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May 14, 2009

From: Senate EPW staff

To: House, Senate energy/environment staff

Re: A Strategy for Climate Change: Consumers vs. Big Business

In the coming months, climate change legislation will move to the House, and possibly the Senate, floor. Republicans need an effective message to defeat this legislation. We must effectively communicate to the American people that cap-and-trade is a massive new energy tax that will affect every aspect of their lives. As Harvard's Martin Feldstein wrote in the *Wall Street Journal*, "Anyone who drives a car, uses public transportation, consumes electricity or buys any product that involves creating CO2 in its production would face higher prices."

- ***This is a fight we should welcome, for it presents the perfect contrast between to the two parties: Democrats support a national energy tax, Republicans do not.***

What are Republicans for?

- ***The answer is clear: an all-of-the-above, pro-consumer, clean energy policy, which embraces nuclear, renewables, coal, oil, natural gas, and biomass, among others, as well as increasing energy efficiency. Our plan can be achieved by removing regulatory barriers—e.g. development of domestic offshore resources—and providing incentives to develop new, innovative, cleaner technologies and increase domestic energy supplies, all aimed at creating jobs, strengthening our economy and our energy security.***

Cap and trade has revealed a fundamental contradiction for the Democrats: while railing against "big polluters" for obstructing passage of cap-and-trade legislation, these selfsame "polluters"—the companies of the United States Climate Action Partnership (USCAP), for example—are writing significant portions of the Waxman-Markey bill. In other words, the very "polluters" supposedly guilty of causing a global ecological calamity are writing legislation designed to prevent a global ecological calamity. Have they had a change of heart? Or have specific companies made decisions that depend on the success of cap-and-trade to achieve their strategic goals?

The most apt description of the Democrats' cap and trade position came from Gov. Mitch Daniels, who said recently, "A lot of people will get filthy rich doing nothing for the environment." Thus it's clear that:

- ***By opposing cap-and-trade legislation that will have no climate benefits, Republicans are protecting American consumers from massive job losses, a lower standard of living, and higher prices for food, gasoline, and electricity.***
- ***By supporting cap-and-trade, Democrats are choosing big business over consumers, by pushing legislation that enriches several big corporations at the expense of American consumers, their jobs, their livelihoods, and their futures.***

Along with the traditional “polluters,” Democrats are embracing Wall Street traders—the very same traders blamed for gaming U.S. markets and ultimately squandering billions of dollars of Americans’ hard-earned money. Are some companies on Wall Street supporting cap-and-trade because they want to save the planet? Or are they supportive because cap-and-trade enables them to profit from trading billions of dollars worth of allowances in a new carbon market? Some Democratic members, including Rep. Bart Stupak (D-Mich.) (an admirable member with lots of integrity), are uncomfortable with this alliance. “This [market] has to be tighter than oil,” Stupak said. “At least oil is a physical commodity; you have got control of it. All this is going to be is an electronic piece of paper and you can manipulate that.”

Trading CO2 allowances and offsets will be a trillion dollar business—and the American people need to know they will be paying for this new business. Thomas Friedman, writing recently in the *New York Times*, put it well: “[S]implicity matters. Americans will be willing to pay a tax for their children to be less threatened, breathe cleaner air and live in a more sustainable world with a stronger America. They are much less likely to support a firm in London trading offsets from an electric bill in Boston with a derivatives firm in New York in order to help fund an aluminum smelter in Beijing, which is what cap-and-trade is all about. People won’t support what they can’t explain.”

Having made peace with polluters and Wall Street traders, Democrats are anxious to portray themselves as pro-consumer. But their actions of late prove just the opposite. As of this writing, in a frenzied drive to buy votes, House Democratic leaders are picking winners and losers by distributing billions of dollars in pollution “allowances” to favored industries. In this unabashed quid pro quo, the corporate recipients of these allowances are in turn supporting the Waxman-Markey bill. This is unsurprising. As former Congressional Budget Office Director Peter Orszag said, “If you didn’t auction the permits it would represent the largest corporate welfare program that has even been enacted in the history of the United States.” Further, Orszag argued, “All of the evidence suggests that what would occur is that corporate profits would increase by approximately the value of the permits.” Moreover, CBO found that “giving away allowances could yield windfall profits for the producers that received them by effectively transferring income from consumers to firms’ owners and shareholders.”

Consumers are left with nothing but a tax hike. Rep. G.K. Butterfield (D-N.C.), who has emerged as the conscience of the party on cap-and-trade, told *E&E Daily* on May 14 that “giving away many of the emissions allowances for free to various industries would leave too little revenue to help aid low-income consumers facing higher costs.” But

Democratic leaders are unfazed; they assume the pro-consumer mantle by arguing that the revenues collected through an auction will simply be redistributed to consumers to offset the burden of higher energy prices.

