



Institute for
Policy Integrity
NEW YORK UNIVERSITY SCHOOL OF LAW



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Bureau of Land Management

Attn: RIN 1004-AE14, Waste Prevention, Production Subject to Royalties, and Resource Conservation

Comments submitted by: Environmental Defense Fund, Institute for Policy Integrity at New York University School of Law, and Natural Resources Defense Council

Our organizations respectfully submit these comments regarding the Bureau of Land Management's valuation of the climate benefits of its proposed standards for waste prevention from onshore Federal oil and gas leases. Our organizations may separately and independently submit other comments regarding the proposed standards themselves.

We support BLM's use of the Social Cost of Methane and Social Cost of Carbon in this rulemaking. First, under its statutory authority and executive orders on rulemaking, BLM has an obligation to value the full climate benefits of its regulations. Second, the Social Cost of Methane and Social Cost of Carbon are the appropriate methodologies for valuing the rule's climate benefits. The methodologies are based on a rigorous, consensus-driven, transparent process and on the best available scientific and economic models and data. Though ongoing improvements should be made as the scientific and economic research continues to develop, the metrics are sufficiently robust and accurate now to provide the basis for current regulatory analysis. In particular, key choices and assumptions, including the selection of discount rates and emphasis on a global value, are justified; if anything, the assumptions and discount rates are overly conservative and result in underestimation of the Social Cost of Methane and Social Cost of Carbon.

1. BLM Is Charged by Statutes and Executive Orders to Consider the Full Costs and Benefits of Its Management of Public Lands—Including Climate Costs and Benefits

The BLM is charged with management of public lands in multiple statutes. Both the Mineral Leasing Act and the Federal Land Policy and Management Act contain language consistent with BLM's consideration of the full climate effects of its proposed regulation. Even if the statutes were silent on this issue (which they are not), executive orders require BLM to weigh the full range of costs and benefits, including ancillary benefits.

The Mineral Leasing Act requires all oil and gas lessees to "use all reasonable precautions to prevent waste of oil or gas."¹ Importantly, the focus of this mandate is on conserving a public resource and protecting taxpayers. One general definition of waste is "to use something in a way that does not produce a valuable result or effect."² If the venting of methane generated cost-savings (i.e., private benefits) worth significantly more than any economic or social loss from the emission, perhaps such venting would not qualify as "waste." But when the total economic and social costs of venting outweigh the total private benefits of venting, BLM certainly can conclude such vented methane has been "wasted." To that end, BLM has the authority to weigh climate costs and benefits in deciding how to regulate "waste." Similarly, as the Supreme Court has determined, "whether it is 'reasonable' to bear a particular cost may well depend on the resulting benefits."³ The congressional mandate to "use all reasonable precautions" certainly goes beyond preventing

¹ 30 U.S.C. § 225.

² Merriam-Webster Online Dictionary.

³ *Entergy v. Riverkeeper*, 129 S.Ct. 1498, 1510 (2009).

lessees from failing to maximize their own profits by venting gas that could otherwise be captured economically and sold for profit. In the absence of any market failure, industry will maximize its own profits; it is BLM's responsibility to "prevent waste" that affects the public interest, including by considering the costly environmental externalities of wasted methane in determining "reasonable" precautions.

Moreover, the Mineral Leasing Act should be read in light of the Federal Land Policy and Management Act. That statute says the Department of the Interior "shall manage the public lands under principles of multiple use and sustainable yield."⁴ "Multiple use" is defined as:

the management of the public lands and their various resource values so that they are utilized in the combination that will best meet the present and future needs of the American people;...the use of some land for less than all of the resources; a combination of balanced and diverse resource uses that takes into account the *long-term needs of future generations for renewable and nonrenewable resources, including, but not limited to*, recreation, range, timber, minerals, watershed, wildlife and fish, and natural scenic, scientific and historical values; and harmonious and coordinated management of the various resources without permanent impairment of the productivity of the land and the *quality of the environment* with consideration being given to the relative values of the resources and not necessarily to the combination of uses that will give the greatest economic return or the greatest unit output.⁵

The act's "congressional declaration of policy" elaborates that the goal is to manage public lands "in a manner that will protect the quality of scientific, scenic, historical, ecological, *environmental, air and atmospheric*, water resource, and archeological values...."⁶ Congress clearly intended BLM to consider a full range of environmental factors in setting its land management policies.⁷

Even if the statutes only explicitly authorized the prevention of economic waste and were silent on the issue of environmental considerations (which is not the case), executive orders and best analytical practices would still require BLM to weigh the full ancillary climate effects of its rule. The executive orders governing regulatory review call for agencies to accurately measure the "actual results of regulatory requirements."⁸ The White House's *Circular A-4* clarifies that agencies must consider "any important" indirect costs and benefits, which includes any "favorable impact . . . secondary to the statutory purpose of the rulemaking," and recommends that agencies use the "same standards" for assessing indirect and direct benefits.⁹ Agencies have weighed "the ancillary benefit of reducing global loadings of methane" in regulatory analyses at least since 1991.¹⁰ Courts have repeatedly instructed agencies to consider indirect effects when agencies use cost-benefit analysis.¹¹ For example, a National Highway Traffic Safety Administration rule was struck down for failing to consider whether benefits from more fuel-efficient cars were outweighed by the potential

⁴ 43 U.S.C. § 1732(a).

⁵ 43 U.S.C. § 1702(c) (emphasis added).

⁶ 43 U.S.C. § 1701(a)(8) (emphasis added); *see also* the immediately preceding statement, 43 U.S.C. § 1701(a)(7) referencing the goal of multiple use.

⁷ *See e.g.*, Jayni Foley Hein, *Harmonizing Preservation and Production* 4-5 (Policy Integrity Report, 2015).

⁸ Exec. Order No. 13,563 § 1, 76 Fed. Reg. at 3821; *accord.* Exec. Order No. 12,866 § 1, 58 Fed. Reg. at 51,735.

⁹ Office of Mgmt. & Budget, Circular A-4 at 26.

¹⁰ 56 Fed. Reg. 24,468, 24,469 (May 30, 1991).

¹¹ *See* Samuel J. Rascoff & Richard L. Revesz, *The Biases of Risk Tradeoff Analysis: Towards Parity in Environmental and Health-and-Safety Regulation*, 69 U. Chi. L. Rev. 1763, 1772-80 (2002). *Am. Trucking Ass'ns v. EPA*, 175 F.3d 1027, 1051-52 (D.C. Cir. 1999) (holding that EPA's consideration must include both the direct and indirect effects of pollutants, rather than only "half of a substance's health effects"), *rev'd on other grounds sub nom.* *Whitman v. Am. Trucking Ass'ns, Inc.*, 531 U.S. 457 (2001); *see also* *Corrosion Proof Fittings v. EPA*, 947 F.2d 1201, 1225 (5th Cir. 1991) (holding that EPA must consider the indirect safety effects of substitute options for car brakes when banning asbestos-based brakes under the Toxic Substances Control Act).

ancillary safety risks because smaller, more efficient cars might be less protective in a crash.¹² Similarly, even if BLM's statutory purpose of the proposed rulemaking were primarily to prevent economic waste, the agency would still be responsible for considering any significant secondary costs or benefits, including to the climate. But, as shown above, BLM has an equal statutory obligation to consider the full environmental consequences of its land management policies.

If BLM had failed to use the SCM or SCC metrics, the agency would essentially be treating the proposed rule's significant climate effects as if they had zero value, implying that greenhouse pollution has no costs. That, sadly, is not the case, as evidenced by the large body of research outlining the sobering health, environmental, and economic impacts of rising temperatures, extreme weather, intensifying smog, and other climate impacts. Courts have found it arbitrary when a federal agency otherwise calculates a rule's costs and benefits and yet assigns no value to a rule's significant greenhouse pollution effects.¹³ BLM is responsible for accounting for the full climate effects of its land management policies, and has appropriately done so in this proposed rule.

2. The SCC and SCM Are the Best Tools to Evaluate the Costs and Benefits of Changes in Carbon and Methane Emissions

The Social Cost of Carbon (SCC) was derived through a rigorous, consensus-based, transparent process, using the best available scientific and economic models and data. Though ongoing improvements should be made as the scientific and economic research continues to develop, the metric is sufficiently robust and accurate now to provide the basis for current regulatory analysis. In particular, key choices and assumptions, including the selection of discount rates and emphasis on a global value, are justified; if anything, the assumptions and discount rates are overly conservative and result in underestimation of the Social Cost of Carbon.

The Social Cost of Methane (SCM) methodology builds directly on the SCC methodology. The SCM's key assumptions and choices have therefore been shaped by the same rigorous, consensus-based, transparent process used for the SCC. Like the SCC, the SCM's emphasis on a global value and selection of discount rates is justified, and if anything the SCM is underestimated due to overly conservative assumptions.

