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Climate Change Policy Update Week of July 20-24, 2009

Commentary: *Examining the state of the Senate, it is difficult to discern – at least at the moment – a path to 60 votes. Most Senate offices are grappling with health care, and have had little time to digest the 1400 page climate bill that emerged from the House. The open issues are numerous, complex, and meaningful: effects on the agriculture sector, oversight of a new multi-billion dollar commodity trading market, offsets, incentives for nuclear power, impacts of the international reserve allowance provisions on trade, the interplay with multilateral negotiations scheduled for December, allowance allocation, etc. Central to winning the last 6-10 votes is some sense of what the hold-outs will need, but most of these critical offices have not yet detailed their desires. Furthermore, it is far from clear who will be the principal negotiators . . . In the near term, the question is how Chairman Boxer will use her opportunity with the Environment & Public Works Committee. Will she simply work toward a product that stakes out a left-leaning marker, and leave the hard slog of reaching the middle to others? Or will she negotiate with some of the influential moderates on the EPW Committee to generate a product that is farther down the field and has some important co-champions who can assist in the outreach to moderates outside the Committee? Put another way, is there a Rep. Boucher or two on the EPW Committee? A few names come to mind . . .*

Executive Branch

- **Obama Administration Delays Decision on International Regulation of HFCs.** The Obama Administration has remained silent about its position on international regulation of hydrofluorocarbons (HFCs) while European Union nations are advocating that HFC limits be on the table at the climate treaty negotiations to be held in Copenhagen in December. HFCs are a substitute for other chemicals that deplete the ozone layer, but HFCs are potent greenhouse gases (GHGs). The issue of HFC regulation arose at the July 13-18 meeting of parties to the Montreal Protocol, the international treaty governing regulation of ozone-depleting chemicals. At the meeting, some nations advocated for HFC regulation within the Montreal Protocol; the EU nations and other advocated for regulation under the climate treaty. The Obama Administration has expressed an interest in addressing HFC use, but has not expressed a view on whether the appropriate forum for the issue is a future climate treaty or the Montreal Protocol.
- **USDA Study Finds Climate Change Bill Will Benefit Farmers; Republican Senators Question Results.** A U.S. Department of Agriculture (USDA) analysis of the House-passed climate bill concludes that the long-term benefits from the bill to the agriculture sector will greatly outweigh the short-term costs on farmers. While GHG regulation could reduce net farm income between 3.5 and 7.2 percent, these decreases are offset by provisions that limit the bill's impact on fertilizer costs and by income opportunities for farmers in the offset market. The study showed potential for annual net returns of 1 to 2 billion from 2012 to 2018, and increasing to 20 billion annually by 2050. However, nine Republican Senators

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on the Senate Agriculture Committee wrote a letter to the USDA chief economist calling the study into question. Asserting that the study relied too much on EPA and Department of Energy estimates, the Senators asked for a briefing of the Agriculture Committee. “We believe it would be helpful for you to brief the committee on the results of the EPA analysis with particular attention to price impacts on various crops and sectors, acreage adjustments, allowances to the fertilizer industry and the relative benefits that accrue between agriculture soils, afforestation and methane and nitrous oxide reductions,” they wrote.

- **EPA Proposes National Registry of Industrial Sites with Waste Energy Opportunities.** The Environmental Protection Agency (EPA) has published a proposed rule to create a national registry of industrial sites with potential for recovery of wasted energy from exhaust, steam, and other sources. EPA was required by the Energy Independence and Security Act of 2007 to create the registry. The proposed rules establish the requirements for facilities to participate in the registry. EPA will survey qualifying industrial sites for the amount and quality of waste energy produced at each facility. Participants can also download a web-based computer program, the Waste Energy Survey Tool, to track their waste energy recovery. The comment deadline on EPA’s proposed rules is September 21.
- **Heinzerling to Lead Policy Office.** Lisa Heinzerling has been named to lead EPA’s Office of Policy, Economics & Innovation (OPEI). In her new position, Heinzerling will work with OMB to review and coordinate EPA rules. Heinzerling, a former Georgetown Law School professor, is known as an opponent of using cost-benefit analysis to formulate agency rules and regulations. She joined EPA in the beginning of 2009, serving as climate counselor to the Administrator.

Congress

- **Senate Continues Climate Hearings.** Senate committees continued to explore different aspects of climate legislation and climate change impacts.
 - The Agriculture Committee heard testimony on the role of agriculture and forestry in climate change legislation. Witnesses included Agriculture Secretary Tom Vilsack, EPA Administrator Lisa Jackson, White House Office of Science and Technology Director John Holdren, as well as representatives from the National Farmers Union, the American Farm Bureau Federation, the Forest Climate Working Group, and the Bipartisan Policy Center. National Farmers Union President Roger Johnson asked for more allowances to be allocated to farmers to balance anticipated increases in energy-intensive input costs. Committee Chair Tom Harkin said that he is considering an off-ramp provision that would enable the U.S. to end a cap-and-trade program should China and India fail to implement domestic carbon controls.
 - The Environment and Public Works Committee and the Subcommittee on Green Jobs and the New Economy heard testimony on the effect of climate change legislation on jobs and local economic growth. Witnesses included Governors Bill Ritter (D-CO), Christine Gregoire (D-WA), John Hoeven (R-ND), and Jon Corzine (D-NJ) as well as mayors and the president of the U.S. Conference of Mayors. Committee Democrats promoted the emissions cap proposal as a job creation mechanism, whereas Republican Senators on the Committee, such as Senator Christopher Bond (R-MO), argued that the measure would

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eliminate jobs through rising energy costs and force companies to move to countries without emissions caps, such as China.

