

STATEMENT FOR THE RECORD

**HEARING ON "GREEN JOBS CREATED BY
GLOBAL WARMING INITIATIVES"**

**UNITED STATES SENATE COMMITTEE ON
ENVIRONMENT AND PUBLIC WORKS**

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Madame Chairman and respected Members on this Committee,

My name is Dr. Gabriel Calzada, Associate Professor in Economics at the King Juan Carlos University in Madrid, Spain and President of the Instituto Juan de Mariana, a classical liberal think tank. I appreciate the opportunity to provide comments for the record of this hearing addressing the issue of “green-collar jobs”, or specifically the notion that adopting carbon constraints will produce jobs.

In short, while certainly this is literally true as with any regulatory scheme will directly create some jobs out of necessity to deal with or capitalize upon it, it says nothing about the quality or sustainability of the jobs, their actual gross or net benefit or contribution to the economy. More important, the claim notably does not include any consideration of the jobs that such regulations cost an economy, particularly when the scheme in question is one adopted by only a few countries worldwide and involves a basic requirement of most industries: the availability and affordability of energy.

It is on that latter count that I will focus my remarks today, specifically to note how Europe’s cap-and-trade scheme has demonstrably chased existing and future jobs away from Europe’s Members State economies. I read much about how whatever the United States adopts, if anything, it will of course not indulge in the mistakes of Europe’s scheme which it is an understatement to describe as less than successful.

Avoiding Europe’s Costly Mistakes: Is it Possible?

One rarely reads the *specifics* of how this avoidance will come about, what of the Emission Trading Scheme’s (ETS) pitfalls will the U.S. Congress “engineer out”, should it choose this rationing path. In truth, such claims are very curious given that Europe has not learned how to fix its scheme to avoid these massive downsides.

As regards a U.S. plan, one typically reads only general statements about auctioning some amount of overall emission allocations instead of giving them all away as Europe has done (despite the authority to auction some, albeit quite small, portion). It is important to first note that this proves far more difficult in practice than in theory – after all, when industry participants advocate for such a scheme they mean that they support the specific scheme that they have in mind, under which they envision making money, and I need not tell Congress that these constituencies have proven willing to lobby heavily to gain what they seek, and avoid being the ones to pay under whatever design is chosen if any.

Further, simply auctioning some (politically realistic, that is, likely quite small) quantity of emission allocations as opposed to handing out for free the suddenly (if artificially) valuable certificates does not avoid other problems inherent in such schemes as applied to a ubiquitous product of industrial activity. I say “product” as opposed to “byproduct” because CO₂ emissions from any given source *increase* as one more efficiently combusts hydrocarbon energy.

These other problems inherent to cap-and-trade as applied to carbon dioxide include a) that policymakers can determine an emission cap *or* the cost, but not the emission cap *and* the cost; any GHG policies mild enough to make it through the policymakers are of such small effect as to be without remote chance of having a climatic impact; the costs imposed on the activity are typically far beyond the assessed societal cost of the activity; and, most important in this context, cap-and-trade particularly as applied to CO₂ is inherently subject to gaming. There is after all a reason that Enron was the pioneer pushing for exactly this scheme in the U.S.

I regret that I do not have space permitting me to address each of these, today, but am willing to provide responses in writing to any questions seeking more detail. Instead, I specifically wish to focus on Europe's newest export to the U.S.: jobs lost due to having convinced itself of artificially low estimates of the cost of, and artificially high speculation about potential gain from, regulating greenhouse gases.

Europe's Newest Export: Kyoto Jobs, thanks to its ETS

The Kyoto Protocol is steeped in mythology, the leading myth being Europe's supposed successful performance under the global warming treaty. Even the European Environment Agency annually admits the truth: since Kyoto (1997), through 2006 (the latter year's figures being unofficial) Europe's greenhouse gas (GHGs) emissions are well up, not down, and rising not falling. Although EEA's most recent statement from June of this year notes a year-over-year reduction, 2005 compared to 2004, enough figures are in the public domain to note that this was a function of the German economy's downturn which, like EU GHG emissions, was reversed in 2006.

