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## 'Cap and Trade' Loses Its Standing as Energy Policy of Choice

By JOHN M. BRODER

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WASHINGTON — Less than a year ago, [cap and trade](#) was the policy of choice for tackling [climate change](#).



Matthew Cavanaugh/European Pressphoto Agency

Senators Lindsey Graham, left, John Kerry and Joseph I. Lieberman are working on bipartisan climate change legislation.

Environmental groups and their foes in industry joined hands to embrace the approach, a market-driven system that sets a ceiling on global warming pollution while allowing companies to trade permits to meet it. [President Obama](#) praised it by name in his first budget, and the authors of the House climate and energy bill [passed last June](#) largely built their measure around it.

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Today, the concept is in wide disrepute, with opponents effectively branding it "[cap and tax](#)," and [Tea Party](#) followers using it as a symbol of much of what they say is wrong with Washington.

Mr. Obama dropped all mention of cap and trade from his current budget. And the sponsors of a Senate climate bill likely to be introduced in April, now that Congress is moving past health care, dare not speak its name.

"I don't know what 'cap and trade' means," Senator [John F. Kerry](#), Democrat of Massachusetts, [said last fall](#) in introducing his original climate change plan.

Mr. Kerry's partner in promoting global warming legislation, Senator [Lindsey Graham](#), Republican of South Carolina, [pronounced economywide cap and trade dead last month](#) and has since been working with Mr. Kerry to try to patch together a bill that satisfies the diverse economic, regional and ideological interests of the Senate.

That plan, still being written, will include a cap on greenhouse gas emissions only for utilities, at least at first, with other industries phased in perhaps years later. It is also said to include a modest tax on gasoline, diesel fuel and aviation fuel, accompanied by new incentives for oil and gas drilling, nuclear power plant construction, carbon capture and storage, and renewable energy sources like wind and solar.

Why did cap and trade die? The short answer is that it was done in by the weak economy, the Wall Street meltdown, determined industry opposition and its own complexity.

The idea began as a middle-of-the-road Republican plan to unleash the market to reduce power plant pollution and spur innovation. But when lawmakers tried to apply the concept to the far more pervasive problem of carbon dioxide emissions, it ran into gale-force opposition from the oil industry, conservative groups that portrayed it as an economy-

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killing tax and lawmakers terrified that it would become a bonanza for Wall Street traders and [Enron](#)-style manipulators.

“Economywide cap and trade died of what amounts to natural causes in Washington,” said [Fred Krupp](#), president of the [Environmental Defense Fund](#), who has been promoting the idea for more than two decades. “The term itself became too polarizing and too paralyzing in the effort to win over conservative Democrats and moderate Republicans to try to do something about climate change and our oil dependency.”

Cap and trade was first tried on a significant scale 20 years ago under the first Bush administration as a way to address the problem of airborne sulfur dioxide pollution — widely known as acid rain — from coal-burning power plants in the Eastern United States. [A limit was imposed on emissions](#) from the plants, and utilities were allowed to buy and sell permits to comply. Today it is considered one of the most effective environmental initiatives.

Environmentalists and industries resurrected the idea in recent years as a centerpiece of measures to address global warming and growing oil imports. Representatives [Henry A. Waxman](#) of California and [Edward J. Markey](#) of Massachusetts, both Democrats, built their climate change bill last year in large measure around it.

But in trying to assemble a majority to pass it, Mr. Waxman and Mr. Markey dished out a cornucopia of concessions and exemptions to coal companies, utilities, refiners, heavy industry and agribusinesses. The original simplicity was lost, replaced by a bazaar in which those with the most muscle got the best deals.

Opponents labeled it a tax-and-redistribution scheme.

“We turned it into ‘cap and tax,’ and we turned that into an epithet,” said Myron Ebell of the [Competitive Enterprise Institute](#), a free-market research organization supported by conservative individuals and corporations. “We also did a good job of showing that a bunch of big companies — Goldman Sachs, the oil companies, the big utilities — would get windfall profits because they’d been given free ration coupons.”

C. Boyden Gray, White House counsel in the first Bush administration and a strong advocate of the acid rain cap-and-trade program, said that opponents were largely correct in labeling the Waxman-Markey plan a tax, because so many of the pollution allowances were given away to industry rather than allocated based on past emissions.

“This is potentially a \$3 trillion tax,” Mr. Gray said, “which is pretty steep in the best of times, and poison in the worst of times.”

The House narrowly passed the bill last June, but the Senate has moved slowly to take it up. Mr. Kerry and Mr. Graham, along with Senator [Joseph I. Lieberman](#), independent of Connecticut, have been trying to find support for a comprehensive measure.

They, too, have been forced to seek compromise, offering incentives to oil drillers, nuclear power advocates, antitax groups, coal companies and utilities.

Two senators, [Maria Cantwell](#), Democrat of Washington, and [Susan Collins](#), Republican of Maine, have proposed an alternative that they call cap and dividend, under which licenses to pollute would be auctioned to producers and wholesalers of fossil fuels, with three-quarters of the revenue returned to consumers in monthly checks to cover their higher energy costs.

Ms. Cantwell said that cap and trade had been discredited by the Wall Street crisis, the Enron scandal and the rocky start to a carbon credits trading system in Europe that has been subject to dizzying price fluctuations and widespread fraud.

She said her bill would require every pollution permit to be auctioned rather than given away and was 39 pages long, compared with Waxman-Markey, which weighs in at some

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The Cantwell-Collins plan is almost exactly what Mr. Obama proposed in the campaign and after first taking office — a 100 percent auction of permits and a large tax rebate to the public.

“He called our bill ‘very elegant,’ ” Ms. Cantwell said. “Simplicity and having something people can understand is important.”

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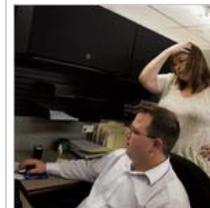
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