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Environment and Transportation  
Committee

Subcommittees

Chair, Energy

Environment

THE MARYLAND HOUSE OF DELEGATES  
ANNAPOLIS, MARYLAND 21401

Chair Korman,

I am writing in favor of **HB1199/SB 590 Study on Greenhouse Gas Emissions Economy - Wide Cap-and-Trade Invest Program** (Maryland Climate Crisis Equity Act).

The Climate Solutions Now Act of 2022 is setting Maryland on a course to reduce statewide greenhouse gas emissions by 60 percent by 2031 and achieve net-zero emissions by 2045.<sup>1</sup> In order to achieve these ambitious goals the state needs to redevelop its economy to provide sustainable revenue and fund sustainability projects. Maryland has already had major successes from other cap and trade programs such as the Regional Greenhouse Gas Initiative (RGGI) which has generated over \$1.6 billion for investments in utility bill assistance, clean energy, clean transportation, and other public needs.<sup>2</sup> In Maryland's Department of the Environment 2023 Climate Pollution Reduction Plan, the agency urges the state to create a "stronger regional pollution cap aligned with Maryland's and partner states' clean energy goals."<sup>3</sup> The cap and invest program would establish a regulatory cap on certain sources and use the revenue for clean energy projects. The state needs to keep charting a path forward to build a robust economy while staying committed to our climate goals.

The economic solution that would be studied via HB1199/SB 590 is called cap and trade. This system works by placing a cap on the greenhouse gas emissions an emitting company can pollute and decides penalties for violations.<sup>4</sup> The cap is split into allowances, each permitting a company to emit a certain amount of emissions over a period of time.<sup>5</sup> The cap can decline over time to provide incentives for companies to work towards reducing emissions and increase efficiency. Companies that are able to cut their emissions faster can then trade allowances to

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<sup>1</sup> *Office of Governor Wes Moore*, Governor Moore signs executive order to advance Maryland's pollution reduction plan, Press Releases - News - Office of Governor Wes Moore (2024), <https://governor.maryland.gov/news/press/pages/governor-moore-signs-executive-order-to-advance-maryland's-pollution-reduction-plan.aspx#:~:text=In%20December%202023%2C%20the%20Maryland.more%20comprehensively%20advance%20environmental%20justice.>

<sup>2</sup> *RGGI Maryland*, MD. DEP'T OF THE ENV'T, <https://mde.maryland.gov/programs/air/climatechange/rggi/pages/index.aspx>

<sup>3</sup> MD Dept of Env't, *Climate Pollution Reduction Plan* (2023), <https://mde.maryland.gov/programs/air/ClimateChange/Maryland%20Climate%20Reduction%20Plan/Maryland%207s%20Climate%20Pollution%20Reduction%20Plan%20-%20Final%20-%20Dec%2028%202023.pdf>

<sup>4</sup> *How Cap and Trade Works*, Env't Def. Fund, <https://www.edf.org/climate/how-cap-and-trade-works>

<sup>5</sup> Id.

other companies who pollute more or “bank” them for future use.<sup>6</sup> The flexibility of this system encourages companies to make reductions in pollution and rewards those who innovate solutions to reduce emissions faster.

HB 1199/SB 590 proposes the Maryland Department of the Environment (MDE) in collaboration with other state agencies and stakeholders complete a study and develop a report evaluating the potential design and implications of an economy-wide cap and trade investment program for Maryland. The study will evaluate methods for reducing state greenhouse gas emissions while balancing economic stability and environmental justice. Key areas of focus include managing electricity sector impacts, protecting local manufacturing from carbon leakage, and utilizing market mechanisms like allowance auctions and offsets to minimize consumer costs. Crucially, the study prioritizes the health of overburdened communities by proposing limits on nearby facilities and integrating environmental justice into all compliance requirements. Additionally, the study will examine how revenue from a cap-and-trade program can fund rebates, weatherization, clean energy, and climate-resilient infrastructure while supporting workforce development and an equitable transition to a decarbonized economy.

Cap and trade programs are already being implemented in other states and countries around the world. California’s cap and trade program is one of the largest multi-sectoral emissions trading systems in the world.<sup>7</sup> A pivotal step in implementing their program was Assembly Bill 32: The Global Warming Solutions Act of 2006. The bill required a reduction in greenhouse gas emissions to 1990 levels by 2020 (this goal was met in 2016).<sup>8</sup> Part of the process in reducing emissions was for California to find economically viable solutions which included cap and trade. The scoping plan laid out the regulatory framework that led the California Air Resources Board (CARB) to formally adopt cap and trade rules in 2011 and the launching of the program in 2013.<sup>9</sup> The program generated revenue is then deposited into the state’s Greenhouse Gas Reduction Fund and appropriated to state agencies to implement programs that further reduce greenhouse gases.<sup>10</sup> Since 2013 the program has generated \$5 billion in total revenue.

Beyond our borders, the Canadian province of Québec serves as a premier example of how cap-and-trade can be successfully integrated across jurisdictions. Launched in 2013, Québec’s system covers approximately 80% of the province’s emissions, including mining, power, buildings, transport, agriculture, and forestry.<sup>11</sup> This 'top-down' system provides market

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<sup>6</sup> Id.

<sup>7</sup> *California Cap-and-Trade*, Ctr. for Climate & Energy Sols., <https://www.c2es.org/content/california-cap-and-trade/>

<sup>8</sup> *Cap-and-Trade Program*, Cal. Air Res. Bd., <https://ww2.arb.ca.gov/resources/documents/faq-cap-and-trade-program>

<sup>9</sup> Id.

<sup>10</sup> Id.

<sup>11</sup> *Canada – Québec Cap-and-Trade System*, Int’l Carbon Action P’ship, <https://icapcarbonaction.com/en/ets/canada-quebec-cap-and-trade-system>

certainty by setting the emission cap in law years before compliance obligations are realized.<sup>12</sup> To maintain economic stability, Québec utilizes a sophisticated allocation strategy: while most units are auctioned to generate revenue, free allowances are strategically provided to emissions-intensive, trade-exposed sectors to prevent carbon leakage.<sup>13</sup> By studying this model, Maryland can evaluate how joining a larger market could stabilize allowance prices, offer flexibility through offset credits, and ensure that our local manufacturing remains competitive while we transition to a decarbonized economy.<sup>14</sup>

By authorizing this study Maryland is committing to an informed, data-driven future. We have the opportunity to learn from the successes of other jurisdictions while tailoring a program that fits Maryland's unique economic landscape and protects our most vulnerable residents. To meet the mandates of the Climate Solutions Now Act, we must explore every tool available to us. A comprehensive cap-and-trade study is the essential first step toward a cleaner, more resilient, and more prosperous Maryland. For these reasons, I respectfully urge a favorable report on HB 1199/SB 590.

Respectfully,

A handwritten signature in black ink, appearing to read "David Fraser-Hidalgo". The signature is stylized and cursive.

Delegate David Fraser-Hidalgo

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<sup>12</sup> Id.

<sup>13</sup> Id.

<sup>14</sup> Id.