

U.S. cap and trade looks out of reach in 2010

Reuters

WASHINGTON (Reuters) - U.S. lawmakers face an uphill battle enacting a climate bill in 2010 that includes a cap-and-trade market in greenhouse gases, after this month's U.N. meeting in Copenhagen failed to hammer out a global pact on emissions cuts.

U.S. climate legislation remains likely as lawmakers feel pressure to help the country lead in production of low-carbon energy sources such as wind, solar and nuclear power.

But the Copenhagen Accord did not include emissions targets. This will make it difficult for lawmakers to argue that the United States should have a cap while China, the world's top emitter of greenhouse gases, and other big polluters are not legally required to act on climate.

"We were previously of the view that cap and trade was becoming an increasingly hard sell in the U.S.," said Paul McConnell, an energy markets analyst at Wood Mackenzie. "But I think the events in Copenhagen have probably made that even more difficult."

Alternatives to cap and trade will emerge, such as mandates and incentives for increasing levels of energy from low-carbon sources like solar, wind and nuclear.

Further delays in launching a trillion-dollar market in U.S. rights to emit greenhouse gases will disappoint potential investors and dealers looking toward a trading scheme that could be several times larger than the one in Europe.

The healthcare debate has delayed U.S. Senate action on climate, and financial industry reform legislation will likely push back the cap-and-trade debate into early next year, analysts said.

The longer the delay, the harder it will be to convince undecided Democratic senators to vote for a cap-and-trade plan.

"For a lot of moderate Democrats who are up for reelection, they don't want to be seen as closely attached to this because of the concerns about job losses and higher energy prices," said Divya Reddy, an analyst at the Eurasia Group in Washington.

Said McConnell: "Cap and trade potentially could have economic impacts, which many senators would be loathe to push onto the U.S. economy right now," as it struggles to recover from recession.

That could make it harder for the three senators working on a compromise climate

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bill -- Democrat John Kerry, Republican Lindsey Graham and independent Joe Lieberman -- to come up with the 60 votes required to pass the measure with cap and trade. Such a proposal was included in the climate bill that passed narrowly in the House of Representatives in June.

Failure to pass a U.S. cap and trade program could have international implications. It could delay development of a similar market in Canada, which has signaled it will follow the U.S. lead on an greenhouse gas emissions mechanisms.

Lengthy delays could also hamper investments in energy efficiency and low-carbon sources like wind, solar, and nuclear power. Experts say such alternatives would remain more expensive than today's dirtier technologies.

PLAN B

Kerry said in Copenhagen last week that the Senate bill may not contain cap and trade, and other options are being discussed.

So-called "Plan B" alternatives to cap and trade could include carbon taxes and national mandates for power generators to produce higher levels of cleaner energy sources, Reddy said.

A new climate strategy could also include elements of a "cap and dividend" plan recently introduced by two senators. That aims to cut Wall Street's role in emissions markets by auctioning permits to polluters and delivering most of the proceeds to the general public.

But Kevin Book, an analyst at Clearview Energy Partners, LLC, said many senators and many companies, like oil major ConocoPhillips and power generator Duke Energy Corp, are already sold on cap and trade. Some power companies that have invested in low-carbon electricity generation feel they could compete better against companies that burn mostly coal under a cap-and-trade regime.

In addition, the U.S. Environmental Protection Agency may become more aggressive on forcing polluters to cut emissions after issuing a finding late this year that greenhouse gases endanger human health.

Still, the lack of a global agreement on emissions cuts will make it hard for U.S. lawmakers to convince the public to accept caps on emissions that get stricter over time.

"There's definitely scope for other solutions," McConnell said. "For the U.S. to put itself under strict and binding emissions targets when other major emitters aren't doing the same thing, represents something of a challenge."

(Editing by [Jeffrey Jones](#) [1] and David Gregorio)

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