THE WALL STREET JOURNAL. ONLINE

February 11, 2003 12:04 a.m. EST

POLITICS AND POLICY

Bush's Global-Warming Plan Draws Heat From Businesses

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Staff Reporters of THE WALL STREET JOURNAL

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Some U.S. companies are starting to complain that President Bush's plan to fight global warming isn't as business-friendly as advertised.

Wednesday, the White House and U.S. corporate leaders are scheduled to stage an event displaying support for Mr. Bush's policy on global warming. His plan seeks to give companies a financial incentive to voluntarily reduce emissions of greenhouse gases -- so named because they trap heat in the earth's atmosphere -- by trading credits in those emissions.

But while the White House bills its proposal as a less costly alternative to mandatory caps being implemented in other countries, behind the scenes the plan is the target of grumbling from two distinct camps within the business community. One frets that Mr. Bush's plan will unintentionally boost pressure for more-onerous regulation. Another, including companies that already have invested in emissions-cutting technology and want competitors to be forced to do the same, worries it doesn't go far enough. As a result, cracks are emerging in the unified business support Mr. Bush has been counting on as he fends off environmentalist critics.

"It seems like we have conflicting goals here," Steven Willis of **Whirlpool** Corp. said at a recent workshop where the federal government sought comment on Mr. Bush's plan. Backing more far-reaching reductions than the administration has called for, Mr. Willis noted, "Aren't we trying to protect the global environment? Doesn't that really mean we're going to have to make absolute changes? I think we're going to have to suck it up and do what needs to be done."

That sentiment is precisely what worries Fred L. Smith Jr., president of the conservative Competitive Enterprise Institute think tank. He grouses that the Bush administration's voluntary approach, by embracing the goal of pushing businesses to reduce emissions, will prove self-defeating by setting U.S. policy on a slippery slope toward costly mandates.

GLOBAL WARMERS

Electric-power plants like the one below are the largest producers of carbon-dioxide emissions. Sources of U.S. CO_2 emissions in 2000:

"You will be creating incentives for a regulation to do what you didn't want to do in the first place," says Mr. Smith, who opposes any regulation in this area.

Carbon dioxide and other suspected greenhouse gases are produced by the burning of fossil fuels such as oil and

coal in virtually every type of factory. The Kyoto treaty that has been adopted by most industrialized nations imposes caps on their greenhouse-gas emissions. The United Kingdom has responded by creating the world's first economywide market in trading the right to emit greenhouse gases. The government offers companies that reduce such output an 80% exemption from a tax the U.K. has imposed on carbon-based fuels.

Companies that figure out how to reduce their emissions at low cost can slash more than their share -- and then make back some money by selling their extra credits to companies that haven't come up with enough cuts on their own. As of Friday, a U.K. company that curbs its greenhouse-gas output by a ton could sell the right to emit that ton for $4.40. Trades typically involve thousands of tons.

But the U.S. lacks a comparable market because Mr. Bush has rejected the Kyoto treaty, saying the curbs it requires would impose devastating costs on U.S. businesses and consumers. Instead, the market-oriented Republican president is pushing a softer approach that urges U.S. businesses -- without mandates -- to contribute toward an 18% cut in the country's "greenhouse-gas intensity." The idea is to let U.S. emissions keep growing, though at a slower rate than the economy.

At Wednesday's Washington presentation, leaders of big industry sectors are expected to stand alongside administration officials and pledge intensity reductions toward the president's target. Meanwhile, the Department of Energy is working to create a domestic trading system by beefing up a voluntary "greenhouse-gas registry" created by the Clinton administration.

Most U.S. companies continue to back Mr. Bush's approach. Yet others have leaped ahead to cut emissions -- and now want their business rivals to have to fork over money to do the same. Anticipating that global climate change would become a headline environmental issue during the 1990s, companies such as **DuPont** Co. sought to get ahead of potential regulation by retrofitting their manufacturing facilities with millions of dollars of emissions-cutting technology. Now DuPont is praising the approach outlined in Senate legislation by Bush antagonist John McCain, an Arizona Republican, that would go beyond White House policy by imposing a mandatory cap.

With Republicans holding narrow control of both the House and Senate, advocates of a mandatory cap face an uphill fight winning approval from the current Congress. But some companies consider a mandate inevitable in the long run, notwithstanding Mr. Bush's opposition, and are moving now to prepare themselves.

That has produced the first faint outlines of a U.S. market in emissions trading. A few companies -- mostly those seeking mutually beneficial ways of honoring their own voluntary public pledges to cut emissions -- have started buying or selling credits among themselves, often at little more than $1 per ton.

And last month, **Ford Motor** Co. and several other big U.S. companies announced they are forming a voluntary market in greenhouse-gas trading called the Chicago Climate Exchange. Companies that join volunteer to cut their greenhouse-gas emissions by 4% over the next four years, though they get what exchange officials describe as limited credit for certain actions they took in the past. Those that miss their targets would face the potential embarrassment of disciplinary proceedings by their corporate peers.

Some participants view the exchange as a way to show business can be trusted to reduce greenhouse-gas emissions without the need for a government mandate. "The voluntary nature of it

is a tremendous strength," says Ford Vice President Martin Zimmerman. "Leaping ahead to the regulatory approach is really putting the cart before the horse."

Others participants see a Washington cap as inevitable, and hope the exchange will show government the importance of pairing it with provisions that will make it easier for businesses to comply.

"I am banking on the expectation that when the U.S. Congress decides to impose mandatory controls on greenhouse gases, they will look back and recognize that some companies acted early," says Dale Heydlauff, a senior vice president at **American Electric Power**, the big Midwest coal-fired utility. "And they will give us credit for early action."

Mr. Heydlauff acknowledges that any voluntary system won't promote as much greenhouse-gas reduction as a government mandate would. "I'm not calling for a cap," he says. "But there are limits on how much we're going to spend on what is essentially a public-policy experiment. You just aren't going to spend tens of millions of dollars on a voluntary program if your competitors aren't doing likewise."

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Updated February 11, 2003 12:04 a.m. EST

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