exploited the rules to sell carbon offsets that produced no real reductions. The US General Accounting Office released a report last November highlighting the many games being played with the CDM which certifies projects designed to reduce CO₂ emissions. The key question is whether the reductions are “additional” or whether the reductions would have occurred anyway. The GAO notes that “significant challenges to ensuring credit quality exist. Many experts and stakeholders have suggested that a substantial number of nonadditional projects have received credits through the CDM, a conclusion supported by several studies.”³

Finally, there have been many instances where emissions reductions from China and other countries, certified by the CDM, were either misleading or led to counterproductive outcomes. A study published last year from two Stanford professors highlight several instances where companies were actually encouraged to emit greenhouse gases only to then receive funding to reduce them. They write the system created “the perverse incentive to produce refrigerant in order to produce waste HFC-23, capture this waste, and so create enormous quantities of”⁴ carbon credits they could sell.

Given the number of recent reports on this type of abuse of cap-and-trade, it would be surprising if Director Manning had not heard of them. At any rate, policymakers should understand that abuses of the system are real and significant.

Unsettling the Science

One position most aggressively defended by the environmental community and the Department of Ecology is that the science of climate change is settled. During the two-year Climate Advisory Team and Climate Action Team process, the question of the science was specifically taken off the table as a source of discussion. This lack of debate, and the oversight that comes with it, has

² Kanter, James, “EU carbon trading system brings windfalls for some, with little benefit to climate,” International Herald Tribune, December 9, 2008, <http://www.iht.com/articles/2008/12/09/business/windfall.php> (Accessed March 8, 2009)

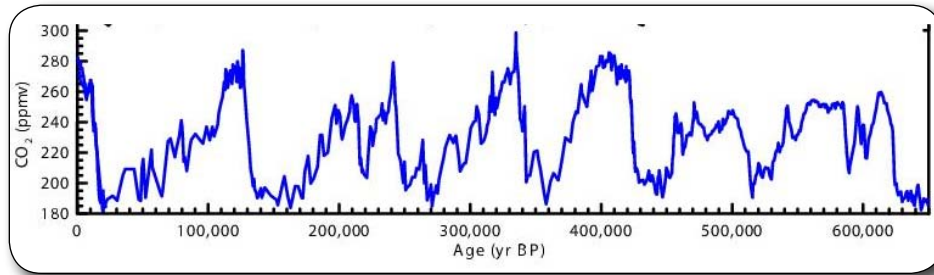
³ General Accounting Office, “INTERNATIONAL CLIMATE CHANGE PROGRAMS: Lessons Learned from the European Union’s Emissions Trading Scheme and the Kyoto Protocol’s Clean Development Mechanism,” November 2008, p. 49, <http://www.gao.gov/new.items/d09151.pdf> (Accessed March 8, 2009)

⁴ Wara, Michael and David G. Victor, “A Realistic Policy on International Carbon Offsets,” April 2008, p. 11, http://iis-db.stanford.edu/pubs/22157/WP74_final_final.pdf (Accessed March 8, 2009)

reduced the rigor with which science is presented.

For instance, before the House Transportation Committee in February, Director Manning claimed that CO₂ levels in the atmosphere has been “incredibly stable” over the millennia and that the recent rise in CO₂ emissions could only be explained by burning of carbon-based energy. In fact, the levels of CO₂ in the atmosphere have varied widely, and naturally.

The chart below shows CO₂ levels from ice cores going back 600,000 years. I’ve adapted this chart from one used by Al Gore and found at a web page that promotes science arguing that climate change is real and significant. The chart starts with year 0, which is up to recent years and the time runs backwards 600,000 years as you move right.



Note that CO₂ is not “incredibly stable.” It has ranged from a low of about 180 parts per million (ppm) to about 300 ppm, a change of 67 percent. Mr. Manning’s claim is simply false and is intended to make us believe that the only reason CO₂ increases is due to human causes. He wants to discount any indication that CO₂ fluctuates naturally, which it clearly does.

One thing Director Manning is right about is that CO₂ has risen in the past several decades beyond what we’ve seen in the last several hundred thousand years. The chart does not show it, but we are at about 386 ppm and increasing. It seems clear that taking carbon out of the ground (i.e. coal and oil) and burning them has undoubtedly contributed to this increase. Furthermore, there is risk from increasing CO₂ in the atmosphere.

So, what is the concern? First, we should simply get the facts right. Director Manning didn’t. Second, if CO₂ levels have risen and fallen by more than 20 percent from the average naturally, it calls into question the seriousness of the threat from rising CO₂. Finally, as recent trends in methane (another greenhouse gas) demonstrate, certainty about trends and causes is illusory. While the UN global warming agency, the Intergovernmental Panel on Climate Change (IPCC), argued that methane would continue to increase through 2050, methane emissions have actually fallen in recent years. Put simply, there is much less certainty about sources and effects of greenhouse gases than is claimed.

The Impact of Cap-and-Trade on Europe’s Economy

As questions about cap-and-trade’s impact on Washington’s economy have grown, so too have the claims that cap-and-trade has not impacted Europe’s economy. This conclusion is not supported by the facts.

A recent study of the effect of cap-and-trade in Germany found that even giving credits away for free to energy producers increased the price of electricity. The authors note that after cap-and-

trade began “the electricity prices increased along with those of emission allowances.”⁵ Raising energy costs, without offsetting reductions in cost elsewhere, cannot but have an impact on the economy.

It may, in fact, be that Kyoto has had little impact on the economy because it has had little impact on emissions. Since emissions have remained fairly stable, it wouldn't be surprising that the impact would be small. If, however, Europe tightens the regulations and pushes for actual emissions reductions, the impact on the economy could be large. For instance, by moving from coal to natural gas, Europe is increasingly reliant on Russian shipments through Ukraine that have experienced significant disruptions recently, creating additional economic uncertainty.

And while the economics may be difficult to sort out, European workers have a feeling they know the impact. Last December, thousands of steelworkers protested outside the EU offices in Brussels, opposing a plan to auction carbon allocations under cap-and-trade—a system similar to that advocated here in Washington. Workers, who have lived with the system for years now, feel they know what is in store for them.

Costs

Developing Washington's cap-and-trade system as part of the Western Climate Initiative has proven to be extremely confusing and complex. One version of the legislation calls for simply appointing another panel to work out the details. Confusion is only made worse by the inaccurate information being offered by the Department of Ecology.

Creating a system that will effectively and efficiently reduce carbon emissions can only occur if legislators understand cap-and-trade's shortcomings, risks and costs. Further, if legislators are cajoled into acting on a complex system by claims that the science of climate change is more certain than is the reality, mistakes and costs will be exacerbated.

To get the policy right, it is time we honestly addressed the realities of cap-and-trade. To do otherwise invites failure.

⁵ Frondel, Manuel, Christoph Schmidt and Colin Vance, “Emissions Trading: Impact on Electricity Prices and Energy-Intensive Industries,” Ruhr Economic Papers #81, December 2008, http://econpapers.repec.org/scripts/redir.pl?u=http%3A%2F%2Frepec.rwi-essen.de%2Ffiles%2FREP_08_081.pdf;h=repec:rwi:repape:0081