CLEAN ASSET BONDS

ACEEE American Council for an Energy-Efficient Economy

Clean Capitalist Leadership Council
Turning capitalism into clean capitalism

The Clean Free Market Act

A Plug & Play Bill Any State or Nation can Adopt, to Build a Powerful, Borderless Clean Free Market

Clean Tax Cuts (CTCs) are an emerging class of policy proposal, based on the common sense notion that "if you want more of something, tax it less." Designed collaboratively by over 300 scholars, institutes and industry experts, CTCs remove tax and other barriers to capital and participation for low-or-no pollution free enterprise, in order to drive broad-based prosperity throughout a cleaner, freer world.[1]

The Clean Free Market Act proposes a rapidly scalable Clean Tax Cut strategy – a simple plug-and-play bill that any state or nation could implement to spark the creation of a powerful, global, clean free market, defined by low taxes, no tariffs, and no barriers to participation in clean free enterprise. In other words, the biggest, freest market possible – so long as it cleans and conserves.

Clean Asset Bonds (CABs), of all CTC mechanisms developed to date, remove barriers to capital and participation better, with broader impact, and greater leverage and economic benefit, than any green incentive in use today. The Act introduces these – a new kind of highly cost effective ***leveraged* incentive** – as a simple, broadly applicable CTC building block for the proposed clean free market.

Clean Asset Bonds and Loans apply policy leverage (a clean tax cut) to financial leverage (private debt). Specifically, these would be tax-exempt private debt securities (green bonds and loans) designed to finance pre-qualified pollution-reducing assets with guaranteed impact (e.g., a zero emission power source or a plastic recycling plant, for instance). This unique design guarantees green impact and public benefit – without complicating easy, low-cost bond issuance. These are also the only tax-exempt bonds optimized to work across the $46 trillion global private bond market – 12 times bigger than all 50 US state and municipal bond markets combined. That private market placement makes Clean Asset Bonds unique, different from all existing tax-exempt bonds, which are uniformly government bonds: on the other side of such debt, is government – so no leverage effect. But Clean Asset Bonds are private bonds: on the other side of that debt is equity, which is greatly enhanced by leverage.

Clean Asset Bonds (and similar loans) *magnify* financial leverage. Cheap tax-exempt debt drives down cost of capital and cost for clean energy and products, while leveraging up growth rates, GDP and return on equity. That means this is the only tax-exempt bond that attracts not just the usual high net worth bond investors (globally, not just in one state), but also incents ALL equity investors, globally, to invest in the higher returns on the equity side of the capital stack – which is taxable, netting more tax revenue than lost on the tax-exempt debt. One incentive attracts both debt and equity, the latter taxable(!).

Any state or nation can adopt the Act. Its businesses can then issue Clean Asset Bonds and Loans, which would be tax-exempt to citizens of all cooperating states or nations. Clean assets and products, qualified by the Act, could then also trade between cooperating nations without tariffs. This plug-&-play design

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[1] Wind and solar have become increasingly profitable unsubsidized over just the past decade, as have other clean, efficient technologies. Once profits appear, taxes on those profits become a new, powerful policy lever. Older policies, designed in an era of cleantech unprofitability, now no longer work as well. Policy innovations, like CTC, are now critical to end pollution.

allows the rapid global expansion of a clean free market – with low taxes and no tariffs – without the need for cumbersome negotiations required for regional carbon trading markets or free trade zones.[2]

The immediate advantages of adopting this Act, and so joining this new global, barrier-free clean capital market, should be obvious to all: the potential to attract vast international capital flows for sustainable equity and debt investment, much of it taxable.

What better way to end trade wars, begun with 30% solar tariffs, than launch a global clean free market?

Six Year Pilot Program: We here propose a six year, metrics-based pilot program, authorizing the use of federally tax-exempt CABs (and similar, securitize-able, tax-exempt Clean Asset Loans (CALs)) to accelerate investment in a few key clean technologies and practices in the energy, transportation and real estate sectors, known to deliver well-defined, quantifiable pollution reduction impacts: *all low/no-emission electric generation and vehicles; all carbon capture; waste recycling, combined heat and power; zero energy buildings; and hydrocarbon capture for oil & gas*. The pilot program starts there, because pollution metrics and control technologies are best understood for these sectors, and CABs can yield large impacts applied there.[3]

We propose CAB share of total financing steps down by 10 percentage points a year, from 80% of project funding in the first year, to 40% in years five and six. This will help kick start the use of CABs – and securitization in general, much needed for the maturing clean infrastructure sector. But the step down smoothly throttles back to encourage a steady increase in taxable investment and tax revenue, augmenting the revenue-producing leverage effects described above. This structure also provides certainty for the market, and global data to optimize CAB/capital structure going forward, to optimize environmental, economic and revenue impact.[4]

Barrier-Free Policy Design = Maximum Impact with Minimum Opposition: Barrier-removal offers a better kind of carrot – design optimized for free enterprise – to maximize participation from all. Technology-sector-and-SDG-neutral, Clean Asset Bonds avoid the barriers that plague other incentives. These usually incent only very narrow niche markets of wealthy investors at a high tax expense. Clean Asset Bonds (and loans) leverage democratic participation from all investors and entrepreneurs, worldwide, large and small, in both debt and equity, across all sectors, to jump-start creation of the biggest, most powerful clean capital market possible – while driving more positive tax revenue than any other incentive.

All carrots, no sticks, means the Clean Free Market Act will attract more support and provoke far less oppositions than policies based on increased taxes and regulations. Champions of free markets, economic rights and justice, global security, and a clean environment can come together to grow sustainable investment, prosperity, rights to do business, and free markets globally, simultaneously addressing the root causes of war, injustice, terrorism, mass migration and ecological destruction.

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[2] This feature – tax reciprocity – appears in most tax treaties, which provide reciprocal recognition for tax exempt organizations. States might consider sales tax exemption on certain "clean products" with high federal tariffs, as a substitute for tariff relief.

[3] In the future, policy innovators may consider CABs applied to other sectors and SDGs, such as water pollution and scarcity, regenerative farming, rainforest and marine conservation, etc., after studying the results of this pilot program. Also, Clean Assets Bonds and Loans might also include Green Bank vetted and financed projects, to allow flexible high-impact innovation.

[4] The six year pilot program begins when the first state or nation to implement the Act does so. To insure a level playing field, all other cooperating states and nations would synchronize to that time frame, regardless of when they implement the Act, so that all cooperating nations allow issuance of CABs in the same ratio to total equity at the same time.