CLIMATE 21 PROJECT

TRANSITION MEMO

Department of the Treasury

CLIMATE **21** PROJECT Transition Memo

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** Professional affiliations do not imply organizational endorsement of these recommendations*

Contents

This memo is part of the **Climate 21 Project**, which taps the expertise of more than 150 experts with high-level government experience, including nine former cabinet appointees, to deliver actionable advice for a rapid-start, whole-of-government climate response coordinated by the White House and accountable to the President.

The full set of Climate 21 Project memos is available at climate21.org.

Department of the Treasury

Executive Summary

Climate change is increasingly hurting American workers, businesses, and industry. Managing the economic and financial risks posed by a changing climate will require a whole-of-economy and whole-of-government approach. The challenge lies in spurring shared economic growth while reducing greenhouse gas emissions and enhancing our resiliency to climate shocks.

Addressing this challenge will necessarily need to account for the President's highest priorities in 2021: controlling the COVID-19 pandemic and promoting economic recovery. The Secretary of the Treasury will play a central role shaping the administration's economic recovery program and the Secretary likely will be the President's chief voice on these matters. To promote near-term job creation and durable long-term growth, the Secretary should have the perspective and resources needed to direct economic recovery efforts that prominently address climate issues.

The Secretary of the Treasury and the Treasury Department are crucial to the success of the administration's efforts to move the U.S. and global economy to a low-carbon trajectory and to protect the economy from climate change shocks. The Secretary plays a fundamental role in shaping the tax and spending policies that ensure both robust long-term economic growth and strong climate action. Treasury has oversight, consultative, or advisory responsibility across virtually every aspect of economic policy and every federal agency. Treasury can influence climate-focused regulations by providing candid economic advice informally through interagency discussions and through the formal OIRA process. Treasury can frame the financial regulatory agenda and federal insurance policy, as well as engage financial regulators on climate change threats to financial stability. Treasury helps design non-discretionary spending policies through its budgetary role and its oversight role for Social Security and Medicare.

The Secretary is America's top economic diplomat and is central to global economic and financial leadership. Our partners and allies—at the Group of 20, the IMF and World Bank, and at the Financial Stability Board—look to the United States to spearhead initiatives to spur global growth and ensure resilient and balanced development.

In the absence of federal action, the private sector and state and local governments have seized the initiative on climate policy innovation. Treasury can create an accommodating regulatory and policy environment to spur further private sector and state government efforts.

The first six months of the new administration are critical to advancing a robust economic policy and effective climate action. The Secretary will need to make the case to American workers and businesses that policies to achieve a climate-oriented economy and sustainable investments can spur economic growth, ensure strong employment and resilient financial markets, avoid adverse impacts to low-income and disadvantaged communities, and enhance U.S. national security.

Treasury will need an effective organizational focus that enlists all Treasury offices to identify and advance climate goals. The Secretary should appoint a senior Counselor, with a small staff with experience in climate and economic policy and private sector engagement, to spearhead and coordinate Treasury climate-related efforts across the department. The Secretary should task the undersecretaries to harness existing climate expertise within their offices and recruit staff with experience in domestic and international climate efforts.

The Secretary will gain credibility with key stakeholders, including the business and environmental communities, to the extent that the principles of an aligned agenda on the economy and climate can be clearly communicated. This will require the Secretary when it is necessary to deliver candid economic advice about climate and economic policy—both when climate policy represents a critical step forward in advancing the economic agenda, and when a climate proposal may lack merit.

Department of the Treasury

TOP RECOMMENDATIONS: MANAGEMENT, BUDGET, AND STRUCTURE

- Appoint a counselor to the Secretary for economic growth and climate to coordinate climate efforts within Treasury and represent the department externally *(Day 1)*
- Issue a message from the Secretary announcing the new position and conveying Treasury's climate mission *(Day 1)*
- Establish a senior standing climate committee within Treasury to meet regularly to coordinate on domestic and international strategies, engagement, and implementation *(100 Days)*
- Identify budgetary opportunities to amplify U.S. climate re-engagement through financial contributions to international climate finance institutions and multilateral development banks *(100 Days)*
- Develop a plan to build staff capacity for effective domestic and international engagement on climate change *(100 Days)*
- Hardwire climate goals within each office's mission, job descriptions and strategic plan *(100 Days)*

TOP RECOMMENDATIONS: KEY PROGRAM OPPORTUNITIES

- Develop a climate strategy that articulates near-, medium- and long-term goals, including public messaging, domestic policy efforts, and international engagement *(100 Days)*
- Deliver a speech from the Secretary on economic growth and climate ambition before key domestic constituencies, such as major business chambers or associations *(100 Days)*
- Integrate climate objectives in economic recovery efforts and advance domestic climate policy through tax, budget, and regulatory initiatives *(6 months)*
- Develop an international agenda for climate finance and identify an international forum to announce strategy *(6 months)*
- Raise and emphasize climate and financial stability risks and opportunities on the agenda of the Financial Stability Oversight Council (FSOC) *(6 months)*

TOP RECOMMENDATIONS: INTERAGENCY PRIORITIES AND RELATIONSHIPS

- Build strong working relationships with the National Climate Council (NCC), as well as with NEC on tax-related climate initiatives; OMB on spending and regulations; and the NSC and OMB on foreign assistance and international climate negotiations *(100 Days)*
- Strengthen Treasury's engagement with key climate agencies to ensure input on climate policy development, including on economic and budgetary implications, and use its board positions, such as at the International Development Finance Corporation and at the Social Security and Medicare boards of trustees, to incorporate climate goals *(100 Days)*
- Engage with financial regulators—through the FSOC and the Office of Financial Research (OFR)—to develop climate-focused priorities and undertake research and regulatory initiatives *(6 months)*

1 Management, Budget, and Structure

Climate change is an economic issue, and any effective climate policy will require a whole-of-economy approach. After four years of negative climate action, the incoming Secretary of the Treasury will be able to course correct—and have a significant impact upon our ability to fight climate change—by developing organizational focus, expertise, and strategy that integrates climate goals throughout the department. This section provides a department management overview to achieve those aims, addresses budget challenges and opportunities, and suggests an approach to Treasury structure and organization related to climate change, including how best to establish an effective organizational role for the counselor and how best to ensure offices across the department develop and advance climate policies.

The Treasury Secretary and the Treasury Department will be crucial to the success of the administration's efforts to decarbonize the U.S. and global economy and to enhance the economy's resilience to climate change shocks. In developing organizational focus, expertise, and strategy to integrate climate goals throughout the department, the incoming Secretary can improve the odds of successfully delivering on economic growth and combating climate change.

Treasury has oversight, consultative, or advisory responsibility across virtually every aspect of economic policy and engagement with almost every federal agency. This is evident in its domestic roles: coordinating with the Office of Management and Budget (OMB) and the Federal Reserve Board in shaping U.S. budget, tax, debt, and macroeconomic policy; steering financial regulatory and insurance policy through the Financial Stability Oversight Council (FSOC) and the Federal Insurance Office (FIO); serving as chair of the boards of trustees for the Social Security and Medicare trust funds; and working with agencies across the U.S. government to ensure that policies and programs that affect America's workers and businesses are based on sound economic fundamentals. Treasury also serves as America's top economic diplomat and leads global economic efforts through its leadership roles in the Group of 20 (G-20); the International Monetary Fund (IMF), the World Bank, and other multilateral development banks (MDBs); and climate finance institutions, such as the Green Climate Fund (GCF), the international financial regulatory standard setters, and the Paris Club for emerging market and developing country debt relief. These roles will be in the spotlight as Treasury charts a course toward economic recovery from the COVID-19 recession.

