

Paris Climate Agreement: Instead of Regulations and Mandates, Embrace Markets

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KEY TAKEAWAYS

The Paris Agreement will leave Americans with a lower quality of life, lost jobs, higher bills, fewer energy choices, and unintended environmental consequences.

As a non-binding, voluntary accord, the agreement is ill-suited to curb warming, as the world's largest emitters get a free pass.

Policies rooted in economic freedom have made the U.S. a leader in emissions reduction and will lead to more prosperity and a cleaner, healthier environment.

On his first day in office, President Joe Biden signed an executive order for the United States to rejoin the Paris climate agreement. The 2015 non-binding agreement would have negligible impacts on slowing warming, but the regulations implemented by the Biden Administration would carry significant costs. Prohibiting and restricting the use of natural resources while subsidizing alternatives will cost Americans as consumers and as taxpayers. Higher energy prices will ripple throughout the economy, resulting in fewer jobs and a weaker economy. Instead, President Biden should work with Congress on a pro-growth agenda that harnesses the power of markets to drive investment, job creation, and environmental improvement.

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Brief History of Paris Timeline

In April 2016, the United States announced its intention to join the Paris climate agreement, which set a target of limiting warming to 2 degrees Celsius above pre-industrial levels with intentions to restrict warming to 1.5 degrees Celsius. The United States formally joined the Paris Agreement in September 2016,¹ but the Trump Administration announced its intention to withdraw from the accord a year later.

Under the terms of the Paris agreement, the Trump Administration could not send notice of U.S. withdrawal until three years after the agreement entered into force. The actual withdraw process takes another year; thus the U.S. did not formally leave the agreement until November 3, 2020.² America's exit from Paris will be short-lived as President Biden announced on January 21 his intent for the United States to rejoin Paris.³ Official re-entry will go into effect 30 days after the submission.

Nationally Determined Contributions

While the agreement does not set any legally binding requirements on emissions reductions, each country must submit a Nationally Determined Contribution (NDC) to reduce greenhouse gas emissions. NDCs are voluntary, non-enforceable, and submitted every five years.⁴ What the new Administration submits as America's NDC remains to be seen. However, during the campaign, Biden proposed for the United States to have a complete decarbonization of the power sector by 2035 and economy-wide net-zero greenhouse-gas emissions by 2050.⁵

To achieve these targets, President Biden has proposed increasing government spending for alternative energy sources; implementing more stringent greenhouse-gas regulations on power plants, oil and gas extraction, and vehicles; and placing tariffs on countries not meeting their climate objectives. In his first days in office, President Biden has already taken action on energy and climate policy. He rescinded the presidential permit for the Keystone XL pipeline and placed a 60-day moratorium on new natural gas, coal, and oil leases on federal lands.

Furthermore, President Biden emphasized having a "whole-of-government approach" to climate policy. This includes creating a new climate program at the Department of Energy, using Department of Agriculture programs to reduce emissions, and promulgating new regulations regarding climate risk at the Securities and Exchange Commission. President Biden has also called for using government procurement to reduce emissions.⁶ In effect, the

consideration of climate change will be integrated across a wide spectrum of government agencies. Legislative pushes will likely include a federal clean electricity standard, a climate component of a large infrastructure bill, and subsidies for green-energy technologies as part of an economic recovery package.

Green Climate Fund

The Green Climate Fund is another fundamental piece of the Paris Agreement. The fund subsidizes renewable energy projects and pays for other climate adaptation and mitigation programs in developing nations. Many developing countries have emphasized the need for outside funds to meet their climate targets.⁷ President Obama pledged \$3 billion and dispersed \$1 billion to the Green Climate Fund in 2016, using the State Department's Economic Support Fund to bypass Congress. This could be a similar path forward for a Biden Administration to meet Green Climate Fund pledges without a specific appropriation.

Re-Entry and the American Economy

About 80 percent of America's energy needs are met from resources that emit carbon dioxide from combustion (petroleum, natural gas, and coal).⁸ Two-thirds of America's electricity comes from coal and natural gas.⁹ Market forces could very well change the country's energy mix as prices, technological innovation, and consumer preferences change. However, a reliance on mandates, regulations, and subsidies to impose a government-forced transition will be very costly for Americans.

