

GUEST COMMENTARY

Oil refiner-backed study exaggerates burden of climate bill

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The oil refining industry recently published a study that argues the Waxman-Markey climate bill will cause job losses and shift domestic oil production overseas.

But the study sponsored by the American Petroleum Institute (API) contained inflated findings. Its call for more free emission allowances should not be heeded.

API is using the study to argue that the proposed Waxman-Markey climate change bill, which passed the House of Representatives in June and will soon be debated in the Senate, takes an unfairly hard approach in dealing with oil refiners.

While there may be a nugget of truth in this study, the findings of the study are being exaggerated to imply that impacts to oil refineries are unique.

The API claims that the refining industry would be "held responsible for 44 per cent of emissions," but is only being given 2.25 per cent of free allowances in contrast to other sectors, which are getting substantially more.

But Waxman-Markey would impose a cap-and-trade obligation on oil importers and producers.

Those who import oil into the United States, or who drill and extract oil within the US, would have to acquire carbon allowances based on the carbon content of the fuel – a cost that would be passed on to the end-users of the fuel.

An importer of oil will have to acquire one allowance for every 100 gallons of oil that is then tacked on to the price of each gallon of gasoline.

If carbon allowances are priced at

\$10 per tonne, each gallon of gas would have embedded in it one hundredth of a carbon allowance, or ten cents. Since every gallon of gasoline will be subject to the same "tax," the impact on an individual refinery will be no different than if the gas tax in an individual state were increased by ten cents – the cost is simply passed on to the consumer. This is true also for oil that is refined into gasoline overseas and then imported, which is the claimed "threat" from Waxman-Markey.

In reality, the oil refined overseas imported to the US will have the same level of allowances added to each gallon.

What then is the nugget of "truth" in the API study? The concern for refineries is that they produce approximately 4 per cent of the greenhouse gas emissions in the US (according to the API), and Waxman-Markey imposes the cap on all industrial emitters to cover their direct carbon emissions.

Refineries will therefore have to either find ways to become more efficient and reduce the greenhouse gas emissions, or they will be required to purchase one allowance for every tonne of carbon directly emitted.

This is the same impact that will be imposed on all sectors of the United States economy. If a refinery has to acquire allowances, its production costs will go up.

To counter the added burden on these refineries, the Waxman-Markey bill allocates 2.5 per cent of the free allowances to the refinery industry.

In other words, the oil industry will now be incentivised to become more efficient. If they cannot

improve their carbon footprint, their costs will go up slightly.

This is their somewhat valid concern. The heart of their publicity campaign is that they may not be able to find ways to become sufficiently efficient so that their 2.5 per cent of free allowances will offset their increased costs for operating. Their claim is that since their costs will go up slightly, significant amounts of refining will now take place overseas, costing jobs in the United States.

While they cite statistics saying that the oil industry is responsible for 44 per cent of emissions in the United States, the vast majority of those emissions are from the end users of the oil, and the Waxman-Markey will impact those end users simply by requiring that the importers and producers to acquire allowances to offset the emissions and pass on the increased costs, representing approximately 10 cents per gallon.

This will not directly impact oil refineries. Oil refineries will be impacted if they cannot improve their efficiency and reduce their carbon emissions from their own operations.

This is the same potential impact that all industrial sources face, and is precisely the reason that a cap-and-trade system has been proposed.

Factories, including refineries, that can more cheaply reduce emissions, can sell allowances to those that cannot. The refining industry is not being singled out as a target.

Their complaints of not being allocated sufficient free allowances should be disregarded.