Testimony of
Hon. Eileen Claussen
Pew Center on Global Climate Change

regarding

The U.S. Climate Action Partnership (USCAP)

submitted to
House Energy & Commerce Committee
United States House of Representatives
January 15, 2009

Mr. Chairman and Members of the Committee:

Thank you for your invitation to testify today as a member of the United States Climate Action Partnership, or USCAP.

My name is Eileen Claussen and I am president of the Pew Center on Global Climate Change. In the ten years since we at the Pew Center began our work, we have issued over 100 reports on critical scientific, technical, and economic issues facing policymakers grappling with the challenges of addressing climate change. In our search for practical, economically feasible and environmentally effective solutions, we work with 44 major companies in our Business Environmental Leadership Council. The companies together employ over 4 million people and represent over $2 trillion in combined revenues and have joined with the Pew Center in support of well-crafted mandatory climate policy.

The Pew Center's approach is based on respect for what the science tells us needs to be done, and straight talk about ways that this can be accomplished consistent with sustaining economic growth. Above all, we believe that we can and must work together to meet this critically important challenge.

Working together is exactly what the members of USCAP have done over the past two years to craft a comprehensive set of proposals aimed at jumpstarting the legislative process. The unique nature of this group, especially the diverse interests among its members, underscores the desire on all of our parts to find common ground to begin aggressively addressing climate change without further undue delay. We are proud to stand together today with our USCAP partners in urging Congressional action consistent with our proposals.

USCAP launched its landmark report, titled *A Call for Action*[1], in January 2007, which lays out a framework for climate protection legislation. Today it includes 31 businesses and leading environmental organizations.[2] USCAP recognizes that the United States faces an urgent need to reinvigorate our nation's economy, make the country more energy secure, and take meaningful action to slow, stop and reverse GHG emissions to address climate change. Thoughtful and comprehensive national energy and climate policy will help secure our economic prosperity and provide American businesses and the nation's workforce with the opportunity to innovate and succeed.

We support enactment of an economy-wide, market-driven approach which includes a well-crafted cap-and-trade program that places specified limits on GHG emissions, robust cost-containment measures, complementary policies and measures to supplement the cap-and-trade program, and a fully funded federal technology research, development, demonstration, and deployment program for climate-friendly

---

[1] *A Call for Action* available at: http://us-cap.org/USCAPCallforAction.pdf.

[2] The current members of USCAP are: Alcoa; American International Group, Inc.; Boston Scientific Corporation; BP America, Inc.; Caterpillar Inc.; Chrysler LLC; ConocoPhillips; Deere & Co.; Dow Chemical Company; Duke Energy; DuPont; Environmental Defense Fund; Exelon Corporation; Ford Motor Company; FPL Group; General Electric; General Motors Corporation; Johnson & Johnson; Marsh, Inc.; Natural Resources Defense Council; NRG Energy; PepsiCo North America; Pew Center on Global Climate Change; PG&E Corporation; PNM Resources; Rio Tinto; Shell Oil Company; Siemens Corporation; The Nature Conservancy; World Resources Institute; and Xerox Corporation.

technologies. Properly designed legislation will encourage innovation, enhance America's energy security, foster economic growth, improve our balance of trade, and provide critically needed U.S. leadership on this vital global challenge.

I want to specifically address one key element in the design of any cap-and-trade proposal – the allocation of allowance value. Allowances are the currency created under a cap-and-trade system. Defined as the right to emit one ton of carbon dioxide (or its equivalent), allowances are required of regulated entities covered under a cap-and-trade program. The total number of allowances permitted under the program sets the environmental target and would be phased down over time.

Because total emissions are capped and allowances are tradable, the distribution of the allowances does not affect the environmental integrity or the direct costs of a cap-and-trade program, but it does directly impact the distribution of costs among regulated entities, consumers, and others. Allowances represent a considerable source of value—in either the form of freely allocated allowances or auction revenue—which the government can distribute as a way of compensating those affected by climate change, by policies designed to address it, or for other policy objectives.

USCAP strongly supports allocating allowance value in a fair and equitable manner. It believes that allowance value can play a critical role in mitigating the transition costs to workers and consumers, regulated entities, and communities that will be relatively more adversely affected, directly or indirectly, by emission limits. Allowance value should also be used to advance new technologies that will be important building blocks to achieving our future low-carbon economy and to support measures aimed at adapting (both domestically and internationally) to climate change. Finally, USCAP

believes that, as these transitional impacts are effectively addressed, free allocation should be phased out over a reasonable period of time.

Decisions about allocating allowance value are just one of many important aspects in designing an effective cap-and-trade program. We recognize the challenge facing this Committee in crafting comprehensive climate change legislation and we very much hope that the Committee will call upon our unique partnership to help sort through these complexities. The need to begin the transformation of our economy to a sustainable, secure, low-carbon future is compelling and timely; indeed, this will only become more difficult, and more costly, if Congress delays action.

Recent debate surrounding the crafting of an economic stimulus package early in the 111th Congress has included discussion of such an energy investment. We agree that such efforts can and should be taken as early as possible. Additionally, a central tenet of our *Call for Action* is that in order to effect the change needed throughout the economy, an economy-wide cap-and-trade system is essential. When combined with complementary measures, the resulting new vision and policy direction will spur the innovation through which America has always excelled. When given the proper tools, incentives and market signals, the American entrepreneurial spirit will lead to the sustainable solutions required to meet our many economic, energy, environmental and national security challenges.

USCAP has attempted to help inform congressional deliberations over the past two years. Following our *Call for Action*, we have provided Congress with international principles and more detailed information on the topics of cost containment, energy efficiency, geologic carbon storage technologies and a greenhouse gas registry.

Further, our diverse and broad-based coalition has and will continue to serve as a sounding board for policy-makers as they contemplate legislative options.

Over the past six months, USCAP members have worked diligently to refine our policy objectives in order to better advise Congress and the incoming Administration on workable solutions. We have agreed upon a framework for a balanced and integrated approach to key linked issues that must be addressed in any national climate legislation.

USCAP is committed to helping Congress find workable, cost-effective approaches to climate change. We believe that path forward exists and that we must embark on the journey with deliberate speed. Representing many sectors of the economy, we believe we are in the unique position to work with the President-elect, Congress and all other stakeholders to enact an environmentally effective, economically sustainable and fair climate change program. We look forward to working with the Committee in the 111th Congress to ensure prompt enactment of national climate protection legislation.