



*How the International Reserve Allowance
Program Operates within
Proposed US Climate Change Legislation*

*Based on Title XIII, Subtitle A of Lieberman-Warner-Boxer
“Managers’ Amendment,” introduced June 4, 2008*

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What are the objectives?

- ***The goal is to establish an environmental framework that protects the environment and fairly treats U.S. workers.***
- ***The framework seeks to –***
 - ***find a global solution to the global climate change problem, and by solving this problem, also:***
 - ***helps prevent the shifting of U.S. jobs to foreign countries that would have lower manufacturing costs merely because they refuse to do their part to limit greenhouse gas (GHG) emissions.***

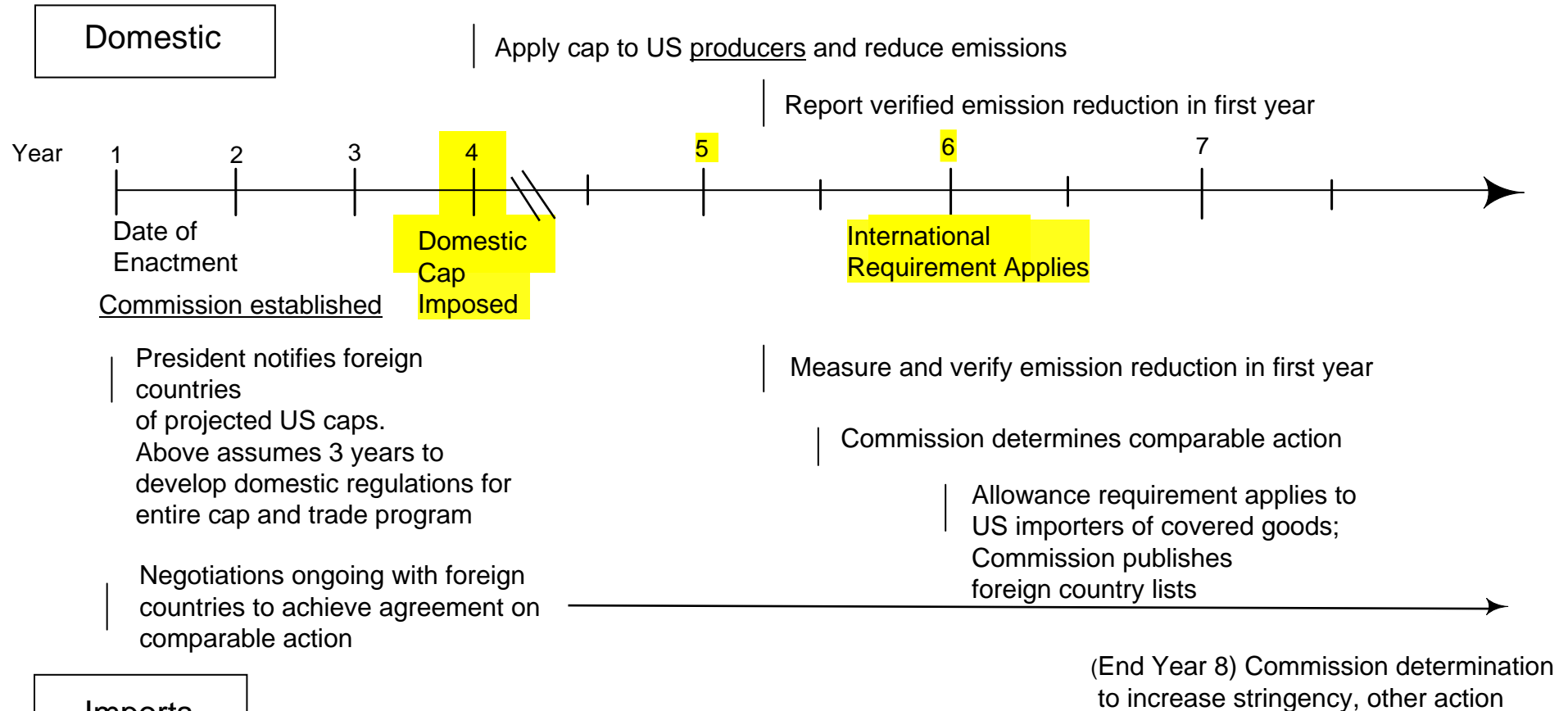
Which countries are covered?

