

Carbon Leakage Provisions in the American Clean Energy and Security Act (ACESA)

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The Peterson Institute For International Economics



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Presentation Overview

Policies for addressing carbon leakage from energy-intensive and trade-exposed (EITE) industries

- Background
 - Political history on Capitol Hill
 - Research and analysis history
- Waxman-Markey Legislation:
 - Output-based rebates (Inslee-Doyle; E&C Committee)
 - International Reserve Allowances (W&M Committee)
- Expectations for the Senate
- Discussion

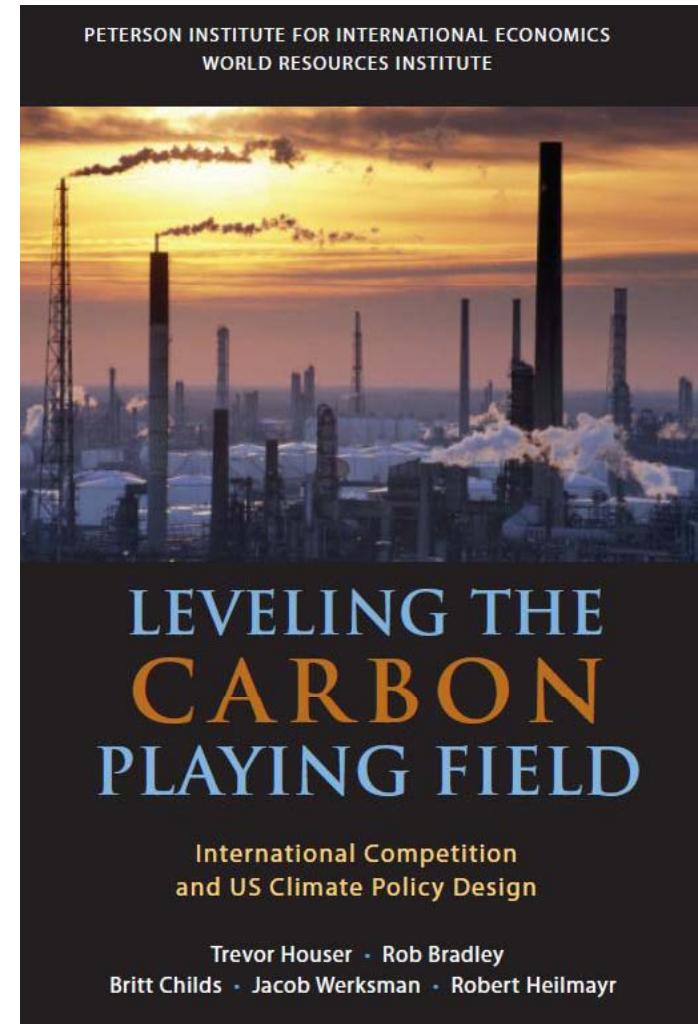
Competitiveness & Climate Policy

Political History in the US:

- Critical policy issue of environmental, economic and political significance (not unique to US)
- July 1997, Byrd-Hagel Resolution passed the Senate 95-0
- Early 2007, AEP-IBEW proposed IRA measures, widely adopted in House and Senate legislation
- June, 2008, letter from 10 Senate Democrats opposing Lieberman-Warner
- September, 2008, Inslee-Doyle H.R. 7146
- June, 2009, Waxman Markey passed the House, 219-212

Research, Analysis and Experience

- May, 2008, Leveling the Carbon Playing Field, by Peterson Institute and WRI
- 2008 and 2009, papers by RFF and the Pew Center
- July 2009, GMF Policy Paper
- Extensive analysis and experience with EITE policy options in the EU (and Australia)



How does ACESA Address Emissions and Jobs Leakage?

Two Integrated Provisions:

- 1) Allowance Rebate Program:*** Temporary rebates (guaranteed thru 2025 & phased out by 2035) for energy-intensive, trade-exposed industries on an output basis.
- 2) International Reserve Allowance Program:*** Border adjustment measures (border taxes) starting in 2020 on imports if international negotiations and actions are not sufficient and allowance rebates do not fully compensate affected industries.

Allowance Allocation - Policy Design

Why Allowance Allocation?

- *Compensate for investments in stranded assets*
- *Prevent carbon leakage***

Which industries should be eligible for compensation?

- *Those that are energy intensive and trade exposed (EITE)*

On what basis should allowances be given to EITE industries?