Shuttering otherwise financially viable power plants, pipelines, and other energy infrastructure would impose substantial economic harm. The regulatory costs would drive up electric bills for households, disproportionately impacting low-income families. Businesses would also incur higher costs and pass them on to consumers, which results in higher costs for food, clothes, health care, and all the other goods and services consumers routinely buy. If companies absorb the costs, it would prevent new hiring and new investment. The cumulative effect would be fewer jobs, lost household income, and a weaker economy. In 2016, Heritage economists estimated that the regulations imposed by the Obama Administration to meet the U.S. NDC would cost the average family of four more than \$20,000 in lost income by 2035, an annual average loss of nearly 400,000 jobs and an aggregate gross domestic product (GDP) loss of over \$2.5 trillion.¹⁰ President Biden's stringent emissions targets would likely impose comparable economic harm.

Re-Entry and the Climate

No matter where one stands on the urgency to combat climate change, the Paris climate accord is an ill-suited mechanism to curb warming. With no enforcement mechanisms in place and no repercussions for failing to meet emissions reduction targets, countries essentially have a free pass to emit well into the future.

For instance, China, the world's largest greenhouse-gas emitter, can continue to increase emissions until 2030. China's coal production in 2020 was the country's highest since 2015.¹¹ Another major emitter, India, pledged to cut its ratio of carbon-dioxide emissions to GDP. That ratio may well go down so long as carbon emissions rise at a slower rate than GDP, but emissions will continue to rise.¹² In fact, India committed to emissions reductions that are less than what the country would achieve if it continues on the same track it is currently on today. In other words, it set the bar so low that it can continue along its businesses-as-usual trajectory of emissions intensity and pretend it is making progress. Russia, the world's fifth-largest emitter, ratified the Paris Agreement but submitted no plan to reduce emissions.¹³ Developing countries, such as Pakistan, explicitly said their emissions would grow exponentially because they are prioritizing energy development and economic growth.¹⁴

According to a November 2019 report from the Universal Ecological Fund, "Of the 184 climate pledges, 36 were deemed sufficient (20 percent), 12 partially sufficient (6 percent), 8 partially insufficient (4 percent) and 128 insufficient (70 percent)" for reaching the emissions reduction targets set out by the agreement.¹⁵ Consequently, combining the emissions reductions (or lack thereof) of these nations will have a practically undetectable impact on the climate.¹⁶ Moreover, 126 pledges (68 percent of all pledges) are partially or fully dependent on international finance.¹⁷ In other words, these countries will try to meet their pledges only if someone else pays for it.

Policy Recommendations for Economic and Environmental Progress

The U.S. has demonstrated global leadership by demonstrating that competitive markets are a driving force for environmental progress and emissions reductions. Greenhouse-gas emissions have been on a downward trend over the past decade, and in 2019, the United States had the world's largest reduction in absolute carbon-dioxide emissions.¹⁸ This is largely a result of changes in the power sector. Natural gas has overtaken coal as the

largest source of electricity, supplying affordable power and generating substantial economic growth. Importantly, the increased use of natural gas is the principal reason energy-related carbon-dioxide emissions have fallen in recent years.¹⁹ Moreover, the cost of renewable and battery technologies is declining, and commercial nuclear technologies have tremendous potential. Businesses invest in energy-savings technologies to save on their bottom line, and it also produces a smaller environmental footprint. Collectively, markets empower businesses to meet the wide variety of consumer preferences while using fewer resources and producing fewer emissions in the process.

However, policy and regulations often stunt the pace of innovation and the ability of the private sector to invest in more environmentally friendly technologies. To that end, Congress and the Biden Administration should remove barriers to innovation and competition.

More specifically, policymakers should:

- **End tariffs and expand technological innovation internationally.** Tariffs adversely affect investment in new, cleaner energy technologies. For instance, Section 201 tariffs hurt the growth of the solar industry. Removing tariffs on imported solar panels could reduce total system costs by 30 percent. Moreover, steel and aluminum tariffs increase construction costs of a wide range of new energy investments. The economic uncertainty created by the tariffs and the threat of tariffs and inaction in company exemption requests results in investment dollars sitting on the shelf. The Biden Administration should pursue a zero-tariff policy and end tariffs for all energy sources.
- **Make immediate expensing a permanent fixture of the tax code.** Immediate and full expensing for all new plant and equipment costs—for any industry or type of equipment—would allow newer equipment to come online faster, which would improve energy efficiency and overall economic efficiency. The Tax Cuts and Jobs Act allows full expensing for short-lived capital investments until 2022. Policymakers should expand this to all investments and extend it permanently to encourage investment in capital to drive growth and reduce industry’s environmental footprint.
- **Refrain from banning natural resource production on federal lands and open federal lease auctions to competitive bidding from all market participants.** The federal government prohibits resource development in many parts of the country and off its coasts.

