

AAA Framework for Climate Policy Leadership | U.S. Federal Climate Policy Priorities
June 10, 2021

Introduction

Climate is back on the agenda for the President and Congress. With [broad business support](#), the Biden Administration set a [Nationally Determined Contribution](#) (NDC) under the Paris Agreement to cut greenhouse gas emissions 50-52% below 2005 levels by 2030. To meet this target and put the U.S. on a path to achieve net-zero emissions by 2050 – consistent with global ambition to limit warming to 1.5° C above pre-industrial levels – new policies are needed to drive down emissions across the economy.

Companies and investors have a vital role to play in advancing the public policies needed to meet both the U.S. NDC and their own emission reduction goals. There is a narrow political window this year to enact policies that meaningfully reduce greenhouse gas emissions, and the need for [business leadership](#) is urgent. Now is the time for every company to make climate a top advocacy priority – on par with tax or trade or any other core business issue – and drive that advocacy from the C-suite.

The following are top climate policy priorities for corporate advocacy in 2021, as agreed by the NGOs that endorse the [AAA Framework](#) for Corporate Climate Leadership¹:

- **Decarbonize electricity**
- **Decarbonize transportation**
- **Limit methane emissions**
- **Advance nature-based climate solutions**
- **Enact an economy-wide carbon price**
- **Mandate climate risk disclosure**

In addition to being critical to meet the NDC, all of these policy priorities will drive economic recovery, create well-paid jobs in the United States and boost U.S. competitiveness. They can and must also be designed to promote environmental justice and economic equity, by reducing climate and air pollution in overburdened communities and by ensuring a just transition for fossil fuel workers.

This document provides the rationale for each priority, key policies to support and timeline for business engagement. Policies of particular relevance to certain sectors are noted accordingly; all are relevant to investors seeking to reduce climate risk and improve ESG performance in their portfolio companies.

Finally, business voices will be critical in urging the Administration and Congress to raise U.S. and global climate policy ambition at key moments in 2021 (e.g., G7, G20, COP26). We will share further guidance in due course on opportunities for businesses to engage; for now please find relevant information [here](#).

¹ This list is not exhaustive but reflects our *shared* priorities among policies likely to move this year and where contributing NGOs have expertise.

Decarbonize Electricity

Relevant to: All companies and investors.

Rationale: Decarbonizing electric power generation is critical to meet the U.S. NDC and achieve net-zero emissions economy-wide by 2050. Renewable energy is also becoming more and more cost-competitive with fossil fuels as a new power generation option.² To ensure that our increasingly electrified economy is powered with clean energy and the power sector’s emission trajectory continues to bend downward, new policies are needed to ramp up deployment of zero-carbon electricity generation, modernize the grid and accelerate clean energy innovation.³ Together, policies should ensure that climate pollution from the power sector drops at least 80% below 2005 levels by 2030 on a path to 100% clean by 2035, and with prioritized action in communities bearing a disproportionate burden of air pollution.

Key Policies to Support

Federal Administrative Action

- EPA: Establish ambitious multi-pollutant standards under the Clean Air Act that protect all communities from health- and climate-harming power plant pollution.
- FERC: Enact new market rules and permitting standards that drive energy investments away from natural gas and toward renewable and clean energy technologies.

Federal Legislation

- Establish a Clean Electricity Standard designed to achieve at least an 80% reduction in carbon pollution from the electric power sector below 2005 levels by 2030⁴.
- Clean Energy and Manufacturing Tax Credits:
 - Extend the solar investment tax credit (ITC) and wind production tax credit (PTC) at least through 2030 and expand their eligibility to include standalone energy storage.
 - Reauthorize the 48C Advanced Energy Project Tax Credit for facilities that manufacture clean energy technologies.
 - Make all clean energy tax credits refundable.
 - Transition to a streamlined, technology neutral, emissions-based clean energy tax credit.
- Grid modernization and transmission infrastructure:
 - Reinstate the Smart Grid Investment Grant (SGIG).
 - Enact an investment tax credit (ITC) for high-voltage transmission.
 - Expand project eligibility under the US DOT Transportation Finance Investment Act program (TIFIA) to include transmission, or establish a similar program within DOE.

²IRENA, [How Falling Costs Make Renewables a Cost-effective Investment](#)

³ IEA, [Clean Energy Innovation](#)

⁴ This target has been endorsed by 13 leading utilities: [Power companies urge Biden to implement policies to cut emissions 80% by 2030](#), Reuters 4/17/21.

- Clean Energy Research, Development & Demonstration (R&D&D)
 - Increase funding for ARPA-E to support commercialization of breakthrough technologies.
 - Increase funding for the CarbonSAFE Initiative for safe carbon capture and storage.

