

## WHAT CAP-AND-TRADE WILL MEAN TO OKLAHOMA

By L. Mark Walker

With the national debate currently focused on health care, cap-and-trade has quietly taken a back seat – for now. However, it is the next major piece of legislation in line for consideration by Congress.

Cap-and-trade will place a limit on the amount of greenhouse gases that can be emitted in the U.S. each year. The proposed Waxman-Markey House Bill, a/k/a the American Clean Energy and Security Act of 2009, calls for a 3% reduction (compared to 2005 levels) in greenhouse gas emissions by 2012, 20% by 2020, 42% by 2030 and 83% by 2050. In order to emit greenhouse gas, businesses must obtain "allowances" from the government. As the amount of allowances are ratcheted down over time, companies must either reduce their emissions by restricting their production or buy additional allowances from other companies who are willing to "trade" them.

On July 19, 2009 the Congressional Budget Office issued a report which speaks with surprising candor both as to the intent and expected consequences of cap-and-trade. It states that reductions in emissions will be achieved by "stemming the demand for carbon-based energy by increasing its price", which in turn will "reduce households' purchasing power". In other words, cap-and-trade is designed to increase the cost of gasoline at the pump as well as the cost of electricity in the home so that consumers will have less money to buy fossil fuels. The hope is that this will curb enthusiasm for cheap energy, making more expensive alternative fuels more attractive.

The government could simply impose a gasoline tax on consumers at the pump, resulting in the desired price increase. However, a direct tax would run the risk of taxpayer hostility toward the government. Instead, the proposed cap-and-trade imposes the tax, i.e. the cost of the allowable, directly upon the companies that manufacture or use fossil fuels with, as the CBO report makes clear, the government's full expectation that such companies will "pass the cost on to their customers". Therefore, the CBO concludes that "households... would bear most of the costs." The CBO report acknowledges that "the prices of goods and services throughout the economy would rise" according to their associated greenhouse gas emissions.

The cost of cap-and-trade will not, however, be borne equally by all households. The plan anticipates that rebates and tax credits will be given to lower income households such that some will actually receive a net benefit. The CBO report indicates that the burden will fall primarily on households in the top three tax brackets, i.e. households with income above \$82,250.

Just as the national deficit was recently re-forecasted to be \$9 trillion instead of \$7 trillion by 2019, the ultimate cost of cap-and-trade can be debated. In fact, there are already multiple studies with conflicting projections, with one projecting costs of \$9.4 trillion and 2.5 million job losses. What cannot be debated, however, is that the express purpose and intent of cap-and-trade is to raise the cost of everything that uses fossil fuels.

As a major fossil fuel producing state, cap-and-trade will have a disproportionately adverse affect on Oklahoma. The reduction in fossil fuel use means less oil and gas production and hence less jobs in Oklahoma. The CBO report candidly admits that its projected cap-and-trade costs do "not include the costs that current investors and workers in sectors of the economy that produce energy ... would incur as the economy moves away from the use of fossil fuels ... the costs of unemployment would probably be concentrated among relatively few households and, by extension, their communities". Read - Oklahoma households and communities. Loss of oil and gas jobs in Oklahoma is simply considered to be unavoidable collateral damage under the proposed cap-and-trade legislation.