

**BEFORE THE COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER**

**HEARING ON H.R. 4255, THE “ACCOUNTABILITY IN GRANTS ACT OF 2012”
SEPTEMBER 11, 2012**

**TESTIMONY OF DANIEL SIMMONS, DIRECTOR OF REGULATORY AFFAIRS,
INSTITUTE FOR ENERGY RESEARCH**

It is difficult to see the value in the Environmental Protection Agency (EPA) providing taxpayer-funded grants to organizations and governments outside the United States for things like “good governance capacity-building” in Jordan or “regulatory dialogue” on landfill gas in Brazil.¹ Part of the reason the United States is now over \$16 trillion in debt is because the federal government has little spending discipline. Compared to \$16 trillion, these grants are small, but the grants are symptomatic of out-of-control spending by the federal government. When individuals have money and debt problems, the common sense solution is to cut back on unnecessary spending—and in fact ordinary Americans make this choice every day. It is only fair to ask the federal government to do the same. Taxpayer dollars should be spent on projects that have an obvious benefit to the American people and these foreign grants do little, if anything, to benefit the American people. Lastly, if EPA would like to improve environmental quality at home and abroad, a far more productive approach would be to promote environmental

¹ Subcommittee on Oversight and Investigations Majority Staff, *Re: EPA’s Foreign Grant Program*, Jun. 27, 2011.

improvements through economic growth. Years of research shows that economic growth promotes environmental protection.²

EPA Has No Clear Authority to Award Foreign Grants Under the Clean Air Act

Section 103 of the Clean Air Act (CAA) provides EPA with the authority to “establish a national research and development program for the prevention and control of air pollution.” The language of §103 does not explicitly provide EPA with the authority to spend money internationally for this program, however, the section does not explicitly limit EPA’s authority to only issue grants within the United States either. The fact that §103(a) states that it is “*national* research and development program” and §103(a)(3) discusses pollution within “States” provides some evidence that the programs were meant for research on pollution produced in the United States. In these times of tight budgets and massive debt, it would be far more productive for EPA to only spend money on things explicitly authorized by law rather than on grey areas, such as giving the World Health Organization money to link “together existing institutions and personnel to work on shared goals including sound environmental management.”³

² See e.g. Bruce Yandel et. al, *Environmental Kuznets Curves: A Review of Findings, Methods, and Policy Implications*, PERC Research Study, Apr. 2004, http://www.perc.org/pdf/rs02_1a.pdf. When industrialization starts, it frequently results in environmental degradation. But increasing economic well-being creates demand for environmental well-being which leads to environmental improvements.

³ Subcommittee on Oversight and Investigations Majority Staff, *Re: EPA’s Foreign Grant Program*, Jun. 27, 2011.

The Federal Government's Regulatory Philosophy Should be an Analogue for How Grant Money is Awarded

Executive Order 12866, first signed by President Clinton and affirmed by President Obama, explains the federal government's regulatory philosophy. It should guide federal agencies in how they regulate. This Executive Order is also a useful analogue for agencies to follow in their other activities including grantmaking. Executive Order 12866 states:

Section 1. Statement of Regulatory Philosophy and Principles.

- (a) *The Regulatory Philosophy.* Federal agencies should promulgate only such regulations as are required by law, are necessary to interpret the law, or are made necessary by compelling public need, such as material failures of private markets to protect or improve the health and safety of the public, the environment, or the well-being of the American people. In deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating. Costs and benefits shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but nevertheless essential to consider. Further, in choosing among alternative regulatory approaches, agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.

There are some important things to note about the regulatory philosophy. First, federal agencies should be circumspect in their use of their authorities. As the regulatory philosophy notes, “Federal agencies should promulgate *only* such regulations as are required by law, or *necessary*, to interpret the law, or made necessary by *compelling public need*. . .” Second, the purpose of regulation is to protect the American people and environment. Third, regulations should choose the approaches that maximize net benefits.

Applying the federal government’s regulatory philosophy to grantmaking means that the federal government should only award grants obviously authorized by law, that the grants should benefit the American people, and lastly that the grants should be issued to projects that maximize the benefits to the American people. It is difficult and potentially impossible for foreign grants to achieve these goals.

EPA’s Grants are of Dubious Value for Americans

EPA has provided grants for a number of projects that have dubious value to the American people. This Committee has previously publicized EPA’s grants to build anaerobic digesters on swine farms in Thailand, provide technical assistance for “Breathe Easy, Jakarta,” help Interpol to “promote and strengthen international environmental enforcement,” examine the quality of coalbed methane in India, and assess the potential for landfill gas recovery in Brazil.⁴ These grants may all have value, but the real question is “what is the value to the American people who are paying for this?” In tough fiscal times, the value to the American people for grants for things outside the United States should be obvious, rather than made by a tenuous link.

⁴ Subcommittee on Oversight and Investigations Majority Staff, *Re: EPA’s Foreign Grant Program*, Jun. 27, 2011.