Timeline for business engagement

- **June - September:** Watch for opportunities to support new EPA standards and FERC rulemaking.
- **June - September:** Advocate for a Clean Electricity Standard and other clean energy provisions as part of a larger infrastructure bill, appropriations bill or other legislation.

Decarbonize Transportation

Relevant to: Vehicle and engine manufacturers, battery and component suppliers; companies that build or install zero-emission vehicle (ZEV) charging equipment and infrastructure; companies with zero-emission fleet or shipping goals and/or significant GHG emissions associated with transportation.

Rationale: The transportation sector is the largest source of U.S. GHG emissions, as well as air pollution responsible for 20,000 premature deaths a year. Trucks are responsible for a large and rapidly growing share of vehicle pollution. Despite being only 4% of vehicles on the road, trucks account for 25% of the transport sector’s CO₂ emissions, almost half the NO_x and 60% of fine particulates. Market forces are moving in the right direction: in many applications, light-duty ZEVs are already less expensive than their ICE counterparts on a total cost of ownership basis⁵, and the same is true in some medium and heavy-duty applications⁶. But the pace is not nearly fast enough. Without policy action, more than half of the trucks and 30% of the cars on the road are projected to be gas and diesel in 2050.

To meet the U.S. NDC, updated standards are required to ensure that no later than 2035, all new cars, and by 2040, all new trucks and buses sold in the U.S. are ZEVs, while accelerating the transition for freight vehicles operating in ports, distribution facilities and urban centers.⁷ These standards, combined with legislation that accelerates deployment of ZEVs and charging infrastructure, will supercharge transformation of vehicle fleets, cutting climate pollution while improving air quality in communities across the country.

New policies are also required to limit emissions from the rapidly growing aviation sector. Aviation accounts for 3.5% of today's global warming impact⁸ and 2.5% of global CO₂ emissions, which are projected to triple by 2050.⁹ Aviation policies must address all global warming impacts from air travel, including CO₂ and non-CO₂ warming effects, and set mandatory emissions targets that are science-driven and consistent with achieving net-zero emissions by 2050.

⁵ [Electric Vehicle Ownership Costs: Today’s electric vehicles offer big savings to consumers](#) Consumer Reports, 2020

⁶ [Clean Trucks, Clean Air, American Jobs](#), EDF, 2021

⁷ [Recapturing U.S. Leadership on Climate](#), EDF 2021, p. 20

⁸ [Calculating the true climate impact of aviation emissions](#), Carbon Brief, 2020.

⁹ [ICAO Global Environmental Trends -- Present and Future Aircraft Noise and Emissions](#), ICAO, 2019

Key Policies to Support

Federal Administrative Action

- EPA/NHTSA: Restore [California’s authority](#) to set vehicle emission standards, and new near-term light-duty vehicle standards that mirror California’s [deal with major automakers](#).
- EPA/NHTSA: Establish new multi-pollutant standards for all vehicles in model year 2027-2036 that achieve 100% light duty ZEV sales by 2035 and medium and heavy-duty ZEV sales by 2040.
- EPA/FAA: Establish multi-pollutant, technology-forcing standards under the Clean Air Act to limit aircraft emissions.

Federal Legislation

- Tax credits for ZEV procurement and manufacturing
 - Extend and expand the 30(c) tax credit for ZEV charging infrastructure
 - Extend the 30(d) procurement tax credit, modify it to include point-of-sale rebates or refundable tax credits, and expand it to include medium and heavy-duty ZEVs.
 - Reauthorize the 48(c) manufacturing tax credit and expand it to include medium and heavy-duty ZEVs, infrastructure, batteries and other component parts.
- Investments in ZEV manufacturing and charging infrastructure:
 - Fund ZEV charging infrastructure, especially for medium and heavy-duty trucks to maximize climate and health benefits in communities hit hardest by air pollution.
 - Fund grant programs for zero-emission drayage vehicles and port electrification.
 - Expand the Advanced Technology Vehicles Manufacturing Program (ATVM) to include medium and heavy-duty ZEVs.
- Incentives to scale sustainable aviation fuels that at a minimum meet ICAO standards, such as in [H.R. 2, the Moving Forward Act](#), the [Sustainable Aviation Fuel Act](#), the [Sustainable Skies Act](#) and the [Clean Energy for America Act](#).

Timeline for Business Engagement

- **June-July:** Support restoration of the CA waiver and near-term light-duty vehicle standards.
- **June-September:** Support long-term multi-pollutant emission standards for cars and trucks. The administration is expected to introduce these standards in 2021 and finalize them in 2022 (the specific timeline has not yet been announced). Strong support from business *ahead of* the EPA regulatory timeline is critical to raise ambition and urgency.
- **June - September:** Advocate for ZEV-related tax credits and investments in an infrastructure bill or other legislation introduced this year. Business voices are especially important to push back on narrow definitions of “infrastructure” that exclude investment in ZEVs and charging stations.
- **June-September:** Support new emission standards for aviation and advocate for bills that incentivize development of sustainable aviation fuels.

