

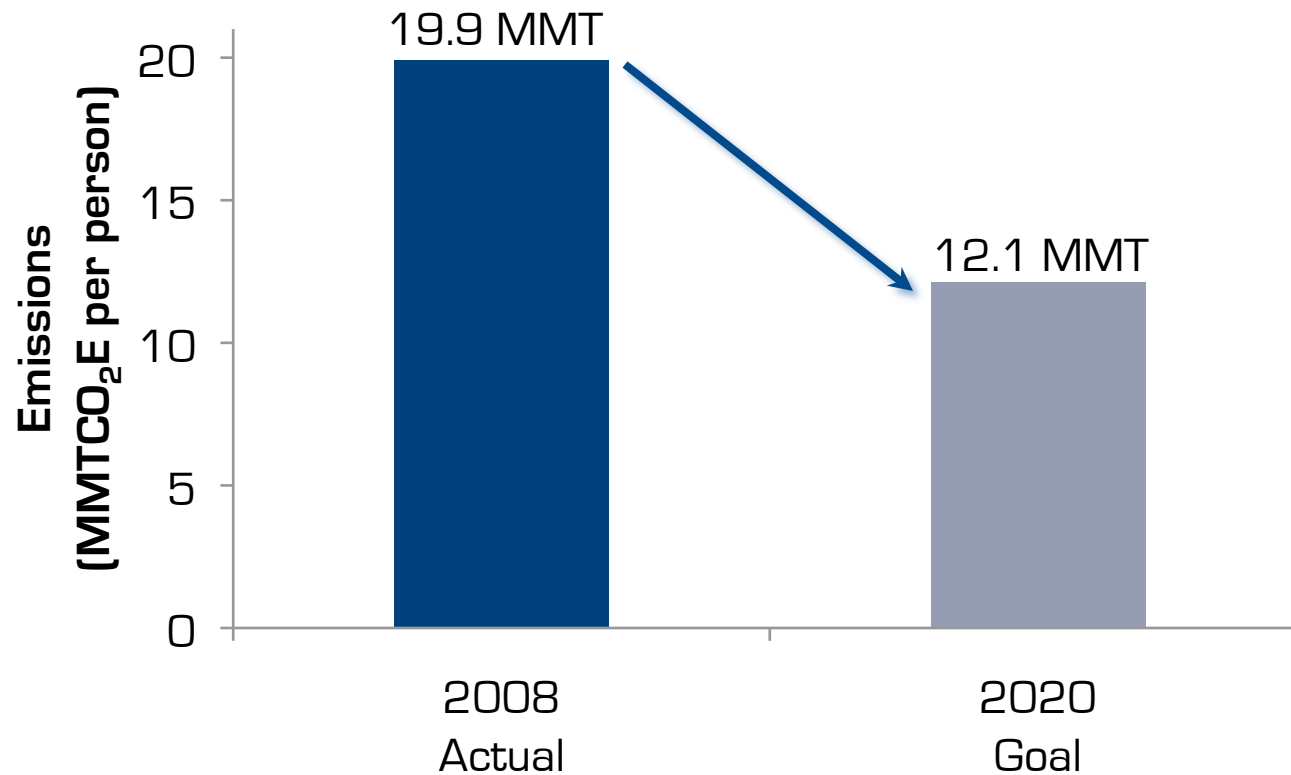
Oregon's Greenhouse Gas Reduction Policies