Besides the aforementioned grants there are more questionable grants. On March 22, 2012, EPA awarded a grant, providing the following description, “The goal of this project is to increase environmental public participation through a pilot project in Dominica [sic] Republic.⁵ ALIANZA will work with stakeholders and appropriate governmental authorities to ensure the pilot project expected results are successfully accomplished.”⁶

Similarly, EPA awarded a grant on March 27, 2012 to the “Asociacion Privada de Desarrollo Soc y Ambiental,” to “increase environmental public participation through a pilot project in the El Paraiso community, Honduras.”⁷ EPA explains that the organization ECO-ESFERA will “work with stakeholders and appropriate governmental authorities to ensure the pilot project expected results are successfully accomplished.” It is not at all clear what it means to increase “environmental participation”, nor is it obvious why it is helpful to the American people to carry out these activities in the Dominican Republic and Honduras.⁸ EPA should have a higher burden of proof to show that financing these endeavors truly is the best possible use of taxpayer dollars.

This is not a complete list of the questionable grants. For example, there are many more grants of questionable value for Americans including various grants for landfill gas recovery around the world from Siberia⁹ to Ecuador.¹⁰ While there is nothing wrong with the landfill gas

⁵ I assume this is a typo in EPA’s database and should be the Dominican Republic.

⁶ Environmental Protection Agency, *Project Title: Envirnmntl [Sic] Ed-Central American Free Trade, Countries*, http://yosemite.epa.gov/oarm/igms_egf.nsf/52f35d81cc937e5e85256fb6006df28e/8ce4b17538545eb685257a6a00652926!OpenDocument.

⁷ Environmental Protection Agency, *Project Title: Municipality of El Paraiso, El Paraiso Dept*, http://yosemite.epa.gov/oarm/igms_egf.nsf/52f35d81cc937e5e85256fb6006df28e/64c10f34677f22d885257a6a00652a3f!OpenDocument.

⁸ I assume this is a typo in EPA’s database and should be the Dominican Republic.

⁹ Environmental Protection Agency, *Project Title: Training Center & Demo Project-Landfill Gas Recovery-Siberia*, http://yosemite.epa.gov/oarm/igms_egf.nsf/52f35d81cc937e5e85256fb6006df28e/22406a995b2f4a3a85257a6a006541e4!OpenDocument.

recovery efforts in these places, it is something private companies can do and serves little value to the American taxpayers whose money EPA is spending. Moreover, if the purpose is to reduce greenhouse gas emissions, then these projects should be able to attract investment on their own because of programs like the U.N.'s Clean Development Mechanism.

To Promote Environmental Improvements, EPA Should Promote Economic Growth

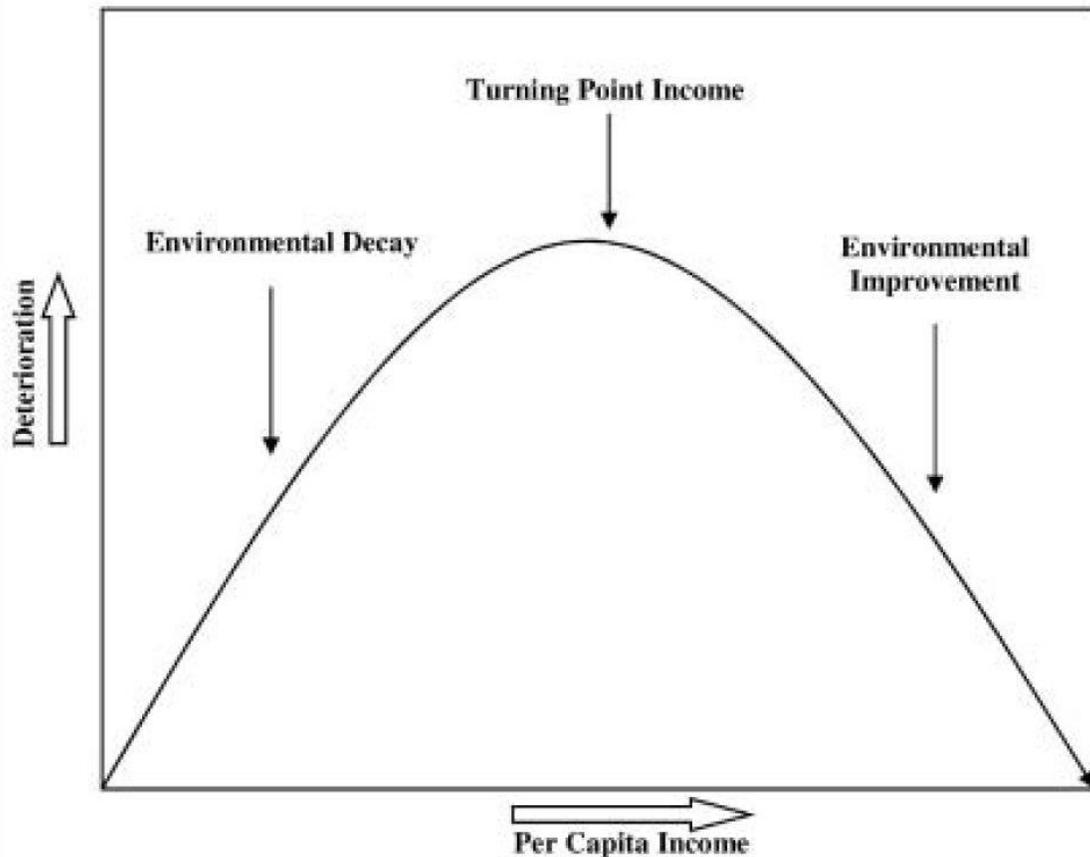
Research shows that richer countries have higher environmental quality than poor ones.¹¹ When countries start to industrialize, an initial amount of environmental degradation usually accompanies the start of industrialization. But as per capita income increases, people start demanding better environmental quality and the environmental quality improves.¹² The graphic below describes this relationship:¹³

