Congressman Edward J. Markey	Investing in Climate Action and Protection Act
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REP. EDWARD J. MARKEY (D-MA)
STATEMENT ON INTRODUCTION OF THE
INVESTING IN CLIMATE ACTION AND PROTECTION (iCAP) ACT
JUNE 4, 2008

Madam Speaker, I rise today to introduce the "Investing in Climate Action and Protection Act" – or "iCAP Act" – a bill to reduce global warming pollution to levels sufficient to avoid catastrophic climate change and to invest in America's transition to a secure and prosperous low-carbon future.

The iCAP Act is founded on three fundamental principles:

First, science solves problems. The scientific consensus is now unequivocal that global warming is happening, that manmade greenhouse gas emissions are largely responsible, and that we must reduce those emissions substantially over the coming decades if we are to avert a climate catastrophe. We have a moral obligation to listen to that scientific consensus and act upon it, by starting today to reduce global warming pollution to levels that will keep our planet safe for generations to come.

Second, investing solves problems. We must invest in the American economy and in American workers, and launch an energy technology renaissance that will rival the information technology revolution of the past decade. We all benefited from the Industrial Age, and we have watched the dawn of the Information Age. Today, we must start the Clean Energy Age. This bill will provide a market-based push that will trigger an explosion of energy technology development that will give us the same "Wow" feeling that we get from our information technology – bringing robust economic growth while meeting our climate goals.

Third, American leadership solves problems. We must ensure America is the world leader in confronting our climate crisis, giving us the credibility and the technology to bring China, India, and the rest of the developing world under one large, climate-saving tent. In so doing, America will help protect vulnerable communities around the world from the dangers of global warming, including drought, famine, and flood. We will meet our international responsibilities while at the same time gaining global good will and protecting our national security interests.

The iCAP bill implements these principles by establishing a "cap-and-invest" system, which caps pollution, requires polluters to buy 100 percent of the tradable pollution allowances

at auction, and invests the auction proceeds in American consumers and in technologies and practices that save the climate while also saving costs.

The core title of the bill amends the Clean Air Act to establish an EPA-administered cap-auction-and-trade program that covers 87 percent of U.S. greenhouse gas emissions. This program will begin to cut these emissions immediately and will reduce them to 85 percent below 2005 levels by 2050 – the U.S. contribution necessary to protect the global climate against dangerous warming.

The cap covers all the major sources of greenhouse gases. These include the nearly 10,000 power plants and large industrial facilities that produce the majority of global warming pollution – facilities that are already regulated for other pollutants. Other covered entities include companies that produce or import petroleum- or coal-based liquid or gaseous fuels (like gasoline), companies that produce fluorinated gases (found in everything from air conditioners and refrigerators to the electronics industry), and companies that distribute natural gas to consumers.

The iCAP bill creates the market-based incentive to reduce global warming pollution by establishing a gradually declining budget of tradable pollution allowances for each year from 2012 through 2050, and by requiring polluters to surrender a sufficient number of allowances to cover their heat trapping emissions each year. Under iCAP, EPA will auction virtually all of these allowances, instead of giving them away for free to polluters. This approach reflects what we have learned over the past two decades.

For many years, our environmental laws were based on performance standards. Every polluter was told how much or how little they could pollute. Everyone was given a standard and they all had to meet it. That approach can work for some pollutants, but it also can be very expensive.

In 1990, Congress came up with a novel approach to address the acid rain problem caused by sulfur dioxide and nitrogen oxide emissions. This idea, sometimes called "cap and trade," embraces the notion that all reductions are helpful but that some parties can achieve those reductions for much less. So if one party can reduce pollution relatively cheaply, then another party that finds it more expensive can trade money for the extra pollution reduction achieved by the more efficient party.

The European Union adopted this approach in enacting their carbon dioxide emission reduction program, but it made some mistakes along the way from which the world has learned. One of those mistakes was to give the pollution allowances away to polluters for free. Economic theory and the EU experience have shown that only by implementing full 100 percent auctions can we ensure that polluters do not receive windfall profits and that all energy sources are competing on a level playing field.

The iCAP bill begins by auctioning 94 percent of the emission allowances from 2012 to 2019, and transitions to 100 percent auctions in 2020. Recognizing that some American industries – such as iron and steel, aluminum, cement, glass, and paper – face intense international trade competition, the bill provides transitional assistance to these industries. U.S.

manufacturers in these industries will receive six percent of emission allowances from 2012 to 2019 before they, too, have to bid at auction for allowances. But note that, in order to stay competitive, these industries will need to begin innovating on day one.