The SCC Was Developed Through a Rigorous, Consensus-Based Transparent Process

To facilitate accounting for the costs of climate impacts and the benefits of reducing carbon pollution in regulatory proceedings undertaken by different agencies, the United States government assembled an Interagency Working Group (IWG) to develop an estimate of a social cost of carbon that can be utilized in rulemakings and other pertinent settings across the federal government.¹⁴ The IWG's estimates—first released in 2010 and updated in 2013 and 2015—have been used in

¹² *Competitive Enterprise Inst. v. Nat'l Highway Traffic Safety Admin.*, 956 F.2d 321, 326-27 (D.C. Cir. 1992); see also *Am. Dental Ass'n v. Martin*, 984 F.2d 823, 826-27 (7th Cir. 1993) (remanding in part an Occupational Safety and Health Administration regulation for failure to consider indirect costs).

¹³ *Ctr. for Biological Diversity v. Nat'l Highway Traffic Safety Admin.*, 538 F.3d 1172, 1199 (9th Cir. 2008) (holding unlawful NHTSA's fuel economy standards for passenger vehicles when NHTSA ascribed a value of "zero" to the benefits of mitigating carbon dioxide, reasoning that "NHTSA assigned no value to *the most significant benefit* of more stringent CAFE standards: reduction in carbon emissions" (emphasis added)).

¹⁴ The IWG involved a large number of agencies, including the Council of Economic Advisers, Council on Environmental Quality, Department of Agriculture, Department of Commerce, Department of Transportation, Environmental Protection Agency, National Economic Council, Office of Energy and Climate Change, Office of Management and Budget, Office of Science and Technology Policy, and the Department of the Treasury. See INTERAGENCY WORKING GROUP ON THE SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2010) [hereinafter "2010 TSD"], available at <http://www.whitehouse.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf>.

numerous benefit-cost analyses related to federal rulemakings.¹⁵ The IWG recently released an updated set of SCC estimates, centered at approximately \$40 per metric ton of CO₂ for emissions in the year 2015, in 2015 dollars at a 3% discount rate.¹⁶ The 2015 SCC estimates are higher than those from 2010, reflecting the growing understanding of the costs that climate impacts will impose on society.

The increase in the SCC estimate is important because it reflects the growing scientific and economic research on the risks and costs of climate change, but is still very likely an underestimate of the economic cost of carbon emissions. The increase also reflects the costs of climate change that we are already experiencing, such as those associated with sea level rise and rising temperatures. Climate change is making coastal flooding, drought, and impacts from extreme weather worse. A rapidly increasing body of evidence has linked ever more recent events directly to climate change.¹⁷

The analytic work of the IWG has been transparent. The 2010 Technical Support Document (TSD) set out in detail the IWG's decision-making process with respect to how it assessed and employed the models.¹⁸ Furthermore, the Government Accountability Office (GAO) found that "the working group's processes and methods reflected the following three principles: *Used consensus-based decision making, Relied on existing academic literature and models, and Took steps to disclose limitations and incorporate new information.*"¹⁹

¹⁵ The SCC has been used in numerous notice-and-comment rulemakings by various agencies since it was published in 2010, and each of these occasions has provided opportunity for public comment on the SCC. *See, e.g.*, Energy Conservation Program: Energy Conservation Standards for Residential Clothes Washers, 77 Fed. Reg. 32,381 (May 31, 2012); Energy Conservation Program: Energy Conservation Standards for Residential Dishwashers, 77 Fed. Reg. 31,964 (May 30, 2012); Energy Conservation Program: Energy Conservation for Battery Chargers and External Power Supplies, 77 Fed. Reg. 18,478 (Mar. 27, 2012); Energy Conservation Program: Energy Conservation Standards for Standby Mode and Off Mode for Microwave Ovens, 77 Fed. Reg. 8526 (Feb. 14, 2012); Energy Conservation Program: Energy Conservation Standards for Distribution Transformers, 77 Fed. Reg. 7282 (Feb. 10, 2012); Energy Conservation Program for Certain Industrial Equipment: Energy Conservation Standards and Test Procedures for Commercial Heating, Air-Conditioning, and Water-Heating Equipment, 77 Fed. Reg. 2356 (Jan. 17, 2012); 2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards, 76 Fed. Reg. 74,854 (Dec. 1, 2011); Oil and Natural Gas Sector: New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants Reviews, 76 Fed. Reg. 52,738 (Aug. 23, 2011); Energy Conservation Program: Energy Conservation Standards for Residential Furnaces and Residential Central Air Conditioners and Heat Pumps, 76 Fed. Reg. 37,549 (June 27, 2011); Energy Conservation Program: Energy Conservation Standards for Residential Clothes Dryers and Room Air Conditioners, 76 Fed. Reg. 22,324 (Apr. 21, 2011); Energy Conservation Program: Energy Conservation Standards for Fluorescent Lamp Ballasts, 76 Fed. Reg. 20,090 (Apr. 11, 2011); National Emission Standards for Hazardous Air Pollutants: Mercury Emissions from Mercury Cell Chlor-Alkali Plants, 76 Fed. Reg. 13,852 (Mar. 14, 2011); Greenhouse Gas Emissions Standards and Fuel Efficiency Standards for Medium- and Heavy-Duty Engines and Vehicles, 75 Fed. Reg. 74,152 (Nov. 30, 2010); Standards of Performance for New Stationary Sources and Emission Guidelines for Existing Sources: Sewage Sludge Incineration Units, 75 Fed. Reg. 63,260 (Oct. 14, 2010); Energy Conservation Program: Energy Conservation Standards for Residential Refrigerators, Refrigerator-Freezers, and Freezers, 75 Fed. Reg. 59,470 (Sept. 27, 2010); Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone, 75 Fed. Reg. 45,210 (Aug. 2, 2010). The undersigned organizations have provided comment on the SCC in a number of these proceedings.

¹⁶ INTERAGENCY WORKING GROUP ON THE SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: TECHNICAL UPDATE OF THE SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2015); *see also* INTERAGENCY WORKING GROUP ON THE SOCIAL COST OF CARBON, TECHNICAL SUPPORT DOCUMENT: TECHNICAL UPDATE OF THE SOCIAL COST OF CARBON FOR REGULATORY IMPACT ANALYSIS UNDER EXECUTIVE ORDER 12,866 (2013) [hereinafter "2013 TSD"], *available at* <http://www.whitehouse.gov/sites/default/files/omb/assets/inforeg/technical-update-social-cost-of-carbon-for-regulator-impact-analysis.pdf>.

¹⁷ *See generally* Thomas C. Peterson et al. eds., *Explaining Extreme Events of 2012 from a Climate Perspective*, 94 BULL. AMER. METEOR. SOC. S1-74 (2013), and IPCC, *Special Report: Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation* (2012). On the scientific research connecting weather and other climate-related events to climate change, see Peter A. Stott et al., "Attribution of Weather and Climate-Related Events." In *Climate Science for Serving Society*, edited by Ghassem R. Asrar and James W. Hurrell. Netherlands: Springer s307-37 (2013).

¹⁸ *See generally* 2010 TSD, *supra* note 14.

¹⁹ GAO, REGULATORY IMPACT ANALYSIS: Development of Social Cost of Carbon Estimates, GAO-14-663 (2014).

Because the 2013 IWG made no changes to the input assumptions and procedures for deriving its SCC estimates, the 2013 TSD discussed only how the three Integrated Assessment Models (IAMs) used in the analysis were updated in the academic literature over the three-year interim period by the independent researchers who have developed these models. The 2013 TSD also established that the increase in the SCC estimate from 2010 to 2013 resulted solely from updates to the three underlying IAMs.²⁰

The 2015 TSD update provided detailed responses²¹ to public comments collected through an opportunity for public participation initiated by the Office of Management and Budget (OMB).²² Additionally, the comment period on this proposed rulemaking is yet another opportunity for continued dialogue about areas requiring further study. Such repeated comment processes and updates demonstrate that the IWG's SCC estimates were developed—and are being used—transparently. Given the strong grounding in the best science available, nothing should prevent the current, continued use of this well-established estimate. As economic and scientific research continues to develop, future revisions will be able to further refine existing estimates based on the latest peer-reviewed literature and the latest updates to the quality of the overall modeling exercise.

The IWG Correctly Used a Global SCC Value.

To design the economically efficient policies necessary to forestall severe and potentially catastrophic climate change, all countries must use a global SCC value. Given that the United States and many other significant players in the international climate negotiations have already applied a global SCC framework in evaluating their own climate policies, the continued use of the global value in U.S. regulatory decisions may be strategically important as the United States seeks to set an example for other countries, harmonize regulatory systems, and take the lead in ongoing international negotiations. Binding legal obligations, basic ethical responsibilities, and practical considerations further counsel in favor of the United States using a global SCC value.