Treasury will be a natural focal point for leadership within the federal government and with external stakeholders, given its central role on economic and financial policy and the Secretary's traditionally strong relationships with the President and the White House. Treasury will also be asked to provide high-quality economic and policy analysis to interagency deliberations that will be used to bolster the credibility of the administration's climate policies, and can meaningfully contribute to shaping the policy and political debate around climate policy, including by making the climate case to American workers and businesses; promoting clean energy and climate-resilient infrastructure investments, including in COVID-19 stimulus legislation; contributing to the design and evaluation of market-oriented policies to reduce emissions, like a carbon tax, cap-and-trade program, clean energy standard, or targeted tax incentives; reasserting U.S. climate leadership with international partners; and outlining a new vision for financial markets and regulation to cope with climate risk and promote private sector climate action.

The Secretary will need to be candid in providing economic advice to the President and to Congress about both near-term climate efforts that complement and accelerate economic activity as well as climate-oriented efforts that might merit attention post-economic recovery (as well as flag those that are not good policy in any context). The Secretary will gain credibility with key stakeholders across many communities, including the business and environmental communities, if he or she can clearly communicate the principles of an aligned agenda on the economy and climate.

It is also imperative that the Secretary demonstrate examples of how the department will lead and champion efforts aligned with those principles, as well as examples of when the department needs to deliver the cold truth about efforts that are inconsistent with those principles.

Despite the potential for substantial positive impact, the department will face:

- **Policy challenges** stemming from the pandemic and the COVID-19 recession and demands to restart the U.S. and global economy as quickly as possible. There may be public debate over how best to rebuild the economy—whether to get the economy going again no matter the cost and thus delay climate action or to use the opportunity to stimulate growth in a way that supports a transition to a cleaner economy and reduces our vulnerability to climate shocks.
- **Resource challenges** in advancing a robust and effective climate policy that are more significant than the challenges that existed in the aftermath of the Great Recession. Secretary Mnuchin eliminated the sole organizational unit dedicated to climate matters, and personnel and financial resources available for effective and early climate engagement are depleted. Constrained budgets will likely limit available funds for a range of administration initiatives, including appropriations to Treasury for international climate assistance.

The COVID-19 pandemic has re-focused the attention of both advanced and developing economies, and, to an extent, re-ordered their priorities. International cooperation has been tested, and countries face a host of new economic, trade, and societal challenges. Key bilateral relationships, including with China and the European Union, have evolved and will continue to change rapidly with economic and health-related developments. Emerging markets have been hit particularly hard by the pandemic and face potentially insurmountable debt challenges.

Treasury will face a changed landscape on climate efforts in a way that presents new opportunities:

- **Greater state-level and private sector action.** Over the past four years, state and local governments, financial institutions, and the business community have taken on a more active role in identifying potential climate-related efforts. Cooperation between states has increased, and some states have implemented robust climate policies, including green banks, regional cap-and-trade programs, and other efforts. There is greater business recognition of the need to account for climate change in near-term investment decisions and longer-term strategy.
- **Demand for action in financial markets.** Financial institutions and institutional investors are seeking to better analyze climate risk and promote sustainable investment. In September 2020, a Commodity Futures Trading Commission report urged U.S. financial regulators to recognize the serious risk posed by climate change to the U.S. financial system and to act to evaluate and address those risks urgently. Internationally, finance ministries and central banks have not waited for the United States and have accelerated discussions within the international standard setters and other forums on ways to create policy and regulatory incentives to assess climate risk and to leverage private investment and capital.
- **Evolution of international climate finance framework.** The international climate finance landscape has also evolved as the United Nations Framework Convention on Climate Change (UNFCCC) negotiations have shifted toward implementation efforts. Although NGOs and developing countries will continue to demand increased contributions and participation from the United States in the Green Climate Fund (GCF), Treasury, State, and the White House should consider how to align U.S. positions in the UNFCCC or other negotiating forums toward effective and efficient institutions that are capable of mobilizing climate finance from a wide variety of sources, both public and private.

RESOURCES

Treasury faces two primary resource challenges. The department will need to orient its organizational structure toward work on climate-related issues and identify or recruit economists and policy makers with experience in climate matters. Treasury will also need to consider the balance of scarce multilateral assistance funds and how best to allocate those funds to climate programs against demands for capital increases and replenishments at the MDBs. Virtually all climate-oriented appropriated funds for Treasury are solely for international climate finance.

In terms of personnel, Treasury currently has no organizational structure to address the climate challenge, and it has virtually no staff currently working on climate-related matters. The previous administration eliminated the Office of Energy & Environment (E&E), an office led at the deputy assistant secretary level which was established by Secretary Paulson in 2007 to handle climate issues, and its personnel and remaining functions have been folded into other offices. Other offices that previously handled climate-related efforts—for example, the Office of Tax Policy (OTP)—have not worked on those matters since the end of the Obama administration (although several staff with climate and energy tax policy expertise still work in OTP).

Going forward, the Secretary should designate a senior Treasury climate official—for example, a Counselor to the Secretary for Economic Growth and Climate with a direct reporting line to the Secretary—to focus Treasury efforts, build expertise and resources, and reinforce the centrality of climate efforts to the Treasury mission for department staff, federal agencies and the White House, and global counterparts.

In terms of multilateral assistance, Treasury can bolster efforts to reassert U.S. international economic leadership by coupling a dynamic and strategic climate finance effort with robust action in other areas of international economic policy. That includes leading global efforts to spur further action from the IMF and World Bank, especially on debt relief; reducing trade disruptions and imbalances, particularly with respect to steel, aluminum, and concrete; enhancing macroeconomic coordination; and promoting fossil fuel subsidies reform. Over the past four years, U.S. leadership on international climate finance—through climate finance institutions, at the MDBs, and in other international forums—has receded. The United States has eliminated almost all international climate finance assistance, reduced MDB funding, and ceased proactive engagement with finance ministries and central banks on ways to shape the global economy to confront a new climate reality. Even without the rollback in international climate finance support, most stakeholders now view the level of global effort as insufficient to meet urgent needs to stabilize global economies in the pandemic.

From the outset, Treasury should work closely with the White House, OMB, State, and U.S. development and export finance agencies to develop a coherent international climate finance strategy that directs public monies through both multilateral and bilateral channels and leverages private sector climate finance. The administration will need to assess the appropriate level of international climate funding for the U.S. to be maximally successful in achieving a mix of priorities. These include: (1) helping countries effectively address emissions mitigation and climate adaptation; (2) mobilizing private sector finance and foreign direct investment in climate projects; (3) providing U.S. economic leadership in the MDBs; (4) supporting U.S. positions in international climate negotiations; and, (5) leveraging contributions from other economies. Treasury has traditionally prioritized effective delivery of finance and substantive outcomes, governance, high fiduciary standards, and mobilization of private sector resources. Treasury will also need to assess the extent to which any pledges to existing climate finance channels should be made conditional on governance and policy reforms that ensure that the institutions achieve real and positive climate outcomes consistent with U.S. interests. Recognizing that the prospects for adequate funding will depend on who holds power in Congress, it will be important from a diplomacy point of view for the administration to be seen to be making a serious effort to obtain such funding, even if it is not fully successful.

Currently, the main vehicles for U.S. participation and contributions to dedicated multilateral climate finance channels are the following:

- **Green Climate Fund (GCF):** In 2014, the Obama administration pledged up to $3 billion over four years to the initial resource mobilization for the GCF, a fund established as a companion to the Paris Agreement, which totaled $10.3 billion. The Obama administration paid $1 billion of that pledge (from State Department Economic Support Funds) before leaving office. President Trump, at the same time he announced U.S. withdrawal from the Paris Agreement, also announced that we would not fulfill the rest of the U.S. GCF pledge. In 2019, the donor countries—minus the United States—agreed on a replenishment of the GCF, amounting to roughly $9.8 billion for the 2020-2024 period. There is an expectation that a new administration will not only rejoin the Paris Agreement but also provide a GCF contribution in line with the 2014 pledge to contribute 30 percent of overall contributions up to $3 billion.