Another myth involves the U.S., whose economic (and population) growth has far outpaced Europe's while its emissions have actually increased at a fraction of Europe's rate under any modern baseline (since Kyoto was agreed). A vibrant economy, not name-calling or rationing energy use emissions, has proven the better tool for improving one's GHG performance, by pulling through new technologies. In my opinion that is the preferable "green jobs" pathway.

Now, the U.S. has also begun receiving a "Kyoto windfall" in the form of foreign direct investment from those few countries actually bound by Kyoto. Thus it is all the more mysterious why U.S. policymakers are so driven to shift the U.S. focus from growth

to rationing by mimicking the approach of this failed pact, cutting off Europe's newest export of jobs.

Consider the case of Spain, which unlike the U.S. – but like many European countries – was allowed to increase GHGs under Kyoto. “Comply with Kyoto, no matter what,” was current Spanish Prime Minister Zapatero's slogan when campaigning for *La Moncloa* – Spain's White House. Three years later, Kyoto's “cap-and-trade” model is costing Spaniards a fortune even while their chances of complying with the Protocol are at zero, as is typical throughout Europe and most of Kyoto's few covered countries.

Possibly due to the resulting blackouts, Spanish authorities remain in the dark about the costs of their stubborn commitment to Kyoto's cap-and-trade scheme. For example, in the province of Valencia the government fined and temporarily closed a paper mill, a ceramic tile manufacturer and a glass maker for not possessing GHG permits, until the administration could create a way for the companies to acquire permits. Meanwhile the central government has issued over twenty national “Kyoto” plans regulating a myriad of economic activities, futilely distorting the national economy.

Yet despite (because of?) harmful regulations Spain's emissions have increased by nearly 50 percent. When the European market for GHG permits opened, then-Environment Minister Cristina Narbona promised “the maximum companies entering the [Emission Trading Scheme (ETS)] will have to pay will not be over 85 million euros per year.” One year later, Spanish companies paid about €300 million (about \$388 million), 3 ½ times the minister's avowed cost ceiling. And this is just the tip of the iceberg.

The *Instituto Juan de Mariana* estimated Spain's cap-and-trade cost for the years 2008-2012 as between €4 and €7billion (between about \$5.5 to \$9.5 billion USD)

depending on various factors including the price at the time we conducted this report (appx. €21 for future credits); this was from 10 to 16 times Minister Narbona's prediction. A PriceWaterhouseCoopers study elevated the price of Kyoto for Spain to €15 billion, or 35 times the minister's promise. The government has been forced to admit that costs in the billions of euros will ensue, but downplays it. That is to say, the government announced that the cost for 2008-2012 could be up to more than €3 billion (the exact estimate was €3067 million, coming quite close to our earlier estimates, particularly when one considers they began with an €85 million per year prediction).

Regardless, this drag on the economy accrues no environmental benefit, as even Kyoto's most ardent champions admit: this is the first of 30 such steps, they say.

Some Spanish employers already shut their doors or shifted new investment to countries not requiring GHG rationing. Consider North American Stainless Steel, a subsidiary of Acerinox S.A., the world's second-largest stainless steel producer and the largest Spanish investor in the U.S. Acerinox decided to expand its investments in Kentucky in large part because the ETS is wrecking Spain's competitiveness. Expanding operations in Spain has become prohibitively expensive due to the added cost for every ton of CO₂. This helps to explain why this large manufacturer plans to invest just a fraction of what it will invest in Kentucky (€270 million, or about \$350 million) in its home market (€41 million) (exchange rates vary, these cited are as of the time of particular of Mr. Munoz's relevant remarks).

Acerinox's then-CEO (now retired) Victoriano Muñoz noted on 24th February 2005, just after announcing one significant USD investment in Kentucky, that his

company does not want to invest in Spain because they find difficulties in complying with Kyoto and “I would not like to find myself buying quotas from France or Germany”.

