Congressman Edward J. Markey

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iCAP

Investing in Climate Action and Protection Act

EXECUTIVE SUMMARY OF REP. MARKEY'S CLIMATE LEGISLATION

The "Investing in Climate Action and Protection Act" (iCAP Act) amends the Clean Air Act to establish an economy-wide cap-auction-and-trade system that adheres to five core principles:

1. **Reduce U.S. global warming pollution by 85 percent by 2050, the necessary U.S. contribution to stabilize atmospheric concentrations of heat-trapping gases and avoid dangerous global warming.**

   The iCAP Act's cap-auction-and-trade program will cover 87 percent of U.S. greenhouse gas emissions and will reduce covered emissions to 2005 levels by 2012, to 20 percent below 2005 levels by 2020, and to 85 percent below 2005 levels by 2050.

   The following "covered entities" will be regulated under the cap: (1) power plants and large industrial facilities; (2) entities that produce or import petroleum- or coal-based liquid or gaseous fuels; (3) entities that produce or import hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, or nitrogen trifluoride; (4) natural gas local distribution companies; and (5) geological carbon sequestration sites.

   The iCAP Act will achieve 7 percent additional coverage (a total of 94 percent coverage) through (1) mandatory performance standards for coal mines, landfills, wastewater treatment operations, and large animal feeding operations; and (2) voluntary financial incentives to farmers and forest managers to reduce greenhouse gas emissions and increase carbon storage. The iCAP Act also sets mandatory performance standards for new coal-fired power plants, requiring them to capture and sequester 85 percent of their CO_2 emissions within a set timeframe.

2. **Auction pollution allowances, instead of giving them free-of-charge to polluters, to avoid windfall profits for polluters, ensure fairness and effectiveness, and reduce social costs.**

   The iCAP Act begins by auctioning 94 percent of allowances in 2012 and transitions to a 100 percent auction in 2020. The 6 percent of allowances not initially auctioned are distributed as transitional assistance to U.S. industries that are energy-intensive and exposed to international trade competition (e.g., iron and steel, aluminum, cement, glass, and paper).

   The iCAP Act permits any person to buy, sell, or transfer allowances or to "bank" them for future use. Covered entities also may borrow allowances from the allowance budget for future years, but these "loans" must be repaid within five years with interest. Covered entities can meet up to 15 percent of their annual obligations with EPA-approved domestic offset credits and up to an additional 15 percent with EPA-approved international emission allowances or offset credits. Domestic and international offset credits are subject to rigorous standards to ensure reductions in emissions or increases in sequestration are real, verifiable, additional, permanent, and enforceable. The Federal Energy Regulatory Commission will oversee the carbon market to prevent fraud and market manipulation.

3. **Return over half of auction proceeds to low- and middle-income households to help compensate for any increase in energy costs as a result of climate legislation.**

   The iCAP Act returns over half of auction proceeds to low- and middle-income households through rebates and tax credits. This will compensate all increased energy costs due to climate legislation for all households earning under $70,000 (66 percent of U.S. households), and will provide benefits to all households earning up to $110,000 (over 80 percent of U.S. households).

4. **Invest the remaining auction proceeds in programs that will further reduce the costs of climate policy, spur the development of advanced low-carbon technologies, grow the U.S. economy, and address unavoidable impacts of climate change.**

   The iCAP Act uses the remaining auction proceeds to fund:

   - **clean energy technology** research, development, demonstration and deployment;
   - **efficiency policies** to reduce the costs and consumer impacts of climate policy;
   - **incentives to U.S. farmers and foresters** to reduce greenhouse gas emissions and increase carbon storage in agricultural soils and forests;
   - **green jobs training and assistance for workers** to transition into the new jobs of a low-carbon economy;
   - **reduction of deforestation and deployment of clean technologies** in developing countries;
   - **programs to increase resilience to climate change impacts** in the United States and in developing countries; and
   - **climate change education**.

5. **Include policies that will encourage major-emitting developing countries, like China and India, to take comparable action to reduce global warming pollution to protect the competitiveness of U.S. industry.**

   Under the iCAP Act, developing countries that take comparable action to reduce global warming pollution will have access to funding from the International Clean Technology Fund and will be allowed to sell "offset credits" into the U.S. market. Developing countries that carry out programs to reduce emissions from deforestation will be eligible for assistance from an International Forest Protection Fund. If a country fails to take comparable action by 2020, importers of energy-intensive primary goods (e.g., iron and steel, aluminum, cement, glass, and paper) from that country will have to purchase special reserve allowances to account for pollution generated in the production of such goods. Until 2020, U.S. manufacturers of competing primary goods will be given free allowances to prevent loss of jobs or "leakage" of emissions due to international competition.