The CLEAR Act: A Simple, Market-Based, and Equitable Pathway to Energy Independence and Climate Change Mitigation

What are the principles of the CLEAR Act?

The CLEAR Act puts real money back in consumers' pockets while jumpstarting America's economy by unleashing development we desperately need in clean and green technology.

Put simply, this bill creates jobs and returns money to Americans – making it a long-term stimulus for our economy.

The bill establishes a predictable market signal on carbon, providing the spur for investors to develop green energy technology and create jobs and reduce greenhouse gas emissions, without further cost to consumers. Through this means the bill will launch a real clean energy revolution and create millions of new green collar jobs.

What are the near, medium and long-term greenhouse gas emission caps?

The greenhouse gas emissions reduction standards required by the CLEAR Act are to reduce (from 2005 levels):

- 20 percent by 2020
- 30 percent by 2025
- 42 percent by 2030
- 80 percent by 2050

How do you achieve such reductions?

The CLEAR Act uses two tools to deliver these aggressive reductions in greenhouse gas emissions:

- A tough cap on emissions set by the President to begin in 2012 and tied to a strict schedule of increasingly aggressive reductions as years go by
- Significant investments in other successful greenhouse gas reduction and efficiency programs, including:
    - The Environmental Protection Agency's Landfill Gas Energy Development Program and High GWP Gases programs;
    - The U.S. Department of Agriculture's AgStar Methane Recovery program;
    - The U.S. Department of Energy/Environmental Protection Agency EnergyStar appliance efficiency program;
    - The U.S. Department of Energy's Federal Energy Management Program (FEMP)
    - The Public-Private Green Power Partnership

- The Public-Private Combined Heat and Power Partnership

Can the proposal achieve greater reductions in atmospheric carbon?

Absolutely. First, the CLEAR Act's market based price mechanism would deliver emission reductions even faster if the cost of reducing turns out to be cheaper than scientific and market experts currently calculate. Second, the funding program targets reductions in greenhouse gases other than just carbon dioxide and delivers additional reductions in atmospheric carbon on top of the cap on fossil carbon that the bill provides.

Are pollution permits auctioned or given away?

All permits, called "carbon shares," that comprise the cap are to be sold at auction.

There are no free pollution allowances for any industry, economic sector, or interest group.

Every carbon producer – oil companies, oil importers, coal companies – must participate in the auction or be subject to strong punitive measures.

How much revenue will the auction raise?

As much as $126 billion in the first year alone.

The revenue will fluctuate depending on the auction clearing price; the anticipated range of revenue generated by the auction is $42 to $126 billion.

What happens with the revenue?

Three-fourths of the auction revenue (estimated at between $31.5 and $94.5 billion in the first year of the policy) will be distributed to American households on an equal per-capita basis.

The remaining one-fourth of the auction revenues (estimated at between $10.5 and $31.5 billion) will be used to achieve further reductions in emissions with energy and climate related spending, as well as transition assistance for industries in need.

What does that mean?

A recent University of Massachusetts study estimates that the CLEAR Act will provide monthly checks totaling $1,100 annually for an American family of four. For 80 percent of all Americans, these checks will more than cover any energy price increase.

Who gets the rebate and how?

Each month, every individual who resides legally in the United States will receive a check via electronic transfer from the federal government. A family consisting of three children and one parent receives the equivalent of four checks.

The payment mechanism is the same electronic transfer method used to make payments to large populations today by such agencies as the Internal Revenue Service, the Social Security Administration, the Supplemental Nutritional Assistance Program, and the Alaska Permanent Fund. The amount per person is determined on a per capita basis. There are no differences based on region or income or family make-up.

The CLEAR Act gives refund program administrators the discretion to adjust the frequency of payments in order to minimize administrative costs or to increase the value of each refund payment.

Because it uses the same refund mechanisms employed by federal and state entities, individual privacy protections are already built into the system.

What is the cost of the policy to American households?

Every American household would receive money from the federal government from the auction profits.

Again, a recent University of Massachusetts study says that the CLEAR Act will deliver approximately $1,100 to every four-person American household each year.

Because of that check, 80 percent of all Americans will never feel a penny of energy price increase.

What is the cost of the policy to the government?

The CLEAR Act is revenue neutral to the Federal government.

How is the "Fund" expended and managed?

Expenditures from the fund are subject to the annual appropriations process, though the funds are only authorized for specific energy and climate related needs outlined in the Act and designed to deliver further emissions reductions.

These expenditures could be used to complement and expand existing programs such as:

- The Environmental Protection Agency's Landfill Gas Energy Development Program and High GWP Gases programs;
- The U.S. Department of Agriculture's AgStar Methane Recovery program;
- The U.S. Department of Energy/Environmental Protection Agency EnergyStar appliance efficiency program;

- The U.S. Department of Energy's Federal Energy Management Program (FEMP)
- The Public-Private Green Power Partnership

- The Public-Private Combined Heat and Power Partnership
- Green Capacity Building Grants;
- The Weatherization Assistance Program;
- Targeted Incentives for Agricultural Greenhouse Gas Sequestration;
- Energy Training Partnership Grants;
- State Energy Sector Partnership and Training Grants.

How does the proposal address regional differences in energy use?

While production sources of energy vary from region to region, actual energy use by consumers (and carbon footprints of consumers) does not vary.

To cover any small disparities between regions, the CLEAR Act allows transition funding to help regions figure out the best way to reduce their greenhouse gas emissions. Consumers would see no difference in the amount of money they receive from the government from region to region.

The reason carbon footprints don't vary across regions is because indirect costs of fossil carbon are imbedded in products. In fact, electricity accounts for less than a third of expenditures due to fossil carbon. By placing the fossil carbon cap on producers and importers of fossil fuels with 100 percent auction of carbon shares, the CLEAR Act effectively covers fossil carbon comprehensively and equitably, thereby limiting regional disparities in energy use.

What sort of trading system does the legislation propose for carbon permits?

Like the carbon share auctions, only producers and importers of fossil fuels can buy carbon shares on a registered public exchange. A few specialized groups can access the exchange to sell bonus carbon shares (obtained by midstream users that sequester or embed fossil carbon so that emissions don't reach the atmosphere), but all other trading of carbon shares is prohibited. Holders of carbon shares are prohibited from creating, selling, purchasing, or trading carbon share derivatives.

What is an "upstream" cap?

An upstream cap regulates the source of the gases at the beginning of the chain, where carbon-based fuels enter the market, not at the user end, where they are consumed. The upstream cap in CLEAR Act limits the quantity of fossil fuels at their point of introduction into the U.S. economy by fossil fuel producers and importers without regulating any downstream emitter.

For example, the mining company that brought coal out of the ground would need to obtain a permit within two years to account for each ton of fossil carbon embedded within the coal it sold. The customer downstream that burned the coal, such as an electric utility, would not need to purchase permits.

How does the proposal protect American manufacturers from foreign competition?

The CLEAR Act uses border adjustments to maintain fair markets for American manufacturers, as long as these adjustments do not violate any relevant international trade agreement or treaty to which the United States is a party.

These border adjustments provide the ability to impose fees on imports of energy-intensive commodities from countries that do not have similar limits or fees on carbon. These fees would be equal to the additional costs per unit output that domestic industries pay due to disparate policies among countries.

Subject to appropriations, the CLEAR Act also sets up guidelines for rebates to exporters of energy-intensive commodities that would face unfair market prices abroad in the absence of the rebates.