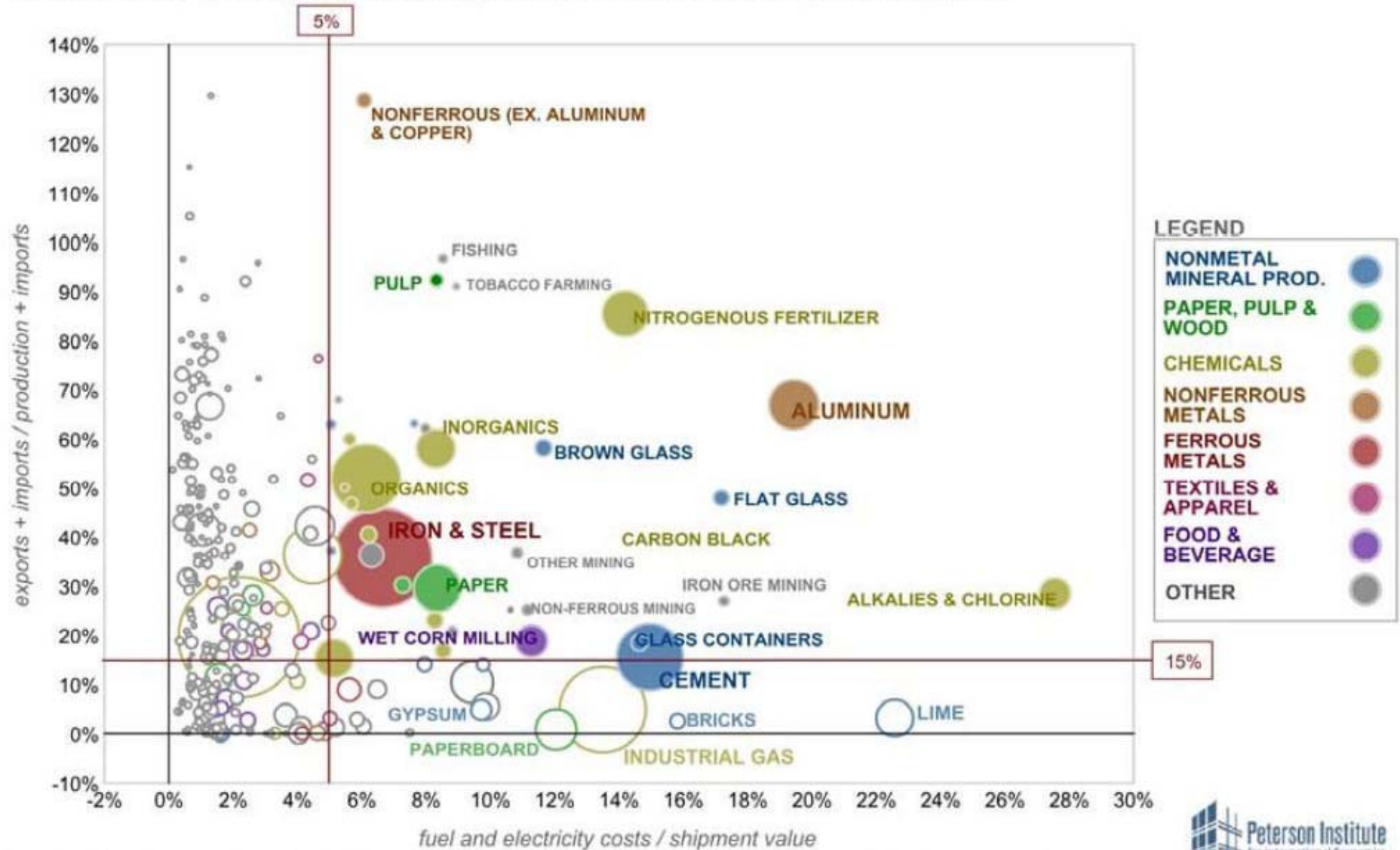
- *Past Emissions*
- *Output of Production*

At what point should allowance allocation be phased down or replaced with an alternative policy mechanism?

- When the carbon price disparity is reduced or eliminated
- Best to address within an international framework

Figure 1: ACESA Energy-Intensity Criteria

Trade-intensity (Y-axis), GHG-intensity (X-axis) and CO2 emissions (circle size), 2006



Source: Calculations by Trevor Houser, Peterson Institute for International Economics. Underlying data from BEA, Census, EPA, USITC and EIA

International Reserve Allowance Program

- A required purchase of IRAs would apply to **imports of primary products** that receive OBR allowances starting in 2020, unless an international agreement is in place that meets the “*negotiating objectives*”.
 - IRA may also be applied to imports of “covered goods” which are products **downstream** from sectors receiving OBR allowances
- If negotiating objectives are not met, then imports of products from each sector and/or each country would be subject to IRA, unless conditions are met:
 - 85% of US imports within that sector are from countries that have met certain “*Action Standards*”
 - OR
 - A country has met the Action Standards, with respect to a sector
 - A country is one of the least developed
 - A country is responsible for <0.5% of global emissions and <5% of US imports for a sector

Dynamics in the Senate

- Passage of W-M builds momentum
 - With industry and labor engagement *and support*
 - Debate shifted toward OBR allowances (some issues regarding implementation and data need to be resolved)
 - IRA remains political point of debate
- EPW expected to mark-up first, with something very similar to W-M (Titles III & IV)
- Members of the Gang of X are actively engaged
 - Letters to President and Carol Browner
 - Drafting legislation (EITE only)
- Finance will act after health care, although staff is working now; likely to have different approach to IRA

Thank you!

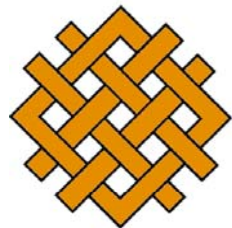
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