- The Foreign Relations Committee held a hearing on climate change and global security issues. Witnesses included former Sen. John Warner of Virginia as well as representatives from the American Security Project, the Center for a New American Security, and the Center for Naval Analysis Advisory Board. Sen. Warner testified that climate change will act as a “threat multiplier” in unstable regions of the world, exacerbated by any delay in addressing it. Sen. Warner also argued that the U.S. program should provide for robust international offsets to reduce compliance costs, save jobs, and reduce tropical deforestation.
- **Voinovich Discusses Desired Changes.** Sen. George Voinovich (R-OH), who in the past has expressed support for efforts to reduce GHG emissions, announced that in order for him to vote for climate change legislation the Waxman-Markey bill would have to be changed to include a relaxed emissions cap, more effective cost containment than the “speculative” benefits offsets would provide, and the elimination of the renewable electricity standard as “redundant” in the context of an emissions cap. Sen. Voinovich argued that emission reduction goals must be aligned with the development of carbon capture and sequestration technologies to retain a role for coal.
- **House Members Petition for Vote on EPA Regulation of GHG.** Reps. Michael Conaway (R-TX) and Marsha Blackburn (R-TN) filed a discharge petition to bring H.R. 391, a bill to prevent the EPA from regulating GHGs under the Clean Air Act, to the floor for a vote. Should a majority of the House sign the petition, it would compel House Speaker Nancy Pelosi (D-CA) to bring the bill to the floor for a vote.
- **Ethanol Tax Credit Elimination Bill Introduced.** Reps. Joseph Crowley (D-NY) and Mary Bono Mack (R-CA) introduced the Affordable Food and Fuel for America Act (H.R. 3187), which would phase out the ethanol tax credit and the imported biofuel tariff by 2014.

States and Cities

- **Oregon Climate Package Omits WCI Enabling Legislation.** Oregon Governor Ted Kulongoski (D) signed into law a climate change package comprised of seven different bills. The new laws address a range of climate-related issues, such as expanded GHG emission reporting requirements, a feed-in tariff for small-scale solar power installations, authorization for the development by 2015 of a state low carbon fuel standard, and strict new GHG emission standards for electricity generation sources. A separate bill that would have enabled the state to implement a cap-and-trade program under the Western Climate Initiative, a regional emission trading program, was originally part of the package discussed on the floor of the legislature, but was not voted upon.

Industry

- **Business Organizations Warn of “Green Trade War.”** The Emergency Committee for American Trade, National Foreign Trade Council, U.S. Chamber of Commerce, and U.S. Council

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for International Business sent a joint letter to Senate Majority Leader Harry Reid (D-NV) and Sen. Minority Leader Mitch McConnell (R-KY) opposing the international trade provisions of the American Clean Energy and Security Act passed by the House last month. The letter criticized the “international reserve allowance” program in the bill, which would require the President, starting in 2020, to impose a GHG allowance surrender obligation on importers of goods manufactured in countries without comparable emission caps. The letter maintained that the international reserve allowance provisions are “stirring consternation among some of our key trading partners” and could give rise to a “green trade war.” The letter also asserted that the program was probably inconsistent with international trade agreements, and called on the U.S. government to negotiate an international agreement on the appropriate use of trade measures to account for GHG emissions. The letter is available at:

http://www.nftc.org/default/Trade%20Policy/Climate_Change/Association%20Senate%20Climate%20Trade%20Letter%20July%202009%20.pdf.

- **IMO Adopts Voluntary Ship GHG Measures, Defers Further Action to 2010.** At its annual meeting in London, the Marine Environment Protection Committee of the International Maritime Organization (IMO), a specialized agency of the United Nations that regulates global shipping, adopted voluntary “interim” measures addressing GHG emissions from large ships. The measures included a standard efficiency index for ship design; guidelines for the development of vessel-specific plans for energy efficient operation; and guidelines for calculation of an “Operational Indicator” for ship efficiency. The IMO had been expected to discuss mandatory market-based mechanisms for the shipping industry (such as fuel taxes or an emissions trading scheme), but deferred those negotiations until 2010 due to opposition from China, Saudi Arabia, and South Africa. In 2007, international shipping accounted for 2.7% of global CO₂ emissions.

Studies and Reports

- **Study Predicts High First Mover CCS Costs.** A study released by researchers at the John F. Kennedy School of Government at Harvard University predicts that the first conventional coal-fired power plants implementing carbon capture and sequestration (CCS) technologies will likely see costs of \$100 - \$150 per metric ton of CO₂ captured, with associated electricity costs that are 10 cents per kWh higher than comparable plants without the controls. The study predicts that as the technologies mature, costs will fall to \$35 - \$70 per ton with electricity costs only 2 – 5 cents per kWh higher than plants without capture technology. The study also found that plants with higher capture rates will have the lowest capture costs per metric ton. The cost estimates do not include the costs of transporting and storing captured CO₂. The study is available at http://belfercenter.ksg.harvard.edu/publication/19185/realistic_costs_of_carbon_capture.html?breadcrumb=%2Fproject%2F10%2Fenergy_technology_innovation_policy.
- **Climate Change Threatens California Tree Crops.** Research published in *PLoS ONE* (an open-access, peer-reviewed on-line journal from the Public Library of Science) examined historic and projected temperature records and concluded that that rising winter temperatures caused by climate change would eliminate the winter chill required by many California fruit and nut tree crops, implying the need for either major adaptation measures or an end to production. The study is available at <http://www.plosone.org/article/info:doi/10.1371/journal.pone.0006166>.

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