Mr. Muñoz also said as early as 2004 that, unlike its European counterparts, North American Stainless had significantly improved its comparative advantage by the U.S. staying out of Kyoto. Not coincidentally, just a few months later the company decided to expand its U.S. presence, adding 175 new jobs in Carroll County, KY, while holding back new investments in Spain. In early 2005, when presenting the company’s 2004 figures Muñoz explained that principal drivers behind Acerinox re-directing investments toward its American factory included the cost of complying with Kyoto and the continuous blackouts in Spain (even a failing European performance under Kyoto has limited its power supply options).

South Africa is exempt from Kyoto and – like 155 countries which continue to reject the rationing approach of Kyoto and “cap-and-trade” – is unlikely to ever enact similar policies. As such, Acerinox’s South African branch also benefits from Kyoto’s destructive impact on Europe’s economy with, as Muñoz put it in the 2006 shareholders meeting, “a great strategic value”. On one hand it boasts a reliable electricity supply, unlike Kyoto-mired Spain. On the other hand, a tightening of requirements in Europe (which Kyoto demands must continue ever deeper) or the possible eventual adoption of a similar rationing scheme by the U.S. makes that plant an important strategic asset.

That is, were the U.S. to make clear that it was *not* in fact going to impose some new and improved version of Europe’s disastrous example, even more investment would apparently flow to your shores. Following Europe’s example, it is reasonable to conclude, would similarly drive existing and future investment away. Regrettably, many

political leaders do find political appeal in, to date at least rhetorically, touting Kyoto-style regulation, leaving investors somewhat wary.

Many energy-intensive companies face the dilemma whether to pay the excessive costs of complying with Kyoto, or to instead redirect investments to other countries. Muñoz repeatedly warns of Kyoto creating a “very grave” situation for Spanish industry, “forc[ing] us into a second industrial restructuring.” In his opinion, “Kyoto is one of the biggest problems Spain will have to deal with in the coming years.”

It is also useful to note that Europeans are not being made wealthy by selling windmills and solar panels to each other, as the rhetoric leading up to enactment of its carbon trading scheme would have led one to believe. Instead, it is only utilities and brokers who are clearing massive, indeed “windfall” profits from selling the credits given them by the state or else – if instead used to offset their own production – incorporating their market value into the price of their electricity (after all, once granted by the state it is a valuable asset that could have been sold), directly on the backs of ratepayers.

This causes me to remark on one other aspect of imposing carbon controls on an economy, which is particularly relevant to the claim that such controls create jobs. That is, the manufacture of “renewable” energy sources – which of course are heavily subsidized under such schemes both directly and indirectly – is often cited in an artificial way as proof of some resulting profitability that generates wealth and jobs for everyone. Please consider the current Spanish law on the subject, which is not unique from what one should expect in a world of state-imposed carbon-constraints: the “fixed sell price” (for wind-energy-producers) to distributors of energy is 73.22€/MWh, which is between 136% and a 209% of the market price. This results in great redistribution (the money

going from millions of Spaniards to the ones that have license to open a windmill field), in a game leading people to believe that windmills are creating (net) jobs while, in the best case, it destroys jobs in other sectors to create new ones in these privileged sector

Unfortunately, the future is now and Kyoto is already one of Spain's economic problems due to the lost of competitiveness and outsourcing brought about by rationing GHG emissions. A whole generation of European policymakers still must learn that there is no gain for the environment from rationing energy use. In the meantime and for now, countries like U.S. and South Africa are becoming refuges for international investment.

Conclusion

In conclusion, I respectfully suggest that the U.S. take a long and serious look at the truth behind Europe's experience with a carbon "cap-and-trade" scheme, and also the problems inherent in such a scheme. It is not sufficient to state that the Clean Air Act's "acid rain" program is a useful analog, for not only is that program's success oversold (e.g., SO₂ emissions had been falling for 20 years, and unrelated interventions such as rail deregulation occurred which are not likely to rescue a CO₂ scheme from reaching the estimated cost to the economy). But also know that Europe expressly enacted its CO₂ program with the benefit of that experience, too.

The practical realities of applying cap-and-trade to CO₂ simply do not match the sunny rhetoric, and it seems clear that the jobs gained from imposing such a burden on the U.S. economy will be far outweighed by the jobs lost due to the reduced competitiveness resulting from imposing this drag on the availability and affordability of energy.

Thank you again for allowing me to comment for the record.