¹⁰ Environmental Protection Agency, *Project Title: Advnc Methane Use-Clean Enrgy Source-Ecuador*, http://yosemite.epa.gov/oarm/igms_egf.nsf/52f35d81cc937e5e85256fb6006df28e/b305ee796de6f0e885257a490076c597!OpenDocument.

¹¹ See e.g. Bruce Yandel et. al, *Environmental Kuznets Curves: A Review of Findings, Methods, and Policy Implications*, PERC Research Study, Apr. 2004, http://www.perc.org/pdf/rs02_1a.pdf.

¹² *Id.*

¹³ *Id.* at 3.



As scholars have explained, “GDP growth creates the conditions for environmental improvement by raising the demand for improved environmental quality and makes the resources available for supplying it.”¹⁴ GDP growth is not the only factor, but government policies, institutions, and functioning markets that spur technological innovations are also important factors to achieving improvements in environmental quality.

EPA may award its foreign grants in an attempt to improve environmental quality in foreign countries, but that is not a strategy that will result in long-term and large-scale environmental improvements. A few anaerobic digesters in Thailand, Brazil, or China cannot go very far compared to the much more powerful economic changes happening in those countries.

¹⁴ *Id.* at 29.

A far more important force of environmental improvement is overall economic growth, including economic growth of the United States. The United States is a major force in the global economy, and as our economy grows, it helps our trading partners grow as well. Growing economies mean that people can devote more money to environmental improvements because the necessities of life are more easily taken care of.

In recent years, however, EPA has a very poor record with respect to protecting the environment *and* allowing the economy to grow. One obvious example is EPA's proposed Mercury and Air Toxics Standards (MATS) rule. According to EPA's MATS website, the point of the rule is "Protecting our children and communities by limiting emissions of mercury and other air toxics from power plants."¹⁵ According to EPA, MATS will cost \$10 billion a year.¹⁶ But the value of reducing the mercury—EPA's stated reason for promulgating the rule—is a mere \$500,000 to \$6 million.¹⁷ In other words, EPA's MATS rule alone will result in a loss of nearly \$10 billion a year.¹⁸

A small portion of the \$10 billion a year loss created by the MATS rule could be spent on anaerobic digesters, landfill gas projects, or "environmental participation" around the world and the world would be far better off than with EPA's MATS rule.

As noted above, economic growth promotes environmental benefits and as America's economy grows, it helps improve the economies and in turn environment of other countries. But

¹⁵ Environmental Protection Agency, *Mercury and Air Toxics*, <http://www.epa.gov/mats/>.

¹⁶ Environmental Protection Agency, *Regulatory Impact Analysis of the Proposed Toxics Rule: Final Report*, March 2011, p. 8-12, <http://www.epa.gov/ttnecas1/regdata/RIAs/ToxicsRuleRIA.pdf>.

¹⁷ *Id.* at Table 5-7.

¹⁸ EPA tries to justify its rule on by included co-benefits of the reduction of particulate matter. But this is inappropriate. Particulate matter is a covered by national ambient air quality standards (NAAQS) and EPA is free to lower the allowed NAAQS for particulate matter to reduce particulate matter emissions. It is an inappropriate use of regulation for EPA to justify a rule allegedly designed to reduce mercury and air toxic pollution through alleged co-benefits—especially co-benefits of something that is covered by a NAAQS.

when EPA imposes regulations with very large costs and very minimal benefits, it results in lower environmental benefits overall because it inhibits growth.

The MATS example is just one example, but it is representative of EPA's current regulatory philosophy. Far more benefits could be achieved, both environmental and economic, if EPA was more circumspect in its regulation.

Conclusion

The American people want Congress to balance the budget and get America's fiscal house in order. One key to doing that is to reduce spending that is obviously unnecessary. It is not obvious what the value is to American citizens of international grants issued under the Clean Air Act. EPA may believe that its international environmental grants are in fact very necessary or EPA may believe that the grants produce large benefits. The reality is that EPA would do much better to promote improved environmental quality in the United States and around the world by following the federal government's stated regulatory philosophy explained in Executive Order 12866 and not impose regulations that result in large net costs which slow economic growth. Failing to maximize net benefits harms Americans, our environment, and our economic well-being as well. This, in turn, makes the U.S. less capable of supplying international assistance that actually returns value to the environment and more importantly, to the people of the United States.