

# Washington

## WATCH

### The Climate Challenge: What Does the Climate Policy Landscape Look Like?

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Led by a rising tide of Progressive Democrats, climate change has become a major issue for the 116th Congress. The public discourse has had more discussion of climate change and its effects on the world in the last few years. Businesses are paying more attention as well: BP's shareholders voted to provide more disclosure on how the company is aligning with the goals of the Paris Agreement (an international agreement requiring emissions reductions) and Shell left its national trade association, American Fuel & Petrochemical Manufacturers (AFPM), because AFPM had not stated support for the Paris Agreement, which Shell supports.

Given the political landscape, Congress has begun looking at ways to address climate change. Unsurprisingly, however, there are sharp divides not only between Democrats and Republicans, but even within the parties. For example, bills like the Green New Deal seemed like a possible rallying point for Democrats, but the party ultimately split on support for the bill (with Republicans staunchly opposed). However, a number of other legislative ideas are beginning to receive attention and consideration.

In general, Democrats are looking at ways to reduce the use of carbon and shift away from fossil fuels towards renewables. Republicans, meanwhile, are focused on innovation, including promoting research and development. The Republican focus with R&D is primarily developing technologies to reduce carbon emitted by fossil fuel sources so these sources can continue to be used.

Overall, there are four major policy ideas in the discussion of climate change: (1) a carbon tax; (2) a cap and trade system; (3) subsidies for green technologies; and (4) other regulations and mandates to promote a greener economy. Below, we'll take a closer look at these ideas.

#### Carbon Tax

A carbon tax would, quite simply, put a tax on carbon. The government, after analysis including input from stakeholders, would aim to determine a price for carbon that would encourage businesses to reduce their carbon emissions to avoid having to pay taxes on those emissions. Such a system would generally

be easier to administer than other proposals (such as a cap and trade system), but it could encourage tax evasion. In addition, environmentalists have concerns that it will be difficult to find the right theoretical “price” for carbon that will translate in practice to the “correct” amount of carbon emissions reductions.

Many businesses are concerned that a carbon tax may be indexed to inflation or otherwise scheduled to increase in a manner that may be unpredictable and would make it hard for businesses to accurately gauge future costs and make plans. Some businesses,

however, see a carbon tax as the most preferable option under consideration.

Companies like BP, Shell, and Ford Motor Company are working with numerous other companies on climate initiatives, including supporting a carbon tax. They join big names such as Exxon, EDF Renewables, and Exelon Corp in their support for a tax. There have been two bills introduced on this during the current Congress, as the table below highlights:

### CARBON FEE BILLS INTRODUCED IN THE 116<sup>TH</sup> CONGRESS

Bill Number	Chamber	Title	Sponsor	Summary
<b>S.1128</b>	<b>Senate</b>	<b>American Opportunity Carbon Fee Act</b>	<b>Sen. Sheldon Whitehouse (D-RI)</b>	<b>Place a fee on carbon and provide a refundable tax credit to workers</b>
<b>H.R.763</b>	<b>House</b>	<b>Energy Innovation and Carbon Dividend Act</b>	<b>Reps. Ted Deutch (D-FL) and Francis Rooney (R-FL)</b>	<b>Price carbon and pay out the revenues as a rebate to Americans</b>

### Cap and Trade

Under a cap and trade system, the government would set an overall “cap” for the total emissions that could occur in a given year in any industry regulated under the legislative scheme. This cap would then be broken up by industry, and then further by company, so each company would receive their portion of the cap. To the extent the companies stay under their cap or actively remove carbon from the atmosphere, they would receive credits that could be traded on a market to companies that exceed their cap. The market would dictate the price of the credits.

Environmentalists are open to a cap and trade idea as it would set a definitive goal as to how much carbon could be emitted

by companies. Some businesses, on the other hand, worry about their ability to plan for the future in the face of volatile markets and price fluctuations. In addition, administration of a cap and trade system could be complex, costly to set up, and difficult to enforce.

