

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**



**RESOURCES**  
FOR THE FUTURE

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*What follows is a transcript of the RFF Policy Leadership Forum “[Economics and the Environment: A Conversation with Gina McCarthy, Administrator, US Environmental Protection Agency](#),” held at RFF on September 25, 2014. It has been lightly edited for clarity and will not sync exactly to the video recording.*

*Phil Sharp:*

Ladies and gentlemen, welcome to Resources for the Future to hear EPA administrator, Gina McCarthy. And since she has wonderfully attracted a much larger audience for RFF, I’m going to indulge a couple moments about who we are and what we’re up to, if you don’t mind, or whether you mind or not. *[Laughter]* Let me just quickly say I think many people realize that we are an organization that strives to achieve high-quality objective research on major public policy questions related to energy, environment, and natural resources. Our organization’s been at this for more than 60 years. We also try to promote serious public discourse, which is not always a simple thing to do in the Washington, DC area.

Let me suggest to you that on the climate change issues in particular, and the various policy choices, RFF scholars have been working on these for more than a decade, so that we have done and are doing analysis on the whole range of alternative policy approaches that our government and other governments might take, such as cap and trade, such as carbon tax, such as clean energy standard, and of course these critical new rules that are being proposed at the Environmental Protection Agency.

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***RFF Policy Leadership Forum***  
**Economics and the Environment: A Conversation with Gina McCarthy,**  
**Administrator, US Environmental Protection Agency**

Our folks have worked not only at the federal level of the United States, but at the state level in California, RGGI currently working with a number of state governments on the rule here. They have done work in Europe on the European trading system, done work now in China on the proposed cap-and-trade systems that are being regionally adopted there and in Mexico. And ahead, we'll of course be continuing that kind of analysis and consultation.

But in particular, I want to draw your attention to two things. One is a new series started on our website a week or two ago called our Expert Forum, with respect to the Clean Power Plan, and the second one yet to come, another series that we're going to do cohosted with the Electric Power Research Institute, EPRI, on a whole variety of the questions.

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These will be a series of webinars on the various questions that people are raising about this rule.

Well, let me do a quick note on the process that we're engaged in here. After the administrator speaks, she and I will engage in some question and answer, and we will at that point be inviting questions from the audience. You have on your chair a card on which you may write that down as clearly as you know how, and we will be assisted by a couple of our folks to try to get in as many questions as we can. If you're watching this online, you can use the tweet system, which now my generation is discovering what that really means, and you would do that by reaching out to #AskRFF.

Well, it's my great honor and pleasure to introduce the administrator, and the only comment I want to make, is in case you haven't noticed, we are in a time not only in Washington, but in this country, of intense partisan and ideological conflict that, for many Americans, is quite disturbing.

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One of the most remarkable things about the person we're going to hear from is that she is somebody who is currently working to bridge many of those deep divides in our society. She has been a state regulator in Republican-governor states. She is now, of course, has won Senate confirmation—not a simple battle, I'm sure, from her point of view, but in fact was a battle in which she won praise from many people who disagreed with the administration, disagreed with some of the policies of EPA, but

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

had to acknowledge the knowledge and the skill of her leadership. So, ladies and gentlemen, it's my great pleasure to introduce Administrator McCarthy. *[Applause]*

*[0:04:00]*

*Gina McCarthy:* Thank you, Phil, and good morning, everybody. It's great to be here at RFF. No wonder, I'm surrounded by EPA alumni here. *[Laughter]* Where's Dave? Dave Cohen just came. How many—no, I shouldn't ask how many people *[laughter]*. It is great to be here, but the expertise and the integrity of this organization is really a testament to your leadership, Phil. It's a great organization, and you all are filled with a passion for the work you do, and you're filled with a passion for the people who work here, and it shows, so it is great to be here.

And let me start off with a story that has been decades in the making. Forty years ago, scientists at the University of California uncovered a global crisis.

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Chemicals in our hairspray, our refrigerators, and our air conditioners were destroying our ozone layer, the Earth's protective shield against the sun's cancer-causing radiation. And the world needed a solution, and the world needed a leader. The United States, at that time, did not temper its resolve, despite the hesitation of other nations. American science identified the problem, and American industry innovated the solution. Because we acted, the ozone layer is healing. Our people are safer, and our economy is stronger than ever before. Our fight to save the ozone layer was a defining moment in American leadership.

Today, with the threat of climate change, the pollution, and the problems are slightly different, but the principle that I'm asking you to think about is exactly the same.