- ***Yet how many Americans would support paying the government, say \$1,000, on the promise that the federal government would give it back a year later? And how will the Democrats ensure this money gets directly to consumers, considering President Obama and party leaders have already overcommitted and earmarked this money for their own pet projects and programs – from national health care and transportation funding to “green” technologies and international aid? This approach will fail, and the public needs to know why.***

The distinction between the two parties on cap and trade is clear and real. Republicans stand with American consumers; they also stand with America’s small-to-medium sized manufacturers, which are the backbone of the economy. This should be emphasized at every turn, reminding the public of who will win (corporate America) and who will lose (consumers, the poor, the elderly, small businesses, low-income families, etc.) under the Democrats’ cap and trade scheme.

To understand the politics of this issue, look no further than USCAP, a group of oil companies, electric utilities, large manufacturers, and environmental groups formed to lobby Congress for cap-and-trade legislation. The business members of USCAP are some of the largest corporations in America. As numerous press reports have made clear, USCAP members are engaged in blatant rent seeking—or the use of government regulation to gain competitive advantage, a practice that is, among many other things, anti-consumer and anti-market.

In a summary of the Waxman-Markey draft climate legislation on the Energy and Commerce Committee website, the bill’s sponsors boast that “the global warming provisions in the discussion draft are modeled closely on the recommendations of the U.S. Climate Action Partnership (USCAP)...” As one USCAP lobbyist said, “We are literally writing the Waxman-Markey bill. They take everything we give them.”

- ***One can only imagine the shrill cry of indignation from Democrats if Republicans joined America’s biggest corporations in drafting legislation to impose the largest tax increase in American history on consumers and that would enrich the corporate titans whose lobbyists wrote the legislation.***
- ***Moreover, this is legislation that disproportionately burdens the poor, minorities, and the elderly, while destroying hundreds of thousands of good-paying union jobs in America’s heartland. Republicans should ensure that the American public knows this.***

The public should also question the environmental motives of USCAP. As the group tellingly states on its website: “In our view, the climate change challenge will create more economic opportunities than risks for the U.S. economy.” Of course those “economic

opportunities” will redound to USCAP, but not to a consumer struggling to pay an electric bill. As Rep. G.K. Butterfield told *Roll Call*, “The cost of everything is going to go up – electricity, food, plastics, rubber, autos—the cost of everything is going to go up.”

It’s notable that Democratic leaders routinely parrot the USCAP assertion that carbon mandates will produce economic benefits, arguing that cap-and-trade will incentivize “green jobs” that will spur a “green economy” that, at some indeterminate point in the future, will rescue us from recession. None of this has any intellectual or evidentiary support. In fact, as the experience in Spain painfully demonstrates, government subsidies to create green jobs have proven to be a profoundly expensive failure.

- ***What’s clear is that cap-and-trade will create winners and losers—and, to be sure, it will create more losers than winners. Not surprisingly, the Waxman-Markey cap-and-trade bill, which USCAP endorses, would benefit USCAP companies. These benefits would come at the expense of consumers, jobs, industrial unions, the poor, American competitiveness, and energy security.***
- ***The bottom line message is this: Democrats are protecting big business; Republicans are protecting consumers.***

Corporate rent seeking, of course, is not confined to USCAP; others in corporate America are equally guilty of manipulating national climate policy to increase profits on the backs of consumers. To be fair, there are corporations that understand the long-term economic harm that cap-and-trade will cause and the fact that it will bring no climate benefit—and they are fighting it. But for a variety of reasons, they are maintaining a low profile.

Yet Republicans can win this fight. We have won the last three votes on this issue, and we can do so again. Recent polling clearly demonstrates that, despite tens of millions of dollars spent on advertising and grassroots activity by environmental groups, global warming barely registers as an issue of concern for the American public. What the public *does* care about are the economy and jobs, both of which would suffer greatly under cap-and-trade. Moreover, some Democratic senators are clearly attuned to this reality: One leading Democratic moderate recently conveyed to a GOP senator last week that cap-and-trade in the Senate “is dead.”

Cap-and-trade presents a rich political opportunity that gets straight to the Republican bottom line: we are the pro-consumer, pro-small business, pro-free-market party; the Democrats are the pro-Wall Street, pro-corporate welfare party. Or put another way, Democrats are the anti-consumer, anti-Middle America party. ***Therefore, in the fight against cap-and-trade, the Republican message should focus where our true sympathies lie: with consumers, or those who will ultimately pay for cap-and-trade.***