

CLIMATE CHANGE *policy*

The United States needs national climate change legislation now to lead the world in achieving dramatic reductions in carbon emissions and spur development of sustainable energy sources. The reductions in carbon emissions that must be achieved in the power, transportation and industrial sectors simply cannot happen unless Congress passes comprehensive legislation.



To be effective, national climate change legislation needs to achieve four key steps:

1) A moderate initial price for carbon—starting by 2012

To achieve this, Congress should enact a cap-and-trade program with the following provisions in the early years:

- ample use of offsets from unregulated greenhouse gas (GHG) sources
- effective cost-containment measures
- a “slow, stop and reverse” emission trajectory with modest reductions by 2020

2) Much higher carbon prices later—2025 and beyond

These higher prices will help drive carbon out of our economy once low- and no-carbon technologies are ready in the power, transportation and industrial sectors. Federal policy should include:

- More aggressive emission reduction caps after 2020, consistent with not exceeding critical GHG levels by mid-century
- International linkages that will drive a global price for carbon
- A phase-out of key cost-containment measures

3. A transition from partial auction to full auction — 2012 to 2030

The transition to new technologies should be accompanied by a part allocation, part auction approach that will avoid undue windfalls, such as occurred in the European Union – ETS Phase I, while buffering the initial price shock to emitters.

- Initial allowances should be based on estimated “net compliance costs” to prevent windfalls
- Remaining allocations should be auctioned to support key public purposes associated with limiting climate change

- Allocations should be phased out in a transition to a full auction between 2020 and 2030

4. Auction proceeds used to support Research, Development, Demonstration and Deployment of low-carbon technology and to cushion impact on price sensitive consumers

The U.S. economy can only thrive as a low-carbon economy if it has low-cost, widely deployed low- and no-carbon technologies in the power, transportation, and industrial sectors. Many low carbon technologies are on the brink of commercial deployment; others need additional research, development and demonstration. The government must rapidly accelerate commercialization by entrepreneurs and the market system of all these technologies, while buffering the impact of carbon prices on price sensitive consumers:

- Auction revenues or allowances should directly support the widespread deployment of key low- and no-carbon technologies, such as carbon capture and sequestration (CCS) and electric and hybrid vehicles
- Additional auction revenues or allowances should directly support increasing industry’s capability to manufacture low- and no-carbon technology components in the United States
- A portion of auction revenues or allowances should also be dedicated to buffering the impact of carbon prices on the energy costs of low income and other price-sensitive customers.

These steps will unleash the power of American ingenuity and competition, transform our own economy, and to help lead the globe in effectively addressing climate change. In so doing, the United States will move from being a major contributor to the climate problem, to being a global leader in solving it.