

# Q&A: John McCain's Climate Platform

## How does a cap-and-trade work?

- Cap-and-trade is a mechanism that would set a limit on greenhouse gas emissions (GHG) and create permits or rights to emit equal to the limit on GHG emissions.
- Entities that are required to reduce their emissions can do so by: (a) directly reducing their emissions, (b) buying (if needed) or selling (if they have extra) rights to emit, or (c) by purchasing what are called offsets – credits for reductions made from sectors of the economy outside the trading system.
- Over time, the amount of emissions that are allowed by the cap are slowly and steadily reduced requiring changes in business practices and infrastructure in the way energy is produced and used. The key feature of this mechanism is that it allows the market to decide and encourage the lowest cost compliance options.
- John McCain's climate plan will be similar to the very successful acid rain trading program created under the first President Bush in the early 1990s.

## Why should the U.S. use a cap-trade approach to mitigating climate change?

- A cap-and-trade system sends a market signal that organizes the whole economy around our environmental goals. Those who want clean coal technology, more wind and solar, nuclear power, biomass and bio-fuels will have their opportunity through a new market that rewards clean energy use and distribution. The market evolves by requiring sensible reductions in greenhouse gases, but also allowing full flexibility in how industry meets that requirement.
- A well-functioning market will send signals to entrepreneurs and firms about which infrastructure investments they should make. These signals will also allow for new investments in key technologies.
- It will also generate a profitable opportunity for rural America to receive market-based payments – not government subsidies – for the conservation practices that store carbon in the soils of our nation's farms and greenhouse gas reductions from our livestock herds.

## Why not a use a carbon tax instead of a cap-and-trade mechanism?

Some have argued a carbon tax is the most economically efficient way to reduce carbon emissions.

- A carbon tax will hit the energy intensive manufacturing the hardest and create disruptions in various economic sectors. Cap and trade will enable the economy to transition more smoothly in meeting carbon reduction targets and timetables.
- A tax increases the cost with the hope of changing behavior. It does not guarantee a reduction in emissions and therefore does not have environmental integrity.
- A declining cap sends both a price and a regulatory signal – industry knows that the amount of pollution allowed will decline over time, and that provides more investment certainty than a tax.

## What is the connection between climate policy and energy security?

- John McCain's climate plan will reduce our dependence on oil like no other policy we've ever seen. It is obvious that we are more dependent than ever on foreign oil, importing more than 60 percent of our oil needs from abroad.
- The market-based cap-and-trade system will be the beginning of a McCain Administration's transition away from an oil-addicted economy and toward an energy supply that is secure, diverse and domestic.
- It will provide the incentives for our nation's energy producers to develop low carbon alternative fuels.

## Four retired generals have reported that climate change is a national security issue. Does Sen. McCain agree with them?

- Yes. National security is related to global stability. Left unchecked, climate change will trigger natural disasters,

flooding, and change in weather patterns that could result in severe drought, famine, loss of life and property, etc. These unstable situations could lead to conflicts over food, natural resources, international boundaries, etc. Poorer nations are especially at risk, since they have limited resources to adapt to climate change.

- John McCain believes that energy security, economic security, environmental security and national security are linked together and that the United States must be a leader in each category. Each issue reinforces the other and John McCain will ensure the United States is a leader in all of these areas.

### **What are your targets and timetables?**

#### Greenhouse Gas Emission Targets and Timetables

- 2012: return emissions to 2005 levels (18 percent above 1990 levels)
- 2020: return emissions to 1990 levels (15 percent below 2005 levels)
- 2030: 22 percent below 1990 levels (34 percent below 2005 levels)
- 2050: 60 percent below 1990 levels (66 percent below 2005 levels)

The cap and trade system would encompass electric power, transportation fuels, commercial business, and industrial business – sectors responsible for just below 90 percent of all emissions. (Small business would be exempt.) Unlike all the other economy-wide climate plans being discussed today, John McCain's plan would initially allow participants to take advantage of unlimited "offsets" – which are lower cost certified emission reductions or carbon sequestration purchased from uncapped sectors – through a system dedicated to ensure that all offsets are real, measured, and verifiable. Offsets availability would decline over time.