*[0:06:00]*

Once again, the world needs a leader. Once again, the leader must be the United States. That is the message that President Obama took to the UN this week. The president said, and I quote, "We cannot condemn our children to a future beyond their capacity to repair, not when we have the means to begin repairing it right now." He's right.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

Climate change supercharges the risks to our health and our economy, because the thing is, we don't have to choose between a healthy environment and a healthy economy. RFF knows that for sure. They're not separate. They're intertwined. A world-leading economy depends on a healthy environment and a stable climate. That's why, under President Obama's direction, EPA proposed a Clean Power Plan to cut harmful carbon pollution that is fueling climate change from our largest sources, our power plants.

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I was at the climate summit this week, and one thing was clear: US climate action is changing the game. Our leadership is spurring action from government and business leaders around the world. What's also clear is that when it comes to climate change, the most expensive thing we can do is nothing. We no longer project tomorrow's impacts. We're simply tallying up today's damages, both in lives lost, properties damaged, as well as costs.

This past decade was the hottest on record. The streets of Miami flood on summer days. Ocean acidification threatens Washington State's oyster industry and well beyond.

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Across the country, people grapple with floods, with fires and severe weather. Today, California is facing a historic drought, with a projected job loss of more than 17,000. 2002 was also the second costliest year in history for natural disasters, with a price tag above \$110 billion. And if we see warming of three degrees Celsius above preindustrial levels, instead of two degrees, we could face additional economic damages of almost one percent of global output.

Now, for those of you who aren't at RFF, let me put that into perspective: One percent of 2014 US GDP is almost \$150 billion, and this is just talking about the incremental cost of going from two to three degrees.

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Add that up, folks. Think about it. Absorb it. As seas rise, so do insurance premiums, medical bills, and food prices, from water scarcity to wilting crops. Companies like General Mills and Coca-Cola see climate change as an absolute threat to commerce. Paying more for soda and cereal means less cash to buy other things, and that chokes economies, and that is what stunts job growth.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

The bottom line is we don't act despite the economy; we act because of the economy. I came to RFF because you understand the power of an economy that values clean water, that values clean air, and that values our natural resources.

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You get that, because climate isn't just about polar bears and melting ice caps. You understand that it's about protecting local economies, and it's about creating jobs, as well as protecting polar bears and melting ice caps.

The good news is climate action is not just a defensive play anymore. We can advance the ball. We can turn our challenge into an opportunity to modernize our power sector and to build a low-carbon economy that will fuel growth for decades to come. That story of energy progress is being written all across America. EPA's historic fuel economy standards for cars and trucks are cutting pollution, saving families money at the pump and fueling a resurgent auto industry that added more than 250,000 jobs since 2009. Automakers didn't fold. They flourished.

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Since President Obama took office, wind energy has tripled, and solar has grown tenfold. That's thousands of jobs that cannot be shipped overseas. Renewable energy on public land by itself accounts for 20,000 jobs. In less than four years, the average cost of solar panels has dropped over 60 percent. Every four minutes, another American home or business goes solar, and jobs in the solar industry are growing faster than any other sector in the United States. A study by the group Environmental Entrepreneurs shows that in the second quarter of 2014 alone, we added 12.5 thousand clean energy jobs.

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America's clean energy progress is bringing down energy costs. It's bringing in good-paying jobs, and it's bringing back manufacturing in the United States.

An ABC poll showed that 7 in 10 Americans want us to act on climate. So do public health advocates, so do business groups, so do faith leaders, so do even organized moms and grandmas who have come to our hearings, basically telling us and reinforcing the president's message that this is about an obligation that we have to future generations. We have over 1 million comments on our Clean

***RFF Policy Leadership Forum***  
**Economics and the Environment: A Conversation with Gina McCarthy,**  
**Administrator, US Environmental Protection Agency**

Power Plan proposal, not every one of them from moms and grandmas [*laughter*], but we have many. And we have some great advice from RFF as well, and I thank you. We want every good idea possible, so we extended the comment period through December 1st.

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And we have an ongoing bet, how much those comments might increase and end up, but it's going to be substantially more than we already have, and frankly, we're looking forward to it.

People want us to act, I think, because the benefits are clear. From soot and smog reduction alone, every dollar we invest through the clean power plan will return \$7.00 in health benefits, \$1.00 to make \$7.00. In 2030, total climate and health benefits could reach up to \$93 billion. The key to making our plan ambitious and achievable is its flexibility. We'll get more into this a little bit later, I'm sure, in the question and answers, but basically, we use Section 111(d) of the Clean Air Act to allow states to choose their own low-carbon path forward, the path that best works for them.

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Flexibility means more choice and more ways to invest. That sends a powerful market signal that unleashes innovation. We want to raise the common denominator so that states everywhere can do more and they can learn from the states that are already doing more. Our plan is not a one-size-fits-all prescription. It boosts progress already underway in companies, city halls, and state capitals all across this nation. For years, states in the northeast have teamed up in a market-based program to curb greenhouse gases. At the same time, those states have enjoyed some of the nation's strongest economic growth. My home state of Massachusetts—go Massachusetts—cut emissions by 40 percent while its economy grew 7 percent.

