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**From:** Stout, Robert [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=[REDACTED]]  
**Sent:** 25/02/2020 19:35:04  
**To:** Nolan, James [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[REDACTED]]; Ung, Poh Boon [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[REDACTED]]  
**Subject:** FW: OPINION: Are carbon credits vanishing into thin air?  
**Importance:** High

FYI.

**Bob**

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**From:** Collins, Al <[REDACTED]@oxy.com>  
**Sent:** Tuesday, February 25, 2020 1:47 PM  
**To:** Stout, Robert [REDACTED]@bp.com>  
**Subject:** OPINION: Are carbon credits vanishing into thin air?

Bob:

**Redacted - First Amendment**

Al

**OPINION: Are carbon credits vanishing into thin air?**

By Derek Sylvan , Christopher Allen

02/24/2020 06:29 AM EST

Thanks to one of the rare instances of bipartisan cooperation on climate policy, the federal government is compensating companies that “capture” carbon dioxide from smokestacks or the ambient air, and then bury it underground. A provision originally passed in 2008 and vastly expanded in 2018 offers a significant tax credit for companies that keep this carbon out of the atmosphere.

The policy has been a success, by some measures: Even before the expansion, companies have claimed hundreds of millions of dollars in tax credits—possibly as much as \$1.3 billion—and reported 63 million tons of carbon dioxide kept out of the air.

There’s one big problem, though. All of that carbon is supposed to be stored securely underground and monitored by an EPA program, to be sure it doesn’t leak out or create other complications. But so far, only 17 million of those 63 billion tons have been registered with the EPA — about one quarter of the carbon that companies have taken credit for.

That leaves 46 million tons of carbon dioxide unaccounted for by the EPA. It is unclear whether it is correctly stored, or even stored at all. A federal investigation on the issue could be on the horizon.

Now, the IRS has a chance to fix this potential scandal as it is working to finalize long-awaited rules for the expanded tax credits. If the agency closes this oversight gap and reinforces strong monitoring requirements, carbon capture projects could boom, playing a key role in critical efforts to address climate change.

Industry groups, however, are pressing the IRS to do the opposite, to eliminate monitoring requirements. How the IRS crafts the upcoming rules could determine whether the policy lays the groundwork for essential climate solutions or simply hands money back to companies that are doing little or nothing to reduce carbon dioxide levels.

### **Creating a market for emissions reductions**

Congress updated Section 45Q of the tax code in 2018, greatly expanding tax credits for carbon capture projects that had first been adopted in 2008. The goal was a worthy one: In order to keep the planet from warming to dangerous levels, we must soon eliminate or capture nearly all industrial carbon dioxide emissions, and then store the carbon permanently underground or use it as an input in products. 45Q creates a market that could kick-start these nascent industries.

In a limited way, 45Q creates the first federal price on carbon. The scope of the policy is narrow — it only compensates companies that capture carbon dioxide emissions for storage or repurposing. (Additional policies are needed to tackle economy-wide emissions.) But it's a crucial first step supported by industry, many economists and some environmental groups.

Under the updated version of 45Q, an entity that permanently stores a ton of carbon dioxide in an underground saline aquifer will receive a \$50 tax credit, while one that uses the captured carbon in a commercial application will receive \$35. These price points are much higher than under the older program and approximate the best available estimate of the damage caused by a ton of emitted carbon dioxide (though there are many reasons why a larger credit might be appropriate). Under the new policy, some large projects are expected to generate more than \$2 billion in lifetime tax credits.

Most near-term 45Q credits will go toward “enhanced oil recovery” projects, where carbon dioxide is injected into partially depleted oil wells to help extract hard-to-reach oil. The logic of capturing carbon dioxide and using it to produce more fossil fuels can seem twisted, but nearly all the carbon dioxide used remains underground, and the full EOR process (including the burning of the oil) can potentially lower atmospheric CO<sub>2</sub> levels. Maybe more importantly, EOR can help improve the processes and build infrastructure for widespread underground carbon storage.

But only if the IRS ensures that firms are properly conducting their carbon storage efforts.

### **Fixing a blind spot**

Since the original version of 45Q was adopted in 2008, millions of dollars' worth of tax credits appear to have been granted to companies that failed to meet the monitoring standards required by law. The IRS has acknowledged the existence of this gap, but neither the IRS nor the EPA has yet provided an adequate explanation for the enormous discrepancy between the number of tons of carbon dioxide companies have been given tax credits for and the number of tons actually under EPA monitoring. Sen. Bob Menendez (D-N.J.) has formally requested an investigation by the Treasury Department's Inspector General to examine whether 45Q tax credit claimants are complying with the law, and whether it is being properly enforced.

Without a serious monitoring program, there will be no accountability for carbon dioxide leaks or faulty operations, and no way to verify that the reduction in tax revenue from 45Q is ultimately benefitting the public rather than lining the pockets of duplicitous firms. Companies could claim tax credits even if some of their carbon dioxide was never stored underground or into the atmosphere. Fossil fuel companies should not be able to reap financial rewards at taxpayer expense while failing to reduce carbon levels.

Carbon capture is an important technology. We will need to store billions of tons of carbon dioxide in the coming decades to slow climate change. For instance, “direct air capture” technology, which absorbs carbon dioxide from ambient air, could rapidly expand as its costs drop, or if 45Q credits rise. If this approach isn't widely deployed within about a decade, some analysts believe it could be nearly impossible to contain climate change. This technology could also be used to offset emissions from sources that are difficult to decarbonize, such as aviation, and it could also reduce atmospheric carbon concentrations if we overshoot problematic levels.

A new wave of researchers and entrepreneurs are also starting to use captured carbon dioxide as an input in a wide range of products, including cement, fuels, plastics and carbon nanotubes. As these industries develop, robust 45Q credits could be crucial to their profitability.

That means the future of vital climate technologies and carbon storage efforts may depend on the IRS crafting effective regulations now. If the IRS requires a rigorous verification scheme, 45Q can improve critical carbon storage procedures and pave the way for rapidly advancing technologies that are essential for addressing climate change.

On the other hand, weak IRS guidelines that fail to prevent evasion of 45Q's monitoring requirements would not only damage the credibility of federal agencies, they could discredit the concept of carbon capture and secure storage. It would be a shame if this technology, which could play a significant role in slowing climate change, were discredited by careless oversight.

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*This report first appeared on POLITICO Agenda on Feb. 24, 2020.*

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<https://subscriber.politicopro.com/energy/article/2020/02/opinion-are-carbon-credits-vanishing-into-thin-air-1883805>

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