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Industries Allied to Cap Carbon Differ on the Details

By JAD MOUAWAD

Some of the most powerful corporate leaders in America have been meeting regularly with leading environmental groups in a conference room in downtown Washington for over two years to work on proposals for a national policy to limit carbon emissions.

The discussions have often been tense. Pinned on a wall, a large handmade poster with Rolling Stones lyrics reminds everyone, “You can’t always get what you want.”

What unites these two groups — business executives from Duke Energy, the Ford Motor Company and ConocoPhillips, as well as heads of environmental organizations like the Natural Resources Defense Council — is a desire to deal with climate change. They have broken with much of corporate America to declare that it is time for the federal government to act and set mandatory limits on emissions.

What divides them is that dealing with climate change will almost certainly hurt some industries and enrich others. Billions of dollars are at stake. Depending on how the nation decides to tackle the problem, electricity bills in some states could rise 50 percent, and gasoline prices could go up 50 cents a gallon.

“It’s really now a battle over the economics,” said James E. Rogers, chief executive of Duke Energy, who has long advocated curbing carbon emissions. “The debate is not about the climate problem. Everybody could agree on the principles and still get the economics wrong.”

The Senate is to vote Monday to kick off a weeklong discussion on carbon limits. But the intense debates under way already illustrate just how hard it will be for Congress to satisfy conflicting business interests while coming up with a global-warming plan that works.

Opposition from corporate interests, including oil, gas and power companies, prompted the Bush administration to opt out of the Kyoto Protocol, a treaty that called on developed countries to limit their emissions.

But the political winds have shifted. All three presidential candidates have said they favor mandatory curbs on emissions, and the Democratic majority in Congress wants a strong climate policy. The Senate debate could help set parameters of future legislation, which many experts expect to see within two years.

Congress is considering a complicated approach that would set a limit, or cap, on emissions that would be reduced each year. It would also create emissions permits that large industrial companies, like oil refineries or power plants, would be required to use.

By putting a value on carbon dioxide, this cap-and-trade system would provide incentives for companies to reduce emissions. Experts say it could turn into one of the biggest markets in the world, estimated to be worth over $200 billion a year.

Thus far, climate policy has been slowly shaped by states like California and Massachusetts, with others following. The resulting patchwork of policies has created uncertainty for companies, some of which have recognized that federal system to limit carbon is ultimately unavoidable.

“If they are not at the table, they will not have a hand in the making of the regulation,” said Robert N. Stavins, director of the environmental economics program at Harvard University.

That recognition led to the Climate Action Partnership, the Washington group, in which corporate behemoths and environmental groups have been debating climate policy for over two years, sometimes meeting every week, in order to force the issue.

In January 2007, the eclectic group endorsed a bold national policy that called for reduction in carbon dioxide emissions of 60 percent to 80 percent by 2050, an aggressive target that is in line with recommendations from an international panel of scientists. But the group, which now has 33 members, has failed to reach consensus on a variety of issues, including how to allocate carbon permits and whether to include a price cap for carbon credits.

“They helped crystallize the concerns about climate,” said David G. Victor, the director of the energy and sustainable development program at Stanford University and an expert on climate policy who has been closely following the debates. “But the moment the coalition starts to focus on the details, it starts breaking apart. It’s a litmus test for the debate in the country.”

The sharpest battle lines have been drawn over the structure of a cap-and-trade system. This mostly centers on whether carbon allocations — or pollution permits, as some see them — should be granted to companies or auctioned off.

Under one proposal, Congress would give away about half the allowances to businesses like power plants and oil companies, but also to states and farmers, in order to give time for them to adapt to lower-carbon technologies. Over time, it would gradually sell the rest to the highest bidder, raising money for developing alternative energy sources.

The bill, sponsored by Senators Joseph I. Lieberman, an independent, and John W. Warner, a Republican, passed a crucial vote in a committee last December and will be debated on the Senate floor this week.

Under a similar emissions-trading system in Europe, carbon currently trades at around 26.45 euros a ton, or about $41. At that price, the value of the carbon credits would be about $220 billion in the first year alone.

The debate over who gets carbon credits is particularly intense in the power sector, which creates 40 percent of the nation’s carbon emissions.

Companies that rely on coal to generate power say that allowances should be free so that customers in the Midwest and the Great Plains, where coal is mostly used, are not disproportionately penalized. Coal accounts for half the nation's power generation, and executives like Mr. Rogers of Duke say these customers should not have to bear the brunt of a national climate policy.

But not everyone wants to see allowances doled out free, especially among power producers that are less dependent on coal than Duke. Lewis Hay III, chairman of FPL Group, a Florida power company, says carbon emitters should have to pay for their emissions.

"There is just going to be a giant fight over the free allowances," he said.

Oil companies are also unhappy with the Senate plan. Although the transportation sector represents around 35 percent of the nation's carbon emissions, oil companies and refiners — which fuel that sector — would be granted just 4 percent of total allowances. That would force them to buy carbon credits, which would drive up the price of gasoline and diesel fuels.

At a time of sharply rising prices, oil executives say this is not the best way to reduce carbon emissions. Better, they argue, to raise fuel efficiency requirements directly or set up a low-carbon fuel standard.

The other big fight splitting corporations and environmental groups is whether to set a maximum price on carbon credits.

Many environmental groups oppose this, fearing it might jeopardize the ultimate goal, which is to reduce emissions. They say that if the price is artificially kept too low, companies would have fewer incentives to cut emissions.

But business groups say a ceiling would keep prices from skyrocketing. Some fear that higher energy costs would reduce companies' ability to compete globally and could drive jobs to countries that do not limit carbon. John Engler, president of the National Association of Manufacturers, said the climate bill amounted to "economic disarmament."

As the fight escalates, trade groups are planning ad campaigns to make their case against a climate policy. One ad, produced by the United States Chamber of Commerce, shows a man cooking breakfast over candles in a cold, darkened house, then jogging to work on empty highways, asking: "Is it really how Americans want to live?"

Setting a price for carbon will raise energy costs throughout the economy, experts said. The Environmental Protection Agency estimated recently that a cap-and-trade bill could reduce gross domestic product by 0.9 percent to 3.8 percent by 2050.

"The reality is that cutting emissions is going to cost money," said Peter C. Fusaro, chairman of Global Change Associates, an energy and environmental consulting firm.