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Cities and states acting on climate are not slowing down. They're speeding up.

And according to a new report from the Carbon Disclosure Project, major companies like Delta, Google, and Disney use an internal carbon price in their business decisions already. If they get it, everyone has to get it as well. Why? Because investors and CEOs are seeing the cost of climate change and the value of taking action. That's what we need to focus on.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

We know a global problem needs a global solution. Although we can't act for other nations, when the United States of America leads, other nations follow. We set the bar for solutions. We set the pace for progress. Years ago, it was American chemical companies like DuPont and Honeywell that innovated safer chemicals to replace the ones that were destroying the ozone layer, and they sold those solutions to the rest of the world.

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And President Obama just convened a group of those companies at the White House just last week to acknowledge their continued commitment, this time to slash the use of HFCs and to announce administrative actions that will support and accelerate this transition more broadly.

When it comes to the American economy, cutting pollution does not dull our competitive edge. It sharpens it. Thanks to our fuel efficiency standards, the auto industry is once again a source of economic strength. The number of cars coming off American assembly lines that are made by American workers is the highest it's been in 12 years.

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From catalytic converters to smokestack scrubbers, America has a legacy of innovating, and we have the world's leading environmental technology sector. That sector accounts for more than 1.5 million jobs and \$44 billion in exports just in 2008 alone, and that number keeps climbing. That's more than any big-business sector like plastics and rubber products.

If you want to talk return on investment, in over four decades, we've cut air pollution by 70 percent while our GDP has tripled. The health and economic benefits of the 1990 Clean Air Act Amendments by themselves, the costs outweigh the benefits—I'm sorry—the benefits outweigh the costs. *[laughter]* That was a serious mistake. Nobody can quote that.

[0:18:00]

I never actually completed the sentence. *[Laughter]* The benefits outweigh the costs 30 to 1. Phil, I want to just point out that I know you championed those amendments when you were in Congress, and I thank you, and the public health thanks you. Today, we have more cars, more jobs, more businesses, and less pollution, and that is how we should all define progress, and that is how you build a low-carbon economy.



*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

So it is sad to see that we continue to have small but vocal groups of critics who are saying the word “economy” like it’s a problem when you talk about action on climate change. But they can’t hide behind the word “economy” just to protect their own special interests, because the truth is that climate change is actually in everybody’s best interest. Action on climate change is in everybody’s best interest.

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And it’s worrisome when we hear those critics say, and I quote, “I’m not a scientist, but climate action is going to ruin the economy.” Well, as President Obama has said, those critics have one thing right: They’re not scientists, but they’re not economists either. But guess what? We’ve got some pretty good ones at EPA and at NOAA and NASA and across the federal government, and if we can trust them to put astronauts in space and to tell us when our air is safe for our kids to play outside, and they can keep our food safe, then these world-renowned scientists, medical professionals, and economists, everyone needs to stand up and pay attention and take action now, ‘cause we are speaking the truth about climate change. So simply put, the economy isn’t a reason to fear action. It’s a reason to take action.

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A report from the New Climate Economy shows that not only is global climate action affordable, but it could actually speed up economic growth. Another recent study shows that the US—in the US, the states that are still skeptical about this—I don’t want to name names, but let me *[laughter]*—Arkansas, Louisiana, Oklahoma, and Texas—that they’d actually see an annual benefit of about \$16 billion—with a B—if they embrace the challenge that is now before them, if they really worked to develop a plan toward a low-carbon future. A surefire way to damage our economy is to neglect our need for a healthy environment, a healthy environment where we can live, work, and play. That is what is at stake here in this climate debate.

When we took action to heal the ozone layer, special interests also then predicted doomsday scenarios for manufacturing.

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They spun stories that the economy would shut down, that supermarket refrigerators would turn off and food would spoil, and guess what? We’re here. Our food was okay, getting better every day, I hope, but none of those doomsday scenarios actually came true. And if those scare tactics sound all too familiar, it’s because



*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

they're the same ones that regurgitated over and over again, and they're the same ones that we're hearing on climate change.

Those same critics point fingers at other nations dragging their feet as some kind of an excuse for the United States to stand still, but we don't hide behind the inaction of other nations as an excuse for mediocrity. And we're not about stagnation. The United States is about innovation, and we don't bend to the false warnings of those who lack faith in American ingenuity and who toss aside the values that have made this country great.

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Can you imagine President Kennedy looking up at the moon and saying, "Nah, let's just wait for somebody else to go first"?