To avoid a global “tragedy of the commons” and an economically inefficient degradation of the world’s climate resources, all countries should set policy according to a global SCC value. The climate and clean air are global common resources, meaning they are free and available to all countries, but any one country’s use—i.e., pollution—imposes harms on the polluting country as well as the rest of the world. Because greenhouse gases do not stay within geographic borders but rather mix in the atmosphere and affect climate worldwide, each ton of carbon pollution emitted by the United States not only creates domestic harms, but also imposes additional and large externalities on the rest of the world, including disproportionate harms to some of the least-developed nations. Conversely, each ton of carbon pollution abated in another country will benefit the United States along with the rest of the world.

If all countries set their greenhouse gas emission levels based on only their domestic costs and benefits, ignoring the large global externalities, the collective result would be substantially sub-optimal climate protections and significantly increased risks of severe harms to all nations, including to the United States. “[E]ach pursuing [only its] own best interest . . . in a commons brings ruin to all.”²³ By contrast, a global SCC value would require each country to account for the full

²⁰ The 2010 and 2013 IWGs did very little to adjust the three IAMs. The main adjustment by IWG was to DICE to ensure that the IAM had an exogenous growth path that matched FUND and PAGE for the purposes of modeling various socio-economic and emission scenarios. *Id.* at 24.

²¹ OMB & Interagency Working Group, Response to Comments on Social Cost of Carbon (July 2015).

²² OMB, Notice of Availability and Request for Comments, Technical Support Documents: Social Cost of Carbon for Regulatory Impact Analysis, 78 Fed. Reg. 70,586 (Nov. 26, 2013).

²³ Garrett Hardin, *The Tragedy of the Commons*, 162 SCIENCE 1243 (1968).

damages of its greenhouse gas pollution and so to collectively select the efficient level of worldwide emissions reductions needed to secure the planet's common climate resources.

Thus, well-established economic principles demonstrate that the United States stands to benefit greatly if all countries apply a global SCC value in their regulatory decisions. A rational tactical option in the effort to secure that economically efficient outcome is for the United States to continue using a global SCC value itself. The United States is engaged in a repeated strategic game of international negotiations and regulatory coordination, in which several significant players—including the United States—have already adopted a global SCC framework.²⁴ For the United States to now depart from this implicit collaborative dynamic by reverting to a domestic-only SCC estimate could undermine the country's long-term interests in future climate negotiations and could jeopardize emissions reductions underway in other countries, which are already benefiting the United States.²⁵ A domestic-only SCC value could be construed as a signal that the United States does not recognize or care about the effects of its policy choices on other countries, and signal that it would be acceptable for other countries to ignore the harms they cause the United States. Further, a sudden about-face could undermine the United States' credibility in negotiations. The United States has recently reasserted its desire to take a lead in both bilateral and international climate negotiations.²⁶ To set an example for the rest of the world, to advance its own long-term climate interests, and to secure greater cooperation toward reducing global emissions, strategic factors support the continued use a global SCC value in U.S. regulatory decisions.

Though the Constitution balances the delegation of foreign affairs power between the executive and legislative branches, “[t]he key to presidential leadership is the negotiation function. Everyone agrees that the President has the exclusive power of official communication with foreign governments.”²⁷ The development and analysis of U.S. climate regulations are essential parts of the dialogue between the United States and foreign countries about climate change. Using a global SCC value communicates a strong signal that the United States wishes to engage in reciprocal actions to mitigate the global threat of climate change. The President is responsible for developing and executing the negotiation strategy to achieve the United States' long-term climate interests. Currently, the President has instructed federal agencies to use a global SCC value as one important step that encourages other countries to take reciprocal actions that also account for global externalities. The President's constitutional powers to negotiate international agreements would be seriously impaired if federal agencies were forced to stop relying on a global SCC value.²⁸

In fact, the United States has already begun to harmonize with other countries its policies on climate change and on the valuation of regulatory benefits. The recent U.S.-China agreement is but the latest example. For instance, the United States has entered into a joint Regulatory Cooperation Council with Canada, which has adopted a work plan that commits the two countries to

²⁴ See *infra* notes 33 and 39 to 42, and accompanying text, detailing use of a global SCC value by Canada, Mexico, the United Kingdom, France, Germany, and Norway.

²⁵ See ROBERT AXELROD, *THE EVOLUTION OF COOPERATION* 10-11 (1984) (on repeated prisoner's dilemma games).

²⁶ EXEC. OFFICE OF THE PRES., *THE PRESIDENT'S CLIMATE ACTION PLAN* 17-21 (2013).

²⁷ Phillip R. Trimble, *The President's Foreign Affairs Power*, 83 AM. J. OF INTL. L. 750, 755 (1989).

²⁸ See David Remnick, *The Obama Tapes*, NEW YORKER, Jan. 23, 2014, available at <http://www.newyorker.com/online/blogs/newsdesk/2014/01/the-obama-tapes.html> (quoting interview with President Obama: “[M]y goal has been to make sure that the United States can genuinely assert leadership in this issue internationally, that we are considered part of the solution rather than part of the problem. And if we are at the table in that conversation with some credibility, then it gives us the opportunity to challenge and engage the Chinese and the Indians, as long as we take into account the fact that they've still got, between the two of them, over a billion people in dire poverty. . . . This is why I'm putting a big priority on our carbon action plan here. It's not because I'm ignorant of the fact that these emerging countries are going to be a bigger problem than us. It's because it's very hard for me to get in that conversation if we're making no effort.”).

synchronizing “aggressive” greenhouse gas reductions, especially in the transportation sector.²⁹ A separate Regulatory Cooperation Council with Mexico calls generally for improving and harmonizing policy “by strengthening the analytic basis of regulations,”³⁰ and its work plan acknowledges the transboundary nature of environmental risks.³¹ Mexico and Canada have both adopted greenhouse gas standards for vehicles that harmonize with the U.S. standards³² and that calculate benefits according to a global SCC value.³³ Canada has also used the IWG’s global SCC value in developing carbon dioxide standards for its coal-fired power plants, estimating \$5.6 billion (Canadian dollars) worth of global climate benefits.³⁴ The direct U.S. share of the net benefits from that Canadian regulation will likely total in the hundreds of millions of dollars.³⁵

Further efforts at regulatory harmonization are currently underway. For example, the United States is now negotiating a Transatlantic Trade and Investment Partnership with the European Union, and a key element is regulatory coordination.³⁶ The European Union has already adopted an Emissions Trading Scheme (ETS) to cap its greenhouse gas emissions, and its Aviation Directive is just one of the climate policies that could be shaped by these negotiations.³⁷ The European Commission has indicated its willingness to further reduce its ETS cap if other major emitters make proportional commitments³⁸—a result that will only occur if countries consider more than their own domestic costs and benefits from reducing greenhouse gas emissions. Moreover, several individual European nations—including the United Kingdom,³⁹ France,⁴⁰ Germany,⁴¹ and Norway⁴²—have adopted a

²⁹ UNITED STATES-CANADA REGULATORY COOPERATION COUNCIL, JOINT ACTION PLAN, at 16 (2011), *available at* http://www.whitehouse.gov/sites/default/files/omb/oira/irc/us-canada_rcc_joint_action_plan.pdf.

³⁰ UNITED STATES-MEXICO HIGH-LEVEL REGULATORY COOPERATION COUNCIL, WORK PLAN at 3 (2012), *available at* <http://www.whitehouse.gov/sites/default/files/omb/oira/irc/united-states-mexico-high-level-regulatory-cooperation-council-work-plan.pdf>.

³¹ *Id.* at 11 (noting that oil drilling activities in the Gulf of Mexico conducted by either country “present risks for both countries, and both countries would benefit from a common set of drilling standards”).

³² See INT’L COUNCIL ON CLEAN TRANSP., MEXICO LIGHT-DUTY VEHICLE CO₂ AND FUEL ECONOMY STANDARDS 4 (Policy Update, July 2013), *available at* http://www.theicct.org/sites/default/files/publications/ICCTupdate_Mexico_LDVstandards_july2013.pdf (noting that Mexico’s standards were based on the U.S. and Canadian standards).

³³ See Heavy-Duty Vehicle and Engine Greenhouse Gas Emission Regulations, SOR/2013-24, 147 Can. Gazette pt. II, 450, 544 (Can.), *available at* <http://canadagazette.gc.ca/rp-pr/p2/2013/2013-03-13/html/sor-dors24-eng.html> (“The SCC is used in the modelling of the cost-benefit analysis It represents an estimate of the economic value of avoided climate change damages *at the global level*. . . . The values used by Environment Canada are based on the extensive work of the U.S. Interagency Working Group on the Social Cost of Carbon.”) (emphasis added); Instituto Nacional de Ecología, Mexico, Regulatory Impact Analysis on *PROY-NOM-163- SEMARNAT-ENER-SCFI-2012, Emisiones de bióxido de carbono (CO₂) provenientes del escape y su equivalencia en términos de rendimiento de combustible, aplicable a vehículos automotores nuevos de peso bruto vehicular de hasta 3857 kilogramos* (July 5, 2012), *available at* <http://207.248.177.30/mir/formatos/defaultView.aspx?SubmitID=273026> (“[S]e obtienen beneficios ambientales por la reducción del consumo de combustible, los cuales se reflejan en beneficios a la salud de la población en el caso de contaminantes criterio, y en *beneficios globales para las emisiones evitadas de CO₂*.”) (emphasis added).

