



**THE SELECT COMMITTEE ON  
ENERGY INDEPENDENCE AND GLOBAL WARMING**

**Opening Statement for Edward J. Markey (D-MA)  
“Cap, Auction, and Trade:  
Auctions and Revenue Recycling Under Carbon Cap and Trade”  
Select Committee on Energy Independence and Global Warming  
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This past December, the New Direction Congress passed the Energy Independence and Security Act, a momentous first step towards combating global warming pollution and securing our energy independence. With that down payment in place, Congress now must turn to the next great challenge – enacting an economy-wide cap-and-trade program that will reduce heat-trapping pollution 80 percent by 2050.

Cap-and-trade systems harness the power of the market to ensure that pollution will be cut by a defined amount at the lowest possible cost. Cap-and-trade is an idea that is “made in the U.S.A.” – its advantages having first been demonstrated under the Clean Air Act’s highly successful acid rain program. The Europeans have adopted this idea for their emissions trading system for carbon dioxide, and fortunately we are now in a position to benefit from the lessons they have learned in implementing that system.

One of the most important questions that any cap-and-trade system must answer is how tradable pollution allowances should be distributed. Should they be given away for free to polluters, or should they be auctioned off? The acid rain program and the early phases of the EU emissions trading system rely primarily on free allocation. But both economic theory and the EU’s recent experience have taught us that giving allowances away results in massive windfall profits for polluters – and, surprisingly, does not lower costs to consumers. In most cases, polluters will charge consumers for the value of the allowances even if they receive those allowances for free. Auctioning avoids this problem and ensures that allowance distribution is transparent and fair – based on the free market, rather than political deals. Auctioning also has the advantage of sending a carbon price signal that is loud and clear – not muffled by special interest giveaways. Finally, auctioning can provide tens of billions of dollars of revenue, which can be used to greatly reduce the overall cost of the program and speed the transition to a low-carbon economy. By investing auction revenues in technology research and development, efficiency, renewable energy, and rebates and tax cuts for low- and middle-income households, we can provide a much needed stimulus to the economy – one that will get us out of the doldrums and unleash a clean, green revolution of innovation and prosperity.

For all these reasons, economists have long been nearly unanimous in advocating auctioning over free allocation. Now, policy makers around the world are moving decisively towards robust auctions. As Mr. Zapfel, our witness from the EU will explain, the European Commission just this morning announced its proposal to move to 100 percent auctioning of allowances for electric utilities by 2013 – and to increasing reliance

on auctions for other industrial sources. At least six of the northeastern states – including my home state of Massachusetts, represented this morning by Secretary of Energy and Environmental Affairs, Ian Bowles – are planning to use nearly 100 percent auctions to distribute allowances under the RGGI cap-and-trade program.

As Congress begins debate on cap-and-trade legislation, it is imperative that we learn from these experiences. The health of our planet's atmosphere is a sacred public trust that belongs to all of us, and the right to pollute it should not be given away for free. Nor should we adopt a program that will enrich corporate polluters at consumers' expense. I believe that with a well-designed cap-and-trade program based on robust auctions and revenue recycling, we can do our part to save the planet from global warming – in a way that grows our economy, creates jobs, and is efficient, transparent, and socially equitable. Our distinguished panel of witnesses is well qualified to help us in this endeavor, and I look forward to their testimony.

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