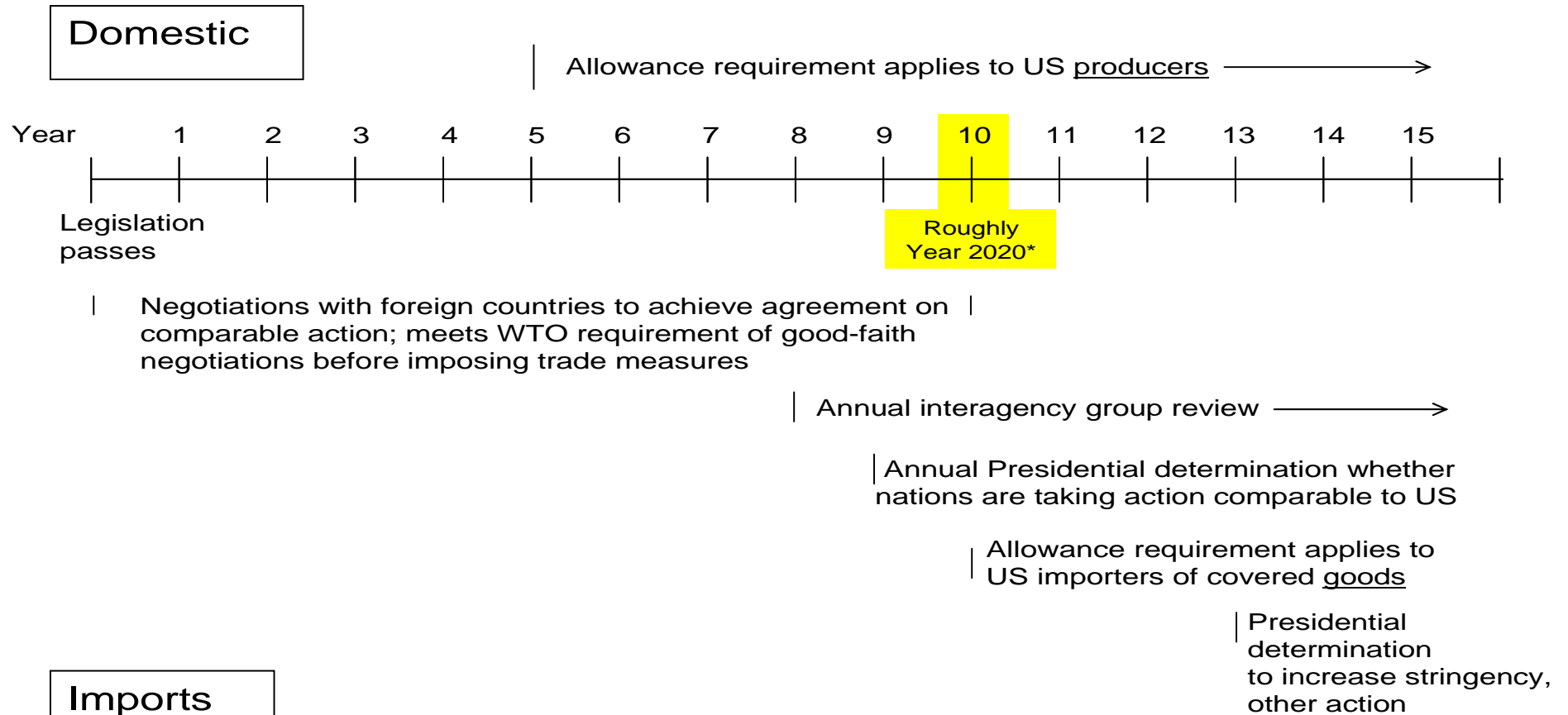


How International Proposal Related to Allowances & Trade would operate within Senator Bingaman's climate legislation

Marty McBroom
IECA Climate Workshop
September 10, 2007

Implementation Timeline of International Proposal Related to Allowances & Trade as Part of Climate Legislation



*Expected compliance date for international allowance requirement is roughly 2020.

What are the objectives?

- ***The goal is to establish a framework that protects the environment and U.S. jobs.***
- ***The framework seeks to –***
 - ***find a global solution to the global climate change problem, and***
 - ***prevent the shifting of U.S. jobs to foreign countries that have lower manufacturing costs because they refuse to limit their greenhouse gas (GHG) emissions.***

How does the allowance requirement work?