- **Global Environment Facility (GEF):** The previous administration pledged $273 million to the GEF's seventh four-year replenishment period in 2018. The U.S. pledge was 50 percent of the previous replenishment pledge in 2014, and the United States will need to decide on a 2022 pledge early in the new administration. The GEF supports developing country efforts for a number of multilateral environmental agreements, including the Montreal Protocol on Substances that Deplete the Ozone Layer and the UNFCCC.
- **Climate Investment Funds (CIFs):** The U.S. contributed $2 billion to the CIFs, comprised of the Clean Technology Fund and the Strategic Climate Funds, an $8 billion fund set up in 2008 to support scaling up mitigation and adaptation action to developing countries and middle-income countries through the MDBs. The CIFs continue to provide targeted climate finance for effective projects, although developing country climate negotiators prefer the GCF because of the CIFs' linkages to the World Bank and other MDBs. Although the CIFs were designed to sunset upon conclusion of a new UNFCCC climate finance architecture, there has been some consideration of a replenishment, given their effectiveness.

In the early months of the new administration, Treasury leadership will have the opportunity to influence decisions regarding the FY2021 and FY2022 budgets to varying degrees. Aligning these budgets with the administration's climate priorities can help build the narrative of U.S. re-engagement and raising of ambition:

FY2021:

- The FY2021 appropriation bills (or continuing resolution) are still to be determined, but the FY2021 budget requests no funding for environmental trust funds in FY2021, which includes the GCF, GEF, and CIFs (although the GEF continues to be funded at lower levels using carryover funding).
- The Treasury FY2021 budget requests $1.56 billion for the MDBs. The CARES Act authorized capital increases at the AfDB and the IFC, as well as authorized U.S. pledges for replenishments of the concessional windows for IDA and the African Development Fund, and there will be international attention on the ability of Treasury to secure these commitments.

FY2022:

- The FY2022 budget will present Treasury leadership with the first opportunity to fully define its own climate funding proposals and to develop the request as part of Treasury's International Programs request.
- NGOs are apparently pressing for $750 million to be earmarked for a U.S. contribution to the GCF.

KEY STRUCTURAL AND ORGANIZATIONAL OPPORTUNITIES

Above all else, an effective organizational framework for advancing climate ambition within the department will require a senior climate official within the department to formulate policy and engage across the department, within the federal government, and with foreign counterparts as well as with private- sector and NGO stakeholders. The senior climate official will need to harness the unique expertise and leadership provided by the undersecretaries and assistant secretaries and be able to quickly synthesize developments and deliver on policy objectives. The official will also need to build strong working relationships across the federal government—including at the White House, the Office of Management and Budget (OMB), State, EPA, and other agencies.

Current situation

Treasury does not currently have a responsible official or coordination mechanism for climate-related issues, and there is no department-wide action on climate change. In the previous administration, Treasury's climate-related work has been largely handled by staff in the Office of International Affairs (IA), led by the Undersecretary for International Affairs, and its efforts have been reactive to agendas and timelines in international bodies and negotiations.

After Treasury eliminated the Office of Energy & Environment Office (E&E) within IA, IA staff with climate expertise have either left the department or have dispersed to other Treasury positions. There does not appear to be climate-focused experience in other Treasury offices, such as Domestic Finance or Economic Policy, with the exception of the Office of Tax Policy (OTP), which continues to have economists and tax analysts with expertise on the carbon tax and on energy tax expenditures.

Three IA components currently handle climate-related policy issues and report to the Assistant Secretary for International Finance and Development, a position that is currently vacant:

> ***Deputy Assistant Secretary (DAS) for International Development Finance and Policy.*** The DAS for International Development Finance and Policy develops and implements U.S. policy toward the MDBs and climate finance. The Office of International Development leads U.S. policy formulation and participation in the Green Climate Fund, the Global Environment Facility, and the Clean Investment Funds, along with food security, financial inclusion, gender policy, and general development work. The DAS serves as the U.S. board member for the GCF, GEF, and the CIFs. The office also manages a bilateral trees-for-debt swap program under the Tropical Forest Conservation Act. The Office of Development Results and Accountability (ODRA) advances U.S. policy goals in the MDBs by reviewing loans and grants and providing policy advice to improve the development effectiveness of MDB projects. ODRA will review MDB projects against the environmental and social frameworks of the MDBs, which include climate objectives, and against legislative mandates that purport to direct the United States to take certain positions with respect to environmental policies at the MDBs. Lastly, the Office of Multilateral Development Banks leads U.S. policy formulation and participation at the MDBs and instructs the U.S. executive directors at each of the MDBs on U.S. positions for board votes and engagement.
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> ***Deputy Assistant Secretary for International Financial Markets.*** The DAS for International Financial Markets formulates our country's international financial regulatory policy and coordinates with domestic financial regulators on U.S. participation in the international financial standard-setting bodies, such as the Financial Stability Board and the Basel Committee for Banking Supervision. The Office of International Financial Markets keeps abreast of developments on sustainable finance in the private sector and in international bodies and works closely with the SEC and Federal Reserve Board staff to review and provide inputs to climate-focused agenda items within the FSB and other bodies, such as financial stability implications from climate change, climate risk disclosures, and supervisory methodologies based on climate risk. The office has limited to no engagement on climate matters with FSOC or Treasury's Office of Domestic Finance.
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> ***Deputy Assistant Secretary for International Monetary Policy.*** The DAS for International Monetary Policy leads Treasury engagement in the G-20 by supporting the Secretary's participation in the G-20 finance ministers' process and serving as lead negotiator for the finance ministry track. The DAS also leads U.S. policy formulation and engagement in the IMF. The Office of International Monetary Policy provides staff support on IMF and G-20 matters.
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> In addition, the ***Office of the Assistant General Counsel for International Affairs*** has played a substantive and positive role in Treasury participation in the climate finance aspects of international climate negotiations and in climate finance discussions in the GCF and GEF, as well as at the G-20 and MDBs.

Prior administrations

In 2007, Secretary Paulson designated a Deputy Assistant Secretary for Energy and Environment and created the Office of Energy and Environment (E&E) for agency-wide climate engagement and action. Paulson believed that Treasury had a leadership role to play in shaping the U.S. government's response to climate change, given that any effective policy would need to take an economy-wide approach. He expected the office to provide cross-cutting expertise across Treasury components and serve as a counterpart to White House officials and other agencies on climate policy development. Because of its funding source, the office reported solely to the IA undersecretary, although there was initial discussion of a dual reporting line to the Assistant Secretary for Economic Policy. Prior to 2007, Treasury had no climate-focused structure and engaged on climate issues largely through IA, in the context of its work in the MDBs and its participation in climate trust funds like the Global Environment Facility.

Over time, the E&E Office increasingly focused on international issues as climate finance became central to the UNFCCC discussions leading to the Paris Agreement. The E&E Office and Treasury leadership, however, engaged on the domestic climate agenda early in the Obama administration, when it focused on legislation. An illustrative list of the E&E Office's efforts includes:

Domestic engagement

- Economic and policy analysis in support of White House engagement on Waxman-Markey legislation, together with OMB, the Department of Energy, EPA, and other agencies. In particular, the E&E Office played a leading role in the Obama administration's analysis of the competitiveness impacts of Waxman-Markey on U.S. manufacturing;
- Contributions to social cost of carbon discussions led by the White House, including economic analysis and strategies;
- Leadership in U.S. interagency effort to draft a report on the oversight of existing and prospective carbon markets as required by the Dodd-Frank Act;
- Evaluation of the structure and implications of a carbon tax;
- Support for implementation of the 1603 grant program;
- Support and oversight of implementation of the Department of Energy 1705 loan guarantee program.

