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NEW CONSENSUS
**In Climate Controversy,
 Industry Cedes Ground**
**Support Grows for Caps
 On CO2 Emissions;
 Big Oil Battles Detroit**

 By **JEFFREY BALL**
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The global-warming debate is shifting from science to economics.

For years, the fight over the Earth's rising temperature has been mostly over what's causing it: fossil-fuel emissions or natural factors beyond man's control. Now, some of the country's biggest industrial companies are acknowledging that fossil fuels are a major culprit whose emissions should be cut significantly over time.

HEATED DEBATE

- **What's New:** With global-warming regulations looking increasingly likely, U.S. companies are gearing up to influence policy-making.
- **The Background:** Some companies see new markets; others see new costs.
- **What's Next:** A fight among companies as each tries to shape a potential cap on carbon emissions to its advantage.


A growing number of these companies are pushing for a mandatory emissions limit, or "cap." Some see a lucrative new market in clean-energy technologies. Many figure a regulation is politically inevitable and they want to be in the room when it's negotiated, to

minimize the burden that falls on them.

The broadening, if incomplete, consensus that fossil fuels are at least a big part of the global-warming problem signals real change in the environmental debate. The biggest question going forward no longer is whether fossil-fuel emissions should be curbed. It's who will foot the bill for the cleanup -- and that battle is heating up.

Yesterday, 10 companies, including industrial giants that make everything from bulldozers to chemicals to electricity, joined environmental groups in calling for a federal law to "slow, stop and reverse the growth" of global-warming emissions "over the shortest period of time reasonably achievable." Tonight, President Bush,

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CAP COST


A U.S. Energy Information Agency study this month projected the economic effects of a cap-and-trade system to curb U.S. greenhouse-gas emissions as proposed by senators led by Jeff Bingaman. Percentages below compare the projected level under the cap, in 2030, against the projected level without the cap.

- Change in annual GDP: -0.26%
- Gasoline price increase: 12 cents

whose administration has rejected such caps as economically unacceptable, will deliver a State of the Union address in which he's expected to announce a bigger push for such things as low-emission alternative fuels.

In the center of the regulatory cross hairs are utilities. They're the world's biggest emitters of carbon dioxide, the global-warming gas that's produced whenever fossil fuels are burned. Written one way, a cap would help utilities in the Southeast or the Midwest, which burn lots of coal, a particularly carbon-intensive fuel. Written another way, a rule would help utilities on the West Coast, the Northeast and the Gulf Coast. They use mainly natural gas, which produces lower CO₂ emissions than coal, and nuclear energy, which produces essentially no CO₂.

per gallon (5%)
 • Electricity price increase: 0.8 cents per kilowatt hour (11%)
 • Heating-oil price increase: 16 cents per gallon (8%)
 • Natural-gas price increase: 0.88 cents per million cubic feet (11%)

[Read the study.](#)¹

Source: U.S. Energy Information Administration

Auto makers and oil producers also are worried about a potential cap, and they're lashing out at each other. The Big Three auto companies are making speeches and running advertisements calling on Big Oil to crank out more low-carbon alternative fuels such as corn-based ethanol. Big Oil, in its own speeches and ads, says the auto makers should build more-efficient cars.

Lobbying on the issue is ramping up. The American Iron and Steel Institute, which opposes any emission cap, this month assigned an executive who had been working broadly on environmental issues to focus specifically on global warming. Some companies that oppose a cap argue it would raise their costs and hurt their competitiveness against rivals in developing countries such as China, where no cap exists.

DuPont Co., the chemical giant, heartily endorses a cap in part because it figures it would help boost demand for energy-efficiency products the company makes.

Entergy Corp., a utility that's also pushing for a cap, had a lobbyist in the room last week when Sen. Dianne Feinstein, a California Democrat, announced a carbon-cap bill. Entergy would likely benefit from her measure because the company's fuel mix includes a lot of low-carbon fuels.

"It was a hand-holding, kumbaya moment," says Brent Dorsey, Entergy's director of corporate environmental programs. "Every company is going to be playing to their own strengths and weaknesses" in the regulatory battle that's breaking out over global warming, he adds.

Among scientists, a broadening consensus has developed that fossil-fuel emissions are contributing to global warming; the debate has been over whether they're the main cause. In 2001, the Intergovernmental Panel on Climate Change, a United Nations body that periodically assesses climate science, cited "new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities." In 2005, representatives of scientific societies from 11 countries, including the U.S., called the science "sufficiently clear to justify nations taking prompt action."

Still, uncertainties remain. Among them, the U.N. panel noted in its 2001 report, is the extent to which "natural factors" unrelated to human activity play a role in the rising temperatures. The U.N. panel is set to release its next climate-science report Feb. 2.

Fossil fuels provided 80% of global energy in 2004, and they're on track to provide 81% in 2030, according to the International Energy Agency, a Paris-based energy watchdog for Western industrialized countries.