Limit Methane Emissions

Relevant to: Oil and gas companies, electric utilities and natural gas providers; companies that use natural gas as a manufacturing input, major electricity users in states with gas-heavy grids, and companies responsible for methane emissions from livestock and organic waste including in landfills.

Rationale: Methane, the main component of natural gas, has 84 times the heat-trapping power of CO₂ over the 20 years after its release. Methane from human actions is responsible [for at least a quarter](#) of today's warming, and its [primary sources](#) are oil and gas operations, livestock and landfills. Other pollutants emitted alongside methane exacerbate respiratory illness and contribute to ground-level ozone and smog, increasing the risk of heart disease. These impacts fall disproportionately on low-income communities and communities of color.

To meet the U.S. NDC, new policies are needed to reduce methane emissions economy-wide 40% below 2005 levels by 2030¹⁰, and especially in the oil and gas sector, which the [IEA](#) says can achieve a 75% reduction below current levels globally with technologies available today. In the U.S., a recent analysis shows that oil and gas methane can be reduced at least 65% below 2012 levels by 2025¹¹.

Key Policies to Support:

Federal Administrative Action

- EPA: Reinstate and strengthen new and modified source performance standards for oil and gas facilities, and expand regulations to existing sources, with emphasis on reducing methane and health-harming pollution in communities near drilling sites and pipelines.
- BLM: Update and strengthen rules requiring prevention of methane waste from oil and gas production on public and tribal lands.
- DOT: Establish rules requiring use of advanced technologies to detect and repair methane leaks from gas gathering, transmission, and distribution pipelines.

Federal Legislation:

- Restore the [2016-era methane standards](#) for oil and gas facilities through the Congressional Review Act (CRA). Already passed in the Senate, passing the CRA in the House will immediately reinstate safeguards at facilities exempted under the previous administration's rollback and allow the Biden Administration to proceed quickly with next generation performance standards.
- Provide funding to reduce methane emissions and groundwater pollution from abandoned (orphan) oil and gas wells.
- Create incentives to detect and repair methane leaks and to reward early adoption of new methane regulations.

¹⁰ [Recapturing U.S. Leadership on Climate](#), p. 11

¹¹ [Reducing methane from Oil and Gas: A Path to a 65% Reduction in Sector Emissions](#), Clean Air Task Force, 2020

Timeline for business engagement

- Administrative action:
 - **June - September:** publicly support strong methane standards
 - **September - December:** Participate in public comment process for EPA, BLM and DOT rulemaking when new standards are introduced.
- Legislation:
 - **June:** Advocate for passage of the Methane CRA in the House.
 - **June - September:** Advocate for methane-related provisions in an infrastructure bill or other legislation introduced this year.

Advance Nature-Based Climate Solutions

This section is under construction and will be completed in the coming weeks.
Check back regularly for updates.

Enact an Economy-Wide Carbon Price

Relevant to: All companies and investors.

Rationale: Numerous [analyses](#) show multiple pathways to meet the U.S. NDC of 50-52% by 2030, including through various combinations of aggressive sector-by-sector policies. However, not all pathways are created equal. While it is possible to get to 50% through sector-specific action alone, an enforceable declining limit and a price on emissions economy-wide will get there more quickly and affordably. Designed well, a carbon price acts as a magnet that aligns efforts to cut pollution across the entire economy, making sector-specific policies cheaper and easier to achieve, while driving investment in innovation and moving the U.S. more rapidly toward net zero. It also raises revenue that can be returned to citizens and/or directed to promote equity, invest in clean technologies and support communities impacted by the transition to a low-carbon economy. According to the [RFF Calculator](#), a \$55/ton carbon price rising at 5% annually would yield roughly \$2.5 trillion over the next decade.

Carbon pricing faces headwinds in the current political climate. The Biden Administration is prioritizing sector-specific climate policies and has indicated that carbon pricing proposals will need to originate in Congress. Meanwhile, lawmaker support for carbon pricing has shrunk in recent years along with the political center, though champions still exist on both sides of the aisle and several carbon pricing bills have recently been [introduced](#). Support from businesses is critical to keep carbon pricing a viable option in the near term (e.g., as a pay-for mechanism in an infrastructure bill), while also building bipartisan support to secure 60 votes in the next Congress.

Key Policies to Support

- Enact a carbon price as part of an infrastructure bill or other legislation introduced this year.

