

Cap & Dividend: Climate Policy that Works for Consumers

Climate change legislation must address three main problems:

- (1) How do we reduce greenhouse gas pollution to avoid catastrophic climate change?*
- (2) How should we distribute carbon permits under a market-based cap?*
- (3) Who will receive the revenue from carbon permits?*

Cap and dividend addresses all three problems in a way that reduces greenhouse gas emissions while protecting consumers.

What is cap and dividend?

Like cap and trade, cap and dividend starts with a strong, scientifically-based cap on all GHG emissions. The cap is imposed at the point of entry into the economy and is gradually lowered over time.

100% of carbon permits – or allowances – available under the cap are auctioned competitively to the companies responsible for bringing GHG emissions into the economy (e.g., fossil fuel companies such as oil and coal companies). This added cost for dirty energy sources creates a market signal that encourages energy efficiency, spurs investment in new energy resources and makes clean energy competitive.

Finally, the revenues from permit auctions are distributed to consumers on a per capita basis to help offset any increased energy costs.

Why cap and dividend?

Cap and dividend works

Applying the cap upstream at the first point of entry into the market ensures that the cap will cover all carbon in the economy. Applying the cap downstream is more difficult and can only imperfectly target the sectors responsible for GHG emissions.

In addition, selling permits rather than giving them away is the most effective way to change consumer behavior and create a market for energy efficiency and renewable energy at the level needed to reduce emissions and create a new energy economy.

Cap and dividend is fair

Carbon allowances under ACES will be worth tens of billions of dollars, and there is no guarantee that any of that revenue will be passed on to consumers. A 100% auction and distribution of revenue to individual Americans ensures that American families – particularly middle- and low-income families – will see a meaningful offset of their energy costs.

International competitiveness for energy-intensive businesses and manufacturers could be further protected by a cap and dividend policy that includes a carbon border fee – a fee imposed on goods coming from countries with lower carbon prices.

How is cap and dividend different from the cap and trade regime in ACES?

The free carbon allowances established in ACES will give windfall profits to shareholders of polluting industries without adequate protections for consumers. Under cap and dividend, revenues are distributed directly to consumers.

The cap and trade system in ACES is open to everyone and leaves room for gaming and fraud. Wall Street firms buying and selling carbon permits could lead to market speculation and a “sub-prime” carbon market. A cap and dividend system auctions carbon permits only to those covered by the cap.

The cap and trade system in ACES gives away the majority of allowances to polluting industries. A similar system in Europe failed to achieve effective emission reductions. Cap and dividend would create the market signals needed to change consumer behavior, spur investment, and reduce GHG emissions.



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