

# Windfalls in Lieberman-Warner Global Warming Bill:

## Quantifying the Fossil Fuel and Potential Nuclear Industry Giveaways



 **Friends of  
the Earth**

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**In mid October, Senators Joseph Lieberman (I-Conn.) and John Warner (R-Va.) introduced America's Climate Security Act of 2007. Although some positive changes have been made since the October introduction of the legislation, this bill continues to give up to a *trillion* dollars to the fossil fuel industry. This report explains one of the significant pitfalls of this cap and trade legislation, pertaining to the distribution and allocation of pollution permits and the spending of auction revenue.**

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The authors of this report take sole responsibility for any errors.

Climate legislation is moving in the Senate. Sponsored by Senators Joe Lieberman (I-Conn.) and James Warner (R-Va.), the America's Climate Security Act of 2007 is the first viable attempt to set the United States on a course to mitigate domestic global warming emissions. Unfortunately, in an attempt to set the nation on the right track, the bill creates an obscene giveaway to the very fossil fuel companies that helped create the global warming crisis. If signed into law, the giveaway of free permits and the distribution of auction revenue in the bill could be worth nearly \$1 trillion to the fossil fuel industry. In addition, the nuclear power industry could receive significant subsidies.

## The Making of the Giveaway

The Lieberman-Warner America's Climate Security Act of 2007 creates a regulatory system that caps the amount of global warming emissions that covered entities can emit. The cap is gradually reduced over a period of time leading into 2050. Under a cap, emitters must obtain permits, or allowances, from the federal government that are equal to their global warming emissions. The total amount of pollution allowances available to polluters is equal to the total amount of global warming emissions permitted under the cap. Any unused permits may be traded (sold) to entities requiring more permits.

One natural effect of limiting the supply of emission rights through permits is that it imbues the permits with real economic value – it turns them into a vehicle for buying and selling the right to pollute. With current United States global warming emissions totaling more than 7.3 billion metric tons of greenhouse gases annually, the total economic value of these permits could be tremendous.

A recent survey of economic literature by the Congressional Budget Office suggests that global warming emissions permits could be worth between \$5 to \$65 per metric ton.<sup>1</sup> Friends of the Earth uses estimates calculated by the Environmental Protection Agency's (EPA) Analysis of the Climate Stewardship and Innovation Act of 2007 and Duke University Nicholas School's Preliminary Assessment of Potential Economic Impacts of the Lieberman-Warner America's Climate Security Act.

The EPA estimates that between 2015 and 2050, the price of one of these permits would increase from an average of \$14 to \$78 per ton of carbon dioxide equivalent greenhouse gas emissions<sup>2</sup> leading into 2050. The Duke University analysis states that between 2015 and 2050, the price of one of these permits increase from \$18 to \$100 per ton of carbon dioxide equivalent greenhouse gas emissions<sup>3</sup> leading into 2050. Friends of the Earth's latest analysis of the Lieberman-Warner bill uses average figures from these two institutions.

The Lieberman-Warner bill caps global warming emissions from approximately 86 percent of the economy, potentially reaching a reduction target of emission to 60 to 65 percent of U.S. emissions below current levels. A cap initially set at this emissions level would create permits worth over \$5

### Cap and Trade's Three A's

**Allowance:** Otherwise known as a permit, represents an allowed unit of global warming pollution.

**Allocation:** Total amount of emission permits or allowances given to a company or sector.

**Auction:** Emission permit, or allowance, that is sold to the highest bidder; the revenue from the auction can be distributed to various industries and causes.

<sup>1</sup> *The Potential for Carbon Sequestration in the United States*. September 2007. Congress of the United States Congressional Budget Office.

<sup>2</sup> United States Environmental Protection Agency, Office of Atmospheric Programs. "EPA Analysis of the Climate Stewardship and Innovation Act of 2007." (July 16, 2007). Available at: <http://www.epa.gov/climatechange/downloads/s280fullbrief.pdf>, page 25.

Number derived from average of two models; the Applied Dynamic Analysis of the Global Economy (Ross, 2007) (ADAGE), and the Intertemporal General Equilibrium Model (Jorgenson, 2007) (IGEM)

<sup>3</sup> Murray, Brian C. and Martin T. Ross. *The Lieberman-Warner America's Climate Security Act: A Preliminary Assessment of Potential Economic Impacts*. (October, 2007). Available at: <http://www.nicholas.duke.edu/institute/econsummary.pdf>, page 11.

trillion throughout the program's lifetime, using the average value per ton of carbon, as identified by the EPA and Duke University.

## How Does the Giveaway Work?

The way in which the federal government hands out these valuable permits will determine whether companies receive a windfall or if the money benefits the public at large.

