COMMITTEE ON FINANCE
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Max Baucus, Chairman
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For Immediate Release
August 4, 2009

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**Hearing Statement of Senator Max Baucus (D-Mont.)**
**Regarding Allowance and Revenue Distribution Under Climate Change Legislation**

Aristotle was said to define the term "justice" as "a virtue of the soul distributing that which each person deserved."

Today, we consider various methods of distributing emission allowances. We consider options for distributing revenues from a cap-and-trade program. We'll see if we can find the way that has the most of what Aristotle called "justice."

Most major climate-change bills place a limit — or "cap" — on carbon dioxide. Companies subject to the cap must buy permits — often called "allowances" — to emit greenhouse gases.

One key issue in such a system is: How much of these allowances should the government sell at auction? And how much should the government give away for free?

Economists expect that these allowances will have a value, like cash. Thus, many argue that the government should not just give these allowances away. Many argue that the government should auction them, and return the proceeds to consumers.

Others argue that the government should allocate a portion of the allowances to regulated companies. Doing so would soften the effects of putting a price on carbon.

For example, last month, the Committee heard testimony regarding "trade-exposed" industries. Those are industries that could be hurt by trade with countries that did not have a carbon regime. Many argue for providing a portion of free allowances to these industries.

Under the House-passed bill, at the outset, the government would freely allocate about 85 percent of the emission allowances.

Roughly 40 percent of the overall allowance amount would go to local distribution companies that deliver power to customers. Proponents expect that the power companies would pass the benefits on to consumers.

Another 15 percent or so would go to trade-exposed industries. And the balance would go to a range of stakeholders — including states, energy research entities, and refineries.

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Allowances will have significant value. In 2012, the first year of the program in the House-passed bill, the Congressional Budget Office puts their value at about $60 billion. For the period of 2010 to 2019, they amount to more than $870 billion.

CBO calls these allowances "revenues." CBO makes no distinction between allowances that are auctioned and those that are allocated freely.

According to the Congressional Budget Office:

"[T]he creation of allowances by the government should be recorded as revenues. That logic does not hinge on whether the government sells or, instead, gives away the allowances. Allowances would have significant value even if given away because the recipients could sell them or, in the case of a covered entity, use them to avoid incurring the cost of compliance."

In other words, CBO says that all allowances are revenues. And whether they are allocated to local distribution companies or auctioned for other purposes, these allowances are like cash.

There are a number of ways to use allowance revenues to mitigate the cost of climate legislation on consumers and businesses.

For example, Congress could use the money from auctioning allowances to cut taxes: by cutting marginal rates, by cutting capital gains rates, by cutting payroll taxes. Or we could do all of the above.

This approach could apply broadly — to individuals as well as businesses. And we could implement this approach with a system that's already in place — the tax law.

Alternatively, Congress could compensate consumers through rebates or fixed payments per-capita. For example, the government could give every American a fixed dividend every year. That's what happens in Alaska. Every year, the Alaska Permanent Fund pays an annual share of oil earnings to every resident of the state.

We could also devote allowance proceeds to helping low-income Americans. We could expand the Earned Income Tax Credit. And we could use the electronic benefit transfer system that states already use to provide assistance like food stamps and low-income Medicare drug benefits.

The House bill provided solid relief to low-income Americans through these means. The Senate should match it, or build on it.

Still another approach would be to dedicate a share of revenues to investment in energy efficiency. Just last week, McKinsey Consulting said that America could save $1.2 trillion through 2020 by investing less than half that amount — $520 billion — in energy efficiency.

Whatever the approach, we need to devise a system that both meets environmental goals and passes political muster. That won't be easy. The close vote in the House tells us that. But it is something that we can — and must — do.

Today, we'll talk about how to do it. This is the fourth climate change hearing that the Senate Finance Committee has held since April, as we prepare for a markup later this year. And I'm pleased to welcome yet another distinguished panel of witnesses.

So let us see if we can figure out how to distribute emission allowances in a way that one might call "just." Let us see if we can figure out how to give all Americans what they deserve. And let us see if we can figure out the way to do so that has the most of what Aristotle would call "virtue of the soul."

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