Projected Economic and Fiscal Impacts

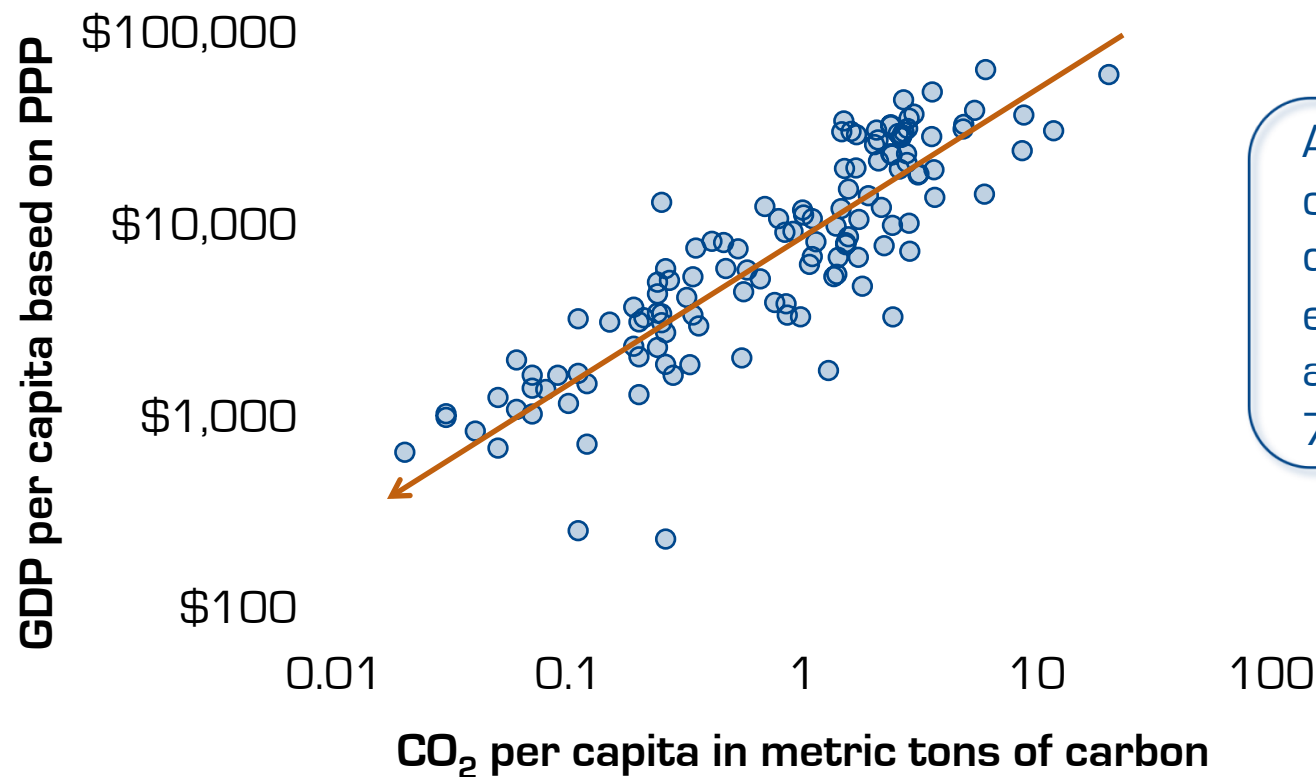
Presented to the
Cascade Policy Institute
Legislative Leadership Forum

