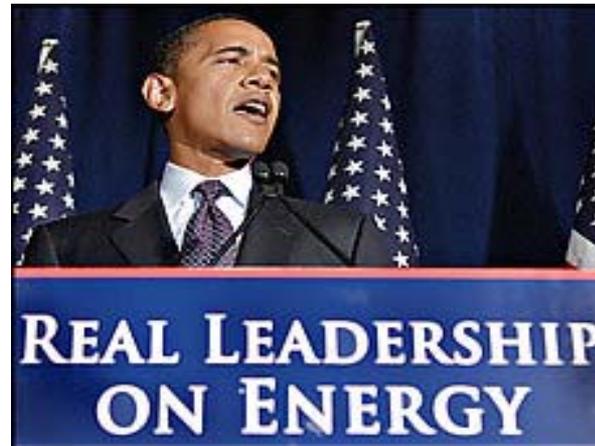


Politics in the US Congress on Climate Change Issues

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**US Energy and
Environment Policies and
the World Energy Market,
Tokyo, Japan**

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Biofuels Key Component of Pre-2008 Legislation

- **Renewable Portfolio Standards in 2005 and 2007, subsidy for domestic ethanol and tariff on imported ethanol**
- **Why support for corn ethanol:** First Presidential Primary in corn-heavy Iowa, “Farm State” lobby influential, positive view of family-owned farms, seen as replacement for MTBE
- **In 2008 \$1.95/gallon spent to replace 2% of gasoline supply**
- **“2nd Generation” biofuels such as cellulosic ethanol:** a large part of the 2007 the Renewable Portfolio Standard, but nothing has been commercially produced yet

- **Other climate-relevant legislation passed:** fuel economy standard of 35 miles per gallon by 2020 and some support for nuclear power
- **On climate, repeated failure to pass cap-and-trade, but major legislation co-sponsored by Republicans**

Cap-and-Trade Looks Very Unlikely This Year

Low Probability for Cap-and-trade This Year in Senate

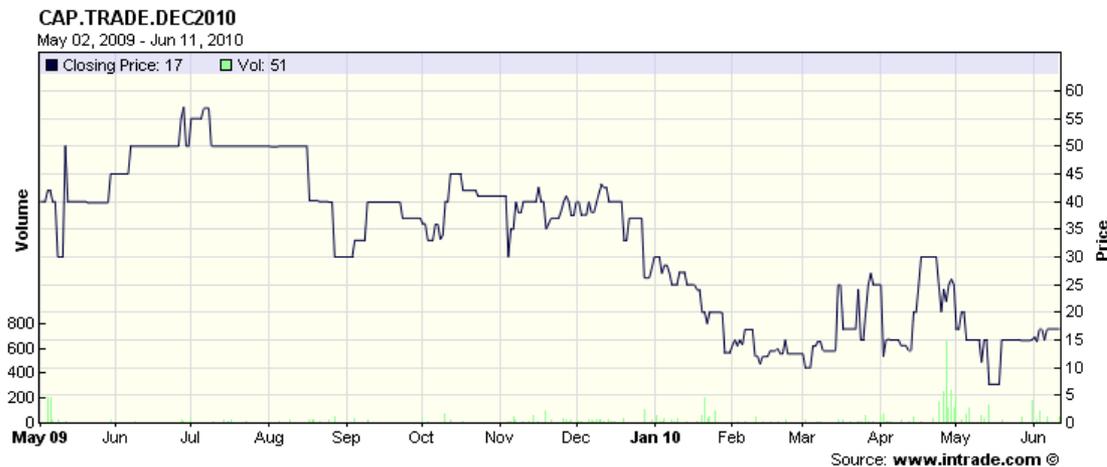
- Public opinion only weakly in favor of legislation and divided
- The Deepwater Horizon oil spill narrowed the necessary broad coalition
- On Capitol Hill, few Republican supporters want a Democratic victory before Midterm elections in November and some weary Democrats
- A crowded agenda

Higher Chance that “Energy Only” Legislation Will Pass

- More public and Republican support
- Senate Majority Leader Harry Reid called a possible bill a “smorgasbord”

Next Opportunity for Cap-and-trade Should be 2013 at the Earliest

- Republicans will pick up seats in Congress in November



Public Opinion

Overall Some Cap-and-Trade Support, but More for Other Policies

- Public does not believe climate change is the top issue facing the country (3% told Gallup that the environment/pollution was the top issue in early May 2010)
- 2009 surveys found slight majority cap-and-trade support (favor: 50%, oppose: 40%)
- More positive views on other energy policies: 87% want more R&D for renewables, 83% want tax rebates for fuel-efficient vehicles and solar panels, 61% want 20% electricity from renewables even if it costs households \$100/year...and 62% want more offshore oil/natural gas drilling (June 2010 Yale and George Mason survey)