Democrats have generally been more in favor of a cap and dividend system, which is related to, but not the same as cap and trade. In a cap and dividend system, some revenues from the sale of carbon credits or permits would be returned to Americans as a rebate or other payment.

See the below table for bills introduced on carbon caps this Congress:

### CARBON CAP BILLS INTRODUCED IN THE 116<sup>TH</sup> CONGRESS

Bill Number	Chamber	Title	Sponsor	Summary
<b>S.940</b>	<b>Senate</b>	<b>Healthy Climate and Family Security Act</b>	<b>Sen. Chris Van Hollen (D-MD)</b>	<b>The legislation would cap carbon emissions at increasing percentages below 2005 levels and return revenues to Americans every quarter as a “Healthy Climate Dividend.”</b>
<b>H.R.1960</b>	<b>House</b>	<b>Healthy Climate and Family Security Act</b>	<b>Rep. Don Beyer (D-VA)</b>	<b>The legislation would cap carbon emissions at increasing percentages below 2005 levels and return revenues to Americans every quarter as a “Healthy Climate Dividend.”</b>

## Subsidies for Green Technology

The tax code (including credits and deductions) has long been a preferred way for Congress to incentivize desired behavior from taxpayers. For example, production tax credits and investment tax credits have been put into use in the last few decades in support of a growing renewable energy sector, including wind and solar. There have also been individual tax credits for technologies like electric vehicles (EVs), where individuals purchasing a qualifying EV can receive up to a \$7,500 tax credit.

While these incentives have been successful in helping to kick-start and develop nascent technology industries, it remains unclear at what point an industry no longer needs a tax credit. For example, tax credits for solar and wind are scheduled to phase out in the coming years, although some in the industry believe the credits are still needed to keep the industries from regressing.

Aside from tax credits, Congress may encourage states, agencies, or other stakeholders to consider certain technologies via other incentives that elevate one type of technology over another. Policymakers may offer such incentives to spur investment in areas where there otherwise has been little movement. While such incentives may have the desired effect of revving up a particular technology, there are also downsides when lawmakers pick a technology winner. For example, the government may pick

a technology that ends up becoming less effective, economical, or popular, and does not ultimately offer the best environmental benefits. Or the government may try to set up short-term incentives that ultimately harm long-term outcomes.

A perfect example of this is EV charging. Some Members of Congress are seeking to spur EV charging investment by encouraging states to let public utility companies build EV chargers and fund the costs with an increase in electric rates paid by all ratepayers. Not only is this socially inequitable (all ratepayers would pay for chargers that only some wealthier people typically use), but it also runs the risk of cutting private investment out of the market, precluding the development of a free market and, thereby, ultimately harming consumers. This is a prime example of why picking winners and losers in the marketplace is undesirable—it is better to provide incentives that let the market work and have competition spur innovation.

To that end, SIGMA supports a level playing field for all technologies. If Congress sets a specification (such as an emissions reduction target), any technology that could meet those requirements should be able to receive the incentive.

Some examples of legislation with incentives for energy/climate policy are below. ►

### GREEN TECHNOLOGY SUBSIDY BILLS INTRODUCED IN THE 116<sup>TH</sup> CONGRESS

Bill Number	Chamber	Title	Sponsor	Summary
S.1288	Senate	Clean Energy for America Act	Sen. Ron Wyden (D-OR)	Makes a number of changes to the tax code and existing tax credits to make those credits more technology neutral and get rid of certain tax provisions for fossil fuel companies. However, one provision the bill aims to phase out is certain tax treatment of Master Limited Partnerships for fossil fuel companies.
H.R.2741	House	LIFT America Act	Rep. Frank Pallone (D-NJ)	Makes a number of changes intended to decarbonize America's economy, including encouraging public utility companies to build EV charging stations and fund them off the rate base.