January 22, 2009

Oregon's GHG goal: 40% lower emissions per person than today



Strong relationship between economic activity and carbon emissions

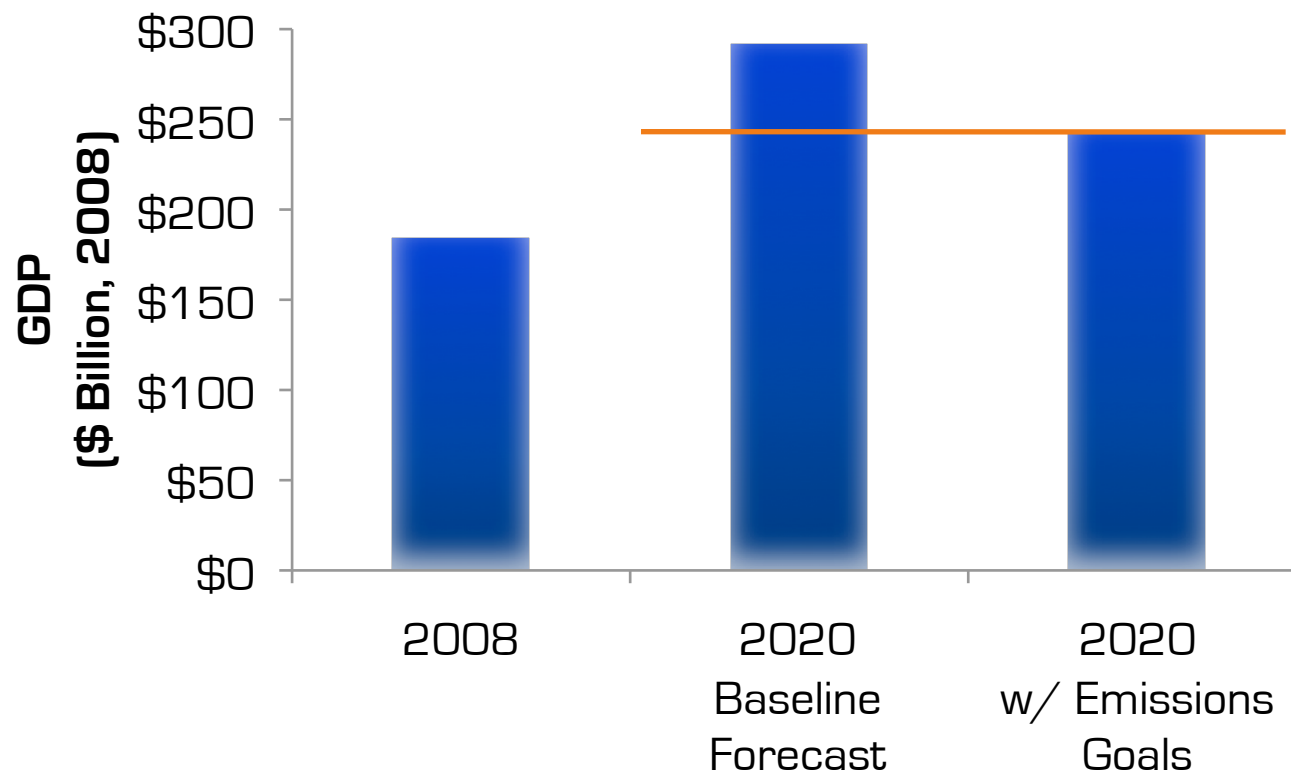


Across time and countries, a 10% decrease in carbon emissions is associated with 7.1% lower GDP

Technological advances cannot fully mitigate the costs of a 40% reduction in GHG emissions

- Lower fossil fuel prices make investments in cleaner technology unprofitable
- Replacing capital is expensive and takes years
 - Even in the face of higher energy prices, consumers did not immediately trade-in their SUVs for Priuses
 - Increased cost savings are capitalized in the price of assets
 - Lower energy costs → Higher capital costs
- Large-scale manufacturing of new “green” technologies itself produces carbon
 - Photovoltaic panels manufactured in the 1990s used more energy in their manufacture than they produced in their lifetimes

Meeting Oregon's GHG emissions goals will slow the state's economic growth



In 2020 Oregon's output would be \$48.3 billion lower because of the State's GHG emissions targets

90,000 fewer people would be employed

State and local government revenues would be \$4.4 billion lower

Cap-and-trade programs: Where markets meet politics

- Cap-and-trade has a history of implementation difficulties
- Over-allocation of permits: caps do not limit emissions and permits have low value
- Price volatility: values of permits swing wildly
 - More volatile than the stock market
 - Price spike contributed to California's energy crisis
- High administrative costs
- Abatement potential: very difficult to reduce carbon emissions especially in Oregon
- Misallocation of permit revenue

“Wall Street and Chicago always like the creation of trading markets for new assets, especially if they can be inefficiently priced by the professionals. So while the coal people hate climate legislation, a lot of traders see an opportunity.”

– Financial Times, 2009

“That kind of price volatility, which has been endemic to both the American and European cap-and-trade systems, doesn't just hurt consumers. It actually discourages innovation, because in times when power demand is low, power costs are low, and there is little incentive to come up with cleaner technologies.”

– Los Angeles Times, 2007

“Green collar” jobs: New jobs or old jobs in new clothes?

- Business energy tax credits could grow to \$80 million a year by 2012, this is equivalent to:
 - Reducing the corporate income tax rate for all businesses from 6.6% to 5.5%
 - or -
 - Exempting all business with less than \$1 million in Oregon taxable income
- Broader based tax breaks produce more jobs than targeted tax breaks
 - Tax credits do not create new “green collar” jobs—almost all of the new jobs come from elsewhere in the economy

For more information

- Full report available from Cascade Policy Institute
 - <http://tinyurl.com/OregonGHG>
- Authors
 - Randall Pozdena, Ph.D.
QuantEcon, Inc.
rpozdena@quantecon.com
 - Eric Fruits, Ph.D.
Economics International Corp.
info@econinternational.com
503-928-6635