



Center for  
Clean Air Policy

# Proposed Use of “Sticks” in the US:

The S.2191 approach to ensure that energy intensive products from importing nations will eventually be subject to equivalent GHG costs

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# Objectives

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1. Promote a strong global effort to significantly reduce greenhouse gas emissions;
2. Ensure, to the maximum extent practicable, that GHGs occurring outside the US do not undermine the objectives of the United States in addressing global climate change; and
3. Encourage effective international action to achieve those objectives through negotiation of binding agreements (try this first) and/or unilateral actions.

# Who is subject to regulation?

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- Countries are evaluated as to whether they have taken “comparable action” to limit GHGs.
- Importers of “covered goods” produced in countries that have not taken “comparable action” (and do not meet exclusions) must purchase reserve allowances starting in 2020.
- “Covered goods” include “primary products” such as iron, steel, aluminum, cement, and others that are produced with a substantial amount of direct/indirect GHG emissions.

# Comparable Action

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- To be deemed comparable to Lieberman-Warner, the program must:
  1. place a quantitative limit on GHGs (expressed in tons/calendar year);
  2. achieve the limit via an allowance trading system;
  3. meet requirements for enforceability; and
  4. be a comparable action.

# Exclusions

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- De minimus – Total emissions (including developing country deforestation) are less than 0.5% of global emissions.
- Least developed -- the United Nations has identified the foreign country as among the least-developed of developing countries.

# Reserve Allowances

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- Reserve allowances are separate from and additional to those used for domestic compliance.
- The price may not exceed the allowance price in the most recent allowance auction.
- EPA may establish rules for trading and banking of reserve allowances.
- Reserve allowances cannot be submitted for US compliance.
- Proceeds used to mitigate climate impacts in disadvantaged communities in other countries.
- Credits from recognized international allowance/offset programs deemed equivalent.

# How many reserve allowances are needed?

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- Based on a set formula –
  - » Total excess sector emissions above baseline / total sector production.
  - » Can be adjusted to consider free allocations and level of economic development.

Note that these and other requirements can be modified to ensure consistency with international agreements.

# Questions

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- Is the program likely to be effective in meeting the stated objectives?
- Does the program design meet WTO requirements?
- How might allocation, carrots and sticks be combined as part of an integrated approach to competitiveness?