*[Laughter]*

When we've faced challenges before, we have acted time and time again, and it's made our nation stronger. Because we've acted, our kids don't grow up with acid rain or toxic leaded-gas fumes. Because we acted, we eat safer food, cleaner water, and we breathe cleaner air. Because we acted, nations came together, compelled by American leadership, to save our ozone layer and to protect the health of our people. Kofi Annan called that effort the single most successful international agreement of any kind.

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Our climate challenge is not just a responsibility we should accept. It's an opportunity that we must seize, to retool and resurge the new technologies, new industries, and new jobs that will come with climate action. Let's remind ourselves what we're capable of. Let's embrace this defining moment of American leadership. We owe it to our kids to lead on climate change, not just to leave them a cleaner, safer planet, but an opportunity-rich economy for generations to come. Thank you. *[Applause]* Thanks, Phil.

*Phil Sharp:*

Well, Administrator, thank you very much for a powerful and moving address there.

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I'm almost reluctant to ask a question to bring us to any other direction, but let's talk about two things: One is this —what's turning out to be a rather extraordinary week in New York and around the country and elsewhere, and you were up there, and I wonder if you just want to fill in a little more of your impression of that, because my sense is it represents a part of—and then we'll turn to the economics of what you were talking about—what is

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

actually a significant shift that is occurring in the public dialogue here and around the world.

*Gina McCarthy:* Yeah. I think that the dynamics around climate seem to be changing, not just here in the US, but internationally. It was an incredibly positive experience. I think the march was a clear signal that people are getting restless, not about the actions we might take, but they're getting restless that they need to see leadership here and a response on an issue that they consider to be closed. We need action.

I will tell you, the most fun thing was when I went to the summit, because I don't know how many of you have gone to these, but I've gone to many.

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I have never seen positive energy as I saw at that summit. I've never seen it. The leadership of President Obama and the US was clearly the hot topic, and I think it was in many rooms, not just the ones I was in, and people are seeing—they're really getting a sense that because business really was the dominant factor at this summit, it was business leaders stepping up and saying, "You know, you gotta move here. We need change. This is costing us big money." And by the way, an economy that shifts towards low carbon is really big money too. It's better, you know? And they can do this.

It was an incredibly positive moment, I think, and one where they were talking about tipping point in an entirely different context. Originally, we had been talking about, "How quickly do we need to act before the climate is out of control?"

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And this was more, "I think we're done talking. The tipping point is that we have solutions today. We need to put the solutions into action at this point," so it was really fun. It was very engaging. The President did great, which is also good. *[Laughter]*

*Phil Sharp:* Well, also, I wonder if you just want to say a quick word—it may not be appreciated, I know it's not on Capitol Hill or among the general public—about the role that EPA plays internationally, not just on this issue, but we have, for many years—your agency and folks have engaged with other governments on trying to solve both inter-country problems, but also their own problems.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

*Gina McCarthy:* Yeah. Well, I think one thing that I've come to realize even more since I've been at EPA is how well recognized EPA is internationally.

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We are just seen as a world leader, both from science and technical perspective, and I think it's well earned. It's a reputation that's well earned. We spend considerable amounts of time working with other countries to try to build up their structure to address environmental protection at many levels. And then we try to share technical assistance and information on new technologies and how to do things in ways that allow them, that when they begin to embrace the environmental challenge, they can learn from our lessons in advance, at a much quicker pace than we were able to do while we were developing these technologies and this understanding.

I've been to China a few times, and it's been mostly talking about air quality. EPA was the one that successfully supported the embassy putting an air monitor in the Beijing embassy, and lots of things happened there to show what the air quality really was, and it had a significant ripple effect.

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I've been down there to try to work with them to say, "Please, as you're thinking about air pollution challenges, think about climate change, because the answers may be different and actually more successful, and it will be a different way to go."

When I go back to the office today, I'm meeting with minister of Hong Kong, the secretary of Hong Kong, and I am meeting—who else am I meeting with? Germany, the minister of Germany, so this is—EPA's always had a great presence on the world stage, and we continue to do that, and we will continue, because pollution doesn't know any boundaries. And the more successful China is in addressing their pollution problem, the better it is for the United States of America.

*Phil Sharp:* Well, you just addressed this, on the economic benefits and the potential cost, obviously, in a very powerful way, and that represents, not just from you, but we're seeing more and more of a—

[0:29:00]

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

I think, a significant shift in general thinking about this, where originally, the assumption was the economic drag of anything we do about carbon is so great, we just either don't want to do it or want to defer, or whatever. However, let me just push you into the rule a little bit in this regard. Obviously, whatever the long-term outcome is, there are short-term problems that various regions and industries will face under any change in policy, and I would like for you to say how you think the rule proposed, as it's proposed, helps navigate that.

