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Supreme Court ruling has impact on measures to address climate change

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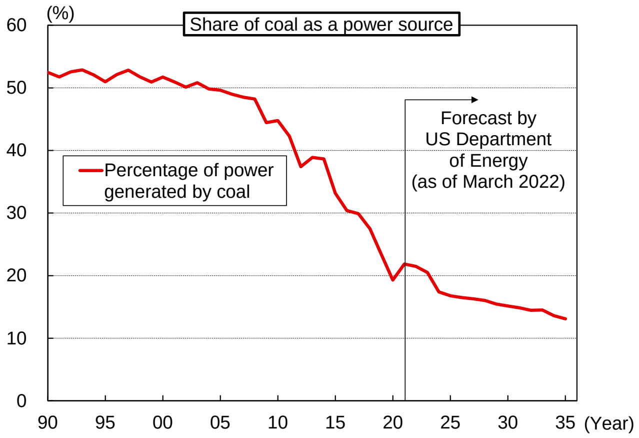
On 27th July, Senate Majority Leader Chuck Schumer of the Democratic Party announced he and Senator Joe Manchin from the party's moderate wing had agreed to focus on passing the Inflation Reduction Act, which includes USD 370 billion in spending (over ten years) to address climate change. This agreement is seen as huge progress since discussions in the Senate about addressing climate change had stagnated due to opposition from Senator Manchin over concerns about an increase in fiscal spending during a period of high inflation.

Nevertheless, this does not mean the Democrats can be blindly optimistic about achieving progress with their climate-related policies. On 30th June, the US Supreme Court ruled that the US Environmental Protection Agency (EPA) will be required to obtain authorisation from Congress to introduce regulations on greenhouse gas emissions that target coal-fired power generation in each state*. The percentage of power generated by coal is falling (Chart 1) as pressure from investors increases and it becomes less competitive due to the lower cost of natural gas and renewable energy. As a result, the amount of greenhouse gas emissions from the electricity generation sector is falling (Chart 2). However, this ruling to limit the federal government's regulatory authority will likely be a headwind for the Biden administration, which aims to cut the carbon emissions of the energy sector completely by 2035. Furthermore, there is a possibility that the legal doctrine of this ruling will affect other issues too. For example, the EPA published new greenhouse gas emissions standards for automobiles last December; however, Texas and 15 other states have filed a lawsuit against the EPA. In addition, the Securities and Exchange Commission proposed new rules that would require listed companies to disclose their climate-related risks, yet this proposal may not materialise based on the Supreme Court's ruling (Table 1).

The Inflation Reduction Act mentioned above mainly consists of subsidies and tax credits related to clean energy. However, if the scope for introducing regulations for greenhouse gas emissions is reduced, it would be a considerable blow to the Biden administration and the Democratic Party, and their ambitious decarbonisation goals.

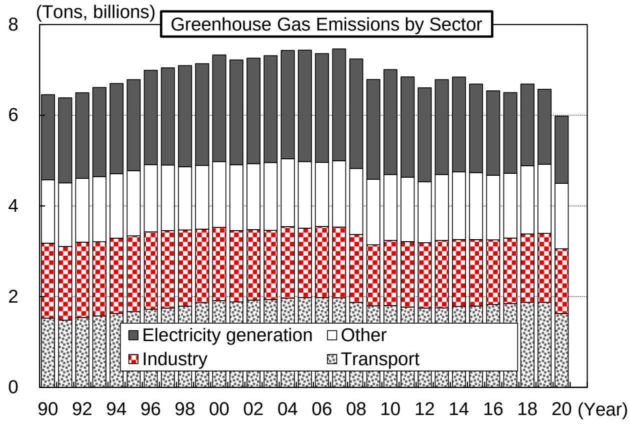
*In 2015, the EPA set targets for each state to cut their CO_2 emissions from existing coal-fired power stations and proposed a shift from coal to natural gas and renewable energy as a method for reducing emissions. The EPA was sued – mainly by coal-producing states – on the grounds that the EPA does not have the regulatory authority to press states into reorganising their energy sectors. The ruling acknowledged states' claims and said the regulations would require new congressional authorisation. The fact that the decision was split along partisan lines and the strength of the conservative wing also made headlines.

Chart 1: Coal-Related Indices



Source: US Environmental Protection Agency, US Department of Energy, MUFG Bank Economic Research Office

Chart 2: Greenhouse Gas Emissions



Source: US Environmental Protection Agency, US Department of Energy, MUFG Bank Economic Research Office

Table 1: Government Institutions' Response to Climate Change

	Summary and Reaction
Regulations on emissions	・The EPA published the final version of its regulations in December 2021. It set an upper limit for CO_2 emissions per mile for passenger cars and light trucks produced between 2023 and 2026. ・Texas and 15 other states sued the EPA to stop these restrictions. The Texas attorney general criticised the rules, saying they would be detrimental to states that produce oil and natural gas and that they would damage the economy.
Rules requiring listed companies to disclose climate-related risks	・The SEC presented its proposal in March 2022 which said: companies are required to publish the impact of climate change-related risks to their business, their risk management and governance, their targets and transition plans related to climate change and the greenhouse gas emissions in their business and supply chain (to be applied in stages from FY2023). ・The US Chamber of Commerce and Senate Banking Committee Ranking Member Pat Toomey criticised the proposal saying the SEC had exceeded its legal authority.

Source: Various sources, MUFG Bank Economic Research Office

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