

**The Climate MATTERS Act**  
**(Climate Market, Auction, Trust & Trade Emissions Reduction System)**  
**Detailed Summary**

**Title I: Global Cooperation**

**International Negotiations**

Title I directs the President to negotiate with other nations to develop cap and trade systems that are comparable to the U.S. cap and trade system. To encourage early participation, the President is authorized to enter into Premium Carbon Market Access Agreements that allow flexibility in setting the emissions caps in the initial agreements.

In addition, recognizing the importance of reducing tropical deforestation in the fight against global warming, the President may also enter into agreements with countries that are not yet able to implement full cap and trade programs to reduce their emissions through international forest carbon activities that create International Forest Allowances, which are tradable on our carbon market.

**Level Playing Field for American Workers**

Beginning in 2015, importers of certain carbon-intensive goods from countries without comparable emissions limits will be required to purchase International Reserve Allowances to cover the emissions resulting from the production of those goods. Goods subject to this allowance requirement include primary goods such as iron, steel, aluminum, cement and paper and other manufactured items for consumption.

Countries with *de minimus* greenhouse gases (GHG) and the least developed of developing countries are excluded from the international reserve allowance requirements and funds from the purchase of International Reserve Allowances go to mitigate the effect of climate change in disadvantaged communities in foreign countries.

**Title II: Revenue Provisions**

**Emissions Cap**

Title II imposes a nationwide emissions cap on GHG emissions that begins at 2005 levels of GHG in 2012 and declines to 39% below 2005 levels in 2030 until ultimately reaching an 80% reduction below 1990 levels by 2050. The cap reaches 86% of all emissions by requiring major emitters of GHG to purchase allowances to cover their emissions. These allowances will be available in declining amounts as the nationwide emissions cap declines.

**Covered Entities**

Entities covered by the cap are major GHG emitters, including coal-burning power plants and industries, natural-gas processing plants and importers, petroleum- or coal-based fuel producers and importers, and facilities that produce or import (for sale) certain GHG chemicals (including HFCs).

Sectors not covered by the cap include agriculture, forestry, small businesses, and other small emitters. Uncovered sectors are provided incentives to reduce their emissions through the creation of domestic offsets that can be traded in the carbon market.

### **Auction**

The Secretary of the Treasury will auction the allowances corresponding to the annual emissions cap. Initially, 85% of the allowances will be auctioned, transitioning to a 100% auction by 2020. The remaining 15% will be distributed to affected industries to assist them temporarily in making the transition to the new, low-carbon economy. In the period from 2012-2018, the auction is estimated to raise roughly \$1.1 trillion.

### **Compliance Obligation**

Covered entities must submit allowances annually corresponding to their level of emissions, as determined by the EPA. In partial fulfillment of this compliance obligation, a covered entity may submit allowances from a comparable foreign cap and trade program or International Forest Allowances resulting from an international forest carbon activities agreement described in Title I. Each of these foreign allowances may be used by a covered entity to fulfill up to 15% of its compliance obligation. In addition, a covered entity may submit domestic offset allowances to satisfy up to 10% of its compliance obligation.

Domestic offset allowances are allowances created by uncovered entities through actions taken to reduce GHG emissions, such as reducing NOx emissions from agriculture, methane emissions from coal mines, increasing the carbon sequestered in agricultural soil, planting forestland or creating wetlands that have been determined by the EPA to result in emissions reductions that are real, verifiable, additional, permanent and enforceable.

The use of foreign allowances and domestic offset allowances is subject to an overall limitation of 25% of a covered entity's compliance obligation.

Covered entities that fail to meet their compliance obligation are subject to a penalty of three times the average allowance value for each allowance not submitted.

### **Carbon Market**

The Climate MATTERS Act creates a free and open market for trading emissions allowances. Anyone may buy allowances at auction, trade them in the market, or bank them for future years.

To ensure proper functioning of the carbon market, and to prevent harm to the economy, a Carbon Market Efficiency Board is established to monitor and report on the market. If the Board determines that activities in the market pose a substantial harm to the economy, the Board is empowered to act through certain cost relief measures: The Board may authorize the Secretary of the Treasury to borrow allowances from future years in accordance with strict limitations to ensure repayment. The Board may also authorize the Secretary to increase the number of domestic offset allowances and foreign allowances that may be used to satisfy an entity's compliance obligation.

To make sure the cap and trade system established by the Climate MATTERS Act is meeting its goals, the National Academy of Science will provide reports every three

years analyzing the Act's performance in reducing GHG emissions. The EPA must make a recommendation based on the NAS report and the Secretary of the Treasury must act on the EPA recommendation.

### **Allowances to Affected Industries**

Consistent with analysis by the Congressional Budget Office of the maximum transition assistance necessary for affected industries, 15% of the allowances are distributed for free to facilities within these industries for a limited time. In 2012, energy intensive manufacturing facilities will be entitled to 10% of the free allowances and fossil fuel-fired electric power generating facilities will be entitled to 5%. In both cases, the distribution of free allowances is phased out in 2020. The allowances to energy intensive manufacturing facilities are allocated to facilities that manufacture goods such as iron, steel, aluminum, and cement to ensure a level international playing field.

## **Title III: Citizen Protection and Deficit Reduction Trust Funds**

Title III creates the trust funds that hold the substantial revenue derived from the allowance auction and devotes this revenue to transitioning to the new low carbon economy, addressing the impacts of climate change on the environment as well as improving the quality of life for our citizens.

### **Deficit Reduction Trust Fund**

The Climate MATTERS Act devotes a portion of the auction proceeds to ensure the bill does not add to our national debt.

### **Citizen Protection Trust Fund**

The balance of the auction revenue is allocated to the accounts described below to assist and protect our citizens, the economy and the environment as we move towards our clean energy future.