³⁴ Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations, SOR/2012-167, 146 Can. Gazette pt. II, 1951, 2000, 2044 (Can.), *available at* <http://www.gazette.gc.ca/rp-pr/p2/2012/2012-09-12/html/sor-dors167-eng.html>.

³⁵ \$5.6 billion in Canadian dollars is worth \$5.0 billion in U.S. dollars (using February 2014 conversion rates). Seven to twenty-three percent of \$5 billion is between \$350 million and \$1.15 billion. See 2010 TSD, *supra* note 14, at 11 (provisionally calculating the direct U.S. share of a global SCC value at between 7-23%, though ultimately recommending “that using the global (rather than domestic) value . . . is the appropriate approach,” for reasons consistent with these comments).

³⁶ See EUR. COMM’N, TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP: THE REGULATORY PART (2013).

³⁷ See SIERRA CLUB, THE TRANSATLANTIC FREE TRADE AGREEMENT: WHAT’S AT STAKE FOR COMMUNITIES AND THE ENVIRONMENT at 9-10 (2013).

³⁸ Eur. Comm’n, Working with International Partners, <http://www.e.europa.eu/clima/policies/international> (“The EU is offering to step up its 2020 reduction targets to 30% if other major economies commit.”).

³⁹ ECONOMICS GROUP, DEFRA, U.K., THE SOCIAL COST OF CARBON AND THE SHADOW PRICE OF CARBON: WHAT THEY ARE, AND HOW TO USE THEM IN ECONOMIC APPRAISAL IN THE UK 1 (2007); see also Ministry of Finance, Norway, Cost-Benefit Analysis: Carbon Price Paths, *available at* <http://www.regjeringen.no/en/dep/fin/Documents-and-publications/official->

global SCC value for use in their regulatory analyses. Some other European countries, such as Sweden, have adopted carbon taxes that implicitly operate as a high SCC that accounts for global externalities.⁴³

As further evidence of how the United States' use of a global SCC value is already influencing other international actors to follow suit, the International Monetary Fund (IMF) applies in its policy reviews an SCC estimate based on the IWG number.⁴⁴ Given the potential influence of the IMF on the environmental policies of developing countries,⁴⁵ the pull that the IWG's global estimate has at the IMF could be very advantageous to the United States, by motivating industrializing countries to use similar numbers in the future.

In addition to this compelling strategic argument—namely, that it is rational for the United States and other countries to continue their reciprocal use of a global SCC value to achieve the economically efficient outcome on climate change (and avoid catastrophic climate impacts)—legal obligations further prescribe using a global SCC value. A basic ethical responsibility to prevent transboundary environmental harms has been enshrined in customary international law.⁴⁶ For the United States to knowingly set pollution levels in light of only domestic harms, willfully ignoring that its pollution directly imposes environmental risks—including catastrophic risks—on other countries, would violate norms of comity among countries. The United States would be knowingly causing foreseeable harm to other countries, without compensation or just cause. Given that the nations most at risk from climate change are often the poorest countries in the world, such a policy would also violate basic and widely shared ethical beliefs about fairness and distributive justice. Indeed, taking a global approach to measuring climate benefits is consistent with the ideals of transboundary responsibility and justice that the United States commits to in other foreign affairs.⁴⁷

norwegian-reports-/2012/nou-2012-16-2/10.html?id=713585 (“The United Kingdom has changed its method for the valuation of greenhouse gas emissions. Prior to 2009, the estimated global social cost of carbon was used, but one [sic] has now switched over to pricing in line with the necessary marginal cost of meeting long-term domestic emission reduction targets in conformity with the EU Climate and Energy Package.”).

⁴⁰ See Balázs Égert, *France's Environmental Policies: Internalising Global and Local Externalities* 8-10 (OECD Economics Department Working Papers No. 859, 2011), available at <http://dx.doi.org/10.1787/5kgdnp0n9d8v-en> (discussing global impacts and France's history of calculating the SCC); Oskar Lecuyer & Philippe Quirion, funded by the European Union's Seventh Framework Programme, *Choosing Efficient Combinations of Policy Instruments for Low-Carbon Development and Innovation to Achieve Europe's 2050 Climate Targets—Country Report: France* at 8 (2013) (noting the prospects for a carbon tax in 2014-15, and explaining that “A 2009 stakeholder and expert group led by the ‘Conseil d'analyse stratégique’ (a public body in charge of expertise and stakeholder dialogue) set the optimal level of the carbon tax (the social cost of carbon) at € 32/tCO₂ in 2010, and rising to € 100 in 2030 and € 200 in 2050.”).

⁴¹ Testimony of Howard Shelanski, OIRA Admin., before the H. Comm. on Oversight & Gov't Reform's Subcomm. on Energy Policy, Healthcare, and Entitlements, July 18, 2013, at 3 (explaining that the global SCC value estimated by the IWG is consistent with values used by Germany and the United Kingdom).

⁴² See Ministry of Finance, *supra* note 39 (explaining that, for projects not already covered by a binding emission limitation, the carbon price should “be based on the marginal social cost of carbon,” meaning “the global cost of emitting one additional tonne of CO₂e”). Note that Norway has joined the E.U.'s trading scheme.

⁴³ Henrik Hammar, Thomas Sterner & S. Åkerfeldt, *Sweden's CO₂ Tax and Taxation Reform Experiences*, in *REDUCING INEQUALITIES: A SUSTAINABLE DEVELOPMENT CHALLENGE* (Genevey, R. et al. eds., 2013).

⁴⁴ *E.g.*, Benedict Clements et al., International Monetary Fund, *Energy Subsidy Reforms: Lessons and Implications* 9 (IMF Policy Paper, Jan. 28, 2013).

⁴⁵ See Natsu Taylor Saito, *Decolonization, Development, and Denial*, 6 FL. A & M U. L. REV. 1, 16 (2010) (quoting former IMF counsel as saying “today it is common to find these institutions [IMF and World Bank] requiring their borrowing member countries to accept and adhere to prescribed policies on environmental protection”).

⁴⁶ See PHILIPPE SANDS, *PRINCIPLES OF INTERNATIONAL ENVIRONMENTAL LAW* 241 (2d ed. 2003) (noting that “the responsibility not to cause damage to the environment of other states or of areas beyond national jurisdiction has been accepted as an obligation by all states[;] . . . there can be no questions but that Principle 21 [of the Stockholm Declaration on the Human Environment] reflects a rule of customary international law”).

⁴⁷ See Paul Baer & Ambuj Sagar, *Ethics, Rights and Responsibilities*, in *CLIMATE CHANGE SCIENCE AND POLICY* (Stephen Schneider et al., eds., 2009).

Binding international agreements also require consideration and mitigation of transboundary environmental harms. Notably, the United Nations Framework Convention on Climate Change—to which the United States is a party—declares that countries’ “policies and measures to deal with climate change should be cost-effective so as to ensure *global benefits* at the lowest possible cost.”⁴⁸ The Convention further commits parties to evaluating global climate effects in their policy decisions, by “employ[ing] appropriate methods, for example *impact assessments* . . . with a view to minimizing adverse effects on the economy, on public health and on the quality of the environment, of projects or measures undertaken by them to mitigate or adapt to climate change.”⁴⁹ The unmistakable implication of the Convention is that parties—including the United States—must account for global economic, public health, and environmental effects in their impact assessments.

Presidential orders on regulatory analysis also support use of a global SCC value. In 2012, President Obama issued Executive Order 13,609 on promoting international regulatory cooperation.⁵⁰ The Order built on his previous Executive Order 13,563, which in turn had affirmed its 1993 predecessor, Executive Order 12,866, in requiring benefit-cost analysis of significant federal regulations.⁵¹ Though White House guidance published in 2003 on regulatory impact analysis under E.O. 12,866 assumed that most analyses would focus on domestic costs and benefits, it ultimately deferred to the discretion of regulatory agencies on whether to evaluate “effects beyond the borders of the United States.”⁵² More importantly, since the publication of that guidance, President Obama has issued his own supplemental orders on regulatory analysis, including E.O. 13,609, which clarified the importance of international cooperation to achieve U.S. regulatory goals. This 2012 order explicitly recognizes that significant regulations can have “significant international impacts,”⁵³ and it calls on federal agencies to work toward “best practices for international regulatory cooperation with respect to regulatory development.”⁵⁴ By employing a global SCC value in U.S. regulatory development, and by encouraging other countries to follow that

⁴⁸ United Nations Framework Convention on Climate Change, May 9, 1992, S. Treat Doc. No. 102-38, 1771 U.N.T.S. 107, Article 3(3) (emphasis added); *see also id.* at Article 3(1) (“The Parties should protect the climate system for the *benefit of present and future generations of humankind*, on the basis of *equity* and in accordance with their common but *differentiated responsibilities* and respective capabilities.”) (emphasis added); *id.* at Article 4(2)(a) (committing developed countries to adopt policies that account for “the need for equitable and appropriate contributions by each of these Parties to the global effort”).