International engagement

- Leadership of U.S. participation in G-20 discussions to track climate finance and address fossil fuel subsidies;
- Leadership of U.S. negotiations to establish and fund the GCF and working with State as partners in UNFCCC-related discussions on climate finance, including on decisions on developed country contributions to climate finance;
- Leadership of U.S. engagement in existing climate finance channels, such as the GEF and the CIFs, through board participation, policy formulation, and efforts to secure appropriations;
- Leadership of U.S. engagement in the GCF and serving as a GCF board member;
- Development of U.S. policy to end support for MDB funding for new overseas coal projects, except in narrowly defined circumstances;
- Development and negotiation of an OECD export credit sector understanding to limit export credit support for coal-fired power plants; and,
- Implementation of the Tropical Forest Conservation Act bilateral debt forgiveness program.

The E&E DAS was a career position, and the four DASes during the Bush and Obama administrations were all economists. The E&E staff numbered approximately 10, with an office director, a deputy director, and about six to eight additional staff. The DAS and E&E Office gained substantial respect and attention in interagency and international discussions given their expertise, economic analysis, and creativity—as well as the weight of Treasury (in the interagency) and U.S. leadership (globally).

The approaches taken by the Bush and Obama administrations, however, are viewed to have shortcomings. These include limited access and engagement by senior Treasury leadership competing policy agendas and interests on climate, MDB finance and policy, and trade; a perceived limitation in scope and mission given its placement within IA; and, an evolution in policy focus from domestic issues to international engagement that presented personnel and staffing challenges.

CONSIDERATIONS FOR A NEW ADMINISTRATION

Treasury will need to decide on a leader and an organizational approach for its climate efforts. An early decision will be critical for Treasury to leverage legislative and public outreach opportunities early in the administration and to set a positive tone for Treasury engagement on climate. An effective model should include:

- A senior climate official to spearhead and coordinate Treasury efforts on climate and represent Treasury in interagency discussions and international efforts; and
- Alignment of Treasury's mission to support climate efforts across all offices that have expertise and portfolios that can leverage climate action (described further below).

The Treasury Secretary should appoint a Counselor to the Secretary for Economic Growth and Climate who is an expert on domestic and international climate finance and has a direct reporting line to the Secretary. The counselor will need to retain the Secretary's support, work effectively with undersecretaries and assistant secretaries, leverage the resources and expertise across the department, and seek to align Treasury efforts with climate goals rather than creating competing objectives. The counselor should be designated as early as possible in the administration—and potentially during the transition period—to ensure effective engagement within Treasury and across the U.S. government, as the administration develops pandemic recovery and response legislation and reasserts U.S. leadership on international climate engagement. The counselor should have a small two- to four-person staff with climate and finance expertise to support engagement at the DAS and staff level. Such staff can be recruited from within Treasury or hired as Schedule A or Schedule C full-time employees. Together, the counselor and team should have complementary expertise in climate and economic policy, interagency engagement, strong relationships with the White House and other agencies, and experience in private sector efforts to finance and respond to climate challenges.

The counselor should be provided a clear mandate to develop and advance climate initiatives within Treasury, the U.S. government, and internationally. The counselor should also be given the authority to coordinate with and leverage the resources of Treasury offices at the level of the undersecretary and assistant secretary to ensure effective engagement on climate issues, to spearhead initiatives across Treasury, and to provide a focal point for interagency and international engagement. This can be achieved by hardwiring climate goals within each office's mission, such as ensuring that that the job description of each undersecretary and assistant secretary includes climate-related objectives tailored to their respective mission; including benchmarks for each office and metrics for climate progress in the Treasury Strategic Plan; and by assigning designated Treasury staff "dual-hat" reporting responsibilities.

Treasury should establish the counselor position and office permanently within Treasury, with career executives and staff, in recognition of the fact that climate change is a long-term challenge and as a sign of commitment to the mission, and on a more practical level, to add leverage and credibility to the counselor and the office.

Other options exist for an organizational structure, but are less desirable as a primary organizational approach. These include creation of a cross-cutting Assistant Secretary for Climate reporting directly to the Secretary or designation of deputy assistant secretaries responsible for climate matters within each office. These approaches could be implemented alongside the appointment of a counselor, but should not be a substitute.

DEPARTMENT-WIDE CLIMATE INTEGRATION

A number of offices within Treasury should play a critical role in developing and advancing climate policy and action, but they are not currently utilized. A senior standing committee on climate and economic growth led by the chief of staff can regularly coordinate climate work across offices, along with more frequent engagement by the counselor. Each office will need to assess the level of climate-related expertise and implement recruitment plans to bolster or build climate teams.

The main offices include:

> ***The Undersecretary for International Affairs and the Office of International Affairs (IA)*** leads Treasury engagement globally on international economic policy, including in the MDBs and on development policies, climate finance funds, global coordination mechanisms such as the G-20 and the Asia-Pacific Economic Cooperation (APEC) forum, trade and export credits, and international financial regulatory cooperation. IA should establish a new DAS position that leads IA international development and climate policy, particularly given the linkages between the two policy efforts, including work on food security, other environmental priorities and general development through the Millennium Challenge Corporation and the DFC. The new DAS-led office would provide climate expertise to IA offices that regularly engage with U.S. agencies and international bodies with non-climate mandates but that address climate matters. This, for example, could include coordination with the DAS that leads engagement with the MDBs on MDB governance and policies and MDB loan reviews; the DAS for International Trade and Investment on engagement with USTR on trade and environment policy and with Ex-Im on "greening" export credit policies; the DAS for International Financial Markets on climate-related agenda items in the international financial standard-setters; and, the DAS for International Monetary Policy on IMF and G-20 climate efforts.
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> ***The Undersecretary for Domestic Finance and Office of Domestic Finance (Dom Fin or DF)*** handles domestic finance, banking, federal debt issuance and management, and other economic and financial matters affecting the U.S. government. Dom Fin leads Treasury participation in the FSOC and the President's Working Group on Financial Markets and develops policies for Treasury engagement on financial regulatory matters, federal debt management, and capital markets. Dom Fin has not historically dedicated staff or policy focus on climate issues, in part because innovative climate policy for financial markets and financial institutions took root after the conclusion of the Paris Agreement. Dom Fin can play an important role in engaging with financial regulators and shaping FSOC agendas around climate risk and financial stability; coordinating with IA on the intersection of U.S. domestic and international climate policy; supporting consideration of green investment portfolios; and, engaging more broadly with financial institutions and markets to identify and drive market-driven policies to achieve a clean economy.
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> Dom Fin will have limited expertise on climate-related issues and will need to identify staff to support climate aspects of its mission.
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> ***The Federal Insurance Office (FIO)*** monitors all aspects of the insurance sector and represents the United States on prudential aspects of international insurance matters, including at the International Association of Insurance Supervisors (IAIS). The director of the FIO engages with the state insurance supervisors and the National Association of Insurance Commissioners (NAIC) in the formulation of U.S. positions at the IAIS, including its climate agenda. In addition, FIO serves as an advisory member of the FSOC.
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> The FIO will have limited expertise on climate-related issues and will need to identify staff to support climate aspects of its mission.
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> ***The Assistant Secretary for Tax Policy and Office of Tax Policy (OTP)*** is expected to have career tax analysts with climate-related experience and expertise. The Office of Tax Analysis (OTA)—within OTP—is likely to have assessed and scored energy-related tax provisions and policies in the new administration's platform prior to the start of the new term. The incoming administration should be able to leverage career expertise, in a manner similar to the previous administration's reliance on career staff at the outset, to formulate

policy, identify administrative discretion, and develop legislative proposals to advance tax-related aspects of Treasury's climate efforts. The Assistant Secretary for Tax Policy reports directly to the Treasury Secretary.

The Assistant Secretary for Economic Policy and Office of Economic Policy (Econ Policy) plays a critical role in working with the Council of Economic Advisers (CEA) and OMB in the preparation of the administration's budget and economic reports and in providing sound economic analysis to administration initiatives across the executive branch. Econ Policy's areas of focus are driven by ongoing policy developments and the Secretary's interests, and it has previously worked with the E&E DAS in supporting economic analysis of domestic and international economic initiatives, including the formulation of the U.S. Nationally Determined Contribution for the Paris Agreement. In previous administrations, Econ Policy has worked with OMB, the Office of Information and Regulatory Affairs (OIRA), and the Council of Economic Advisers in reviewing and informing the development of EPA Clean Air Act regulations.

