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IMPACTS ON TRADE AND COMPETITIVENESS FROM PROPOSED GREENHOUSE GAS EMISSION RESTRICTIONS

The Views of the Global Climate Coalition

Imposing near-term goals to stabilize or reduce carbon emissions would weaken the U.S. economy and cripple the nation's competitiveness in the global marketplace. Given the uncertainties about the impact of carbon emissions on global climate change, a more studied approach to the development of these greenhouse gas mitigation policies should be adopted.

Economist Dr. Alan Manne of Stanford University studied typical abatement proposals intended to stabilize global carbon emissions between 1990 and the year 2000, reduce them to 80 percent of this level by 2010, and stabilize them thereafter. According to Dr. Manne's findings, price-induced energy conservation and shifts to low carbon fuels to reach the goals set forth in these proposals would result in annual losses ranging from 1 percent of the U.S. Gross Domestic Product to nearly 2.5 percent of the nation's GDP.[1]

Dr. Manne argues that these restrictive approaches to limit carbon emissions would hinder U.S. international competitiveness in such basic industries as chemicals, steel, aluminum, petroleum refining and mining -- all of which are energy intensive. He contends further that the U.S. coal exporting industry would be put out of business and severe strains would be placed on important trade pacts like NAFTA and GATT.

Dr. Manne's conclusions have been supported in studies conducted by Economist Lawrence M. Horwitz of DRI/McGraw-Hill, an economic modeling consultancy. Mr. Horwitz reports that efforts to reduce greenhouse gas emissions to 1990 levels by 2010 through the use of carbon taxes would reduce the U.S. GDP by 2.3 percent, or $203 billion, relative to the baseline forecast; decrease business investment by almost 5 percent; and reduce consumer spending by 2 percent. Overall, 89 percent of consumption categories would be negatively affected by the

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[1] "Costs and Benefits of Alternative CO_2 Emissions Reduction Strategies".

carbon tax. An American economy so weakened could be a handicapped player in the international marketplace.

According to the Intergovernmental Panel on Climate Change (IPCC), a panel of international climate and economic experts assembled by the United Nations, countries, such as the United States, that actually implement carbon taxes and other fiscal instruments to restrict greenhouse gas emissions may be at a severe disadvantage.

> "Taxes that are not levied on a global scale may provoke industry relocation, which may adversely affect emissions efficiency as well as international competitiveness. Most countries are hesitant to embark on policy ventures that might endanger their international market position and their attractiveness as industrial locations...It is difficult for a single nation to impose full environmental cost accounting and remain competitive unless other nations do the same." (WGII FSM, section 20.5.3.3)

The IPCC estimates the cost of carbon-based taxes is fairly high. Estimates range from $20 to $150 per ton for the carbon taxes required to hold emissions at 1990 levels in 2010 and from $50 to $330 per ton to reduce emissions by an additional 20 percent. While the impact on economies from fiscal instruments such as carbon-based taxes can be assessed fairly easily, the social and economic impacts from potential warming cannot, according to the IPCC.

> "The level of sophistication of climate change damage analysis is comparatively low. Damage estimates are generally tentative and based on several simplifying, and often controversial assumptions. The degree of uncertainty is correspondingly high, both with respect to physical impacts as well as their consequences for social welfare. No attempt has been made to specify confidence intervals. Rather, estimates are best guesses." (WGIII, FSM, section 6.1)

Economist Dr. W. David Montgomery, an IPCC lead author, argues that concentrating on near-term emissions reduction targets represents a costly and potentially unnecessary approach to climate policy. It would be much more cost effective to focus on the long-term stabilization of atmospheric concentrations of greenhouse gases rather than on short-term emissions.

Many of the reasons for this are cited in the IPCC Second Assessment Report.

> "There are several reasons why a less restrictive near-term emissions path may turn out to be less expensive. First, large emissions reductions in the near term will require premature retirement of the existing capital stock. This is apt to be costly. There will be more opportunities for reducing emissions cheaply once the current capital equipment turns over. Second, the availability and cost of substitutes are likely to improve over time. There is ample historical evidence

for improvements in the efficiency of energy supply, transformation, and end-use technologies (Chapter 8) , and expectation of substantial further improvement in the future... Finally, even if the costs of removing a ton of carbon were the same in all periods, a positive marginal productivity of capital will favor the deferral of reductions. This is because with a positive real rate of return on capital, it will be desirable to invest some of today's potential emission reduction dollars in enhancing our future productive capacity. As a result, the same level of cumulative emission reductions can be achieved at a lower total cost to society." (WGIII, FSM, chapter 10, section "Cost-effective Strategies for Stabilizing Atmospheric CO_2 Concentrations")

Montgomery suggests that various steps are necessary for a more rational approach to developing climate change policies. Among these:

- analyze implications for U.S. net costs and benefits of international sharing of the burden of response;
- inventory possible policy responses and analyze the economic merits of alternative response options.

Emissions reduction policies that promote grave economic consequences for the U.S. economy and threaten the nation's foreign trade position should be avoided. Instead, a studied approach to greenhouse gas policy development should be adopted along with continued investment in climate science and the development of new energy technologies.

The Global Climate Coalition is an organization of business trade associations and private companies established in 1989 to coordinate business participation in the scientific and policy debate on global climate change.

WGI, WGII, WGIII = IPCC Working Groups One, Two and Three.
FSM = Full Supporting Material, the peer reviewed portion of IPCC's work.

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