Timeline for Business Engagement:

- **June-September:** Advocate for carbon pricing as a pay-for mechanism in infrastructure legislation, whether passed through regular order or reconciliation.
- **June - December:** Educate lawmakers -- especially Republicans and moderate Democrats -- on the business case for carbon pricing.

Mandate Climate Risk Disclosure

Relevant to: All companies and investors.

Rationale: Climate change presents grave risk across the U.S. economy¹² including to corporations, their investors, and the markets and communities in which they operate. Unlike other financial risks, however, climate risk is not routinely disclosed to the public. Insufficient corporate disclosures have persisted despite the Securities and Exchange Commission (SEC)'s issuance of regulatory guidance on the topic, the emergence of voluntary disclosure frameworks and standards, and growing calls from major investors for improved disclosure. Given the inadequacy of the current regime, the SEC [will issue](#) new rules on climate risk disclosure and has [invited public input](#) ahead of its formal rulemaking process.

Key Policies to Support

- SEC: Issue new, mandatory disclosure regulations that will yield comparable, specific and decision-useful climate risk information.

Timeline for Business Engagement

- **By June 14th:** File public comments supporting SEC-mandated climate risk disclosure, echoing messaging in the [SEC Climate Disclosure Statement](#).
- **June - September:** Continue to call for mandatory climate risk disclosure as the SEC drafts its proposed rule, likely by September.
- **October-December:** File comments on proposed rule (90-day period beginning with issue date).

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Resources

General:

- [Climate Policy Priorities for the New Administration and Congress](#) (C2ES, 2021)
- [Ceres 2021 Policy Outlook](#) (Ceres, 2021)
- [Going "All In" -- A Climate Policy Guide for Business Leaders](#) (ClimateVoice, 2021)
- [Climate and Clean Energy Stimulus Policies to Power Up America](#) (EDF, 2021)

¹² [Managing Climate Risk in the Financial System](#), Commodities Futures Trading Commission, 2020

Decarbonize Electricity

- [Clean Energy Standards: State and Federal Policy Options and Considerations](#) (C2ES, 2019)
- [The Shape and Pace of Change in the Electricity Transition: Sectoral dynamics and indicators of progress](#) (Commissioned by the We Mean Business Coalition, 2020)
- [Unpacking the US CLEAN Future Act](#) (WRI, 2021)
- [What the Clean Energy for America Act Gets Right - And How it Can Improve](#) (WRI, 2021)
- [Grid Modernization: Creating Jobs, Cutting Electric Bills, and Improving Resiliency](#) (WRI, 2020)

Decarbonize Transportation

- [The Road to Fleet Electrification](#) (Ceres, 2020)
- [Key Policies to Drive the Electric Vehicle Transition in the US](#) (Climate Group EV 100, 2021)
- [Charging Forward: Recommendations for reducing charging infrastructure costs for heavy-duty trucks](#) (EDF, 2021)
- [Clean Trucks, Clean Air, American Jobs](#) (EDF, 2021)
- [Towards Equitable and Transformative Investments in Electric Vehicle Charging Infrastructure](#), (Georgetown Climate Center and MJB&A, 2021)
- [The Shape and Pace of Change in the Transport Transition: Sectoral dynamics and indicators of progress](#) (Commissioned by the We Mean Business Coalition, 2021)

Limit Methane Emissions

- [Reducing Methane from Oil and Gas: A Path to a 65% Reduction in Sector Emissions](#) (CATF, 2020)
- [Major Investors Demand Ambitious Methane Regulations in the U.S.](#) (Ceres, 2021)
- [Action Guide: Reducing methane emissions from oil and gas operations](#) (Climate Group, 2020)

Advance Nature-Based Climate Solutions

- [The Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors](#) (Ceres, 2021)
- [Food and Agriculture Climate Alliance Presents Joint Policy Recommendations](#) (FACA, 2020)
- [Seven Policy Proposals to Restore U.S. Trees: How Do They Compare?](#) (WRI, 2021)
- [What are nature-based solutions and how can they help address the climate crisis?](#) (WWF, 2020)

Enact an Economy-Wide Carbon Price

- [Carbon Pricing Proposals in the 116th Congress](#) (C2ES, 2020)
- [Recapturing US Leadership on Climate](#) (EDF, 2021)
- [Pricing Carbon in the United States](#) (WRI, 2021)

Mandate Climate Risk Disclosure

- [Implementing TCFD: Strategies for Disclosure](#) (C2ES, 2020)
- [Disclose What Matters: Bridging the Gap Between Investor Needs and Company Disclosures on Sustainability](#) (Ceres, 2018)
- [Mandating Disclosure of Climate-Related Financial Risk](#) (EDF, 2021)