The Assistant Secretary for Economic Policy reports directly to the Treasury Secretary and has two or three deputy assistant secretaries focused on microeconomic policies, macroeconomic policies, and on occasion, broader policy efforts or objectives. It is staffed primarily by Ph.D. economists, often on short-term arrangements on leave from academic institutions. As Treasury builds an Econ Policy team, it should consider adding economists with climate expertise or interests to provide support on climate-related matters.

The Office of Financial Research (OFR) has broad authority to collect and analyze data from financial institutions and market participants to assess financial stability and other risks to the financial system. In its 2019 Annual Report to Congress, OFR identified the frequency and severity of natural disasters as potentially posing risks to financial stability and noted both physical risks and transition risks as types of transmission channels. The OFR concluded that both types of risks bear monitoring. In light of the 2019 report, the incoming administration should consider whether to work with FSOC and OFR to develop a data gathering effort designed to better understand how financial institutions and other market participants assess and track physical risk and transition risk exposure and potentially design standardized approaches for data gathering. OFR, however, is likely to need increased staffing on climate-related financial risks, given attrition and existing focus of the office.

RECOMMENDATIONS

- Treasury should appoint a Counselor to the Secretary for Economic Growth and Climate to serve as a counterpart for senior climate officials at the White House, other federal agencies, and in international climate negotiations, as well as to coordinate climate efforts within Treasury. Treasury should recruit a small team of climate finance and economics experts to support the counselor as soon as possible. (Day 1)
- Treasury should issue a message, either standalone or as part of a larger message to Treasury employees and the broader public, to:
    - Announce the new position; and
    - Convey the centrality of Treasury's climate mission to Treasury staff, domestic markets, and the international community. (Day 1)
- Very early on, Treasury should assess the legislative backdrop for FY2021 appropriations and determine opportunities for Treasury International Programs funding and engage with State and OMB on availability of ESF funds for multilateral climate finance. (Early in first 100 Days)
- Treasury should also engage very early to develop assistance priorities across both the international climate funds and MDBs, including potential policy and governance changes, in order to design its funding request in the administration's FY2022 budget proposal. (Early in first 100 Days)

- Treasury should develop a plan to build staff capacity lost in recent years, with an emphasis on hiring personnel with requisite climate and economic expertise, as well as augment staffing to meet the needs for effective domestic and international engagement on climate change, and in the context of climate-related pandemic recovery funding. Treasury should use available hiring options—such as Intergovernmental Personnel Act agreements, contractors or Schedule A or C staff with climate and economics expertise—in the early months to enable immediate U.S. re-engagement. (First 100 Days)
- Treasury should hardwire climate goals within each office's mission. It should ensure that that the job description of each undersecretary and assistant secretary includes climate-related objectives tailored to their respective mission. Moreover, the Treasury Strategic Plan should include for each office benchmarks and metrics for climate progress. (First 100 Days)
- Treasury should establish a senior standing climate committee, chaired by the chief of staff, and involving the Counselor to the Secretary for Economic Growth and Climate, undersecretaries, and assistant secretaries, to meet regularly to coordinate on domestic and international engagement, to identify opportunities and challenges in promoting climate ambition on an economy-wide basis; to develop regional strategies; and to develop public messaging and assess progress. Depending on the division of responsibilities, the Deputy Secretary could also serve as the chair of this committee. (First 100 Days)
- Treasury and the White House should move quickly to appoint Assistant Secretaries for Economic Policy and for Tax Policy with strong credentials on the effective use economic and tax policy to promote job growth and infrastructure investment, including in clean energy.

2 Key Program Opportunities and Recommendations

There are a number of near-, medium-, and long-term policy actions that Treasury leadership should take to correct the department's course on climate, many of which can be taken in the first 100 days—particularly as new leadership charts our COVID-19 economic recovery. From Day 1, the incoming Secretary must use their bully pulpit to make clear the new, ambitious direction the administration plans to build the economy and take on climate change.

The Treasury Department promotes U.S. economic prosperity through its role in shaping fiscal, economic, financial, and regulatory policies. The Treasury Secretary can lead the American public, key business community stakeholders, Congress, and the administration in rebuilding a more climate-resilient economy, particularly in the near-term context of stimulating the economy after the COVID pandemic.

Treasury will have a material impact in shaping U.S. economic and climate policy priorities, given its close policy coordination with the White House, its joint role with OMB in shaping the U.S. budget, and its shared responsibility to set tax policy. Treasury can also shape climate-related policy actions at agencies for which the Secretary serves as a board member or participates in oversight bodies. Treasury economists will also have substantial influence on individual agency-level climate actions through rigorous review and input to ensure that the actions are economically sound and are designed to support, not constrain, economic growth. Alongside the President and the Secretary of State, the Treasury Secretary can also affirm renewed U.S. leadership on the economy and climate on the global stage—in international financial institutions, the international financial standard setters, and the G-20 and other economic groups, particularly in the context of pandemic-related recovery efforts.

At the same time, Treasury has limited direct financial resources to impact climate outcomes, which are mostly limited to appropriations for multilateral climate assistance activities; little direct regulatory authority to incentivize climate impacts; and limited bandwidth, given competing demands. The Secretary will need to organize the Treasury team around climate objectives effectively in order to ensure consistent engagement and to work with counterpart agencies and foreign governments in executing climate actions.

PROGRAMS AND POLICIES

Below is an illustrative list of actions and engagements around which the Secretary and department can build a strategic plan for implementation in the first 100 days and first year.

Domestic programs and policies

- **Domestic messaging and public diplomacy.** The Secretary and senior leadership can use the Treasury "bully pulpit" domestically to communicate that a strong economy and national security require ambitious, smart policies to decarbonize the economy and mitigate the threats climate change poses to American infrastructure, communities, and economic activity. That message could be made domestically to businesses or to the financial markets with a headline speech at a financially significant forum, such as major business chambers or associations.

- **Post-COVID economic recovery.** Treasury can play a key role in supporting the integration of climate mitigation and adaptation efforts into spending, tax expenditure, and policy reforms to protect and jump-start the U.S. economy, particularly as the structure of the U.S. economy evolves in a post-pandemic landscape. This can draw from the experience under the American Recovery and Reinvestment Act of 2009, which provided tens of billions of dollars in tax credits and Treasury-administered grants for renewable power and energy efficiency and conservation investments. For example, the Treasury's 1603 grant program provided more than $25 billion in grants that contributed to the financing of more than $90 billion of renewable power projects accounting for about 35 gigawatts of generating capacity. Treasury can help identify and develop policies and programs that simultaneously create jobs, target hard-hit regions and economic sectors, and support emissions mitigation or climate adaptation efforts. Funding for the repair of America's aging and deteriorating infrastructure can integrate policies to ensure climate resiliency or low-emissions production. New infrastructure, such as grid-level energy storage or electric vehicle charging capacity, would catalyze further private investment in zero carbon technologies. Given Treasury's experience on credit policy and tax policy, the department could play an important role in policy and implementation debates regarding a federal "green bank," technology-neutral energy tax credits that foster a shift away from carbon-intensive production, and novel policy approaches for advancing the administration's climate change agenda.

The Secretary will be at the forefront as Congress and the administration consider a series of legislative packages to support an economic recovery. Treasury—and in particular, the Office of Economic Policy and the Office of Tax Policy (OTP)—can provide focused economic and policy analysis as the White House, OMB, and other agencies consider economic recovery and related climate/energy initiatives. Rigorous, transparent policy analysis by Treasury can provide the evidence for what will likely be an intense political debate among climate and clean energy policy advocates and climate opponents in tailoring and targeting climate efforts.