⁴⁹ *Id.* at Article 4(1)(f) (emphasis added); *see also id.* at Article 3(2) (requiring parties to give “full consideration” to those developing countries “particularly vulnerable to the adverse effects of climate change”). *See also* North American Agreement on Environmental Cooperation (1993), 32 I.L.M. 1480, art. 10(7) (committing the United States to the development of principles for transboundary environmental impact assessments).

⁵⁰ 77 Fed. Reg. 26,413 (May 4, 2012).

⁵¹ *Id.* § 1 (explaining the order intends to “promot[e] the goals of Executive Order 13563”); *see also* Exec. Order No. 13,563, *Improving Regulation and Regulatory Review*, § 1(b), 76 Fed. Reg. 3821 (Jan. 18, 2011) (reaffirming Exec. Order No. 12,866, 58 Fed. Reg. 51,741 (Sept. 30, 1993) and requiring benefit-cost analysis).

⁵² OMB, CIRCULAR A-4, at 15 (2003). In sharp contrast to the Circular’s ultimate deferral to agencies on the issue of considering transboundary efficiency effects, the Circular makes very clear that international transfers and distributional effects should be assessed as costs and benefits to the United States: “Benefit and cost estimates should reflect real resource use. Transfer payments are monetary payments from one group to another that do not affect total resources available to society. . . . However, transfers from the United States to other nations *should* be included as costs, and transfers from other nations to the United States as benefits, as long as the analysis is conducted from the United States perspective.” *Id.* at 38 (emphasis original). In other words, even if federal agencies use a global SCC value to assess efficiency effects relating to their climate policies, that global valuation will not prevent the agencies from also counting international transfers or distributional effects that benefit the United States as benefits. *See* Comments from the Institute for Policy Integrity, to EPA, on Proposed Rulemaking to Establish Light-Duty Vehicle Greenhouse Gas Emission Standards, at 12-13 (Nov. 27, 2009) (explaining that, depending on the relevant statutory mandate, agencies may calculate a monopsony benefit to the United States even while using a global SCC value).

⁵³ 77 Fed. Reg. at 26,414, § 3(b).

⁵⁴ 77 Fed. Reg. at 26,413, § 2(a)(ii)(B) (defining the goals of the regulatory working group).

best practice and account for the significant international impacts of their own climate policies, federal agencies will advance the mission of this presidential order on regulatory harmonization.

Finally, two practical considerations counsel in favor of a global SCC value. First, unlike some other significant international environmental impacts, no methodological limitations block the quantitative estimation of a global SCC value. In recent regulatory impact analyses for major environmental rules, EPA has qualitatively considered important transnational impacts that could not be quantified. For example, in the Mercury and Air Toxics Standards, EPA concluded that a reduction of mercury emissions from U.S. power plants would generate health benefits for foreign consumers of fish, both from U.S. exports and from fish sourced in foreign countries. EPA did not quantify these foreign health benefits, however, due to complexities in the scientific modeling.⁵⁵ Similarly, in the analysis of the Cross-State Air Pollution Rule, EPA noted—though could not quantify—the “substantial health and environmental benefits that are likely to occur for Canadians” as U.S. states reduce their emissions of particulate matter and ozone—pollutants that can drift long distances across geographic borders.⁵⁶ Yet where foreign costs or benefits are important and quantifiable, other federal agencies frequently include those calculations.⁵⁷ Given that sophisticated models already exist to quantify the global SCC, the global estimate is appropriate to use.

Second, a global SCC value is in the national interest because harms experienced by other countries could significantly impact the United States. Climate damages in one country could generate large spillover effects to which the United States is especially vulnerable. The mesh of the global economy is woven tightly, and disruptions in one place can have consequences around the world. As seen historically, economic disruptions in one country can cause financial crises that reverberate globally at a breakneck pace.⁵⁸ In a similar vein, national security analysts in government and academia increasingly emphasize that the geopolitical instability associated with climatic disruptions abroad poses a serious threat to the United States.⁵⁹ Due to its unique place among countries—both as the largest global economy with trade- and investment-dependent links throughout the world, and as a military superpower—the United States is particularly vulnerable to international spillover effects.

The 2010 TSD included a rigorous examination of global versus domestic SCC estimates.⁶⁰ Consistent with the above discussion, the 2010 IWG reached the conclusion to estimate a global SCC value, citing both the global impacts of climate change and the global action needed to mitigate climate change. The IWG restated these arguments in the 2013 TSD, and refers back explicitly to its discussion in the 2010 TSD.⁶¹ BLM should continue using a global SCC estimate in its regulatory impact analyses.

⁵⁵ EPA, REGULATORY IMPACT ANALYSIS FOR THE FINAL MERCURY AND AIR TOXICS STANDARDS at 65 (2011) (“Reductions in domestic fish tissue concentrations can also impact the health of foreign consumers . . . [and] reductions in U.S. power plant emissions will result in a lowering of the global burden of elemental mercury . . .”).

⁵⁶ Federal Implementation Plans to Reduce Interstate Transport of Fine Particulate Matter and Ozone, 75 Fed. Reg. 45,209, 45,351 (Aug. 2, 2010).

⁵⁷ *E.g.*, Unique Device Identification System, 78 Fed. Reg. 58,786 (Sept. 24, 2013) (“[I]n our final regulatory impact analysis we include an estimate of the costs to foreign labelers.”); Standards for the Growing, Harvesting, Packing, and Holding of Produce for Human Consumption, 78 Fed. Reg. 3504 (Jan. 16, 2013) (including costs to foreign farms); U.S. Customs and Border Protection Regulatory Agenda, RIN 1651-AA96 Definition of Form I-94 to Include Electronic Format (2013) (preliminarily estimating net benefits to foreign travelers and carriers).

⁵⁸ Steven L. Schwarz, *Systemic Risk*, 97 GEO. L.J. 193, 249 (2008) (observing that financial collapse in one country is inevitably felt beyond that country’s borders).

⁵⁹ *See, e.g.*, Department of Defense, Climate Change Adaptation Roadmap (2014); CNA Military Board, National Security and the Accelerating Risks of Climate Change (2014).

⁶⁰ 2010 TSD, *supra* note 14, at 10-11.

⁶¹ 2013 TSD, *supra* note 16, at 14-15.

The IWG appropriately used consumption discount rates rather than returns on capital.

With respect to the discount rate, the IWG conducted sensitivity analysis of the results to three constant consumption discount rates: 2.5%, 3%, and 5%; for each of the discount rates, the TSDs reported the various moments and percentiles⁶² of the SCC estimates.

The discount rate is one of the most important inputs in models of climate damages, with plausible assumptions easily leading to differences of an order of magnitude in the SCC. The climate impacts of present emissions will unfold over hundreds of years. When used over very long periods of time, discounting penalizes future generations heavily due to compounding effects. For example, at a rate of 1%, \$1 million 300 years hence equals over \$50,000 today; at 5% it equals less than 50 cents.⁶³ The discount rate changed by a factor of five, whereas the discounted value changed by more than five orders of magnitude. Depending on the link between climate risk and economic growth risk, even a rate of 1% may be too high.⁶⁴ Uncertainty around the correct discount rate pushes the rate lower still.⁶⁵

The IWG correctly excluded a 7% discount rate, a typical private sector rate of return on capital, for several reasons. First, typical financial decisions, such as how much to save in a bank account or invest in stocks, focus on private decisions and utilize private rates of return. Private market participants typically have short time horizons. However, here we are concerned with social discount rates because emissions mitigation is a public good, where individual emissions choices affect public well-being broadly. Rather than evaluating an optimal outcome from the narrow perspective of investors alone, economic theory would require that we make the optimal choices based on societal preferences (and social discount rates). Second, climate change is expected to affect primarily consumption, not traditional capital investments.⁶⁶ OMB guidelines note that in this

⁶² The moments of a distribution (of SCC estimates in this case) are, loosely speaking, the various values that describe the distribution's shape: what value is the distribution centered around (mean); how wide is the distribution (the variance); whether the distribution is lopsided (skewness); and whether it is tall and skinny or short and fat (kurtosis). A percentile is a statistical measure of the value (the SCC value in this case) below which a specified percentage of (SCC) observations falls. The 1st percentile indicates the SCC value above which (the other) 99% of observed SCC values fall. The 99th percentile indicates the SCC value below which 99% of all observed SCC values fall.

⁶³ Dallas Burtraw & Thomas Sterner, *Climate Change Abatement: Not "Stern" Enough?* (Resources for the Future Policy Commentary Series, Apr. 4, 2009), available at http://www.rff.org/Publications/WPC/Pages/09_04_06_Climate_Change_Abatement.aspx.