*Gina McCarthy:* Well, Phil, first, let me say that history just doesn't bear out the idea that you can't make advances in the environment without continuing to advance the economy. And in fact, I would argue it's just the opposite, but we knew that that was going to be a concern, and part of the great thing about 111(d) and the Clean Air Act—and I promise not to get wonky *[laughter]*

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*Phil Sharp:* And she can. *[Laughter]*

*Gina McCarthy:* Let me say, I promise not to try to get—to try not to get wonky. That little section of the Clean Air Act is a small section, and it's wide open. There's not been a lot of legal rulings that have defined it in any particularly narrow way, and when we were working at climate change, we knew that every state is in an entirely different place in terms of how they get their energy. We wanted to make sure that we recognized that energy was structured from a regulatory and non-regulatory perspective differently, that it's delivered regionally and not state by state.

We also wanted to recognize that we have great models of action from states already. We have about 80 percent of the states that are really doing utility energy efficiency programs. We have more than three dozen states that have renewable portfolio standards, and we have many states that have highly invested in natural gas, many highly invested in wind, highly invested in solar.

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So the way that we decided to do this was to look at all of the work that states are doing to try to sort of characterize those into sort of building blocks of opportunity, and we have identified looking at state conditions, what every state is doing and where they are, and we've applied these building blocks in, we think, a very moderate way to establish individual state standards as a result.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

And then we're allowing every state to do what they want in terms of developing their own plans that they can send to EPA to say that, "I can get here this way the best," and we're not prescribing. We're just opening up opportunities, and frankly, it's a result, Phil, of both knowing that every state is different, but also knowing that climate change has the uniqueness of really being able to be tackled in many, many different ways.

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But the challenge we wanted was to do what states have told us for a long time, which is, "Just tell us the goal, and get away."

And the interesting thing is, now that we've done that, they kind of want more direction [*laughter*], but we'll walk through that. We have left it open, and I think that provides them an opportunity to design plans that aren't just smart environmentally, but are really smart economically and really smart from an energy perspective. That's the challenge. Start there—"How do you want your state to grow?"—then look at what it means for carbon, and if they're not looking at renewables and they're not looking at energy efficiency as part of that, then they're making a big mistake for their economy more broadly, a mistake that most of the states are not making.

*Phil Sharp:*

Well, let me ask you, in that regard, under your leadership, and on this particular rule, I think everyone, your critics and others, agree that there has never been such an unprecedented effort by the agency to reach out before formulating the proposal and then now, in the follow up.

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And so I don't know if you can quickly give us, out of all those millions of people that've been coming at you, any sort of what you're hearing back that's sort of essential, in your view, at this point.

*Gina McCarthy:*

Well, it is unprecedented, and I think it's an acknowledgement that climate change is an unprecedented challenge for us, and we know that it has to be handled in ways that aren't pollution control installations. It really is about thinking more thoughtfully about the way your economy is driven and the way your energy is supplied, and that's fundamentally different questions. And we wanted to take advantage of that and begin to have a larger conversation, so states and the utilities and stakeholders are getting their arms around the full opportunities here.

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

We had tremendous conversations before the rule. Those conversations haven't at all stopped.

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They are beginning to gel around some key themes, around some key questions and challenges. I mean, you're going to see us put out a technical document soon that's going to look at how you translate the intensity goal that we have put in the rule into a mass-based approach. Because as folks probably know, there are nine states that have a market-based system in New England and mid-Atlantic states, and they want to know what it means for them a little bit more definitively. And they want to also solicit interest in other states doing similar things, because one of the things we tried to point out, Phil, is that when you do take a market-based approach, when you do act regionally, the costs associated with actions go way down. And it almost matches much better the way that life works these days, because what you're seeing is states are being aggressive on renewable portfolio standards, and they're meeting their standard by building a wind farm in another state.

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So we had to understand those complexities and open it up.

But there are those types of issues, and we fully intend, even though it is a comment period, and we'll docket all these things, we're not slowing down on the conversations, because we're learning a lot. And they continue to be incredibly positive, especially when we have meetings where the energy and environmental folks are at the table. It's when they go back to their respective corners that we have a less robust conversation, and that's part of the value here, is the learning that's going on, that comes with knowing that they're all responsible to think this through—that it's not just going to be the environmental folks that put together this plan. It's been an incredible learning experience, and one in which I think you'll see many states, like Montana, last Friday, saying, "You know, we have options here."

*Phil Sharp:* Well, now, just in the privacy of this room –

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*Gina McCarthy:* [Laughter] Oh, yes, I'm sure it is.

*Phil Sharp:* Among your critics and the things that they say –

*Gina McCarthy:* That'll make my press people nervous. [Laughter]

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

*Phil Sharp:* What galls you most about some of the allegations that are made? You don't necessarily have to answer that.

*Male:* Yeah, she does.