To reduce program costs, the iCAP bill permits unlimited trading of pollution allowances and banking of allowances for future use. It also allows a regulated party to satisfy up to 15 percent of its yearly compliance obligation with allowances "borrowed" from future years, provided the loan is repaid with interest within five years. A regulated entity can meet up to 15 percent of its yearly obligations using EPA-approved domestic offset credits, based on greenhouse gas reductions achieved outside the cap. A regulated entity also may satisfy up to 15 percent of its yearly obligations using foreign allowances or offset credits that meet rigorous EPA standards.

The cap-auction-and-trade system established by the bill will give rise to a large and vigorous new "carbon market," on which pollution allowances, offset credits, and derivatives such as futures and option contracts are traded. To ensure fairness, transparency, and stability in this new market, the bill establishes an Office of Carbon Market Oversight within the Federal Energy Regulatory Commission, which is charged with prevention of fraud or market manipulation.

Alongside the cap-auction-and-trade system, the iCAP bill adopts mandatory performance standards for certain other sources that cannot easily be included in the cap – such as coal mines, landfills, wastewater treatments, and large animal feeding operations. It also provides financial incentives to farmers and forest managers to adoption of practices that will further reduce global warming pollution and sequester carbon. Together with the cap, these measures will cover over 94 percent of U.S. greenhouse gas emissions – as much of the economy as is practicable to reach.

The bill also establishes measures to encourage the coal industry to invest in new technology to adapt to the new low-carbon future. The International Energy Agency recently warned that, for the coal industry, "a huge amount of investment and unprecedented technological breakthroughs such as in carbon capture and storage" will be needed to meet the greenhouse gas reduction targets that scientists believe we must achieve by 2050. The iCAP bill will help us meet this challenge by requiring that any new coal-fired power plant use carbon capture and sequestration technology, and we give companies assistance to use this technology until 2020. To the extent that the coal industry, with plenty of support from the federal government, can make carbon capture and sequestration work, then it will be part of the energy portfolio in the future.

Pollution allowance auctions under iCAP will generate a substantial amount of money. How should it be invested?

The first investment is back into the pockets of working and middle class Americans. Under this bill, half of the proceeds from polluter auctions flow directly back to consumers in the form of refundable tax credits and rebates, protecting 80 percent of America's families from increased energy costs while our economy transitions. In fact, over 60 percent of U.S. households – those earning under $70,000 – will be fully compensated, while benefits will be

extended up to those making $110,000. In addition, substantial funds will go to job training for the hundreds of thousands of green collar jobs that our country will need filled, and to adjustment assistance to any workers who need help transitioning from carbon-intensive industries to the new low-carbon economy.

The iCAP bill also invests heavily in technologies that will drive that low-carbon economy. The best, brightest, and cheapest source of clean energy is efficiency. That is why the iCAP bill devotes tens of billions of dollars each year – in partnership with State and local governments – to making our homes, buildings, and transportation systems more efficient. The bill invests tens of billions more in research, development, and deployment of the cutting-edge low-carbon energy technologies that will power America's future – including renewable energy, cellulosic ethanol, advanced hybrid vehicles, and carbon capture and sequestration.

Unfortunately, even if we act now to avert catastrophic global warming, some climate change is already inevitable. Accordingly, the iCAP bill devotes substantial funding to increasing resilience – both here in the United States and in the most vulnerable developing countries – to those impacts.

Finally, the bill sets up a system of carrots and sticks to encourage other countries to take action to combat global warming. The bill establishes an international forest protection fund to reduce heat trapping emissions from tropical deforestation. It also gives major developing countries that take "comparable action" to reduce global warming pollution access to an international clean technology fund, to promote deployment of low-carbon energy technologies. Only countries that take comparable action – or those that are among the least developed countries or that have very low emissions – will be able to sell offset credits into the U.S. market. And countries that fail to take comparable action by 2020 will have to buy special reserve allowances to cover the emissions generated by any covered primary goods – like iron and steel, aluminum, cement, glass, or paper – that they import into the United States. These incentives will help to ensure that all countries band together to combat global warming – as we must if we are to preserve our precious planet.

Climate change represents the single greatest threat now facing humanity, but it also presents an unprecedented opportunity. The iCAP Act represents a bold and comprehensive response to that challenge and opportunity. I urge my colleagues to support this bill – to take action now to avert a climate catastrophe, to protect our national security, and to unleash a green energy revolution that will bring prosperity and robust economic growth to America. I am confident that after this bill reaches its goal in 2050 – long after many of us have shuffled off our mortal coils – historians will look back on the beginning of this new millennium and say that it was an era of technological development that in the course of a generation changed the course of the planet.