### **Your support of unlimited offsets in the early phases of required GHG reductions could be considered by some to be "cap busters" if they are not accurately measured and verified. With the difficulty in measuring things like soil carbon sequestration, will these credits be real?**

Yes, the offset credits will indeed be real, measurable and verifiable – or they won't be certified and allowed into the market.

- The advances in understanding soil carbon content and new technologies that literally scan the soil and measure the baseline soil carbon content and any changes that occur over time provide the ability to measure and monitor soil carbon sequestration.
- Offset credits from methane are easily measured. Methane is a greenhouse gas that is 21 times more potent in terms of global warming potential, than CO<sub>2</sub>. When methane is captured from manure -- through an anaerobic digester or by burning it, it is ultimately turned into CO<sub>2</sub> -- a much less intensive GHG. Methane capture also allows for the creation of bio-gas, a potential alternative to natural gas -- and an extremely low carbon fuel since it is generated from waste. Offset credits generated in this way are permanent and easily measured.
- The issue of measurement, monitoring and verification of agriculture and forestry offsets has been worked on at great length and in cooperation with multiple universities. The research basis is there for recognizing these kinds of reductions -- and we will continue to inform the policy of offset accreditation according to the latest agronomy and environmental science.

### **Why is Senator McCain proposing unlimited offsets in his climate plan?**

- Offsets permit significant reductions in compliance costs. In the past, it has been shown that unlimited offsets would reduce compliance costs by 71 percent. Offsets are a very important bridge, especially in the early years, to the time when we have lower-carbon technologies available on a commercial wide scale.
- Unlimited offsets would not weaken the cap because the offsets will be certified, measured, and verifiable. The science of climate change supports the use of offsets.
- John McCain's plan would seek to establish a dedicated and focus plan to ensure that offsets are real, measurable and verifiable. We must ensure the public and the markets that a ton of carbon reduction purchased is indeed a ton of carbon reduction.

**Your campaign has said that developing countries must also agree to take mandatory emissions reductions along with the U.S. How will your administration ensure that China and India also take on some type of cap?**

Of course, we can't solve the problem without agreements from China and India, and all the developing countries, to reduce GHG emissions. It is critical that they take on international commitments but we recognize that some developing countries will not be able to take on these requirements at the same time as the US.

- We will build up our clean technology export market to both assist in developing countries ability to adopt mandatory GHG cap-trade systems in their own countries and make sure that American competitiveness is protected as we make the transition to a low-carbon economy.
- China and India along with the US are currently engaged in international negotiations that will set up the post-Kyoto 2012 international treaty. These countries know that they must come on board, but the issue has always been that they will not move forward until the United States takes action. John McCain's policy will allow America to be a leader in GHG reductions in a way that creates a "no-regrets" policy – generating a more diverse and secure energy infrastructure and developing a new domestic "green" manufacturing base.
- Consistent with Sen. McCain's policies for dealing with other foreign policy issues, the issue of engaging developing countries in undertaking international commitments requires a firm goal, dedicated diplomacy and clear resolve about enforcing the outcome. A McCain Administration will be prepared day one to engage with all countries in the United Nations process to reach a post-2012 climate agreement by December 2009.

**How does this climate policy coincide with Senator McCain's concern about higher gas prices?**

- Today's high gas prices have nothing at all to do with climate policy but are the result of years of failed energy policy. Right now Americans are hurting. John McCain's gas tax holiday is a short term plan to give Americans a break during the busy summer driving season.
- The climate platform that John McCain has laid out is a long term strategy for diversifying our energy supply – so that we do not have to be held captive by price spikes in one primary commodity, oil, which over 90 percent of our transportation sector depends on.
- Part of the reason we have such high energy costs now is due to a lack of action in years past to move our economy away from such over-dependence on one fuel source. Sen. McCain's climate plan is the trigger for a more economically stable and diversified energy supply.

