

MONTANA PETROLEUM ASSOCIATION ISSUE BRIEF



CLIMATE CHANGE

CLIMATE BILL'S CAP-AND-TRADE PLAN WOULD COST MONTANANS

While enthusiasm in the U.S. Senate for a “cap-and-trade” bill has waxed and waned for months, there is concern in Montana and elsewhere about the massive new federal bureaucracy that would be needed to manage greenhouse gas emissions credits and other aspects of such legislation and the impact it would have on our industry and on Montana consumers.

An early draft of the Senate bill, modeled after one that passed the U.S. House last June, is nearly 1,000 pages long. Here at the Montana Petroleum Association, we have sifted through most of the proposal, and with each reading it becomes clear what this bill WILL and WON'T do.

It WILL:

- Increase the cost of finding, producing and refining the energy we must have for heating, cooling, power and transportation;
- Create a massive federal bureaucracy that will hamper business in the U.S. and raise costs to consumers;
- Increase our reliance on foreign energy.

It WON'T:

- Impact climate change on a global scale.

Oil and natural gas production is an important segment of Montana's economy. A cap-and-trade program would cripple the industry's ability to do business while propping up a renewable energy industry that is unlikely to replace jobs lost in the oil and natural gas industry. Economic analysis shows that nearly 12,000 Montana jobs are supported, directly or indirectly, by the oil and natural gas industry. Each year, the industry's impact on the state's economy amounts to more than \$9 billion.

MPA represents three sectors of the petroleum industry in Montana:

- Upstream – exploration and production
- Midstream – pipeline operation and commodity marketing
- Downstream – refining and petroleum product wholesale and retail sales

All of these sectors are vital to Montana's economy. The cap-and-trade bill, if passed, would affect all three sectors and the people who work in them.

Montana's refineries would be especially hard-hit and so would everyone who relies on gasoline and diesel fuel.

Montana refineries generate funds and jobs

Four Montana refineries operate at near capacity. Located in Laurel, Great Falls, and Billings, they produce the gasoline and diesel fuels America needs for work, recreation and public safety. These refineries also keep nearly 1,000 Montanans working in good, high-paying jobs.

Each year Montana refineries produce nearly 30 million barrels of gasoline, 20 million barrels of diesel and pay more than \$52 million in state taxes, according to an economic analysis conducted for MPA in 2007. They keep Montana's economy as well as its cars, trucks and agriculture equipment moving.

Creating a regulatory maze

The Senate climate bill, as initially drafted, would throw U.S. refineries into a maze of carbon emissions trading regulations nearly impossible to navigate with any efficiency. Under a cap-and-trade framework, industries and utilities that release carbon are granted a limited number of allowances for those emissions. Exceed those allowances and a company must pay for each ton emitted or face government fines. At only 2 ½ percent of total allowable industrial emissions, the petroleum industry's allocation would be the most severely limited of any industry. Each year those allowable levels would be ratcheted down, forcing companies to pay for expensive retrofitting, shut down operations, or purchase allowances on a carbon exchange. Not only would refineries be liable for the carbon emissions that are a byproduct of the refining process, but also for the tail-pipe emissions of gasoline and diesel-powered vehicles.

Bottom line: gasoline and diesel production from American refineries would be greatly reduced. Inevitably, the result would be greater reliance on oil and refined products from outside North America and extreme price volatility at the pump. One government analysis says a cap-and-trade program would raise retail prices to \$5.10 per gallon for gasoline and \$5.60 per gallon for diesel fuel. *(Source: U.S. Energy Information Administration, "Energy Market and Economic Impacts of HR 2454", August 4, 2009)*

For Montana, passage of the Senate bill would mean a double whammy of greatly increased costs for consumers while killing jobs at Montana refineries and reducing revenues that state and local governments rely on for education, roads and public safety.

We are grateful to Sen. Max Baucus for voting against the Senate bill in an important committee vote on November 5, 2009. Sen. Baucus heard the concerns of Montanans from around the state. Most Senate Republicans opposed the legislation. More Democratic Senators are beginning to urge the Obama administration to reconsider an aggressive push to pass cap and trade legislation in 2010.

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