



Global Climate Coalition

***A voice for business in
the global warming debate***

**ECONOMIC IMPACT
OF THE KYOTO
PROTOCOL**

**Climate
Economics**

**Climate
Science**

**Climate
Change
Primer**

**What
Others Are
Saying**

**Climate
Change in
the News**

**Climate
Watch Brief
Newsletter**

**Climate
Links**

**GCC News
Releases**

**GCC
Studies**

**GCC
Mission**

HOME

Charles River Associates analysis of Administration assumptions about costs

The Clinton Administration has publicly offered optimistic assumptions about it will take to implement the Kyoto Protocol on global warming. In reality, the cost to American families could be ten times the estimates made by the Administration because:

- The Administration has been excessively optimistic about the likelihood of an international trading system for trading greenhouse gas emissions credits. Dr. Janet Yellen, the chief White House economic advisor, has the cost at between \$14 and \$23 a ton; economist W. David Montgomery Charles River Associates found the cost could be \$170 a ton or more. Under that forecast, the cost to the U.S. Gross Domestic Product will be over \$100 billion, about ten times the Administration's forecast.
- To achieve the goals of the Kyoto Protocol, the Administration has assumed that all coal-fired electric utilities in the United States could be converted to natural gas by the year 2010 when the treaty takes hold. Dr. Montgomery found this to be unrealistic and questions whether it will be economically feasible for utility owners to make that rapid a change.
- Replacing coal-fired power plants with natural gas will be an enormously costly undertaking. There are many reasons – prices of trading credits abroad, lost jobs in the coal industry, limits on natural gas production. The Administration appears to have ignored all these factors.
- To estimate the increased costs on American families of implementing the Kyoto agreement, the Administration measured only part of the costs that which comes directly from rising energy prices. Dr. Yellen's study left the enormous indirect costs to reverberate through the whole economy. According to Dr. Montgomery, costs to American families should be multiplied by two to four times when all factors are considered.

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These flaws in the Administration's own analysis mean that instead of dramatically reducing its own emissions when the Kyoto treaty takes effect, the United States will instead spend billions to purchase emissions credits – mainly from Russia – to offset our own inability to meet the goals of the Protocol. We will be forced to make a massive transfer of wealth to other countries that are actually producing less greenhouse gases than they were in 1990. The alternative of trying to meet the ambitious schedule by reducing energy use in the United States is, under the Administration's own assumptions, likely to entail costs five times as large as the cost of buying permits overseas -- and ten times as much under more realistic assumptions made by Dr. Montgomery.