

Energy Daily
February 20, 2007

Trade is the Key to Climate Change

Commentary by

Michael G. Morris, President, Chairman and CEO of American Electric Power (AEP), *and*
Edwin D. Hill, President of the International Brotherhood of Electrical Workers (IBEW)

If there's one lesson to be learned from the Kyoto Protocol – an approach the U.S. Senate rejected in a 95-0 vote – it is that we cannot deal meaningfully with global climate change without simultaneously addressing the ramifications for trade and employment here at home. As the debate on climate change again heats up in Congress, it is time to address the interconnection between these global issues and replace the failed Kyoto approach with one that protects the environment and provides economic opportunities and jobs.

The United States should lead the effort to negotiate a successor treaty to Kyoto, which expires in 2012. The caps and provisions in a new treaty cannot cause serious harm to the U.S. economy and must have broad bipartisan support. It must address the fact that imposition of emissions controls by some, but not all, major emitting nations disrupts the competitive trade balance between nations and inappropriately shifts jobs to countries without emission controls, where manufacturing costs will be less.

Accordingly, the new treaty should require that allowances – emissions credits – accompany exports from major emitting nations that have not joined a post-Kyoto global cap-and-trade framework or otherwise capped their emissions, in order to cover the emissions generated by the manufacture of those exports.

As a party to a post-Kyoto agreement, the United States would already be in compliance with this provision. Other major emitting countries, if they refuse to join a new treaty or cap their emissions, would, however, be required to provide emissions allowances for their exports to the United States or any complying nation.

In the best tradition of American free market cap-and-trade policies, this would equalize global trade with regard to climate change, and be a powerful incentive for nations to join a new global regime. Other major emitting nations would likely join rather than buy huge numbers of allowances, while deriving even greater benefits from cleaner development through treaty participation.

Similar trade provisions should form the basis for any legislation limiting domestic greenhouse emissions. This legislation would require a federal determination as to whether, by date certain, other major emitting nations have joined the global effort. If not, and in response, the legislation would automatically require that allowances accompany imports from such nations, or alternatively, an agency could suspend or reduce the stringency of the domestic program until those nations join.

Without such a legislative program, the U.S. would have little leverage to negotiate with rapidly developing nations. If Congress fails to include these provisions, it would abdicate its responsibility for dealing with climate change as a global problem because our own greenhouse gas emissions would be capped while other nations' emissions would rapidly increase and damage the environment.

Including such measures in any future treaty or domestic legislation would help break the impasse caused by Kyoto, which applied emissions caps only to industrialized nations. The Senate overwhelmingly rejected the Kyoto approach nine years ago. Our proposal addresses Kyoto's central flaw, and prevents non-participating nations' intransigence from holding the global environment hostage. It encourages major emitting countries to join us, while ensuring that we are not hurt by cheaper exports from uncapped nations.

Ironically, even some Kyoto parties are now expressing similar concerns. Jacques Chirac, president of France, recently proposed that the next post-Kyoto climate treaty include a border tax on imports from nations lacking carbon controls. Peter Mandelson, the European Union Trade Commissioner, agrees that trade needs to be addressed, but believes that border taxes would be "highly problematic under current World Trade Organization rules and almost impossible to implement in practice."

Our proposal directly reduces greenhouse gases to diminish environmental harm. By contrast, border taxes don't do so. Because the use of allowances is required for both capped and uncapped nations, our proposal is more consistent with the WTO and superior to border taxes that apply only to uncapped exporters.

We welcome economic growth throughout the developing world. A more prosperous world benefits all humanity. However, we must also responsibly address the climate challenge posed by that growth. China's emissions will surpass America's in 2009. To unilaterally cap America's emissions, while ignoring other major emitting nations, is a fatally flawed approach, which would compromise our competitiveness, jeopardize American jobs, and harm the global environment.

Making the climate-trade linkage would empower the United States with the necessary carrots and sticks to lead a successful international solution. The old Kyoto approach failed. A new approach is long overdue.

* * *