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

How is “comparability” determined?

- ***First, action is deemed “comparable” if***
 - ***percentage change in GHG emissions in the foreign country is equal to or higher than***
 - ***percentage change in the U.S. in the relevant period***
- ***If the foreign country fails the first test, then Commission still may deem action “comparable” taking into account the extent of --***
 - ***Deployment and use of state-of-the-art technologies, and***
 - ***Implementation of regulatory programs***

Implementation Timeline of International Reserve Allowance Program



*These international efforts ensure compliance with the WTO requirement of good-faith negotiations before imposing trade measures

When does allowance requirement apply?

- ***To fully comply with WTO, the U.S. first must make good faith efforts to negotiate with foreign countries affected by the program to limit their GHG emissions.***
 - ***WTO requires that, if US negotiates with some countries, must negotiate with all countries affected by program.***
- ***The allowance requirement is a measure of last resort that applies after the promulgation of regulations and the start of the U.S. cap-and-trade program.***
 - ***This ensures that the "comparability" of foreign action on GHG emissions can be measured against domestic action, thus complying with WTO and rebutting any allegation that the requirement is "protectionist."***

When does allowance requirement apply?

- **Not protectionist** – *The requirement would not actually be applied against any country until 2 years after the U.S. cap begins for the results of the cap to be measured and demonstrated. (By contrast, a protectionist trade measure would take effect almost immediately.)*
- **Provides negotiating leverage** -- *The proposal provides U.S. climate negotiators with a “stick” -- with leverage -- to use in negotiations with other major emitting nations. The global political pressure for action on climate change will become even stronger during the next decade. That change in global opinion on this issue, and the need for all major emitting nations to reduce their own domestic emissions -- when coupled with these provisions -- will likely mean that the requirement will never actually have to be implemented against any major emitters.*

How does the allowance requirement work?

- *U.S. importers must hold allowances (see next slide) 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,*
 - *strives to mirror allowance requirement that the U.S. program imposes on producers of domestic goods, and*
 - *the comparability and allowance determination, as with other key decisions, is made by an independent and bipartisan commission.*

How do importers comply?

- ***Importers may comply with the allowance requirement by –***
 - ***obtaining emission allowances issued pursuant to other foreign GHG regulatory programs***
 - ***obtaining certified emissions credits issued pursuant to the U.S. program or other foreign GHG regulatory programs***
 - ***purchasing “international reserve allowances” from a separate pool that is reserved only for this purpose (see next slide)***

What are the key features of international reserve allowances?

- ***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.***

Which goods are covered?

- *The allowance requirement applies initially to “greenhouse gas intensive” goods from countries that are found to have not taken comparable action as the U.S.*
- *Covered goods include –*
 - *primary products (such as iron and steel, aluminum, cement, bulk glass, and paper) and*
 - *manufactured goods for consumption that generate a substantial quantity of direct and indirect GHG emissions*
- *Limiting the primary scope of the program addresses 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.*

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.***

What adjustments do WTO rules require?

- ***To ensure WTO compliance, adjustments are made to each category of covered goods.***
- ***The WTO adjustments are intended to –***
 - ***avoid unjustifiable discrimination between countries where the same conditions prevail.***
 - ***Example: Take into account the extent to which state-of-the-art technologies and regulatory programs are deployed.***
 - ***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 favorably” than domestic goods.)***

Can the allowance requirement be adjusted further?

- ***The Commission 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 Commission determines the current requirement is insufficient to address GHG impacts, and***
 - ***the adjusted requirement complies with WTO laws.***
- ***The Administrator also may make adjustments to ensure other aspects of implementation of the program are WTO compliant.***

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