⁶⁴ "If climate risk dominates economic growth risk because there are enough potential scenarios with catastrophic damages, then the appropriate discount rate for emissions investments is lower than the risk-free rate and the current price of carbon dioxide emissions should be higher. In those scenarios, the "beta" of climate risk is a large negative value and emissions mitigation investments provide insurance benefits. If, on the other hand, growth risk is always dominant because catastrophic damages are essentially impossible and minor climate damages are more likely to occur when growth is strong, times are good, and marginal utility is low, then the "beta" of climate risk is positive, the discount rate should be higher than the risk-free rate, and the price of carbon dioxide emissions should be lower." Robert B. Litterman, *What Is the Right Price for Carbon Emissions?*, REGULATION, Summer 2013, at 38, 41, available at <http://www.cato.org/sites/cato.org/files/serials/files/regulation/2013/6/regulation-v36n2-1-1.pdf>

⁶⁵ See following subsection.

⁶⁶ "There are two rationales for discounting future benefits—one based on consumption and the other on investment. The consumption rate of discount reflects the rate at which society is willing to trade consumption in the future for consumption today. Basically, we discount the consumption of future generations because we assume future generations will be wealthier than we are and that the utility people receive from consumption declines as their level of consumption increases The investment approach says that, as long as the rate of return to investment is positive, we need to invest less than a dollar today to obtain a dollar of benefits in the future. Under the investment approach, the discount rate is the rate of return on investment. If there were no distortions or inefficiencies in markets, the consumption rate of discount would equal the rate of return on investment. There are, however, many reasons why the two may differ. As a result, using a consumption rather than investment approach will often lead to very different discount rates." Maureen Cropper, *How Should Benefits and Costs Be Discounted in an Intergenerational Context?*, 183 RESOURCES 30, 33.

circumstance, consumption discount rates are appropriate.⁶⁷ Third, 7% is considered much too high for reasons of discount rate uncertainty and intergenerational concerns (further discussed below).

The IWG correctly adopted as one of its discount rates a value reflecting long-term interest rate uncertainty, and—as a primary extension to current results—should go further by directly implementing a declining discount rate. The IWG was correct in choosing as one of its discount rates an estimate based upon declining discount rates (2.5%). Since the IWG undertook its initial analysis, a consensus has emerged among leading climate economists that a declining discount rate should be used for climate damages to reflect long-term uncertainty in interest rates. Arrow *et al* (2013) presents several arguments that strongly support the use of declining discount rates for long-term benefit-cost analysis.⁶⁸

Perhaps the best reason is the simple fact that there is considerable uncertainty around which interest rate to use: uncertainty in the rate points directly to the need to use a declining rate, as the impact of the uncertainty grows exponentially over time. The uncertainty about future discount rates could stem from a number of reasons particularly salient to climate damages, including uncertainties in future economic growth, consumption, and the interest rate reaped by investments.

A possible declining interest rate schedule for consideration by the IWG is the one proposed by Weitzman (2001).⁶⁹ It is derived from a broad survey of top economists and the profession at large in a climate change context and explicitly incorporates arguments around interest rate uncertainty. Arrow *et al* (2013, 2014), Cropper *et al* (2014), and Gollier and Weitzman (2010), among others, similarly argue for a declining interest rate schedule and lay out the fundamental logic.⁷⁰

Moreover, the United States would not be alone in using a declining discount rate. It is standard practice for the United Kingdom and French governments, among others.⁷¹ The U.K. schedule explicitly subtracts out an estimated time preference.⁷² France’s schedule is roughly similar to the United Kingdom’s. Importantly, all of these discount rate schedules yield lower present values than the constant 2.5% Newell-Pizer rate, suggesting that even the lowest discount rate evaluated by the

⁶⁷ See CIRCULAR A-4, *supra* note 52, at 33.

⁶⁸ The arguments here are primarily based on: Kenneth J. Arrow et al., *Determining Benefits and Costs for Future Generations*, 341 SCIENCE 349 (2013); Kenneth J. Arrow et al., *Should Governments Use a Declining Discount Rate in Project Analysis?*, REV ENVIRON ECON POLICY 8 (2014); Richard G. Newell & William A. Pizer, *Discounting the Distant Future: How Much Do Uncertain Rates Increase Valuations?*, 46 J. ENVTL. ECON. & MGMT. 52 (2003); Maureen L. Cropper et al., *Declining Discount Rates*, AMERICAN ECONOMIC REVIEW: PAPERS AND PROCEEDINGS (2014); S.K. Rose, D. Turner, G. Blanford, J. Bistline, F. de la Chesnaye, and T. Wilson. *Understanding the Social Cost of Carbon: A Technical Assessment*. EPRI Report #3002004657 (2014).

⁶⁹ Martin L. Weitzman, *Gamma Discounting*, 91 AM. ECON. REV. 260, 270 (2001). Weitzman’s schedule is as follows:

1	6	26	76-	3
-5 years	-25 years	-75 years	300 years	00+ years
4	3	2	1%	0
%	%	%		%

⁷⁰ Arrow et al. (2013, 2014), Cropper et al. (2014), *supra* note 68. Christian Gollier & Martin L. Weitzman, *How Should the Distant Future Be Discounted When Discount Rates Are Uncertain?* 107 ECONOMICS LETTERS 3 (2010).

⁷¹ *Id.*

⁷² Joseph Lowe, H.M. Treasury, U.K., *Intergenerational Wealth Transfers and Social Discounting: Supplementary Green Book Guidance 5* (2008), available at [http://www.hm-treasury.gov.uk/d/4\(5\).pdf](http://www.hm-treasury.gov.uk/d/4(5).pdf). The U.K. declining discount rate schedule that subtracts out a time preference value is as follows:

0	31	76-	126-	201-	3
-30 years	-75 years	125 years	200 years	300 years	01+ years
3.	2.	2.14%	1.71	1.29	0.
00%	57%		%	%	86%

IWG is too high.⁷³ The consensus of leading economists is that a declining discount rate schedule should be used, consistent with the approach of other countries like the United Kingdom. Adopting such a schedule would increase the SCC substantially from the administration's central estimate, suggesting that even the high end of the range presented by the administration is likely too low.

The SCC Is Likely Underestimated.

Experts widely acknowledge that the SCC estimates are almost certainly underestimates of true global damages—perhaps severe underestimates. Using different discount rates; selecting different models; applying different treatments to uncertainty, climate sensitivity, and the potential for catastrophic damages; and making other reasonable assumptions could yield very different, and much larger, SCC estimates.⁷⁴ For example, a recent report found current SCC estimates omit or poorly quantify damages to the following sectors:

agriculture, forestry, and fisheries (including pests, pathogens, and weeds, erosion, fires, and ocean acidification); ecosystem services (including biodiversity and habitat loss); health impacts (including Lyme disease and respiratory illness from increased ozone pollution, pollen, and wildfire smoke); inter-regional damages (including migration of human and economic capital); inter-sector damages (including the combined surge effects of stronger storms and rising sea levels); exacerbation of existing non-climate stresses (including the combined effect of the over pumping of groundwater and climate-driven reductions in regional water supplies); socially contingent damages (including increases in violence and other social conflict); decreasing growth rates (including decreases in labor productivity and increases in capital depreciation); weather variability (including increased drought and inland flooding); and catastrophic impacts (including unknown unknowns on the scale of the rapid melting of Arctic permafrost or ice sheets).⁷⁵

The IWG was addressed uncertainty by conducting Monte Carlo simulations over the IAMs specifying different possible outcomes for climate sensitivity (represented by a Roe and Baker Distribution). The Monte Carlo framework took a step toward addressing what is the most concerning aspect of climate change, the potential for **catastrophic damages**, i.e., low probability/high damage events. These damages come from: uncertainty in the underlying parameters in IAMs,⁷⁶ including the climate sensitivity parameter; climate tipping points⁷⁷—thresholds that, when crossed, cause rapid, often irreversible changes in ecosystem characteristics; and “black swan” events—which refer to unknown unknowns.⁷⁸

⁷³ Using the IWG's 2010 SCC model, Johnson and Hope find that the U.K. and Weitzman schedules yield SCCs of \$55 and \$175 per ton of CO₂, respectively, compared to \$35 at a 2.5% discount rate. Laurie T. Johnson & Chris Hope, *The Social Cost of Carbon in U.S. Regulatory Impact Analyses: An Introduction and Critique*, 2 J. ENVTL. STUD. & SCI. 205, 214 (2012).

⁷⁴ Richard L. Revesz, Peter H. Howard, Kenneth Arrow, Lawrence H. Goulder, Robert E. Kopp, Michael A. Livermore, Michael Oppenheimer & Thomas Sterner, *Global Warming: Improve Economic Models of Climate Change*, 508 NATURE 173 (2014).

⁷⁵ Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon 5* (Cost of Carbon Project Report, 2014), <http://costofcarbon.org/>.

⁷⁶ In this case, parameters are the various characteristic that describe the underlying climate and economic systems.