Further, only energy companies can bid on lease auctions, and the federal government requires leaseholders to demonstrate intent to extract the natural resource. Prohibiting new leases for natural resource development on federal lands restricts Americans, particularly in the west, access to jobs and economic activity. It also denies the ability of states to collect revenues from royalties, rents, and bonus bids that companies pay to extract resources on federal lands. States receive nearly half of that money, which can help fund hospitals, schools, infrastructure, and conservation programs. Companies should have the chance to safely and responsibly develop America's resources, whether conventional sources of energy, critical minerals, or renewable power. Congress should also allow conservationists, recreationists, ranchers, environmentalists, and individuals to bid on federal lands, as they may value the land more than oil and gas developers do. Opening the leasing process to all interested parties would create not only more competition but also potentially more cooperation for productive uses for the land and the resources below it.

- **Create innovation pathways at America's national laboratories.** Creating pathways that allow the private sector (using private funds) to tap into basic research would help spur innovation that is more responsive to market needs than political ones. Furthermore, if national lab directors and lab employees have more autonomy (without violating conflict-of-interest rules), they can drive fundamental research to private-sector applications.²⁰
- **Streamline permitting for liquefied natural gas exports.** The U.S. natural gas industry's ascension as a leader in exports is paying dividends economically and environmentally across the globe. A recent study from the Department of Energy's National Energy Technology Laboratory analyzed life cycle greenhouse-gas emissions from U.S. liquefied natural gas (LNG) exports. In different scenarios of comparing U.S. LNG shipped to European and Asian markets, when compared to coal use or Russian piped gas, the life cycle emissions from U.S. LNG exports are lower.²¹
- **Promote fuel- and technology-neutral competition.** Policymakers should defend competitive markets and eliminate policies that created market unfairness in the first place. A government-centric approach uses policy to guarantee that some, if not all, costs of service

are covered, thus reducing incentives to cut costs beyond what is politically necessary. In contrast, competitive markets force power suppliers and investors to consider the costs and benefits to their customers and incentivize discipline to be more efficient—in operations, investments, and regulatory compliance—than competitors. It empowers greater customer choice not only in the form of resources (renewables, conventional fuels, or a mix) but also in financial products (such as fixed rates, risk preferences, indexed rates, or short- or long-term contracts). In the end, because electricity providers have to work for their customers, prices are competitive and quality improves. The Federal Energy Regulatory Commission should aggressively defend competition and, along with greater reforms from Congress, reduce distortions through the Public Utility Regulatory Policies Act that both shut out and over-price renewables.

- **Codify the recent National Environmental Policy Act (NEPA) reforms into law.** NEPA is a half-century-old law simply that has not kept up with the pace of energy innovation. As a result, cleaner and more energy-efficient projects are subjected to years of costly delays, when instead they should be expedited. If a project is not held up in the courts, then it is buried in regulatory permitting purgatory. This holds true whether the project is a pipeline or a solar array. In fact, some of the most ardent NEPA critics are renewable-energy developers. Last July, the Council on Environmental Quality finalized reforms to modernize NEPA to establish a process for more timely infrastructure development.²² Given the other federal, state, and local statutes that could adequately fill NEPA's intent, Congress should repeal the outdated law. However, codifying the previous Administration's reforms would be a welcome interim step.

Conclusion

The Paris climate agreement has serious flaws and is an ineffective climate mitigation framework. Regrettably, the actions already taken by the Administration of revoking the Keystone XL permit and temporarily banning new energy leases on federal lands signal a costly, heavy-handed regulatory approach to meeting emissions reduction targets. Reliance on regulations, mandates, and subsidies would raise energy prices, distort markets, and cause government favoritism. It would be fraught with unintended economic and environmental consequences. Instead, the Biden

Administration should work with Congress to liberate energy markets. Pro-growth, technology-neutral policy reforms would spur innovation and investment in more efficient technologies, leading to a better economic and environmental outcome in the United States and around the world.

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