- **Carbon tax, cap-and-trade, and clean energy standard proposals.** A key issue facing the new administration will be how to speed the U.S. economy toward a low carbon trajectory. Possible market-based approaches could include a carbon tax, a cap-and-trade program, or a clean energy standard. Treasury expertise—particularly through the Office of Economic Policy and OTP—will be needed to evaluate the climate impacts as well as the economic, social, and fiscal implications of any policy choices, including distributional impacts across sectors and income levels, effects on jobs, administrative feasibility, and consistency with overall tax policy. Congress and the American public will also expect the Secretary to make the case that the administration's policy choices will advance both U.S. economic interests and climate goals. With respect to the carbon tax, the new administration can build on the 2017 Treasury working paper titled "Methodology for Analyzing a Carbon Tax" (several contributing authors continue to work at Treasury).
- **Aligning the tax code.** Treasury can also support climate goals by aligning the implementation of the tax code with a low-emissions trajectory. The Office of Tax Policy (OTP) maintains an ongoing inventory of climate- and energy- focused investment and production tax credits and other tax expenditures. They can be reviewed early in the new administration when considering administrative actions (to the extent available) or new legislation. This could focus on extending, expanding, and modifying provisions that support low-carbon investment as well as phasing out provisions that subsidize fossil fuel-related investment. Such action could be directed by the Secretary or the President through a series of executive announcements, e.g., memos or orders, that increase or redirect staffing at OTP and direct policy goals within a specified time frame. OTP could also work closely with the House Ways & Means or Senate Finance committees to consider potential legislative action on economic recovery, infrastructure, the regular budget process, and tax extenders.
- **Climate risks in entitlement programs.** The Secretary serves as the managing trustee for both Social Security and Medicare. Increasing frequency and intensity of adverse climate change impacts could increase demand for health care services among the elderly population, with significant implications for the long-term finances of Medicare. Moreover, an emerging research literature highlights the adverse impacts higher temperatures have on worker productivity, which could influence labor compensation and contributions to both Social Security and Medicare through payroll taxes.
- **Financial markets and banks.** Treasury can prompt greater regulatory attention to the risks climate change poses to financial institutions and financial markets. Treasury can promote the flow of information about climate risks that market participants can account for in their decision-making. This can enable better

pricing of climate risks in lending, investment, and other market activities. In fact, a September 2020 Commodity Futures Trading Commission report urged financial regulators to undertake substantial work to better measure, understand, and address the risks to the financial system posed by climate change and set out 53 ideas for doing so.

Global regulators at the national level (e.g., the Bank of England) and at international financial standard-setting bodies have begun to factor climate-related risks into micro-prudential supervision of banks and to evaluate macro-prudential financial stability risks resulting from climate change. Climate risks have also prompted some financial institutions and asset managers to lean into sustainable investment principles and enhanced risk disclosures around sustainability and climate change. Some argue, however, that additional regulatory burden will be detrimental, and markets will accurately price climate risks over time where risks are apparent. Regardless, more economic and financial research and analysis is required to persuade regulators and market participants to integrate climate-related risks more broadly.

Treasury can press U.S. regulators to evaluate further the implications of climate-related risk for micro-prudential regulation and climate risk-disclosures, and broader financial stability. Treasury has several channels through which to engage regulatory agencies, consistent with their regulatory independence. Treasury serves as a primary interlocutor between the executive branch policy-making function and the independent regulators, and the department often works to assimilate policy goals with regulatory agencies.

As chair of the FSOC (and the lesser-used President's Working Group on Financial Markets), Treasury is also charged with identifying risks to U.S. financial stability, promoting market discipline, and responding to emerging risks to the stability of the U.S. financial system. An FSOC discussion on climate risk and financial stability can serve to elevate the issue for regulators and focus public attention on Treasury efforts. For example, Treasury could lead an effort to develop analytical approaches that show that climatic events can have asymmetric impacts on the financial markets with consequences for financial stability that markets cannot price over time. Such efforts could drive policy actions—for example, stress testing for climate-related shocks or re-examination of Federal Reserve Board lending and investment policies. Similarly, Treasury could work through FSOC to spur data collection efforts at the Office of Financial Research (OFR) on climate-related practices and policies at U.S. financial institutions and other market participants and develop standardized reporting mechanisms, potentially working with the EPA and the Department of Energy. Treasury could separately build on the previous administration's "Core Principles" for financial regulation—which reviewed and made recommendations for streamlining financial regulation and promoting growth in the financial markets—by preparing a report on regulatory and market mechanisms to address climate risks and by identifying key action items for the FSOC's and Federal Reserve's consideration.

International programs and policies

- **International economic and climate diplomacy.** The new administration's first G-20 economic meeting—the G-20 Finance Ministerial—is expected to take place in early 2021 and will garner substantial focus and attention. Clearly defined outcomes for global action on climate in the context of this meeting will have substantial impact and set a positive tone for U.S. leadership. The Secretary could use this timing to make a headline speech to communicate U.S. commitment on both domestic and international climate efforts. Renewed U.S. climate finance leadership can be one cornerstone of U.S. engagement on international economic policy, along with initiatives on emerging and developing country debt relief and an effective, coordinated global response on post-COVID-19 economic recovery.

  As America's top economic diplomat, Treasury leads U.S. engagement in the G-20 through the finance ministers' process and in the international financial institutions, such as the IMF and MDBs. In 2021, Italy will serve as the G-20 chair and the United Kingdom will serve as the G-7 chair, and together, both countries will host the UNFCCC negotiations. The coordination and commitment to addressing climate change across Europe and the U.K. provides a significant opportunity for the Secretary to signal renewed American leadership.

- **Multilateral climate finance.** Renewed Treasury leadership in, and financial contributions to, dedicated multilateral climate finance channels will have a corresponding impact on U.S. climate leadership and on global climate outcomes.

  Early in the new administration, Treasury will need to assess: (1) the levels of pledges or contributions to the GCF, GEF, and CIFs; and (2) governance and policy reforms on which any U.S. pledge is conditioned. The GCF, for example, has been plagued with governance and operational challenges in its first years of operation that have raised questions about its effectiveness. As a result, Treasury should consider governance and policy reforms commensurate with the size of the U.S. pledge. Lastly, Treasury should consider international climate finance engagement against the backdrop of Treasury's international engagement calendar, including the IMF and World Bank, G-20, and UNFCCC meetings, in order to leverage key announcements or actions to signal U.S. leadership.

  In addition, although the GCF garners attention as a leader among dedicated climate finance funds, Treasury should also consider other new or existing multilateral climate finance channels that provide positive dividends, such as the CIFs, a Bush-era climate trust fund at the World Bank often mentioned as an effective vehicle for the delivery of climate finance. As a World Bank trust fund, the CIFs, for example, leverage about $9 for every $1 of CIF donor contributions to establish new markets and scale-up clean technology and resilient infrastructure in middle and low-income countries. It also continues to develop innovative financing structures to attract institutional and private- sector investment at the fund level and has received significant support from the U.K. government in furthering these efforts.

- **Multilateral development bank policy and financing.** Renewed U.S. engagement and leadership in the MDBs in the context of the pandemic and the economic recovery efforts will provide significant returns for U.S. climate policy, along with broader development goals. As the World Bank and other MDBs turn to a second phase of the global recovery, the U.S. can translate that leadership to press both MDBs and borrowing countries to align recovery programs with a green recovery, building on countries' national development plans and Nationally Determined Contributions under the Paris Agreement and progress already made by the MDBs to provide sustainable finance. Sustained integration of long-term sustainability and decarbonization goals into the design of MDB programs will have a significant impact on developing country climate outcomes. These could include, for example, policies and funding focused on retiring coal plants, promoting the reform and phase-out of fossil fuel subsidies, scaling up climate finance as an overall percentage of MDB lending and grants, and increasing technical assistance for the development of national climate strategies.

