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

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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 a 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 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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