#### *Consumer Assistance Account*

A substantial portion of the auction revenue, 54% of the Citizen's Protection Trust Fund (\$514 billion from 2012-2018), is devoted to low to moderate income consumers.

Funds from this account will be used to provide rebates and refundable tax credits for low to moderate income households. In addition, part of the revenue will be used to create the "Healthy Families Fund." This reserve fund recognizes that climate change and lack of access to affordable healthcare are two of the largest problems America confronts and represent two of the top Democratic priorities. The fund will assist households with the costs of obtaining and maintaining healthcare coverage as we transition to a new clean energy economy.

#### *Investment in Natural Resource Adaptation Account*

Provides 7% of the Citizen's Protection Trust Fund (\$66 billion from 2012-2018) to conserve natural resources, mitigate impacts and help wildlife and ecosystems survive global warming. Amounts are provided to federal land and natural resource management agencies to carry out programs that assist fish and wildlife, plants and associated ecological processes in becoming more resilient, adapting to, and surviving the impacts of climate change. Requires the development of federal and state adaptation strategies to assist the natural resource adaptation efforts.

#### *Early Action Account*

Provides 1% of the Citizen's Protection Trust Fund (\$2.4 billion from 2012-2018) to owners or operators of covered facilities and other GHG-emitting facilities in recognition of emissions-reducing actions taken since 1994, that resulted in verified and credible reductions of GHG emissions, under regulations to be developed by the EPA. This account will phase out in 2015. As this account declines, the additional funds will be transferred to the Healthy Families Fund.

#### *State and Tribal Account*

Provides 2.7% of the Citizen's Protection Trust Fund (\$25 billion from 2012-2018) to states and tribes. Funds are provided to:

- States with programs exceeding federal emission reduction targets;
- States for general uses such as addressing local impacts of climate change, providing worker transition assistance, mitigating impacts on energy-intensive industries in internationally competitive markets, and to ease the transition to a lower-carbon economy;
- Indian tribes that face disruption or dislocation as a result of global climate change.

#### *International Adaptation Account*

Provides 3.5% of the Citizen's Protection Trust Fund (\$33 billion from 2012-2018) to assist the most vulnerable developing countries cope with climate change impacts and encourage engagement of local communities.

#### *International Technology Assistance Account*

Allocates 3.5% of the Citizen's Protection Trust Fund (\$33 billion from 2012-2018) to provide technology assistance to qualified developing nations to provide incremental financial support to accelerate the deployment of low carbon technologies.

#### *Transition Assistance for Workers Account*

Allocates 4% of the Citizen's Protection Trust Fund (\$38 billion from 2012-2018) for worker and community assistance and for worker training. This account provides funding for transition assistance to dislocated workers and their communities, including grants to employers, employment services, income-maintenance, and needs-related payments to workers and grants to state and local governments to assist communities in attracting new employers and providing essential government services.

In addition, this account also directs funds for green worker training through the Energy Efficiency and Renewable Energy Worker Training program created by the Energy Independence and Security Act of 2007 to ensure that all Americans have opportunities to thrive in the new clean energy economy.

#### *Domestic Agriculture and Forestry Account*

Provides 3% of the Citizen's Protection Trust Fund (\$28 billion from 2012-2018) for the Department of Agriculture to carry out a program to achieve real, verifiable, additional, permanent, and enforceable reductions in GHG emissions and increases in GHG sequestration from the agriculture and forestry sectors.

#### *Education Account*

Provides .4% of the Citizen's Protection Trust Fund (\$3.8 billion from 2012-2018) to the EPA, National Oceanic and Atmospheric Administration (NOAA) and the Secretary of Education for the advancement of environmental education.

#### *International Forestry Account*

Provides 4.4% of the Citizen's Protection Trust Fund (\$41 billion from 2012-2018) to encourage reduced deforestation, restoration of forests and degraded land, and promotion of native species and forests in countries other than the United States. In addition, funds are available to engage countries that are initially not capable of engaging in deforestation reduction activities but that have demonstrated a commitment to conduct preparatory activities.

#### *Energy Efficiency Account*

Provides 7.5% of the Citizen's Protection Trust Fund (\$71 billion from 2012-2018) to states who can demonstrate they have established a program that will reduce electricity and natural gas demand by 2% per year, and to load serving entities to implement energy efficiency programs for their customers. This account also provides funding for LIHEAP, weatherization assistance and the HOME Investment Partnership Program.

#### *Transportation Alternatives Account*

Allocates 2% of the Citizen's Protection Trust Fund (\$19 billion from 2012-2018) for the promotion, development and maintenance of low-emissions transportation and smart growth options. Amounts in this account will be used to fund grants for the development of additional and improved public transportation, transportation alternatives and travel demand reduction projects.

#### *Green Energy Research Account*

Allocates 7% of the Citizen's Protection Trust Fund (\$66 billion from 2012-2018) to fund basic research for the advancement of scientific knowledge in renewable energy technology. This account provides tax credits as well as funding to the National Science Foundation and the Department of Energy for basic renewable energy technology research.

### **TITLE IV: Emissions Determinations and Miscellaneous**

Title IV directs the EPA to make the GHG emissions determinations required under this bill. The EPA is required to develop a Federal Greenhouse Gas Registry that covers all emissions of GHG in the United States. In addition, the EPA is tasked with determining covered facilities' emissions that form the basis of their compliance obligations, as well as determining any reductions in emissions by uncovered entities that qualify for domestic offset allowances. Finally, the EPA is responsible for promulgating regulations addressing emissions from the uncovered sector to ensure the integrity of the emissions cap.

Title IV also contains a paramount interest waiver allowing the President to take action if a national security emergency exists, provides for judicial review of the bill, and allows states the flexibility to adopt emissions standards more strict than the federal standard.