*Gina McCarthy:* *[Laughter]* You know, the only thing that concerns me about it is that the vast majority of the conversations we're having, really, almost all of them, are incredibly positive. There are some states that are raising specific issues, either about their number or the framework that we've laid out, that is suggesting that we may be looking for too much too soon, and there are issues related to that. And I think people know me well enough, Phil, that there's going to be changes between proposal and final, because we listen, and I really think that the reason to do the conversations is to listen.

The thing that bothers me the most is that people who aren't in the process, when you hear about different letters coming in or petitions filed, they're just out of sync with the conversation.

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And I don't want the general public to think that that's how the conversation's going, because it's not. It doesn't reflect the rigor or the robustness and the collaborative nature of these conversations.

*Phil Sharp:* Well, I find just in things that I hear around this town and in Washington, and in conferences around the country, is the amazing number of people who you're regulating. They will have to make decisions and changes, and instead of adopting a resistant, angry, negative road, they talk about how we can work constructively with you. I've been around this town long enough to know that's not the common approach.

*Gina McCarthy:* I have to believe that people are paying attention to the issue of climate change in every state and in every home. I think people are worried. I had five minutes of watching the news this morning, and just given the rainstorm that we just had, it's amazing, what you're seeing with the intensity of storms.

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And I think people are worried, and frankly, I think people really want leadership on these issues, and they want to know that we're not all in our separate corners, duking it out. And so I think that many of the states see enormous value in approaching it with this broad a range of opportunities. I think my goal is to make sure that



*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

many of the states stand up and can, as early as possible, say, “I can make this work for me. I can make it work for my reductions, meeting that target, but I can also make it work for my economy, and I can make it work for my energy sector.” That’s the goal.

*Phil Sharp:* Well, let’s turn to a question that’s come from our audience here. Dallas Burtraw, who’s one of our main leaders in doing the analysis and public discussion of these issues, is going to –

[0:39:00]

*Dallas Burtraw:* Thank you. Is this working? Can you hear me?

*Phil Sharp:* Yes, I think so.

*Dallas Burtraw:* Lots of questions have come in in lots of areas, but several of them follow up on what you were saying just a moment ago, Administrator McCarthy, about how the EPA chose to set its goal in setting targets for states under the clean power plan. Can you address the effort to try to balance costs across states, to give credit or reward for early action, and what other considerations were driving the process?

*Gina McCarthy:* Well, one of the challenges that we have, and we continue to have in the comment period, is to explain the difference between regulating under this section of the Clean Air Act and what Congress might do to adopt a cap-and-trade program or a market-based solution. This is not that. This is 111(d), which looks at what can we do to get some best practices out there to reduce in this particular sector, which is just the fossil fuel fired plants.

[0:40:00]

How we got to the standards, we just looked at moderately applying those four, what we call —what do we call them?

*Phil Sharp:* Building blocks.

*Gina McCarthy:* Building blocks, thank you. *[Laughter]* For some reason, I kept thinking benchmarks. Building blocks, and it’s basically shifting to cleaner supplies and getting the waste out of the system, whether it’s at the facility or more generally, and it’s pretty simple. We looked at what other states have been able to do, what their progress is, how they’ve been able to take advantage of it, what kind of pace that it takes to do these things. And we took a moderate approach to each one, so that they’d have flexibility to

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

take whatever approach they wanted, relying more heavily on building block two than one than three. And then we gave each state a goal, and that's how we articulated the overall reduction we would achieve.

[0:41:00]

Now, there are many states that have wanted us to recognize actions that have happened earlier. And we're looking at that, and we'll take those comments very seriously, but the one caution I would sort of lay down at this point is it's not going to look like a cap-and-trade program. This is not about carbon offsets. This is not about achieving a particular national target. It never was. It is about applying the Clean Air Act in a way that's going to be legally defensible, but still be aggressive in terms of achieving the reductions.

*Phil Sharp:* Well, just to follow up on that in a little more detail, is obviously, you set different goals for different states –

*Gina McCarthy:* We did.

*Phil Sharp:* —as I understand it, on your calculation of their potential, and I'm sure some are challenging that specific goal.

*Gina McCarthy:* Mm-hmm.

*Phil Sharp:* But that is not the common way, most of the way we regulate at the federal level, is it?

[0:42:00]

I may be in error on that, but...

*Gina McCarthy:* No, it is not the regular way, but this is a very unusual statute and a very unusual pollutant, and I'm trying to make sure that I regulate it in a way that makes the most sense and can allow the most cost-effective approaches to come to the fore. And I think this is probably the only way that you would do this fairly and reasonably, but I do think it's still within the confines of how 111(d) tells us we should operate. And as far as I know, we are getting a broad range of comments from states, some of which said, "You let those states off too easy, but you're asking too much of me." And the finger pointing goes in many directions, but I think it's all continuing to be a healthy debate, and you may see adjustments in state levels. You may see adjustments in the framework, because we are getting great comments, but I do think,

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

all in all, we're gonna be achieving significant levels of reductions through this program, in a way that really gives great deference to the confines of the Clean Air Act.

