

POLICIES FOR A CARBON-CONSTRAINED FUTURE

In this document, you can expect to find:

- An explanation of why a federal policy to regulate carbon dioxide emissions is imminent in the U.S.
- An exploration of the 2 major policy proposals under consideration--cap and trade system and a carbon tax--including their advantages and disadvantages from a social, economic and environmental justice perspective.

POLICY PROPOSALS TO REDUCE CARBON POLLUTION

The Clean Air Act, passed in 1970 and modified several times since then, sets general limits on emissions of criteria pollutants. Many Kentucky coal-burning power plants have found loopholes in the bill and have not updated equipment to comply with the act or have consistently been in violation of the act.¹ These violations combined with an increasing demand for electric energy have resulted in Kentucky emitting massive amount of greenhouse gases each year. Today in the U.S., there are no greenhouse gas emission limits established or enforced at the national level. The federal Energy Policy Act of 2005 required the government to begin researching the best mechanism to reduce greenhouse gas emissions.² The following two proposals are the main ones being considered for implementation at the federal level:

Carbon Tax

Under current proposals, carbon emissions would be taxed by the federal government at \$15-\$18 per ton of CO₂ equivalent. By taxing carbon, the price of carbon would go up. Economists claim that if carbon prices increase, the demand for fossil fuels will decrease, thereby decreasing greenhouse gas emissions. Carbon taxing does not require industries to lower greenhouse gas emissions to a certain level, but instead relies on the market to bring about the decrease.

Proposal Perspectives

Environmental and Health Justice: Incentivizes companies to improve emissions technology and overall emission levels and sends a clear message about the political will to fight global climate change. A tax, on the downside from this perspective, does not directly limit greenhouse gas emissions.

Economic Justice: It would be important that it be a “flat tax” (same carbon emissions tax rate for every entity taxed) that would include all polluting entities with no exception. This structure is more transparent and less open to manipulation by special interest groups. Most economists, favor a carbon tax because it is predictable, allowing businesses to budget for expected price increases. It does not increase the volatility of energy prices because the tax increase is uniform and not subject to market forces.

Coal and Electric Power Industry: Generally speaking, the industry opposes any regulation of greenhouse gas emissions, claiming that available technology will be adequate enough to address the problem. Some industries have intimated in public statements that if a tax were passed, they would be forced to pass on the cost to consumers. They support “clean coal” solutions as the best alternative.

Federal and State Government: Neither the Kentucky state government nor the federal government has taken a formal stance about carbon taxing. Advantages include that a tax is administratively easier and cheaper to implement than other options and it would raise additional public revenue.

Cap and Trade System

The federal government would set an cap, or limit, on carbon dioxide emissions. It would then assign emission limits to each business, allowing them to pollute a certain amount of CO₂. The limits would be proportional to the company's historical emission rate. If the company pollutes above its credit limit, it must purchase CO₂ credits from companies that emit below their CO₂ allowance. The sale and purchase of these "carbon credits" forms the trade portion of this system's name. The European Union implemented such a system in January 2008, though whether it has successfully limited emissions is unclear.³ The U.S. limits acid rain through a national cap and trade system and some regions use this system to limit nitrous oxide emissions.⁴

Proposal Perspectives

Environmental and Health Justice: Places an absolute limit on greenhouse gas emissions nationally, but the guidelines used to set the national cap need to be clear. May not reduce regional emission rates because polluting allowances are based on historical emissions--health risks in some areas, especially low-income communities and communities of color, may stay the same or worsen. Offers less incentive for big emitters to invest in clean energy because they can continue to pollute and potentially just shift the additional cost to consumers, especially energy monopolies in rural areas.

Economic Justice: Helps to reduce the economic costs caused by carbon emissions. However, a major disadvantage of this system is that the carbon price relies on the market, which encourages energy price volatility.

Coal and Electric Power Industry: Does not require any particular company or site location to reduce emissions, which is favorable. Some proposals target the electric power sector, which they do not support. A disadvantage, though, is that the system does not allow for predictable budgeting of price increases.

Federal and State Government: Neither the Kentucky state government nor the federal government has taken a formal stance about carbon taxing. A disadvantage of this system is that it would require the creation of a new administrative structure to implement.

KFTC Perspective

KFTC values the economic, environmental and health justice perspectives offered above. Additionally, it is important to KFTC that the impact of rising utility prices on low and middle-income families be considered and mitigated when possible under any scenario. KFTC advocates that vulnerable families be protected from industries simply passing on pollution costs to residents. Most environmental and economic justice organizations **favor a carbon tax over a cap and trade system** because it is simpler, more likely to reduce emissions and harder for industries to bend the rules to their advantage. Given the massive amounts of revenue that a carbon tax would raise if implemented, KFTC advocates using those additional funds to help low and middle-income families meet the demands of rising energy / housing costs.

REFERENCES

¹ Clear the Air. “Power to Kill: Death and Disease from Power Plants Charged with Violating the Clean Air Act.” Boston, MA. 2001.

² U.S. Department of Energy. Energy Policy Act 2005. Information available: <http://www.energy.gov/about/EPAAct.htm>.

³ Parker, Larry. “Climate Change: The European Union’s Emissions Trading System.” CRS Report For Congress, July 31, 2006. Code: RL33581.

⁴ Environmental Protection Agency. “Air trading markets.” Available: <http://www.epa.gov/airmarkets/>.