Trends that Fewer People Believe in Warming, Until Deepwater Horizon

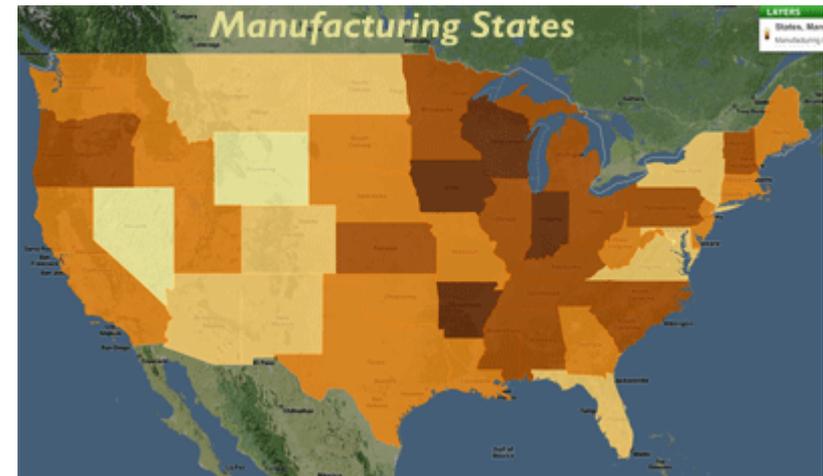
- Appears to be widening differences on warming beliefs between Democrats and Republicans, but not nearly as polarized as views on healthcare
- In past few years, fewer believe in warming – a trend seen among every group except those under 30 and political liberals, although some rebound lately

Lack of Knowledge and Strange Responses

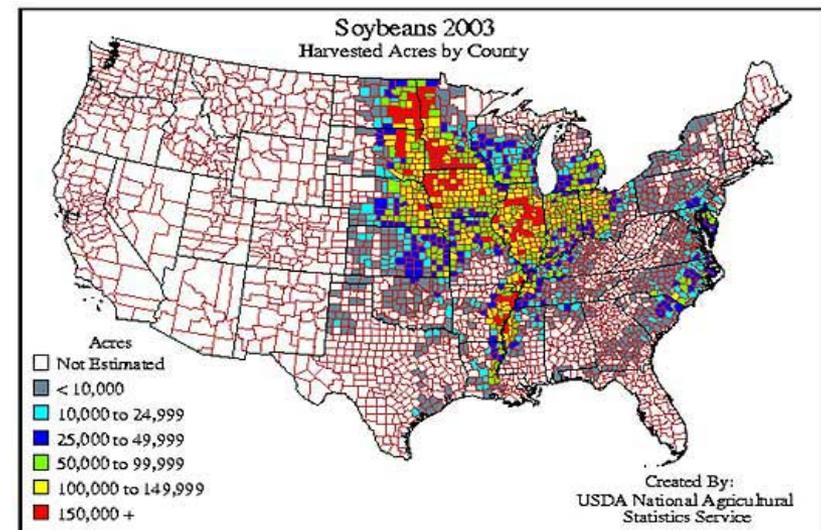
- Despite expressing “opinions,” the public has heard little about cap-and-trade (Pew Research Center in Feb. 2010 found only 17% had heard a lot, and 46% had heard nothing)
- About 41% of those who believe in strong evidence of warming, primarily by *natural* causes still support a cap on carbon dioxide, and a CNN poll found more people supported it to reduce local air pollution than global warming

Cap-and-Trade Bill Needed to Satisfy Many Representatives and Senators – But Deepwater Horizon Limits the Coalition

- **For Senators in Louisiana, Alaska and moderate Democrats and Republicans: some authorization for offshore drilling and royalties**
- **Liberal Democrats: now no drilling, support for green jobs and renewables**
- For “Rust Belt” Democrats: a carbon border tariff to protect industry
- For Midwestern or “Farm State” Democrats: no coverage of agriculture, offsets for agriculture, regulation by Department of Agriculture, no restrictions on biofuels use
- For “Coal State” Democrats: support for carbon capture and storage
- For Moderate Democrats/Republicans: increased support for nuclear power
- Individual requests: Gene Greene, a representative in Texas, only voted for the bill after getting a low-carbon fuels standard taken out of the bill