There are two clear options for how the federal government distributes the permits. The government can either give companies or sectors the permits for free, or it can auction or sell the permits. Allocating the permits, or giving the permits away for free, essentially hands the value of the permit from the government to the company at zero cost to the company. It is then up to the company to choose how to use the economic value of the permit. According to the Congressional Budget Office, "giving away allowances could yield windfall profits for the producers that received them by effectively transferring income from consumers to firms' owners and shareholders."<sup>4</sup>

Auctioning the permits allows the federal government to capture the economic value of the permit and use the revenue for public benefit or other use. The revenue could be used to help consumers offset increases in energy prices that result from the program, to invest in renewable energy and energy efficiency, or to provide assistance to vulnerable communities in the U.S. and in developing countries less able to cope with the impacts of global warming. According to the same Congressional Budget Office report, "selling emission allowances could raise sizable revenues that lawmakers could use for various purposes, which would lower the cap's total cost to the economy."<sup>5</sup>

## Giveaways in Lieberman-Warner America's Climate Security Act<sup>6</sup>

Unfortunately, America's Climate Security Act of 2007 allocates, or simply gives away, 49 percent of these permits over the lifetime of the program, starting with 79 percent in 2012 and ending with 31 percent in 2050. All-in-all, between 2012 and 2050, 72 billion pollution permits, worth \$2 trillion, would be given away.

While many of the permits are given away to "public benefits", a large amount of the permits are given to the very industries that are responsible for global warming; almost 17 percent of allocated permits are gifted to the fossil fuels industry over the lifetime of the program. Overall, the fossil fuels industry would be given permits worth \$573 billion. This includes funding coming from "transition assistance" as well as allowances for carbon capture and sequestration.

The remaining 51 percent of the permits would be auctioned for sale. Some of the revenue from these sales would then be distributed to different environmental and social causes that ease the impacts that climate change causes.

Regrettably, the fossil fuel industry benefits here as well; over 7 percent of the revenue from auctions could go to the fossil fuel industry over the life of the bill, from funds for "advanced coal and sequestration technologies." The advanced coal and sequestration fund is worth approximately \$376 billion over the life of the program.

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<sup>4</sup> *Trade-Offs in Allocating Allowances for CO<sub>2</sub> Reductions*. April 25, 2007. Congress of the United States Congressional Budget Office.

<sup>5</sup> *Trade-Offs in Allocating Allowances for CO<sub>2</sub> Reductions*. April 25, 2007. Congress of the United States Congressional Budget Office.

<sup>6</sup> All value figures are based on the average between [EPA Analysis of the Climate Stewardship and Innovation Act of 2007](#) and [Duke University's Preliminary Assessment of Potential Economic Impacts of the Lieberman-Warner Climate Security Act](#).

In addition to the explicit fossil fuel subsidies, there is an additional \$481 billion allocated to a “zero and low carbon energy technologies” fund in the bill. The fund allocates money based on a reverse auction, and as currently written, does not clearly articulate which energy technologies would benefit from this program. Since there is a separate carve-out for sustainable energy, such as wind and solar, already in the Act it is very likely that the “zero and low carbon energy” money would go directly to the nuclear power industry.

Although some of the auction revenue discussed above *does* discourage global warming pollution and provide incentives for sustainable energy and other environmental initiatives, it still benefits the fossil fuel industry in ways that could potentially dissuade the industries from transitioning to clean technologies. It must be noted that the reliance on fossil fuels causes many environmental and social problems in addition to greenhouse gas emissions both nationally and internationally.

## **Conclusion**

A cap and trade system will create winners and losers in the marketplace. Unfortunately, if America’s Climate Security Act of 2007 is signed into law, the biggest polluters will become the biggest winners, with a massive windfall for the fossil fuel industry that totals nearly \$1 trillion. Polluters should have to pay for their pollution, not be rewarded for it.

One-hundred percent auctions are a better approach. Auctions do not create political winners and losers and properly penalize pollution with a price. The revenues gained from an auction could be used to help people cope with higher energy prices, become more energy efficient (and save money), increase access to low carbon transportation and speed our nation’s transition to clean, alternative energy sources. In September Sen. Lieberman said a 100 percent auction was “on the table.”<sup>7</sup> With 100 percent auction on the table, Congress can prevent this massive corporate giveaway.

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<sup>7</sup> Lieberman open to climate change compromise. September 19, 2007. The Crypt.  
[http://www.politico.com/blogs/thecrypt/0907/Lieberman\\_open\\_to\\_climate\\_change\\_compromise\\_.html#comments](http://www.politico.com/blogs/thecrypt/0907/Lieberman_open_to_climate_change_compromise_.html#comments)