**Sen. McCain has said we are in a recession. If we are in a recession in the year 2012, would he still move to implement a market- based cap-trade system?**

- The economic policies of a McCain Administration would mean that the country would not be a recession in 2012. The McCain plan would allow for sufficient number of years to ramp-up before targets were imposed.
- In order to improve our nation's economy, we must lessen our dependence on foreign sources of oil as the fuel of our market. We must enable our market to use economic power to make the transition away from the fossil fuel economy and towards the clean and diverse energy economy.
- We will use some of the carbon auction proceeds to lessen any potential impact in a way that stimulates the economy and makes it less prone to sharp spikes in energy prices resulting from being held captive to foreign, volatile energy producers.

**How will Sen. McCain's climate plan address the economic impacts of a cap-and-trade system?**

John McCain believes that an effective and sustainable climate policy must be supportive of rapid economic growth.

- His system will use a portion of auction proceeds to offset impacts to low-income American families. The McCain plan will accomplish this in part by incorporating measures to mitigate any economic cost of meeting emission targets, including:
  - Trading emission permits to find the lowest-cost source of emission reductions.
  - Permitting "banking" and "borrowing" of permits so that emission reductions may be accelerated or deferred

to more economically efficient periods.

- Permitting unlimited initial offsets from both domestic and international sources.
  - Effectively integrating U.S. trading with other international markets, thereby providing access to low-cost permit sources.
  - Establishing a Strategic Carbon Reserve as a national source of allowances during periods of economic duress.
  - Allocating emission permits on sound principles
- What the McCain plan will not do is artificially cap the price of carbon and destroy the market signal and the environmental integrity of the system.

### **Why not have a "safety valve" that caps the price of carbon?**

A safety valve involves the government selling unlimited credits at a fixed price and raises the following concerns:

- The safety valve would not have environmental integrity in that the government would start handing out free credits if the price reaches a certain level.
- Depending how it is designed, a set price of the safety valve could act to discouraged investments in technology. Companies would pay the safety valve price and not take the risk of investing in new technologies.
- The safety valve would inhibit international trading, and a smaller market would mean higher costs.

### **According to the Congressional Budget Office, this approach raises and spends more than any other bill in history. Are you a fiscal conservative? What will it do to the deficit in 2016?**

- The CBO has taken the unusual step of treating emission allowances as budget neutral, but doing so by charging the budget, and crediting the Treasury, for every emission allowance created. These accounting transactions need bear no relation to the flow of cash in and out of the budget – the usual focus of budgeting.
- The cap-trade will only be ramping up slowly by 2016; it will have far less of an impact than other pressing issues like reforms to protect Social Security and reining in growing health care costs.

### **How much will this raise gasoline prices? Electricity costs? How much will GDP growth slow?**

The best gauge is the Energy Information Administration (EIA) analysis of the Lieberman-Warner bill (which has similar targets and timetables).

- By 2030, average annual household energy bills will increase between \$76 and \$723.
- By 2030 GDP will only be between 0.1 and 0.8 percent lower.

These estimates are probably upward in relation to John McCain's plan:

- The McCain plan would allow for an unlimited use of offsets in the early phases -- a mechanism that has been estimated to reduce the cost of compliance by some 70 percent.
- John McCain plan also contains even more cost containment measures than the Lieberman-Warner bill including the use of a strategic carbon reserve to help respond to potential price spikes.

Predicting the future is impossible; accordingly formal models are notoriously unable to capture innovation and other sources of lower costs and greater growth.

## **What is the role for energy efficiency in homes, etc in the McCain Plan?**

John McCain's does not mandate any particular building standards for energy efficient homes. Obviously, any energy efficiency realized in our homes would help to reduce the amount of energy consumed and, therefore, reduced emissions. The McCain plan would never burden homeowners with regulations, but allow them to benefit over time from a cap and trade system because of increased energy efficiency options made available to them.