  Treasury will face headwinds in such efforts, including budget and appropriations constraints, competing policy interests with respect to MDB policy that will need to be reconciled, a changed environment at the MDBs and competition from China, and criticism from NGOs and governments that demand even more from a U.S. government that seeks to reassert leadership.

- **Development finance institutions (DFIs).** As an active board member of the U.S. International Development Finance Corporation (DFC), Treasury can work with the White House and State (as chair of the DFC Board) to promote DFC policy formulation around climate goals. DFC has recently been re-writing investment policy to support nuclear technology financing to developing countries and shifted its focus to supporting domestic personal protective equipment production in the ongoing pandemic. In this leadership void, other countries have taken steps to finance and export coal, as well as unwind social and environmental safeguards that took decades of negotiation to establish among the international community.

  Through the BUILD Act, the DFC can have a powerful impact on climate finance. It has a range of new tools at its disposal, such as equity financing (direct or via funds), subordinated loans, grants, other blended finance products, and technical assistance. For example, Treasury could promote policies such as reinvigorating the Obama-era coal finance policy and limiting gas power plant financing to special cases in low-income countries, as well as participate in new efforts to promote retirement of coal plants globally.

Treasury can also work with State, USAID, the Millennium Challenge Corporation, the Export-Import Bank, and the U.S. Trade and Development Agency, together with DFC, to push a whole-of-government initiative on international climate finance. Such an effort could use the Obama administration's Power Africa initiative as a model through which U.S. overseas missions identify climate investment opportunities and partners, and federal agencies leverage grant and technical assistance resources. Treasury could also seek to convene a blended finance task force, either domestically or internationally, to develop efforts to use DFI resources to mobilize private sector capital and resources and to establish partnerships with financial institutions to deploy blended finance tools or identify more effective mechanisms to harmonize carbon accounting for DFI projects.

- **Bilateral engagement with China and the European Union (EU).** As the three largest economies and sources of GHG emissions, U.S. relationships and approaches to economic and climate cooperation with China and the European Union will have outsize implications for global efforts to address climate change. Before the previous administration, the U.S.-China relationship was the most significant bilateral relationship in terms of climate change, and the EU and the U.S. shared common perspectives and approaches on climate finance in the MDBs and at the GCF.

  The administration will need to determine its overall bilateral approaches to China and the EU against the backdrop of the pandemic; the COVID-19 recession and resulting economic competition; the trade war; and increasing tension over Hong Kong, the Uighur population, and human rights. Treasury will be expected to play a central role as the primary economic interlocutor for the U.S. government. From a climate perspective, the ability of the Secretary to re-establish the working relationships that were developed in the Bush and Obama administrations will be critical to cooperation on emissions reductions—particularly in the context of energy intensive industries such as steel, aluminum, and cement—and engagement in the MDBs and climate finance institutions. Potentially, discussions around climate will implicate challenging policy interests, such as U.S. participation in the Asian Infrastructure Investment Bank (AIIB), greater U.S. financial contributions to the MDBs and international climate finance efforts, increased carbon emissions resulting from the Belt and Road Initiative, and differing perspectives between the EU and the U.S. on climate approaches.

- **International financial standard setters.** Greater Treasury participation in the international financial standard-setting bodies on climate-related risks can signal to global central banks and regulators, and the financial markets, the U.S. commitment to steer the financial community toward a transition to a low-carbon trajectory.

  In the absence of U.S. leadership, each of the international standard-setting bodies have given greater attention to climate-related risks in order to develop and coordinate supervisory expectations for the assessment of climate-related financial risks by banks, insurers, and financial markets; to close data gaps necessary for effective assessment of climate-related risks; and to ensure accurate and uniform disclosure of climate-related risks. For example, the IMF, in its 2019 Global Financial Stability Report, includes a chapter on climate-related financial stability risks, which finds that investors do not pay sufficient attention to climate change risks. The IMF made recommendations on disclosures and stress testing, among other things, that track the 2020 CFTC report. Similarly, the FSB's Task Force on Climate-Related Financial Disclosures (TCFD) has issued recommendations for company disclosures of climate risk with respect to their governance, strategy, and risk management that have attracted significant traction.

  Treasury participates in these bodies as a member and more informally coordinates views of the U.S. regulatory agencies through its international banking office. As it deepens engagement on sustainable finance efforts, Treasury can spur broader efforts by these institutions (e.g., by conducting surveys of ongoing practices at financial institutions), while at the same time, work to ensure sound economic analysis and fundamentals in evaluating and reviewing proposals by other members, such as the U.K., the Netherlands, and France.

Finally, Treasury should consider participation in new international coalitions of finance ministers, central banks, or supervisors that have formed new workstreams for the purpose of addressing climate-related financial risks. The Network for Greening the Financial System (NGFS), the Coalition of Finance Ministers for Climate Action (Coalition), and the International Platform for Sustainable Finance (IPSF) are three such consortiums, respectively of central banks and bank supervisors, of finance ministers, and various public authorities. U.S participation in these forums can provide impetus to their efforts to promote sustainable finance, while at the same time focus their efforts toward sound economic and scientific fundamentals.

RECOMMENDATIONS

- Treasury should develop a climate strategy that articulates Treasury's near-, medium- and long-term goals in advancing the administration's climate ambition, including public messaging, domestic policy efforts, and international engagement.
    - A near-term strategy should include the advancement of specific climate objectives and instruments in the context of a robust economic recovery and opportunities for domestic and international public diplomacy. (Early in first 100 Days)
    - A medium-term strategy should include an assessment of tax-related climate provisions and multilateral climate finance efforts, and related budgetary requests for the 2022 budget, as well as developing sustainable finance goals and efforts working with regulators. (First 6 months)
    - A long-term strategy can include continuing engagement with the White House and federal agencies to craft a comprehensive climate change policy that includes both mitigation and resilience objectives and ensures broad private sector engagement and participation. (First year)
- The Treasury Secretary should deliver a high-level speech on economic growth and climate ambition before key domestic constituencies, such as major business chambers or associations. (First 100 Days)
- Treasury should develop an international agenda for climate finance that includes MDB engagement, DFI engagement and strategy, and financial market risks and identify international forum to announce strategy, e.g., G-20 finance ministerial or IMF/World Bank annual meetings. (First 6 months)
- Treasury should initiate an FSOC agenda item regarding climate and financial stability risks and opportunities, which could include a report on climate-focused financial regulatory reform, with recommendations for regulatory action. (First 6 months)

3 Cross-Cutting Priorities and Relationships

Treasury's success in building U.S. economic resilience against climate change shocks will depend on its ability to engage and support external stakeholders, from the White House and other federal agencies to MDBs and the private sector. Building and strengthening these ties will be a high priority for the incoming Secretary and team.

Treasury has policy making and oversight responsibilities across virtually every aspect of domestic and international economic policy. With this broad scope, Treasury can foster climate policies that are rooted in strong economic fundamentals and aligned with government-wide policy and budget priorities, and ensure that economic policies are designed to achieve a low-carbon trajectory and address climate-related impacts.

In order to execute an economy-wide climate vision fully, Treasury will need to establish, rebuild, and expand its relationships with the White House and federal agencies, as well as external stakeholders.

