



Statement of Senator Chuck Grassley:  
Finance Committee Hearing on Tax Treatment of Cap and Trade  
Tuesday, June 16, 2009

There are many technical tax questions that will be addressed at this hearing. The first point I should make is that, if cap and trade isn't enacted, then we're worrying about all these tax questions for nothing. However, if it is enacted, then a bunch of tax issues need to be dealt with. For example, if allowances to emit carbon dioxide are given away for free, should the corporations that receive these valuable allowances be taxed upon receipt of them? There are various opinions about whether allowances should be given away or auctioned off. The Waxman-Markey bill initially gives away 85 percent of its allowances for free. These 85 percent of allowances are estimated by CBO to be worth \$693 billion over the first 10 years.

However, Peter Orszag, the Administration's OMB Director, when he was the CBO Director in 2007, testified before Congress that, quote, "If you didn't auction the permits it would represent the largest corporate welfare program that has ever been enacted in the history of the United States."

Similarly, in response to my question for the record from the March 4, 2009 hearing on the Administration's budget, Secretary Geithner wrote: "The program will be implemented through an economy-wide cap and trade program in which all emission allowances will be auctioned to ensure that the biggest polluters do not enjoy windfall profits." So, if the Administration has its way, we would not even need to consider the tax treatment of allowances given away for free.

One thing that concerns me with cap and trade is that the current version appears to be all pain but no gain.

In other words, the American consumer will pay higher energy prices, as well as higher prices for all goods and services. That's the pain part. But, unless there's an agreement with China,

which is the largest emitter of greenhouse gases, as well as Russia and India and other large emitters, there is no gain. We could reduce our greenhouse gas emissions while the rest of the world continues to increase its emissions, resulting in increasing emissions worldwide.

Meanwhile, our consumers and economy would suffer from our own cap and trade program. A June 13 Washington Post article stated the following, quote:

“Instead, the special U.S. envoy for climate change said yesterday, he would press for China to reduce the rate at which its emissions grow. Envoy Todd D. Stern said at a news conference that he wants China's emissions to increase less than projected. "So that's not an absolute reduction below where they are right now," Stern said, "because they're not quite at that point to be able to do that." End quote.

That sounds a lot like former President George W. Bush's proposal to limit greenhouse gas intensity relative to GDP, which was roundly panned by environmental groups.

I'm also concerned about the fact that the speculators from Wall Street, Chicago, and San Francisco have been all too eager to embrace cap and trade. Cap and trade would represent a huge new market that hedge funds and private equity firms are salivating over. In fact, Enron and AIG were two of the early proponents of cap and trade.

Four years ago, this Committee held a hearing on the activities of The Nature Conservancy. These activities included the organization's receipt of contributions in exchange for emissions credits. The staff report on these arrangements raised a number of tax issues for both the exempt organization as well as the polluter that also need to be addressed.

We will hear today how all of these exotic derivatives on allowances should be taxed. We know if cap and trade is enacted, the Wall Street people will be happy to help in designing derivatives based on allowances.

Some of these derivatives will be futures, forwards, options, collars, swaps, call spreads, swaptions, and hybrids of the above derivatives. I worry about the Wall Street speculators making fortunes off the backs of the American taxpayers. I look forward to hearing the testimony today.