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ATTORNEYS AT LAW

**Greenhouse Gas Emissions and Cap and Trade**

On March 10, 2009, EPA proposed a sweeping regulation to “require reporting of greenhouse gas emissions.” EPA-HQ-2008-0508, p. 1. The list of potentially affected industries is lengthy, encompassing “all sectors of the economy.” *Id.* The proposed rule would require reporting of annual emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and several other ‘greenhouse gases’ (GHG). *Id.*, at p. 19. EPA states that GHG from “human activities are ... very likely influencing the earth’s climate.” *Id.*, at p. 26. EPA estimated the compliance costs for the first year of reporting would be \$168 million, with an annualized cost thereafter of \$138 million. *Id.*, at pp. 778-779.

Reporting GHG emission on an annual basis “is essential for informing some future climate change policy decisions.” *Id.*, at p. 36. One such future policy decision may be the ‘cap and trade’ program. President Obama has stated that he wants to implement an economy-wide, market-based cap-and-trade program to reduce greenhouse gas emissions 80% by 2050.” Source: Obama-Biden: Promoting a Healthy Environment. In the cap and trade system, a cap is set on carbon emissions and total capped emissions are divided into specific emission allowances that are then auctioned as pollution credits. Ostensibly, the ‘polluters’ pay for the privilege of emitting carbon-based pollutants into our atmosphere. However, many, including President Obama’s own Director of the OMB, say that we will all pay for this program.

It is widely accepted that the cost of the cap and trade program will not be borne by the companies buying the allowances. Instead, the costs will be passed “along to their customers (and their customer’s customers) in the form of higher prices.” Peter R. Orszag, Director, CBO, Testimony Before the U.S. Senate Committee on Finance, April 24, 2008, p. 7 (Orszag Testimony). Mr. Orszag, now President Obama’s Director of the OMB, stated that the cap and trade program “would thus lead to price increases for energy and energy-intensive goods and services.” Orszag Testimony, p. 7. Prices for “electricity, natural gas, home heating fuels, and gasoline would increase the most.” Letter, dated June 17, 2008, from Orszag to Senator Jeff Bingaman (Orszag Letter).

Consumers would pay more. Those in the lowest income quintile would pay roughly \$680 in price increases (or about 3.3% of the household’s after-tax income) while the highest income quintile would pay about \$2,180 in price increase (or about 1.7% of the household’s after-tax income). Orszag Testimony, at p. 7 and Table 1, p. 10. Thus, the “price increases impose a larger burden, relative to either income or household consumption, on low- and moderate-income households.” Orszag Letter. Individuals with modest incomes will bear the brunt of the cap and trade program.

Despite this, the price increases are seen as essential to the success of the cap and trade program. They are “the most important mechanism” through which businesses and households are encouraged to make economically motivated consumption and investment changes that reduce emissions. Orszag Letter. In other words, the consumer can not be voluntarily weaned from a carbon-based economy because it is less expensive at this point than the alternatives. However, when prices under the cap and trade program rise, consumers will gladly pay for alternatives that before then seemed too expensive but, in comparison, now seem relatively affordable.

You can be sure you will hear more about climate change, GHG, and the cap and trade program. We will keep you posted.



**John B. King**

**Partner—Baton Rouge**

**Phone:** 225.381.8014

**Fax:** 225.387.5397

**Email:** [john.king@bswllp.com](mailto:john.king@bswllp.com)