PREVIOUS TREASURY CROSS-CUTTING PRIORITIES AND RELATIONSHIPS

During the Bush and Obama administrations, Treasury worked closely with the White House, OMB, and the State Department to develop and implement international climate finance policy. For example:

- Treasury worked with State and OMB to establish and fund the Clean Technology Fund (CTF), a climate trust fund at the World Bank designed to help developing countries scale-up transformative low-carbon technologies, in the context of the Major Economies Forum;
- Treasury partnered with White House and U.S. agencies to spearhead a G-20 effort to rationalize and phase out inefficient fossil fuel subsidies;
- Treasury worked with State, USAID, and White House to develop a $30 billion fast-start commitment and the collective goal by developed countries to mobilize $100 billion of public and private finance jointly, as part of the Copenhagen Accord;
- Treasury provided substantial input into UN Secretary General led effort—the High Level Advisory Group on Climate Finance—to identify sources of climate finance to achieve the Copenhagen goals;
- Treasury led the U.S. effort to stand up and fund the Green Climate Fund and finance efforts leading to the Paris Agreement;
- Treasury pressed the MDBs adopt new rules to reduce or eliminate loans for new coal projects; and
- Treasury used its role as a board member for the Overseas Private Investment Corporation (now named the International Development Finance Corporation) to argue for clean energy policies and to end coal funding.

At the outset of the Obama administration, the E&E Office engaged regularly with the White House Office of Energy and Climate Change, National Economic Council (NEC), and EPA, Energy, Interior, and Transportation to support interagency discussions on Waxman-Markey and the social cost of carbon. For example:

- Treasury worked closely with the White House, Council of Economic Advisers, EPA, and other agencies to develop metrics to assess the social cost of carbon;

- Treasury worked closely with the White House and Congress on provisions of the Waxman-Markey legislation, including the development of the cap-and-trade framework and trade measures, and its international competitiveness effects;
- Treasury contributed to a CFTC-led working group report on the oversight of existing and prospective carbon markets;
- Treasury worked with Energy on the implementation of the Section 1603 grant program; and
- Treasury developed papers analyzing methodologies to design and implement a carbon tax.

CROSS-CUTTING PRIORITIES AND RELATIONSHIPS IN THE NEW ADMINISTRATION

Treasury will need to work closely with other agencies to integrate economic and climate policy decision making. For example:

- **Domestic climate-related economic and tax policy.** Treasury will play an integral role in shaping economic and climate policy efforts by the White House, the National Economic Council, the Council of Economic Advisers, and the Council on Environmental Quality, as well as the Environmental Protection Agency, the Departments of Energy and Transportation and other agencies and departments, as well as evaluating budgetary impacts and economic implications. In addition, the Secretary of the Treasury can influence consideration of climate impacts on entitlement programs, such as Social Security and Medicare as the managing trustee for both.
- **Independent financial regulators.** Treasury regularly coordinates on domestic and international regulatory policy matters involving the financial markets and financial institutions with the independent regulatory agencies—the Securities and Exchange Commission (SEC), the Federal Reserve Board, the Commodities Futures Trading Commission (CFTC), Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC)—through its Domestic Finance and International Affairs offices. In terms of international engagement, the International Banking office can deepen its engagement with SEC and Federal Reserve Board staff on U.S. participation in the FSB and other international standard setters to ensure a consistent U.S. position and voice on supervisory discussions on climate risk, climate risk disclosures, and financial stability. On domestic matters, as an executive branch counterpart, Treasury can informally engage in a dialogue with regulators on climate-related policies and initiatives to stimulate market-based solutions, and more formally, as chair of the Financial Stability Oversight Council, can motivate FSOC discussions on financial stability and climate risks.
- **State insurance regulators.** The Federal Insurance Office (FIO) within Treasury will need to engage actively with the state insurance regulators on climate-related impacts to the insurance industry and climate-related disclosures adopted by insurance supervisors. Such efforts will help Treasury and the administration keep abreast of domestic insurance initiatives and inform the development of U.S. positions at the International Association of Insurance Supervisors (IAIS), in which the FIO participates.
- **State Department.** Treasury will need to coordinate with State, OMB, and the Development Finance Corporation on multilateral and bilateral climate-related finance. Coordination will help to ensure that U.S. funding and policies at the World Bank and other international financial institutions are aligned with U.S. climate objectives; support climate finance discussions at the UNFCCC or other international forums; and ensure that any existing or new climate finance channels are effective and appropriately leverage scarce U.S. taxpayer resources.
- **U.S. Trade Representative.** Treasury will need to work closely with USTR and other agencies through existing trade policy coordination channels (e.g., the Trade Policy Staff Committee and Trade Policy Review Group) to avoid conflicts between trade and climate goals; advance climate objectives in multilateral, plurilateral, and bilateral trade negotiations; and to consider potential trade actions unilaterally or

multilaterally where trading partners take action that does not provide a level playing field for U.S. workers and businesses.

- **Development and export finance agencies.** Treasury can use its role as a board participant in the International Development Finance Corporation, as well as the Export-Import Bank and Millennium Challenge Corporation, to work with State and other board members to advance international decarbonization, mitigation, and adaptation efforts.
- **Private sector and NGOs.** Given the potential economy-wide impact of climate-related policies, Treasury can expect to engage more actively with private sector and NGO stakeholders. To the extent that Treasury takes a leadership role in driving climate policy, it can consider using its convening power to engage business leaders, governments at the state and local level, and civil society in seeking views on climate efforts and the economy. Such efforts can help to build consensus and generate potential innovative approaches. In particular, Treasury can expect engagement from financial institutions, shareholders' groups, and investors on promoting market-based policies for green investment. To the extent that Treasury takes an implementation role in climate efforts, such as through a grant program, green bank, or infrastructure program, Treasury can expect broader engagement from stakeholders affected by Treasury programs. On international matters, Treasury participates in periodic meetings with international NGOs and federal agencies on social and environmental matters at the MDBs.

RECOMMENDATIONS

- Treasury should build (or rebuild) strong working relationships with counterparts at the White House and other agencies to ensure awareness and engagement on climate policy development. These relationships include:
  - The Treasury Office of Tax Policy (OTP) should coordinate closely with the National Economic Council (NEC) on tax-related climate initiatives;
  - Treasury—through the Office of Economic Policy and OTP—should regularly engage with the Office of Management and Budget (OMB) on spending and regulations; and
  - Treasury International Affairs should work with the National Security Council (NSC) and OMB on foreign assistance and international climate negotiations. (First 100 Days)
- Treasury should engage with financial regulators to understand priorities and should include climate and sustainable finance in the context of conveying administration objectives. (First 100 Days)
- Treasury should also work to ensure that its outreach/coordination efforts extend, as appropriate, to international counterparts, U.S. states, and private sector and market participants, as well as civil society. (First 100 Days)

Glossary

AfDB: African Development Bank

Basel Committee: Basel Committee on Banking Supervision

CEA: Council on Economic Advisers

CFTC: Commodities and Futures Trading Commission

CIFs: Clean Investment Funds

Coalition: Coalition of Finance Ministers for Climate Action

CTF: Clean Technology Fund

DFC: International Development Finance Corporation

DAS: Deputy Assistant Secretary

DFI: Development Finance Institution

Econ Policy: Treasury Office of Economic Policy

ESF: Economic Support Fund

EPA: Environmental Protection Agency

FINRA: Financial Industry Regulatory Authority

FIO: Treasury Federal Insurance Office

FSB: Financial Stability Board

FSOC: Financial Stability Oversight Council

FTA: Free Trade Agreement

GCF: Green Climate Fund

GEF: Global Environment Facility

G-20: Group of 20

IA: Treasury Office of International Affairs

IAIS: International Association of Insurance Supervisors

IFC: International Finance Corporation

IMF: International Monetary Fund

IOSCO: International Organization of Security Commissions

MDBs: Multilateral Development Banks

NEC: National Economic Council

NSC: National Security Council

NGFS: Network for Green the Financial System

NGO: Non-governmental Organization

OFR: Treasury Office of Financial Research

OIRA: Office of Information and Regulatory Affairs

OMB: Office of Management and Budget

OTP: Treasury Office of Tax Policy

SEC: Securities and Exchange Commission

TCFD: Task Force on Climate-Related Financial Disclosures

TPRG: Trade Policy Review Group

TPSC: Trade Policy Steering Committee

UNFCCC: United Nations Framework Convention on Climate Change

USAID: U.S. Agency for International Development

USTR: United States Trade Representative

WTO: World Trade Organization