

News Release

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US CLIMATE CHANGE POLICY CAN CREATE FAIR PLAYING FIELD ON TRADE

Washington, DC—US climate change policy can reduce emissions and ensure fair international competition without carbon tariffs through pursuing international agreements on key industries and targeting relief specifically to affected domestic firms.

These are among the findings of a book released here today by the Peterson Institute for International Economics and the World Resources Institute (WRI). *Leveling the Carbon Playing Field: International Competition and US Climate Policy Design* provides an analysis of proposals that address international competition in climate change legislation, such as the Climate Security Act currently being considered by Congress.

“Trade concerns can be most effectively addressed in the international arena, and US policy proposals should reflect this,” said C. Fred Bergsten, director of the Peterson Institute. “While the commitments that developing countries could make in a post-Kyoto agreement are still uncertain, there is great interest in international sectoral cooperation to address the industries most exposed to trade impacts from climate regulation.”

“US climate change policy must address international competition through smart policies aimed at the handful of most disadvantaged industries,” added Jonathan Lash, president of the World Resources Institute. “We must take care to do more good than harm, and create opportunities, not barriers, for further international cooperation.”

Leveling the Carbon Playing Field examines what effect “carbon emissions caps” would have on the industries likely to face the strongest international pressures from climate legislation: steel, copper, aluminum, cement, glass, paper, and basic chemicals. Electric utilities are also carbon intensive but are not as vulnerable to international competition.

There is growing concern that domestic climate change legislation would increase costs for carbon-intensive industries, exposing them to greater competition from developing countries, which would have no similar regulations. Proposals to address these concerns

include providing free emissions allocations, increasing costs on imported carbon-intensive commodities, or encouraging other countries to impose emissions caps of their own.

However, the book finds that several of the proposed options would likely not provide the intended relief, and in some cases could either make things worse or have adverse consequences. For instance, broad carbon tariffs could be difficult to assess and enforce, and provide no opportunity for exporters in developing countries to benefit from adopting higher standards. But trade measures could be tailored to provide this incentive.

To date, many of the trade-specific measures have been intended to bring China to the climate negotiating table. However, China's exports of carbon-intensive goods to the United States are relatively small. Instead, the book finds that Canada is the leading exporter to the United States in all categories except basic chemicals, where the leader is Trinidad and Tobago. Europe and Russia are next in importance. Therefore, trade measures provide little incentive for China to adopt stricter emissions regulations, and could sour the prospects for international cooperation.

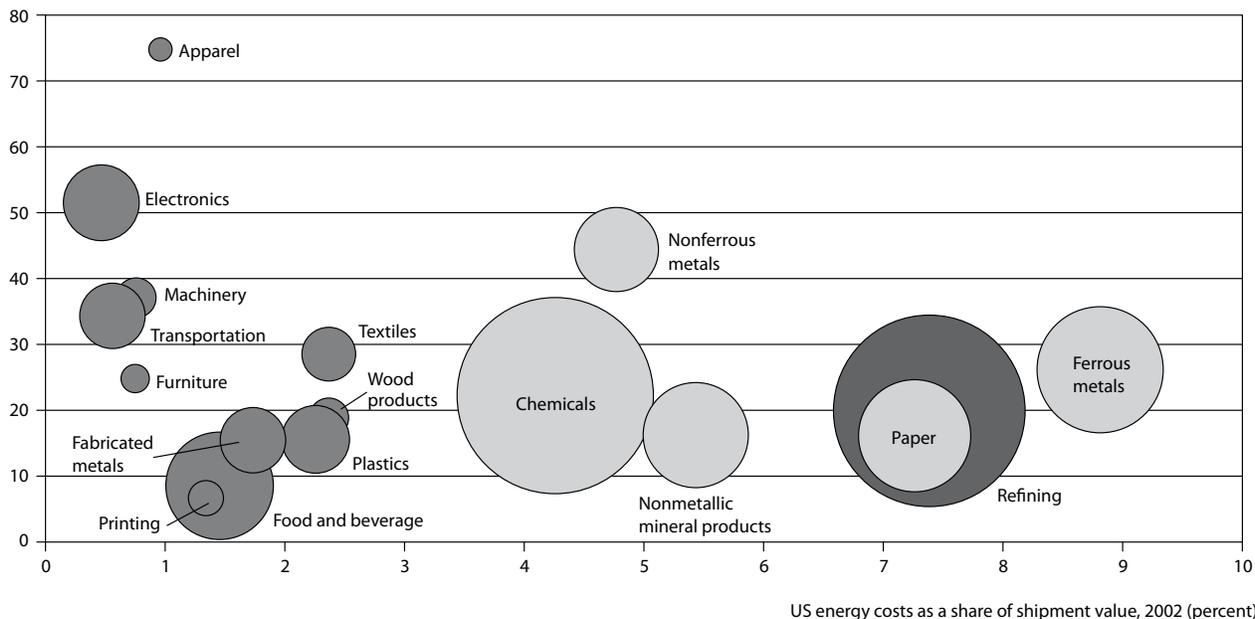
In addition, China is already seeking to curb exports of carbon-intensive goods due to local energy and environmental concerns and has recently implemented border treatment for goods like steel that are equivalent to imposing a carbon tax of \$50 per ton of CO₂. This, the study argues, means that engaging China and other developing countries in reaching international agreements on key sectors is more promising than many think, and would more successfully address both competitiveness and climate concerns than unilateral carbon tariffs at the US border. As part of an international sectoral agreement, trade-specific measures could play a role in creating incentives for individual foreign firms to reduce emissions.

Until an international agreement is reached, US legislators can maintain a level playing field for carbon-intensive manufacturing through domestic policy design. Costs for trade-exposed industry, which accounts for less than 6 percent of US emissions, can be controlled in a way that does not compromise the environmental effectiveness of US climate policy or risk trade conflicts by imposing border tariffs unilaterally.

Leveling the Carbon Playing Field is the first in a series of publications from the Peterson Institute and WRI that will examine the international dimensions of US climate policy. The report is available at <http://bookstore.petersoninstitute.org> or www.wri.org/publication/leveling-the-carbon-playing-field.

US industry exposure to climate costs based on energy intensity and imports as a share of consumption

imports as a share of consumption, 2006 (percent)



Note: The size of the bubbles indicates the total CO₂ emissions from the industry in 2002.

Sources: US Department of Commerce, Bureau of Economic Analysis, Industry Economic Accounts, 2007; US Department of Energy, Energy Information Administration, Manufacturing Energy Consumption Survey 2002.

About the Institutes

The Peter G. Peterson Institute for International Economics (www.petersoninstitute.org) is a private, nonprofit, nonpartisan research institution devoted to the study of international economic policy. Since 1981, the Institute has provided timely and objective analysis of, and concrete solutions to, a wide range of international economic problems.

The World Resources Institute (www.wri.org) is an independent, nonpartisan and nonprofit organization with a staff of more than 100 scientists, economists, policy experts, business analysts, statistical analysts, mapmakers, and communicators developing and promoting policies that will help protect the Earth and improve people's lives.