

GUEST COMMENTARY

A call for revolution

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The current economic crisis has sometimes been compared to the Great Depression. While that may be an exaggeration, the challenges that we face are enormous, and our situation is not unlike when FDR assumed the presidency. Today, we face a global economic meltdown which may alter our economic dominance. We face drastic swings in energy prices, but know that high prices will return. We face challenges from countries empowered by treasuries engorged by high oil prices. We face relentless increases in carbon dioxide levels, but live in the only country which hasn't figured out that climate change will be a disaster.

There are many proposals for improving the "energy problem" and fighting climate change. Congress extended tax credits for renewables. The Regional Greenhouse Gas Initiative is in effect. Obama's stimulus package will include funds for clean energy. All of these are incremental steps necessary to begin to solve our energy and climate problems. But right now incremental steps, large or small, are not what are needed. Rather than "steps" to reduce our carbon footprint or foster green energy, we need a revolution.

Our nation is built upon the assumption that oil will be the dominant fuel for years to come. Keeping the price of gasoline low has been the main driver of most energy policies. That cannot continue. The price of carbon-based fuels needs to drastically increase to reflect the true cost of these fuels – high enough that we change the way we use energy.

Whether this comes about by way of a carbon tax or cap-and-trade programme is not the main concern. Most proposals currently envision a cap-and-trade programme involving the auction of carbon emission rights; therefore a cap-and-trade programme is effectively a "cap-and-tax" programme, where markets establish the size of the tax. From an economic standpoint, the result is the same, and once that is understood, the debate can move beyond that simplistic point.

But since a cap-and-trade system will act like a tax, this gives us the opportunity to revamp the tax code so that using less carbon is encouraged. There is no point in simply creating a mechanism for the government to extract huge amounts of money even if they

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spend the money on “good” causes such as efficiency or green energy. All funds derived from the sale of carbon allowances should be returned to taxpayers in such a way as to encourage the move to less carbon intensity; otherwise, there will be no political will to impose the level of costs required to bring about a revolutionary shift in our fuel priorities. Unfortunately the prospects of huge inflows from a carbon programme have already started legislators salivating over all the “good” they can do for us.

The electricity system also needs

to be revolutionised. Our regulators need to leverage the internet so the electric delivery system can interact with each appliance in every home. Electricity could then be used when it is cheapest, but consumers could choose to pay to purchase electricity when it is most expensive. Homes, cars and businesses need to have the potential to produce energy through solar panels on the roof, friction of the brakes, or waste heat from the furnaces, and send this energy back to the grid.

Having the true and consistent price of carbon reflected in electricity, heating systems, transportation systems, and materials used in consumer and construction products will increase costs and burdens, but must be offset by the changes in the tax code which effectively return the “costs” to taxpayers. Having a true price of carbon will not just deter certain behaviours, it will be the main action the government can take to stimulate an economic boom in the development of innovative energy, transportation, and manufacturing that will keep America at the head of the pack.

We face dire economic, energy and environmental challenges. Incremental changes to foster green energy and reduce our carbon footprint will not pull us out of our mess. If we use this crisis as a chance to rethink our electric delivery and transportation systems, and our tax code, we'll come out of this ahead. This crisis gives us a fresh slate and the chance for a fresh start.

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