Why Congress Should Not Enact the Proposed Methane Tax

American Chemistry Council

BACKGROUND

The U.S. Senate is considering legislation sponsored by Senator Sheldon Whitehouse (D-RI), that would levy a “fee” (i.e., tax) on methane emissions from domestic oil and gas operations. In addition to the tax on emissions, the proposal would tax the production of certain chemicals (e.g., ethylene, propylene) that are used as building blocks materials for virtually all U.S. manufacturing. **The ten-year cumulative cost to the chemical industry would be $66.8 billion.**

LARGE COSTS TO CHEMICAL INDUSTRY

If the proposed legislation is enacted, the annual cost on domestic chemical producers is estimated to be $1.7 billion in 2023 (year 1), rising to more than $10.4 billion within ten years, with a ten-year cumulative cost of $66.8 billion. For certain chemicals and plant operations, the added costs could exceed profit margin, leading to shutdowns of plants producing those industrial chemicals. The loss of productive capacity would also result in lower tax collections.

The methane tax would affect production of natural gas liquids (NGLs) used to produce olefins (e.g., ethylene, propylene, butylene, and isobutylene), which serve as critical building block materials for virtually all U.S. manufacturing. Affected goods include consumer products such as apparel, appliances, home furnishings, light vehicles, sporting goods, agriculture, and building and construction.

Impact of a Methane Tax – Examples (annual cost in millions of dollars)

Natural Gas Liquid	*Year 1 (2023)*	*Year 10 (2032)*
Ethane	404	2,501
Propane	337	2,087
Butane	92	573
Isobutane	86	535
Natural gasoline (pentanes and hexanes)	117	724

METHANE FEE LEGISLATION WOULD DISADVANTAGE U.S. MANUFACTURING

U.S. chemical producers enjoy a global competitive advantage due to plentiful domestic sources of natural gas and NGLs. As a result, since 2010, the industry has invested or is planning $208 billion in capital projects (i.e., new plants and expansions) in the United States. The proposed legislation could lead to a decline in production capacity in the chemical industry and other U.S. manufacturing industries in favor of foreign competition whose goods would bear no similar tax burden, jeopardizing the substantial job gains made possible by the expansion in American chemistry.

METHANE FEE LEGISLATION WOULD TAX PRODUCTS, NOT JUST EMISSIONS

The legislation would impose a fee directly on producers of NGLs, which are used to produce olefins—building block materials used for 96% of U.S.-manufactured products. Unlike methane, which is mainly used to produce energy, the carbon in NGLs is embedded in products – including energy-saving items such as building insulation and lightweight vehicle and airplane parts. A tax on these “building block” materials will shift production and emissions offshore.

METHANE FEE LEGISLATION DOES NOT TAKE INTO ACCOUNT COMPLIANCE WITH REGULATIONS

The proposed methane tax would penalize companies regardless of their compliance with EPA’s current “new source” methane regulations and forthcoming regulations for existing sources.

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