⁷⁷ See generally Timothy M. Lenton et al., *Tipping Elements in the Earth's Climate System*, 105 PNAS 1786 (2008).

⁷⁸ Standard decision theory under uncertainty addresses “known unknowns,” which are unknowns for which we can specify a probability distribution function. In the cases of “unknown unknowns,” i.e., ‘black swan’ events, we cannot specify a probability distribution function, raising a host of additional questions. See, e.g., Richard J. Zeckhauser, *Investing in the Unknown and Unknowable*, CAPITALISM & SOCIETY vol. 1, iss. 2, art. 5 (2006).

The analysis used a right-skewed distribution of temperature (as captured in the Roe Baker climate sensitivity parameter) and an increasing, strictly convex damage function;⁷⁹ this correctly results in right-skewed distributions of damage and SCC estimates. By using the mean values of these estimates instead of the median, IWG estimates partially captured the effects of small probability, higher damages from high-level warming events.⁸⁰ To reflect uncertainty in estimates resulting from the right-skewed distribution of SCC estimates, the IWG reported the SCC value for the 95th percentile from the central 3% discount rate distribution.⁸¹ This is done to reflect the estimation uncertainty in terms of the possibility of higher-than-expected economic impacts from climate change.

While the IAMs take different approaches to explicitly modeling tipping points, which to a great extent is lacking in current versions of FUND and DICE, the IWG improved (but in no way fixed) the representation of uncertain catastrophic damages with the Monte Carlo analysis. Still, black swan events go completely unaddressed in the IWG modeling framework, and therefore the SCC estimates do not reflect the value of preventing the occurrence of catastrophic events.⁸²

In addition to choosing an appropriate discount rate and sensitivity analyses around different SSPs, another important parameter to which the SCC estimates are sensitive is Equilibrium Climate Sensitivity (ECS)—how the climate system responds to a constant radiative forcing, which is typically expressed as the temperature response to a doubling of CO₂ concentration in the atmosphere.⁸³ In its current iteration, the IWG conducted extensive sensitivity analyses over a range of equilibrium climate sensitivity estimates.⁸⁴ The assumptions are clearly stated in the TSD. In addition to its sensitivity analysis, the IWG conducted a Monte Carlo simulation over the climate sensitivity parameter and the other random variables specified within the three IAMs.⁸⁵

⁷⁹ An increasing, strictly convex climate damage function implies a damage function that is strictly increasing in temperature at an increasing rate.

⁸⁰ The point here is that we miss the big picture if we ignore the “tails” (the upper-most values in the case of the right-skewed SCC), and as a result come to the wrong conclusions. An everyday analogy is airplane safety regulation: safety is protected by guarding against the low-probability but highly dangerous events. With climate change we do not have the luxury of knowing with certainty how damaging the extremes could be or whether they will be triggered by greenhouse gases accumulating in the atmosphere; all we know is that there is a very real possibility they could occur and could be devastating.

⁸¹ This approach partially captures catastrophic damages via tipping points through the PAGE model.

⁸² See, e.g., Peter Howard, *Omitted Damages: What’s Missing from the Social Cost of Carbon* (Cost of Carbon Project Report, 2014), and van den Bergh, J. C. J. M., and W. J. W. Botzen, *A lower bound to the social cost of CO₂ emissions*, 4 NATURE CLIMATE CHANGE 4 (2014).

⁸³ See INTERGOVERNMENTAL PANEL ON CLIMATE CHANGE, CLIMATE CHANGE 2013: THE PHYSICAL SCIENCE BASIS—SUMMARY FOR POLICYMAKERS 14 (2013).

⁸⁴ Specifying the climate sensitivity parameter as a random variable has a basis in PAGE02, which species a probability distribution function for the parameter. The IWG calibrated the Roe and Baker distribution, a right-skewed distribution, to characterize the probability distribution function of this parameter. The 2010 TSD explains the IWG’s choice of the Roe and Baker distribution. The right-skewed nature of the climate sensitivity parameter’s probability distribution function is independent of the IWG’s choice of the Roe and Baker distribution. Rather, this skewness results from the IPCC’s finding that values of the climate sensitivity parameter above 4.5 degree Celsius cannot be excluded. As a result, all of the probability distribution functions fit by the IWG for the climate sensitivity parameter were skewed to the right (see Figure 2 in the 2010 TSD), including Roe and Baker. See 2010 TSD, *supra* note 14, at 14, fig. 2.

⁸⁵ A Monte Carlo simulation will run an integrated assessment model thousands of times, each time randomly picking the value of uncertain parameters from a probability distribution function, i.e. a function that assigns a probability to each possible parameter value. In the case of the SCC, the IWG ran 10,000 Monte Carlo simulations for each of the three IAMs and five socio-economic scenarios, randomizing the value of climate sensitivity, i.e., the change in average global temperature associated with a doubling of CO₂, and all other uncertain parameters in the IAMs by the original authors. For each randomly drawn set of values, the IAM estimated the associated damages, with the final SCC estimate equaling the average value across all 10,000 runs, five socio-economic scenarios, and then across all three models. Therefore, each SCC estimate is calculated using 150,000 runs.

The range for the Equilibrium Climate Sensitivity (ECS) is derived from a combination of methods that constrain the values from measurements in addition to models. These include measured ranges from paleoclimate records, observed comparisons with current climate, as well as responses to recent climate forcings. The currently agreed “likely” range for the ECS (from both the IPCC TAR and AR5) is 1.5-4.5 degrees Celsius. Physical constraints make it “extremely unlikely” that the ECS is less than 1 degree Celsius and “very unlikely” greater than 6 degrees Celsius.⁸⁶

A host of analyses points to the costs of such uncertainty—both for values that go outside the “likely” range and for uncertainty within it: in short, the optimal SCC tends to increase with increased uncertainty, sometimes dramatically so.⁸⁷ While the current treatment of uncertainty around climate sensitivity by the IWG highlights a range of possible uncertainties, a reconsideration of the assumptions feeding into the SCC ought to take the latest advances highlighting the potentially higher costs of deep-seated uncertainty into account.

The SCM Builds on the SCC’s Rigorous, Transparent Methodology

The Interagency Working Group on the Social Cost of Carbon has, to date, focused exclusively on carbon dioxide. The SCC can be roughly adjusted to approximate the costs of other greenhouse gases by multiplying by the relative global warming potential of those gases. Scientists, however, have long argued that the full social costs of specific, non-carbon dioxide gases like methane should be assessed through separate models and methodologies, which would more accurately account for varying atmospheric life spans, among other differences.⁸⁸ At least a dozen published studies, dating back to 1993, have estimated the social cost of non-carbon dioxide greenhouse gases, including methane.⁸⁹

EPA has developed a method for directly estimating the Social Cost of Methane using an analysis conducted by Marten *et al.*, which is based on the same techniques the Interagency Working Group developed to estimate the SCC.⁹⁰ Marten *et al.* takes a reasonable (although conservative) approach to estimating the Social Cost of Methane and currently constitutes “the best available science” to inform agency regulation.⁹¹ Specifically, Marten *et al.* builds on the methodology used by the Interagency Working Group to develop the SCC. The study maintains the same three integrated assessment models, five socioeconomic-emissions scenarios, equilibrium climate sensitivity distribution, three constant discount rates, and aggregation approach that were agreed upon by the Interagency Working Group. Consequently, many of the key assumptions underlying the Social Cost of Methane estimates have already gone through a transparent, consensus-driven, publically reviewed, regularly updated process, since they were borrowed from the Interagency Working Group’s thoroughly vetted methodology.

Yet while sharing that carefully built framework with the SCC estimates, Marten *et al.*’s Social Cost of Methane estimates directly account for the quicker time horizon of methane’s effects compared

⁸⁶ IPCC, *supra* note 83, at 14.

⁸⁷ *E.g.*, Robert S. Pindyck, *Uncertain Outcomes and Climate Change Policy*, 63 J. ENVTL. ECON. & MGMT. 289 (2012); Martin L. Weitzman, *GHG Targets as Insurance Against Catastrophic Climate Damages*, 14 J. PUB. ECON. THEORY 221 (2012); Robert S. Pindyck, *The Climate Policy Dilemma*, 7 REV. ENVTL. ECON. & POL’Y 219 (2013); Gernot Wagner & Richard J. Zeckhauser, *Confronting Deep Uncertainty on Climate Sensitivity: When Good News is Bad News*, (‘Beyond IPCC’ Presentation, October 17, 2014).

⁸⁸ See Disa Thureson & Chris Hope, *Is Weitzman Right? The Social Cost of Greenhouse Gases in an IAM World 21* (Örebro University-Swedish Business School Working Paper 3/2012).

⁸⁹ *See, e.g.*, Marten *et al.*, *supra* note 98, at 7 (describing eleven prior studies estimating the social cost or global damage potential associated with methane).

