POLICY BRIEF

Transportation and Climate Initiative

January 31, 2020

The Transportation and Climate Initiative (TCI) is a proposed cap-and-trade system. It would set a limit on carbon dioxide emissions from the transportation sector in Northeastern and Mid-Atlantic states and auction off allowances to the fuel companies operating in the region. The price of the allowances would increase expenses for fuel companies and lead to a price hike at the pump. TCI is designed to make driving cars and trucks more expensive. In short, the Transportation and Climate Initiative is a transportation cost increase. All aspects of the regional economy that rely on transportation, including the millions of products delivered by truck each day, would be jeopardized by TCI.

To help the public understand the initiative, IER has released this policy brief explaining TCI's key terms.

Cap-and-Trade

Cap-and-trade is a common term for a government regulatory program designed to limit emissions. In the case of the Transportation and Climate Initiative, cap-and-trade will be used to limit the emission of carbon dioxide. First used nationally to limit criteria pollutants (e.g., sulfur dioxide) from the electric generating sector, the approach has been expanded to cap and reduce carbon dioxide from the generating sector by certain regional programs (e.g., the Regional Greenhouse Gas Initiative). The Transportation and Climate Initiative is ostensibly designed to use the tool to reduce emissions in the transportation sector. The Transportation and Climate Initiative opts to conceal that its approach is cap-and-trade and uses the term "cap-and-invest."

Cap-and-Invest

A cap-and-invest program is a cap-and-trade program in which the revenue obtained from the auction of allowances on the regulated commodity is spent within the jurisdiction. The revenue could be used for additional so-called clean transportation programs, infrastructure, other programs to reduce carbon dioxide emissions within the jurisdiction, or anything else the signatory jurisdiction deems related to the Transportation and Climate Initiative. In effect, the Transportation and Climate Initiative will tax gasoline and diesel transportation and spend that money on competing forms of transportation.

Regional Emissions Cap

The total limit on carbon dioxide emissions that the Transportation and Climate initiative will set for the transportation sector in its region. The regional emission cap will be tightened annually.

Allowance

An allowance permits a company to own a unit of the regulated commodity. Under the Transportation and Climate Initiative, allowances will be auctioned off. Allowances can also be traded with other companies. That is, a quasi-market is developed for companies to buy and sell allowances. The market trading aspect usually sets the price of the allowance, however, in the case of the Transportation and Climate Initiative, a cost floor will be applied below which allowances cannot be sold. The cost of allowances is bundled to the commodity being regulated, increasing the price for consumers of the final product. The Transportation and Climate Initiative will increase the price of gasoline and diesel fuel.

Signatory Jurisdiction

Signatory jurisdictions are those jurisdictions (states) that sign the final Memorandum of Understanding, indicating that they are participating in the Transportation and Climate Initiative. The signatory jurisdictions may include Maine, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Maryland, Delaware, Virginia, and the District of Columbia. New Hampshire Governor Chris Sununu says his state will not participate because of the increase in gasoline and diesel prices that will result from the initiative.

Model Rule

The model rule is the specific, detailed cap-and-trade program that will be developed by the signatory jurisdictions. The model rule for the initiative is to be completed by December 31, 2020, having provided a 60-day public review and comment period. The Transportation and Climate Initiate will go into effect in 2022.

Regional Organization

The entity, independent of the particular signatory jurisdictions, which will administer the Transportation and Climate Initiative.

Affected Fuel

Affected fuels are the fossil fuel components of motor gasoline and on-road diesel fuel destined for final sale or consumption in participating jurisdictions.

State Fuel Suppliers

State fuel suppliers are those companies that bring affected fuel to the market in the participating jurisdictions. In the Transportation and Climate Initiative, the state fuel suppliers are considered in two main categories: Enterers and Position Holders. These are the companies that deliver and own the affected fuel destined to be used within a participating jurisdiction in the form of gasoline and diesel fuel.

Banking of Allowances

Banking of allowances allows a state fuel supplier to hold allowances into the next compliance period rather than trade them if the company foresees that it may need them in the future because of an impending lower cap, a change in the company’s market strategy, or a change to its production plans.

Compliance Period

The compliance period is the time period under which the cap-and-trade program is being measured. The Transportation and Climate Initiative is based on a three-year compliance period, at the end of which state fuel suppliers must provide the jurisdiction with emission allowances equal to the emissions that would result from the combustion of a volume of the affected fuel during the compliance period. The first compliance period will begin as early as January 1, 2022.

Alternative Compliance Mechanisms

Alternative compliance mechanisms are also called offsets, which are an indirect method of pursuing the desired goal. For instance, planting trees can reduce atmospheric greenhouse gas concentrations, without having to cut back on the supply of the affected fuel.

Cost Containment Reserve

The cost containment reserve consists of additional allowances held in abeyance in case the allowance price is higher than projected or desired. In that case, the reserve allowances are offered for sale. Additional allowances raise the cap, lower the price of the allowances, and thereby lower the price of the regulated commodity. It is used to stabilize the market for allowances.

Minimum Reserve Price

The minimum reserve price is a price below which the signatory jurisdictions will agree not to sell allowances. This provision means that the quasi-market for allowances will have a price floor. Effectively, the Transportation and Climate Initiative is a new tax that will be passed from the regulated fuel suppliers to consumers.

Emissions Containment Reserve

The emissions containment reserve allows a signatory jurisdiction to withhold allowances from circulation if emission reductions costs are lower than projected or desired. It is another tool to be used to stabilize the allowance market.

Clean Transportation Alternatives

So-called clean transportation alternatives are non-fossil fuel based transportation methods, which include electric vehicles fueled by electricity produced from renewable fuels, mass transit (buses, trains, subways) powered by electricity, vehicles using hydrogen or biofuels, such as ethanol, etc.

Vehicular Pollution

Vehicular pollution is the introduction of harmful material into the environment by motor vehicles that can have bad effects on human health and the ecosystem. The following are pollution materials associated with the transportation system: ozone, particulate matter, nitrogen oxides, carbon monoxide, and sulfur dioxide. Some people consider carbon dioxide to be a form of vehicular pollution, despite it having no ill effects on local health or ecosystems.

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