- ***U.S. importers must hold “international reserve allowances” to cover emissions from imported goods.***
- ***Failure to submit allowances bars entry of imported goods into the U.S.***
- ***The allowance requirement –***
 - ***applies after the start of the U.S. cap-and-trade program in 2020, and***
 - ***strives to mirror allowance requirement that the U.S. program imposes on producers of domestic goods.***

Which goods are covered?

- *The allowance requirement applies only to “greenhouse gas intensive” goods from countries that are found to have not taken comparable action as the U.S. Limiting the scope of the program again takes off the table concerns that the international allowance provision will interfere with international trade with respect to the vast amount of imported goods that do not generate significant GHG emissions during their manufacture.*
- *Covered goods include –*
 - *primary goods (such as iron and steel, aluminum, cement, bulk glass, and paper) and*
 - *Other goods sold in bulk that are determined to have substantial amounts of GHG emissions.*
- *Goods not covered include finished products and other goods that do not generate substantial amounts of GHG emissions (on emissions per dollar basis) during their manufacture.*

Which countries are covered?

- ***The allowance requirement only applies to foreign countries that are –***
 - ***large-emitters of GHG emissions, and***
 - ***not taking action to address their emissions.***
- ***Foreign countries are excluded if they –***
 - ***Have taken “comparable action” to limit their GHG emissions,***
 - ***Are a least-developed developing country, or***
 - ***Have de minimis levels of GHG emissions.***

How is the allowance requirement set?

- ***The allowance requirement is –***
 - ***set for each category of covered goods from each covered foreign country,***
 - ***applied on a per unit basis to each good,***
 - ***adjusted each year to reflect production changes in the foreign country,***
 - ***adjusted to ensure consistency with WTO requirements (see next slide).***

What are WTO adjustments?

- ***To ensure WTO compliance, adjustments are made to each category of covered goods.***
- ***The WTO adjustments are intended to –***
 - ***avoid discrimination between countries where the same conditions prevail.***
 - ***Example: Take into account the level of economic development of the foreign country.***
 - ***maintain rough comparability in burden on imported and domestic goods.***
 - ***Example: Lower international allowance requirement to reflect “free” allowances given to domestic producers. (This ensures that imported goods are “not treated less favorable” than domestic goods.)***

How do countries comply?

- ***Countries may comply with the allowance requirement by –***
 - ***purchasing “international reserve allowances” from a separate pool that is reserved only for this purpose (see next slide).***
 - ***obtaining certified emissions credits issued pursuant to the U.S. program or other foreign GHG regulatory program, or***
 - ***making “safety valve” payments, in lieu of submitting allowances (if the program contains a safety valve).***

What are the key features of international reserve allowances work?

- ***The allocation of international reserve allowances will not reduce the number of allowances allocated for domestic compliance.***
- ***The international reserve allowances –***
 - ***cannot be used for domestic compliance, and***
 - ***can only be used for meeting the allowance requirement applicable to imported covered goods.***
- ***The price of the international reserve allowances would be pegged at the U.S. market price for domestic allowances.***
- ***International reserve allowances may be traded and banked for future use.***

When does allowance requirement apply?

- ***The allowance requirement is a measure of last resort that applies five years after the U.S. cap-and-trade program begins – specifically in 2020 – allowing ample time for negotiations and preempting claims that the requirement is “protectionism.”***
 - ***Until then, the U.S. first must make good faith efforts to get foreign countries to limit their GHG emissions.***
 - ***The President will have at least ten years from enactment date to negotiate a GHG agreement with these other countries.***
- ***The allowance requirement applies to imported goods of a foreign country only if –***
 - ***the U.S. fails to negotiate GHG agreement with that country; and***
 - ***the President determines that the country is not taking comparable action to limit its GHG emissions.***

Can the allowance requirement be adjusted?

- ***The President can increase the stringency of the international allowance requirement or take other appropriate action to address GHG impacts of imports.***
- ***Either action is authorized if –***
 - ***the President determines the current requirement is insufficient to address GHG impacts, and***
 - ***the adjusted requirement complies with WTO laws.***
- ***The President also may make adjustments to address concerns raised in WTO challenges lodged by foreign countries.***