⁹⁰ Marten, A.L., E.A. Kopits, C.W. Griffiths, S.C. Newbold & A. Wolverton (2014). Incremental CH4 and N2O Mitigation Benefits Consistent with the U.S. Government’s SC-CO2 Estimates, Climate Policy, DOI: 10.1080/14693062.2014.912981.

⁹¹ *See* Executive Order 13,563, 76 Fed. Reg. 3821 (January 18, 2011).

to carbon dioxide, include the indirect effects of methane on radiative forcing,⁹² and reflect the complex, nonlinear linkages along the pathway from methane emissions to monetized damages. Marten *et al.* was not only published in a peer reviewed economics journal, but EPA undertook additional internal and peer review of the approach.⁹³ Marten *et al.*'s estimates thus are reasonable and appropriate measurements of the Social Cost of Methane.

In fact, Marten *et al.*'s estimates are conservative and very likely underestimate the true Social Cost of Methane. To start, as the authors note, because their methodology followed the Interagency Working Group's approach, all limitations that apply to inputs and modelling assumptions for the SCC also apply to the Social Cost of Methane. As discussed above, omitted damages, socio-economic assumptions, the treatment of uncertainty and catastrophic damages, and so forth all suggest the SCC is underestimated, and therefore the Social Cost of Methane is underestimated as well.

Additionally, the integrated assessment models shared by both the Social Cost of Methane and the SCC include some features better suited to assessing carbon dioxide effects than methane effects, and so likely underestimate the costs of methane. For example, a countervailing benefit of carbon dioxide emissions—enhanced fertilization in the agricultural sector—is included in the underlying models used to develop both the SCC and Social Cost of Methane, yet does not apply to methane emissions.⁹⁴ Similarly, the damage functions used by the integrated assessment models assume some level of adaptation to climate change over time, but because methane is a much faster-acting climate pollutant than carbon dioxide, there is less opportunity for technological advancement or political progress to adapt to the climate damages imposed by methane emissions. Methane also has indirect but significant effects, via its contribution to surface ozone levels, on global health and agriculture, and such effects need to be included either in the Social Cost of Methane or elsewhere in the cost-benefit analysis, but currently are not.⁹⁵

⁹² However, the Social Cost of Methane methodology does not yet fully reflect the effects of methane oxidizing in the atmosphere over time and becoming carbon dioxide. See Regulatory Impact Analysis for the Proposed Emission Standards for new and Modified Sources in the Oil and Natural Gas Sector, at 4-37 (2015).

⁹³ <http://www3.epa.gov/climatechange/pdfs/social%20cost%20methane%20white%20paper%20application%20and%20peer%20review.pdf>

⁹⁴ Interagency Working Group on the Social Cost of Carbon, *Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis*, 12 (February 2010), available at <https://www.whitehouse.gov/sites/default/files/omb/inforeg/for-agencies/Social-Cost-of-Carbon-for-RIA.pdf> ("Impacts other than temperature change also vary across gases in ways that are not captured by GWP. For instance . . . damages from methane emissions are not offset by the positive effect of CO2 fertilization.").

Martin *et al.* (2015) state that "A comparison across models further highlights the importance of CO2 fertilization impacts on the global damage potential. CO2 emissions, and the resulting increase in atmospheric concentration, have the potential to increase yields in the agriculture and forestry sector. This characteristic is not shared by other GHG emissions. Accordingly, the FUND model, which explicitly captures this effect, exerts downward pressure on the SC-CO2 that is not present for the SC-CH4 and SC-N2O, allowing for the possibility of substantially higher global damage potential estimates. The results based on the FUND model presented in this article exhibit this effect; however, the CO2 fertilization effect is not explicitly modelled in DICE and PAGE and therefore they are found to produce lower estimates of the global damage potential. For example, using the 3% discount rate, the global damage potential for CH4 as estimated by FUND ranges between 58 and 88 depending on the scenario, whereas it ranges from 19 to 28 for DICE and PAGE. As the DICE and PAGE models only consider two natural system impacts, temperature and sea level, if they do implicitly include potential CO2 fertilization benefits, they are included by using the temperature anomaly as a proxy for the increasing atmospheric CO2 concentration. Fertilization benefits would therefore be allowed to falsely accrue to perturbations of other GHG emissions besides CO2. It is not clear the degree to which these models try to incorporate CO2 fertilization effects and therefore the degree to which this issue is of concern."

⁹⁵ A study by Sarofim *et al.* (2015) finds that reductions in surface ozone levels from the mitigation of methane emissions would provide additional global health benefits from avoided cardiopulmonary deaths equal to 60 to 140% of climate benefits identified by Marten. Similarly, Shindell (2014) finds that the impact of methane on agriculture, via changes in surface ozone, are valued at \$22 and \$27 per ton, for 5% and 3% discounting respectively, in addition to his study's estimates for climate and climate-health related damages.

A Global SCM Value Is Appropriate

Global Social Cost of Methane values are appropriate to use in BLM’s regulatory impact analyses. The many strategic, economic, and legal grounds that justify use of a global SCC apply with equal force to the Social Cost of Methane. For example, other countries already use a global social cost of methane value.⁹⁶ The United States, together with several other countries, has been trying to prioritize global action on methane reductions, because as “a powerful, short-lived greenhouse gas,” methane has a greater potential to affect “warming in the near to medium term.”⁹⁷ And the United States has highlighted its planned actions on methane—including these standards for landfills—in its joint statements on climate with China.⁹⁸ To demonstrate the U.S. commitment to reducing methane emissions specifically, and to encourage other countries to follow suit in prioritizing efforts on this powerful and fast-acting pollutant, it is strategically important for the United States to continue valuing the global effects of its methane regulations.

Conclusion: Recommendations on the use of the SCC and SCM

BLM should continue to use the latest IWG estimates of the SCC, as well as the latest the Social Cost of Methane estimates. The current estimates are biased downwards: more can and should be done to improve the estimates and to ensure, through regular updates, that they reflect the latest science and economics. However, the necessary process of improving the ability of the SCC and Social Cost of Methane to fully reflect the costs of climate impacts to society cannot hold up agency rulemaking efforts. The values provide an important, if conservative, estimate of the costs of climate change and the benefits of reducing carbon pollution. To ignore these costs would be detrimental to human health and well-being and contrary to law and Presidential directives to agencies to evaluate the cost of pollution to society when considering standards to abate that pollution. In the context of agency rulemakings, the SCC and Social Cost of Methane provide the best available means to factor those costs into benefit-cost analyses.

In using the estimates in its regulatory impact analyses, however, BLM should also include a qualitative assessment of all significant climate effects that are not currently quantified in the monetized estimate. The IWG acknowledged its incomplete treatment of both catastrophic and non-catastrophic damages, and instructed agencies that “These caveats . . . are necessary to consider when interpreting and applying the SCC estimates.”⁹⁹ Those instructions are consistent with Executive Orders on regulatory analysis, which tell agencies to “assess . . . qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider.”¹⁰⁰ Before the IWG published its first estimates in 2010, some agencies included a detailed chart of unquantified climate effects in their regulatory impact analyses.¹⁰¹ However, most recent rulemakings only reference unquantified benefits from non-CO₂ gases and from co-pollutants, and list none of the significant, unquantified climate effects from carbon dioxide.¹⁰² In the final rule, and in the final

⁹⁶ *E.g.*, Defra, U.K., *Methodological Approaches for Using SCC Estimates in Policy Assessment* at 58 (2005) (reporting the PAGE results for the social cost of methane).

⁹⁷ *E.g.*, U.S. Dep’t of State, *Joint Statement on Climate Change and the Arctic*, Aug. 31, 2015 (made following the GLACIER conference, at which Canada, Denmark, Finland, Iceland, Norway, Sweden, and Russia were also represented).

⁹⁸ White House Press Secretary, *U.S.-China Joint Presidential Statement on Climate Change*, Sept. 25, 2015.

⁹⁹ 2010 TSD, *supra* note 14, at 29.

¹⁰⁰ Exec. Order No. 12,866 § 1(a); *see also* OMB, Circular A-4.

¹⁰¹ *E.g.*, EPA, 420-D-09-001, DRAFT REGULATORY IMPACT ANALYSIS:CHANGES TO RENEWABLE FUEL STANDARD PROGRAM 690 tbl. 5.3-4 (2009).

¹⁰² *Compare* EPA, Regulatory Impact Analysis for the Proposed Carbon Pollution Guidelines for Existing Power Plants and Emission Standards for Modified and Reconstructed Power Plants, EPA-452/R-14-002, at tbl. ES-5 (2014) (listing multiple unquantified effects from co-pollutants, but marking “global climate impacts from CO₂” as fully

regulatory impact analysis, BLM should detail all significant, unquantified climate effects, as consistent with administration-wide policy, the IWG's instructions, past agency practices, and best economic practices.

Sincerely,

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* No part of this document purports to present New York University School of Law's views, if any.

monetized) with Peter Howard, *Omitted Damages: What's Missing from the Social Cost of Carbon* (Cost of Carbon Project Report, 2014) (detailing the many significant effects not quantified in the SCC).