Fact Sheet: The Managed Carbon Price Act of 2012 (MCP)

Background:

The fragile recovery of the U.S. economy is at risk from a host of upcoming fiscal challenges but many believe that lowering carbon emissions is essential and that it must be done in a way that does not hurt the American economy.

A carbon tax (or a managed carbon price system) has been called for by business, economic, policy and legislative leaders from across the political spectrum as a rational approach to reduce emissions and to help address America's fiscal issues, and do both of these without slowing down the economic recovery.

In 2007, former World Bank chief economist, Nicholas Stern famously described climate change as the greatest and widest-ranging market failure ever seen and that a well-constructed price on carbon would present the full social cost of carbon and lead individuals and businesses to switch away from high carbon goods and services to low carbon alternatives. As a recent report from the Brookings Institution illustrated, a starting price of $15/ton could raise an estimated $80 billion in the near term, rising to $170 billion in 2030 and $310 billion by 2050. This price would drive market change and generate funds that could be returned to the American people and reduce the deficit.

A carbon tax is simple to administer and easy to understand. Over time the price of carbon emissions is increased, which in turn, creates a market incentive to reduce emissions.

Brief Description of Legislation:

The Managed Carbon Price Act of 2012 (MCP) is unlike a traditional carbon tax, because the MCP creates a flexible price system that provides certainty by accounting for volatility in the energy markets, requires specific emissions reductions, and addresses any increase in energy costs with dividend payments to the public.

The MCP creates an emissions reduction schedule to reduce CO_2 emissions by 80% of 2005 levels within 42 years of enactment. The MCP imposes the first price on GHG substances 2 years after passage, to provide industry with enough time to prepare.

The MCP uses the price of carbon emissions to reach the emissions target. Under MCP the U.S. Secretary of the Treasury (Secretary) will issue Federal Emissions Permits, each representing one-quarter ton of CO_2 equivalent. Permits are to be purchased by the producers of covered greenhouse gas (GHG) emissions substances within 14 days before or after production of a covered substance. Permits are not allowed to be traded and can only be purchased from or refunded by the Treasury.

The MCP creates stability in the price of carbon to ensure certainty in the economy. Since specific reduction targets are set by the MCP, measures have been built into the legislation to provide maximum market certainty with respect to permit prices. The Secretary must publish a prospective 5-year permit price schedule and a new permit price annually (on a rolling basis) so that the market will always know what the permit price will be 5 years out. Prices will also be limited by a prospective 10-year price collar to ensure that the price of carbon will never dip below or exceed an established price floor or ceiling.

The MCP revenues would all be returned to the American people mostly through dividends and partially through direct deficit reduction. A percent of the permit fees will be directed to a newly created Energy and Economic Security Trust Fund, which will be distributed to taxpayers in the form of a monthly dividend. These dividends are intended to offset any increase in energy costs at the consumer level. The remainder of the trust will be dedicated to deficit reduction.