January 21, 2025

I am a law professor at the University of Virginia and an expert on environmental law and economics. I offer my views on the RENEW Act currently under consideration, and in particular, any concerns that fees under the law would be passed on to consumers via increased gas prices.

Stated simply, the fees proposed in the RENEW Act are based on past greenhouse gas (GHG) pollution and therefore would not impact today's marginal cost of production, so there should be no shifting of costs to consumers.

In our market economy, companies charge prices that maximize their profits based on the cost of production and demand. The proposed assessment is based on past GHG emissions so it would not affect future production costs. It is a fixed cost. Companies would not pass this costs to consumers, the assessment would be borne by their shareholders.

Stated another way, the assessments will not impact the revenue-maximizing price or the quantity of fossil fuel produced. Since companies are already charging the profit maximizing price, they cannot pass on the cost of the assessment to consumers by increasing prices without decreasing their profits.

Moreover, the likely impacted companies have been remarkably profitable. The world's largest oil companies have made large profits in the last few years. The largest Western fossil fuel companies and Saudi Aramco collectively earned about $1 trillion in profits between January 2021 and today.

An Institute for Policy Integrity report on a similar law adopted in New York State found that "Economic theory shows that holding oil companies liable for past emissions will not lead to production or price changes in the local, national, or international energy markets, holding the structure of these markets constant. Empirical evidence shows that total compensatory payments for emissions from 2000 to 2018 are relatively small compared to oil company revenue, market capitalization, and profits."

The RENEW ACT is a fiscally responsible and fair approach that protects taxpayers by shifting the burden of some of those costs to the companies most responsible. The funds would allow the state of Maryland to invest in infrastructure improvements, upgrade stormwater drainage and sewage treatment systems, prepare the power grid for severe weather, create systems to protect people from extreme heat, and respond to environmental and public health threats.

The bill is based on the rationale underpinning the existing Federal and State Superfund laws that make toxic polluters financially responsible for the environmental damages that they have caused. In the same way, climate polluters should share in the financial responsibility to cover damages caused by a worsening climate.

Sincerely,

Michael A. Livermore
Professor of Law
University of Virgina