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## Climate Change Is Coming, Is Your Company Ready?

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The Obama Administration-backed 2009 Wasman-Markey House Draft and the America's Climate Security Act of 2008 (2008 Senate Bill) proposes an 83 percent reduction in GHG emissions from 2005 to 2050 (the equivalent of 69 percent from 1990 levels), covering approximately 87 percent of potential GHG emission sources.

This goal is consistent with the EU goal of a 60-80 percent reduction from 1990 levels, existing state goals (~50-80 percent below either 1990, 2000 or 2005 levels), and the United Nation's climate change panel's estimate of a 50-85 percent reduction from 2000 levels.

Congress is likely to adopt an overall numerical GHG emissions reduction goal consistent with the EU goals and the scientific consensus, but tempered by the political tradeoffs needed to obtain the support of 60 Senators (e.g., the concerns of Senators from coal-producing states, the economy, uncertain compliance costs, and support from environmental advocates).

### **A Market-Based System**

The 2009 House draft requires any regulated company to hold one emission allowance for each ton of CO<sub>2</sub>e emitted pursuant to a source's annual cap. The facility can use the allowances itself, sell them on a public carbon allowance exchange or transfer them to another company for a negotiated price. Thus, plants for which the cost of GHG emission reduction is low can implement more GHG emission reductions and sell their excess allowances, whereas plants with high implementation costs can purchase allowances.

The 2009 House draft and 2008 Senate Bill allow for the use of carbon emission offsets (i.e., a permanent, legally binding, GHG reduction, avoidance, or sequestration that would not otherwise occur) both domestically and internationally to meet a company's emission

cap. A company must have 1.25 offset credits to offset 1 ton of CO<sub>2</sub>e emissions. Both last year's and this year's bills limit the use of offsets, despite the high cost of such limitations.

Many economists advocate a pure carbon tax and some environmentalists prefer using technology-based standards to reduce GHG emissions. However, a cap-and-trade scheme is likely to be adopted.

### **Follow the Money**

EPA estimated that implementing the draft House Bill results in a Gross Domestic Product (GDP) that is 0.5 to 1.18 percent lower than if no bill was enacted by 2030 and 1.6 to 2.23 percent lower than no action in 2050 (assuming most of the auction proceeds are given back to the public and that comparable reductions in other developed nations and a 50 percent reduction in GHG emissions from developing nations). This cost range is lower than for the lower reductions in the 2008 Senate bill, but other models predict only a 0.8 percent lower GDP.

If emission allowances are auctioned off by the government, they generate significant revenue (~\$646 billion from 2010-2019). Exactly how the auction revenues will be spent has not been determined. The Senate principles propose to allocate these revenues to consumers, states, localities, tribes, workers, businesses, clean energy technologies and energy efficiency measures, and developing nations. Similarly, the 2009 House draft includes provisions or placeholders for rebates to domestic industries that are adversely affected by GHG emission intensive imports (discussed in more detail below), a green jobs training and education program, a consumer assistance program, among other programs.

Some utilities and coal companies support the use of these revenues for research on more cost-effective GHG reduction technologies or to fund long-term care for carbon dioxide sequestration. The exact allocation is likely to be the subject of intense horse trading.

Not surprisingly, the current bills require the most expensive GHG emission reductions in the 2030 to 2050 period when new GHG reduction technologies are being developed and implemented.

### **International Trade Implications**

The 2009 House draft allows a company to meet its emission allowance cap by using an international emission allowance and allows banking and borrowing of carbon allowances. The international allowance credit must be issued by a national or supranational foreign government, and impose a mandatory limit on GHG emissions from one or more countries, or from one or more economic sectors in such a country or countries.

These measures may provide a verifiable mechanism to indirectly “fund” GHG emission reductions in developing nations that could not otherwise occur. GHG emissions from China and India alone are expected to double by 2050 and China’s emissions already are the largest in the world. Some unions state that it is unfair for their government to support policies that outsource jobs to developing nations. Companies, obligated to provide a fair return on the money provided by investors, fear that protectionist policies will have disastrous economic effects. Developing nations believe that the developed world should bear some of the economic burden of reducing GHG emissions in developing nations because the consumers in developed nations benefit through lower prices from, in effect, “outsourcing” their GHG emissions.

The GHG emissions from developing countries are likely to be limited in the new climate change treaty (albeit not as stringently as developed nations. China’s goal is to reduce GHG emissions 50 percent by 2050, primarily through increased energy efficiency).

The 2009 House draft also provides that U.S. companies adversely impacted by imports have some of the cost of purchasing allowances returned to the company to “ensure that U.S. manufacturers are not put at a disadvantage relative to overseas competitors,” presumably to benefit companies in cement, glass and steel, and other industries. If the “rebates” are not sufficient, the President is required to establish a “border adjustment” program that will require foreign manufacturers and importers to pay for and hold special allowances to “cover” the carbon contained in U.S.-bound products. .

It is likely that an international GHG emissions trading system will be created (with an international emissions allowance on imports) if it can be done in a manner consistent with international trade law.

If a comprehensive climate change bill is enacted, the final statute is likely to contain many mechanisms to lower costs and accelerate innovation. Many details concerning how to implement a GHG emission reduction scheme are yet to be resolved.

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