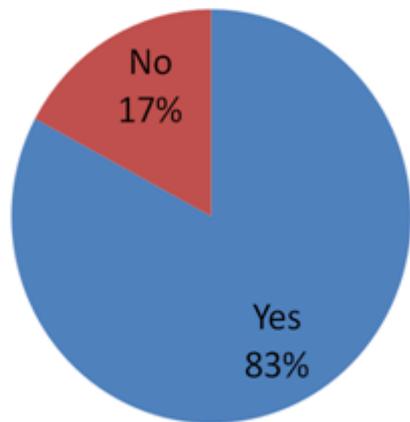


Source: New Geography

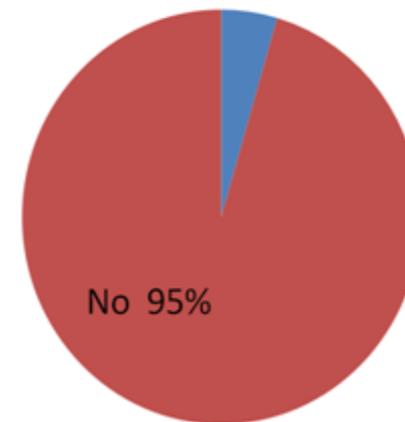


Very Partisan Congressional Views on Cap-and-Trade

Democrat Voting Waxman-Markey



Republican Voting Waxman-Markey



- Lindsay Graham (R – South Carolina), viewed as bridge to Republicans, walked out on cap-and-trade talks
- Strong negative feelings about cap-and-trade among many Republicans: “legislation...would not only increase the price of gas at the pump, but cost millions of American jobs, create a huge new bureaucracy and raise taxes by record amounts” – Sen. James Inhofe (R-Oklahoma)
- Frequently called a “cap-and-tax”

A Busy Legislative Calendar

Looking forward, Congress usually takes an “August recess,” mid-term Elections are in November, and new Congress begins next January

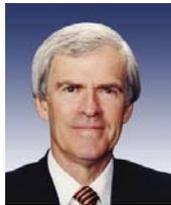
Somewhat Busy Calendar Remaining

- Both houses of Congress have passed financial reform. Because the bills are different, a committee began this week to find common language. The White House wants a bill by July 4, but it could take longer.
- New Supreme Court justice hearings in Senate
- “Emergency” measures such as extended unemployment benefits and support for teachers
- Senate military spending bill including provision about gays in military and House
- At least continuing resolutions on appropriations bills by October 1
- Other possibilities include a campaign finance bill, mandatory voting on Obama spending cuts, food safety, R&D for science and technology
- Uncertainty about whether immigration bill will be debated

Elements Likely In “Energy-Only” Legislation

Senate Energy and Natural Resources, Practical Energy and Climate Plan, June 2009

June 2010



- Bipartisan support with four Republicans voting for it
- Efficiency and Renewable Electricity Standard (like Waxman-Markey, but 15% rather than 20%)
- Offshore drilling in Eastern Gulf to 45 miles of coast



- **Fewer emission reductions than the cap-and-trade proposals**
- **A mandate for certain kinds of energy**
- **Consumer, building and industrial energy efficiency measures**
- **Incentives for nuclear power and CCS**

- 2 Republican co-sponsors at this point, including Graham
- “Diverse Energy Standard” of 15% from 2015-2019 or penalty
- Coal plants face no new environmental regulations if close in 2018
- Fuel Economy standards increasing at least 4%/year and heavy-duty standards

The Possibility of GHG Regulation from the Environmental Protection Agency

Background

- The possibility of the Environmental Protection Agency regulating GHGs is considered controversial and could encourage passage of cap-and-trade as “lesser of two evils”
- In 2007 Supreme Court ruled in *Massachusetts vs. EPA* that the EPA has the authority to regulate greenhouse gases and must unless it shows GHGs are not a danger

EPA Action Details

- Under the Obama Administration, the EPA has finalized an “endangerment finding” that GHGs endanger human health and welfare, a rulemaking to regulate CO₂ from cars and trucks, and a “tailoring” rule on large emitting facilities on May 13, 2010
- Tailoring Rule is limited, so only new facilities or those undergoing upgrading and emitting 100,000 tons of GHGs/year (new) or increasing by 75,000 tons will need to install the “best available control technology”
- Other plants of this size will need a “Title V permit,” but this does not necessarily mean the facilities needs to cut its emissions

Congressional and Legal Response

- Some action in Congress to try to delay or prevent the EPA from regulating: one is a “disapproval resolution” that no EPA regulation would go into effect and lost 47-53 in Senate, another tries to delay it for two years – but Obama would very likely veto either
- Legal challenges possible: our interviews suggest the “endangerment finding” will be upheld in court, but “tailoring” rule suspect because 75,000 and 100,000 ton figures arbitrary