Significantly curbing their emissions would require sweeping technological change, from more-efficient power plants and cars to the potential injection and burial of massive amounts of CO₂ underground.

CALL FOR CAPS

Ten U.S. companies and four environmental groups, joined as the U.S. Climate Action Partnership, called Monday for the U.S. to impose a mandatory cap on global-warming emissions. They recommended Congress establish a long-term "target zone" of reducing emissions between 60% and 80% below today's levels by 2050. In addition, they suggested a series of shorter-term targets:

- Keeping emissions to 100% to 105% of today's levels within five years of "rapid enactment."
- Reducing emissions to 90% to 100% of today's levels within 10 years of enactment
- Reducing emissions to 70% to 90% of today's levels within 15 years of enactment

Read the full recommendations on [the group's Web site](#)².

INTERESTED PARTIES

In April, more than two dozen companies and interested groups submitted to a Senate committee their recommendations regarding a potential emissions cap. [Review the executive summaries](#)³ of their presentations and see full details at [the Senate's Web site for the conference](#)⁴.

Another possibility would be to reduce the rate of growth in fossil-fuel consumption by supplementing the fuel mix with alternatives, from nuclear power to crops to the wind and the sun.

Outside the U.S., many countries already have modest experience in emissions caps, thanks to the Kyoto Protocol. The treaty, which hasn't been ratified by the U.S., requires ratifying nations collectively to cut their emissions 5% below 1990 levels by 2012.

Several Northeast states and California already have announced plans to impose emission caps of their own. And a handful of proposed federal caps are under consideration in Congress. The least stringent is one from senators led by Jeff Bingaman, a New Mexico Democrat. By 2030, it would raise gasoline prices 12 cents per gallon, according to a study issued this month by the U.S. Energy Information Administration, and slow the rate at which U.S. coal consumption increases.

The federal proposals differ in the structural details of the "cap and trade" system they would set up to regulate CO₂ emissions. Under such a system, the government would

set a ceiling on how much CO₂ the U.S. economy -- or whichever sectors lawmakers pick -- could emit each year. It would ink a corresponding number of pollution permits, each entitling the bearer to emit one ton of the gas.

Then, based on complex allocation rules it devises, the government would divide up the permits among companies. Those companies could buy and sell permits among themselves on a greenhouse-gas market like a Kyoto-related one already under way outside the U.S. Companies that decide it's too expensive to cut their own emissions enough to comply with their government cap would go to the market and buy extra emission permits from companies that ended up with more than they needed. The theory behind the market is to create an economy of scale that reduces everyone's cost.

Other regulatory structures are possible, including a straight tax on CO₂ emissions. Politically, a cap-and-trade system is more popular than a tax. Environmentalists like the severity of an absolute ceiling on the amount of CO₂ companies can emit. Industry likes the flexibility of a market in which permits to pollute can be bought and sold.

And cap-and-trade systems already are in use. The U.S. has had one for more than a decade to curb the pollution that causes acid rain, a regulation widely viewed as successful.

Still, Steven Rowland, director of environmental affairs for **Nucor Corp.**, one of the biggest U.S. steelmakers, warns U.S. industry is in for a shock if Washington follows Europe and imposes a

global-warming cap. The U.S. steel industry already has gotten more energy-efficient in recent years, he says, so it would be unfair to require it to make further emission cuts while its competitors in the developing world, where emissions are rising fastest, remain free from a cap. The steelmaking process itself emits large amounts of CO₂.

A smarter tactic, he says, would be for the U.S. to slap trade restrictions on developing-world steelmakers requiring them to meet minimum environmental standards as a condition for exporting their products to the U.S.

"The biggest hammer that the United States has is its market," Mr. Rowlan says. "And that, more than anything we do domestically, will have the greatest impact on greenhouse gases." Nucor, based in Charlotte, N.C., is considering running ads to drive this point home.

DuPont, on the other hand, is actively promoting an emissions cap. It thinks a cap would help its business. DuPont makes materials used in such devices as solar cells, wind turbines, fuel cells, and lightweight automobiles -- all of which are likely to be in higher demand in an economy in which CO₂ emissions carry a cost.

"We think there is a lot of market opportunity," says Linda Fisher, a former U.S. Environmental Protection Agency official who's now DuPont's chief sustainability officer.

But DuPont, based in Wilmington, Del., doesn't want just any cap. For one thing, it wants a cap that covers all sectors of the economy -- not one that's limited to utilities, as are some proposals pending in Washington. The more industries covered by a cap, the more potential customers for DuPont's environmental products.