- As electric power companies have to meet their emissions reduction obligations, they are going to work with homeowners to reduce their energy use.
- They're doing that already – Dominion in Virginia, for example, has sponsored sales of CFC light bulbs in Home Depots, and they were shocked at the demand.
- That kind of natural partnership between energy suppliers and consumers is only going to grow.

## **How will Sen. McCain's plan hand out emission allowances?**

John McCain's climate plan will convene a commission to determine the proper amount of allowances to be auctioned and how much to be allocated to other entities. The Commission will provide recommendation based upon the following principles:

- Offer a significant amount of allowances at auction to provide funding for transition assistance for consumers and industry.
- Directly allocate sufficient permits to enable the identified activities of the Climate Change Credit Corporation, a public-private entity that will oversee the auctioning of allowances.
- Minimize costs to the government of allocating emissions, and to provide credit to entities for reductions made before 2012.
- Ease transition for industry with competitiveness concerns and fewer efficiency technology options.
- Convene a commission to provide recommendations on the percentage of allowances to be provided for free and the percentage of allowances to be auctioned based on industrial sector, along with a schedule for the auctioning process.
- Work to maximize the amount of allowances that are auctioned off by 2050.

## **A recent McKinsey report said there is very low-cost "low hanging fruit" that can be used to reduce green house gas emissions. Does your plan capture those reductions?**

The "low hanging fruit" refers to those emission reductions that are easy and inexpensive to make. These reductions can be achieved by industry doing a range of things from tightening of valves and no till farming to changing to more energy efficient light bulbs.

The voluntary carbon market in North America is continuing to grow and is now over \$250 million according to a report from New Carbon Finance North America. The World Bank has reported that the global carbon market is over \$64 billion. Needless to say, these are significant numbers.

It is in the best interest of the United States and industry itself to achieve any reductions possible. Achieving these reductions will only make the nation and industry more efficient which helps tremendously from a competitive perspective.

My policy would allow for unlimited use of offsets. Because many of these offsets are less expensive to achieve, they would be more cost effective than limiting the compliance options for industry in making their emission reductions. This flexibility is proving to be very effective in reducing the cost of the cap and trade program as well as providing us a bridge to the time when we can commercialize lower-carbon emissions technology, such as nuclear power and carbon capture and storage.

### **Will your cap-trade pre-empt state efforts?**

- I think that many states would prefer federal action on this problem. But because we haven't been able to get something done on the national level, many states have taken action. I support the states' initiative in doing so.
- My policy would call for a national cap and trade system to eliminate the "patch work" approach which requires many companies to operate under a different set of rules in different states, rendering them inefficient.

### **You have always been opposed to subsidies, yet you strongly support more deployment of nuclear power. What opportunities exist to assist nuclear power aside from increasing subsidies?**

- A climate cap-trade policy will create a natural incentive for expansion of nuclear power. Economic modeling from EIA for estimates of bills with similar targets and timetables as the McCain climate plan project that an annual average of up to 5 new nuclear plants would be built every year from 2012-2030 (the extent of the model's ability to look forward) because of the zero GHG emissions such plants provide.
- There are appropriate steps for government to take to clear the roadblocks and streamline industry's ability to respond to the new market demand that will be created.
  - John McCain has supported loan guarantees for the construction of new plants and a program to assist with the first of its kind engineering needs.
  - Sen. McCain will continue to review the industry needs to determine other areas in which he can lend support to ensure that we bring online new generational capacity -- including measures to further encourage investor confidence through improved safety, expanded manufacturing base, and waste disposal solutions.
  - John McCain's plan would call for the funds used to support these efforts for further deployment of nuclear technologies to come from the auction proceeds and not taxpayer's dollars.

The benefits of nuclear power generation are far too great to ignore. Just as coal has played an important role in the nation's history, so has nuclear. It has been a reliable and clean source of electricity and a key strategic defense technology for our Navy. Sen. McCain knows that the waste issue has already been a problem, but we are making progress in dealing with that challenge. It is expected that a license application will soon be submitted to the Nuclear Regulatory Commission by the Department of Energy for permanent storage of nuclear waste at Yucca Mountain.