[0:43:00]

*Phil Sharp:* Well, and my impression, going back to our earlier question, is that what some critics have always feared is the dampening of the economy, and yet my impression is your effort to set these goals was to recognize that some people have got a harder task in the near term to do, and that in fact, this takes that into account.

[*Crosstalk*]

*Gina McCarthy:* Yeah, that's what's we're supposed to do. I mean, you just cannot think of this task as being about a specific facility, without thinking about the context in which that facility operates. They're heavily regulated, not just environmentally, but from an energy perspective, and we have to think about that if we're going to design it in a way that maintains reliability and affordability of our energy system, and that is one of our primary considerations.

[0:44:00]

But once you open it up, it's just—I think it's just gonna be amazing, because I already know that states are thinking big thoughts about this, and at a point in time—I'm not sure we could've done this five or ten—five years ago, maybe, not so in ten years ago, not just because of public opinion, but because we did not have the sort of the choices we have today. The efficiency programs are amazing, and the ability of our technology to make those accessible and affordable for people is amazing. Solar is now competitive in some areas of this country. I don't think anyone—maybe you guys projected it here, but I'm not sure anybody—

*Phil Sharp:* I don't think so. [*Laughter*]

*Gina McCarthy:*—projected that. But that's the great thing, and part of the economic message, is that when you need to innovate solutions, the United States of America, we look for that.

[0:45:00]

To basically sit back and say, "We are where we are. We don't know where we're going,"—it's just not the case with us. And you know as well as I do that when we were talking about catalytic converters on cars originally you couldn't possibly do that. We

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

tried to expand them to SUVs and vans, oh, you couldn't do that, and none of that was the case. And man, the industry we have now is just great, but to transfer that energy and enthusiasm away—sort of away from a focus on pollution control to a focus on sustainable energy and renewables and energy efficiency, I just think it couldn't have been a better platform for success.

*Dallas Burtraw:* We have a number of questions coming from all sides about natural gas. There's questions about the role of natural gas in complying with some of the Clean Power Plan, and whether states—how the EPA— will feel about states trying to take natural gas into account and demonstrating compliance.

*[0:46:00]*

There's a lot of concern about expanding development of natural gas and concern about fracking, and recently, the EPA's initiatives regarding control of methane and methane leakage. Could you address that area generally?

*Gina McCarthy:* Does it need to be one sentence? *[Laughter]* Let me start off by saying that natural gas in the US has been a game changer. The abundance of low-cost natural gas has really started an energy transition that we are really taking advantage of and hoping to follow through our 111(d) process, so it's been a significant benefit to the United States. It's been a significant benefit to air quality, because it's allowed us some room to address pollution, pollutants like mercury in a way that maintains reliability because it's accessible and it's affordable.

*[0:47:00]*

We recognize, and I think the President does, that methane remains an issue of concern with the natural gas sector, both oil and natural gas. We have taken some regulatory steps in that arena to take a look at how you regulate VOCs from new and repeated fracking operations, but we know there's more to be done. And part of the challenge that the President laid on us was to basically put out some white papers, get some better data in, look at the whole oil and gas methane leak opportunities as well as releases and see where the numbers show the leaks are coming from, and look for strategies to get at it using all kinds of tools. So we recognize that's a challenge. We also recognize, honestly, that water remains a significant concern in many areas. States are really stepping up in terms of regulating that but I think it's made a big difference.

*[0:48:00]*

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

And I recognize there's a lot of concern about whether or not there's going to be too much reliance on natural gas. Is that going to squeeze out the ability for renewables to move forward? But again, I'd only remind you that the President's plan and EPA's actions are very multifaceted. It's not focused on any one energy supply, and as you're looking at the numbers, I think you can see from numbers I've already stated that states are pretty bullish on renewables at this point, and they're bullish on efficiencies, and they're looking at all kinds of energy supplies. And while it's a great transition, and I expect 111(d) will help accelerate that, I'm not in the business of picking winners and losers. I'm in the business of reducing carbon pollution, and that's where I'm going.

*Dallas Burtraw:* Well, to follow up on that, there are, in the focus on international issues that has emerged just in the last week, there are some questions about how the Clean Power Plan contributes to the commitments of the US toward international climate change negotiations coming in Lima and Paris.

*[0:49:00]*

*Gina McCarthy:* Well, I think judging from the tone of the discussion at the UN, it's seen as a very big deal, not only for us in terms of having an aggressive goal, but also the opportunity for our goal to influence how other countries are going to come to the table. I think it's an important step forward, and it's recognized as such.