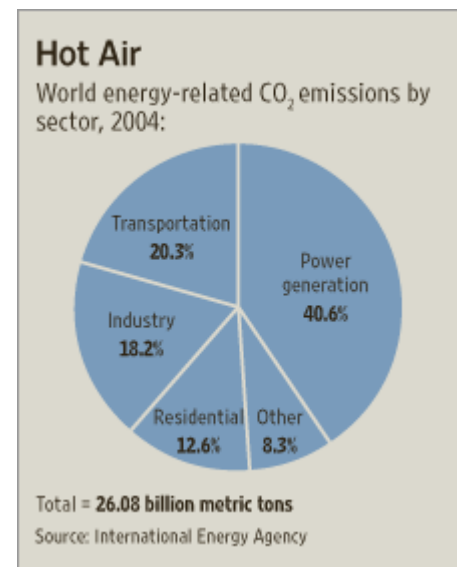
DuPont also wants a cap to award companies credit for past emission cuts they've made. DuPont already has invested to significantly cut its emissions.

Utilities, for their part, are split on whether they want a cap -- and, if so, what kind. Where a utility stands on this issue depends largely on where in the country it sits.

Duke Energy Corp., based in Charlotte, is the country's third-largest burner of coal, though it also has significant nuclear assets. It's pushing for permits to be distributed based on the amount of CO₂ a utility has emitted in the past -- a system that would protect big coal burners such as itself.

James Rogers, Duke's chairman and chief executive, notes that Duke already is assuming in its investment decisions that it will have to pay for carbon emissions. So it has begun investing in new plants that will burn coal more cleanly than today's plants do. He argues any cap should ensure adequate permits to utilities making such investments. "It's going to take several decades to bring this on," he says of the technology. "We shouldn't have an economic scheme that puts an undue economic burden on regions of the country that are reliant on coal."

Given Duke's coal reliance, it might seem strange that Mr. Rogers has emerged in recent years as perhaps the U.S. utility industry's most outspoken proponent of a global-warming constraint. His



position is a bit "awkward," he notes, because he also serves as chairman of the Edison Electric Institute, the electric industry's Washington trade group, which opposes any mandatory global-warming cap. He's set to speak on three panels discussing global warming this week at the World Economic Forum in Davos, Switzerland.

Mr. Rogers, wearing his Duke hat, says he's just being realistic. He has concluded a cap is coming -- and that his shareholders are likely to do better if he can influence the details. "If you're not at the table when these negotiations are going on, you're going to be on the menu," he says. "This is about being at the table."

Fighting Duke and other coal-burners are utilities such as Entergy. Based in New Orleans, it uses a lot of natural gas and nuclear fuel. Unlike Duke, Entergy wants permits to be distributed based on a utility's total electricity output -- a system likely to give low-carbon generators such as itself excess permits they could sell.

Duke's Mr. Rogers says that would amount to a "windfall" for low-carbon utilities. "Even though they don't need allowances, they would get them, just because," he says.



General Electric CEO Jeffrey Immelt, left, and Jonathan Lash, president of World Resources Institute, at a news conference in Washington, D.C. yesterday.

Entergy's Mr. Dorsey says his company isn't asking for a windfall. The permits Entergy would get amount to "a revenue stream that we will need to build a new nuclear plant," he says. Still, he allows, "because of our natural gas and nuclear, we will fare better than most" under a carbon cap.

Auto companies also are jockeying to shape a potential carbon constraint to their advantage. They've been playing this sort of regulatory game for years.

They already face a kind of carbon limit in the federal government's longstanding fuel-economy standards for cars and trucks, because vehicles that burn less gasoline emit less CO₂. Those rules give auto makers extra credit for building versions of their conventional vehicles they've modified to run on either gasoline or ethanol. Very few of those vehicles actually wind up running on anything but gasoline. But the credits let the auto makers build more thirsty sport-utility vehicles and pickup trucks -- the industry's bread and butter, particularly when oil was cheaper.

Auto officials who declined to be named said the industry probably will accept some toughening of the fuel-economy standards. But in return, it may seek bigger credits for selling vehicles that burn less oil, including those that can run on ethanol.

At the same time, auto makers want to ensure other industries get hit. In a speech last week in Detroit, Rick Wagoner, **General Motors Corp.**'s chairman and chief executive, said his company plans to build more ethanol-capable and electric-powered vehicles. But he also stressed "important roles for other industries, like oil and electric utilities, to name a few." He called for more tax credits and subsidies for alternative fuels.

The oil industry itself is mobilizing -- including **Exxon Mobil Corp.**, the Irving, Texas, oil giant that in the past has been outspoken in its questioning of global-warming theories. Scientific questions remain, says Kenneth Cohen, Exxon's vice president for public affairs, but "we know

enough now -- or society knows enough now -- that the risk is serious and action should be taken." Exxon isn't calling for an emission constraint, but it's starting to talk about how it wants one structured if one is imposed.

In November, Rex Tillerson, Exxon's chairman and chief executive, called in a speech for "steps now to reduce emissions in effective and meaningful ways." Then he listed two: boosting automotive fuel economy and cutting emissions from coal-fired power plants.

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