

The McCain-Lieberman Proposal

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Congress & Climate Change

- Byrd-Hagel (0-95)
 - Dominant pronouncement until recently
 - Clouded by partisan and constitutional issues
- Four-pollutant bills (No floor votes)
 - Tied to SO₂, NO_x, and Hg controls and other Clean Air Act Provisions
- McCain-Lieberman (43-55)
 - GHG only and separate from Clean Air Act
 - No mention of Kyoto Protocol
 - Now, the dominant proposal

History of McCain-Lieberman

- January 2003: Introduction of full bill
- April-June 2003: Evaluation by the Energy Information Administration
 - Identified effect of Phase 2 on Phase 1 costs through banking
- October 2003: Senate floor vote on amended version that deleted Phase 2

Basic Provisions

- Pure cap-and-trade at 2000 level in 2010
 - Initial version had 2nd phase 2016 cap at 1990 level
- Relatively comprehensive cap
 - All six GHGs, sinks, and geological sequestration subject to measurement
 - Upstream coverage of petroleum and industrial GHGs
- Early reduction and other credit programs
- Mutual recognition and off-system provisions subject to “supplementarity” limits
- Mixed “grandfathering” and auction-like allocation

“Supplementarity” Limits

- No more than 15% of allowance requirement in Phase I can be met by:
 - Retirement of foreign allowances (certified by US)
 - Increased sequestrations from the Registry
 - Registered emission reductions by uncovered sources
 - Borrowing up to 5 yrs (at 10% interest) when coupled with certain investments
- Increased to 20% for accelerated reduction participants (1990 emissions by 2010)
- Limit reduced to 10% in Phase II

Allocation Process

- Climate Change Credit Corporation (CCCC) created to receive and sell allowances
 - Proceeds to be expended by CCCC to provide transition assistance and reduce consumer costs
- Three-step process for allocating allowances
 - Shares of cap allotted to covered sectors
 - Sec'y of Commerce decides allocation of allowances to CCCC from each sector
 - Remaining allowances distributed to sources without charge by EPA after deducting various credits

What Now?

- Serious action will require Congressional action
 - “Voluntary” & “back-door” approaches will not work
- McCain-Lieberman is the leading proposal
 - But, unlikely to be enacted in an election year
- US unlikely to take an active international role until serious domestic action is taken
 - Not to exclude thinking about post-Kyoto world