*Phil Sharp:* As you recognize on this international question, and I do think there's great value in this in terms of moving to international community, but one of the things in our domestic politics that we fail to look at is a number of other nations have been out front fighting on this issue, trying to get action. A number of them, including China and others, are taking aggressive actions on the technology front, things that should, over time, pay off. None of this, in most people's judgment, adds up to what's necessary, but my point is the notion that we're acting alone is in and of itself just factually wrong.

*[0:50:00]*

*[Crosstalk]*

Now, how hard and how much we go at it is another whole issue. Excuse me for lecturing. *[Laughter]*

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

*Gina McCarthy:* No, that was great, and, Phil, just to add onto that, I think the confusing thing is that the climate discussion thus far has been about what will governments commit to do. The changing dynamic that I'm seeing is the business community, the private sector. It's really not what we're going to get with 111(d). It's what is our market going to drive as a result of signals like this, and there's a variety of them. And I don't think it captures the flavor of when you turn a corner, from requiring something from a public health perspective to recognizing that it is actually going to transform your market and allow you to protect your business interests and grow them. That's a game changer.

[0:51:00]

It's palpable, when you were walking around the summit at the UN. The meetings I went to were driven by large companies and small making commitments. They were standing up. It wasn't governments adding up what their policies might project they get, bup, bup, bup, bup. It was like standing up, saying, "I'm done. Let's just call it a day and go."

*Phil Sharp:* Well, and I think what that represents, as you're articulating, is a very significant change in the view that private sector energy, one, is absolutely essential to this, but it is happening. And the other is a paradigm shift that many of our scholars talk about, and you have, and others, that we're not going to get from the national government a top-down, imposed policy. We're not going to get, in the international community, a top-down, imposed targets and timetables. We're going to build this up, and that's what this rule assumes we're going to do.

[0:52:00]

One more, if I might, because you've given, and as you humorously alluded to—states wanting choices and then saying, "Ooh, but don't give me so many choices" [*laughter*] kind of thing, but it goes to this: The notion of multistate plans. That is the most unusual opportunity here about this, and probably the most limited experience in many states, with how to work with their fellow states, and most of us believe that's a cheaper way to go. However, let's suppose I'm in a state where I don't think I can make that work politically, or there's just not time for that. Do I have a simpler option? I just wanted to get that option on the table, because the multistate option is always talked about?

*Gina McCarthy:* You do have simpler options, but they tend to be more expensive, and so I think one of the reasons to have this challenge is to try to avoid the last-minute political drama around this, and let's get real

*RFF Policy Leadership Forum*  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

people sitting at a table. And I think it's gonna make a difference, but it's only gonna make a difference if people keep encouraging their states to think about this in the most positive way they can.

[0:53:00]

You don't really need to agree with climate change to agree that there is a path forward to achieve these reductions, and people do have to keep in mind that, again, this is the Clean Air Act. We have a good history of getting the reductions that we are putting out as requirements under regulations, and this is not going to be an exception. And so to maintain that flexibility to use it as well as you can, to actually boost and move forward in the direction your state wants, now is the time to be having those discussions.

*Phil Sharp:*

Also, it might be worth reminding some people, and you're familiar with this, the endurance of the Clean Air Act is very significant in American public policy. There are some critics on the sideline that are hoping they can outlive you in office, that are hoping they can outlive this administration, and somehow this will all disappear. I don't know if you want to comment on –

*Gina McCarthy:*

Well, I'm not planning on going anywhere –

*[Crosstalk] [Laughter]*

[0:54:00]

*Gina McCarthy:*

I do think the Clean Air Act has been remarkable, and I think it's acknowledged internationally, and I think that's what gives comfort. But one of the things that's also good about it, from a business perspective, is that it does provide a certain path forward. The business industry and markets are always looking for long-term signals. We just gave a very big long-term signal that I believe, and what I'm hearing, is really opening the door to investments in the United States, and that is a very good thing.

But people should also keep in mind and be comforted by the fact that our climate decisions have been heard by three – three times by the Supreme Court. There's nowhere else to go, you know? They said, “Yep, move forward,” and that's what we're doing, and so I think it's as strong a signal as we possibly can that the US is open to looking at how to devise a low-carbon economy and get it moving and running in a way that's going to entice investments, and I think that's good for everybody.

[0:55:00]



***RFF Policy Leadership Forum***  
**Economics and the Environment: A Conversation with Gina McCarthy,  
Administrator, US Environmental Protection Agency**

*Phil Sharp:* Well, Madam Administrator, let me tell you, we deeply appreciate your taking time with us today, and the work you're doing. And if I get it right, I'd like to borrow an expression from your Boston backyard, that you did wicked good.

*Gina McCarthy:* *[Laughter]* Thank you, sir. Thanks, everybody.

*Phil Sharp:* Thank you.

*[End of Audio]*