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Clean Air Policy

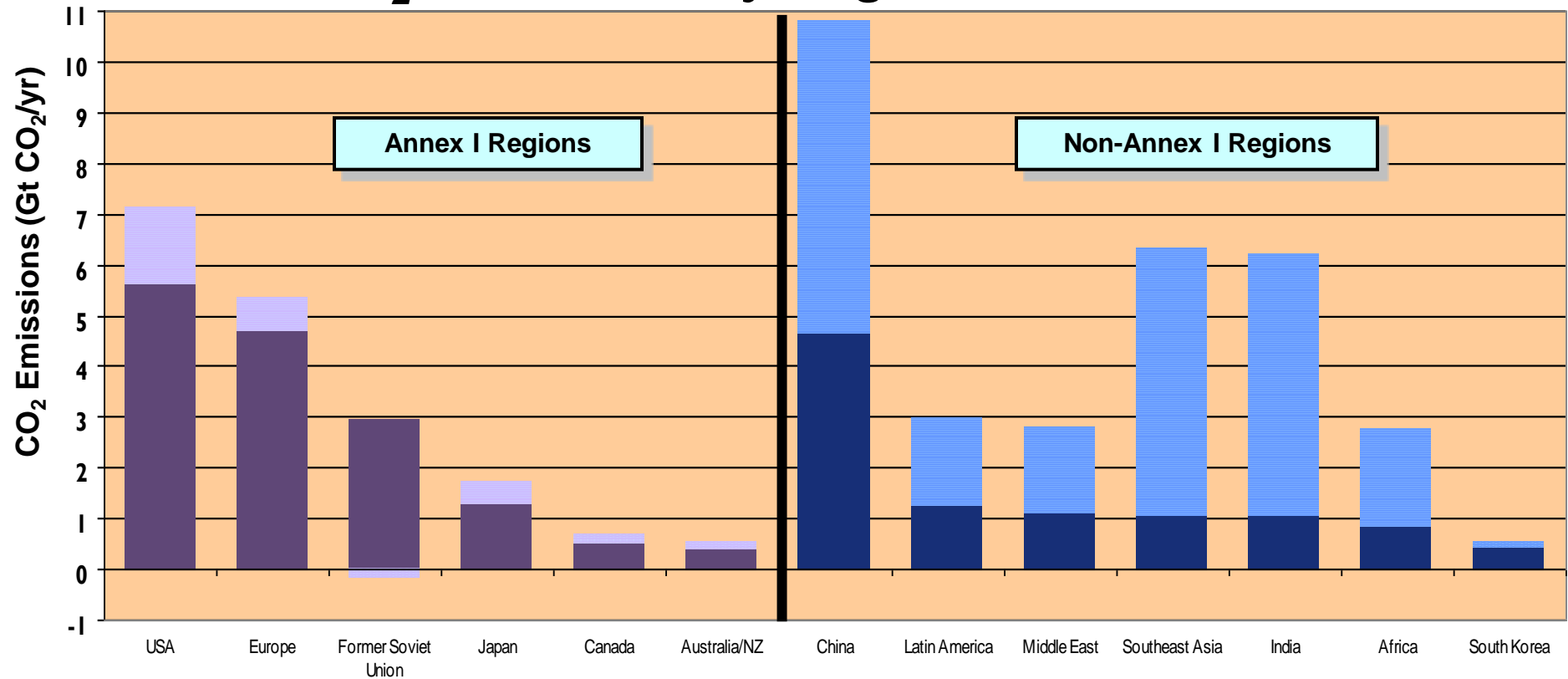
International Competitiveness and Developing Country Action

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Washington, DC
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Outlook for Developing Country emissions growth remains substantial

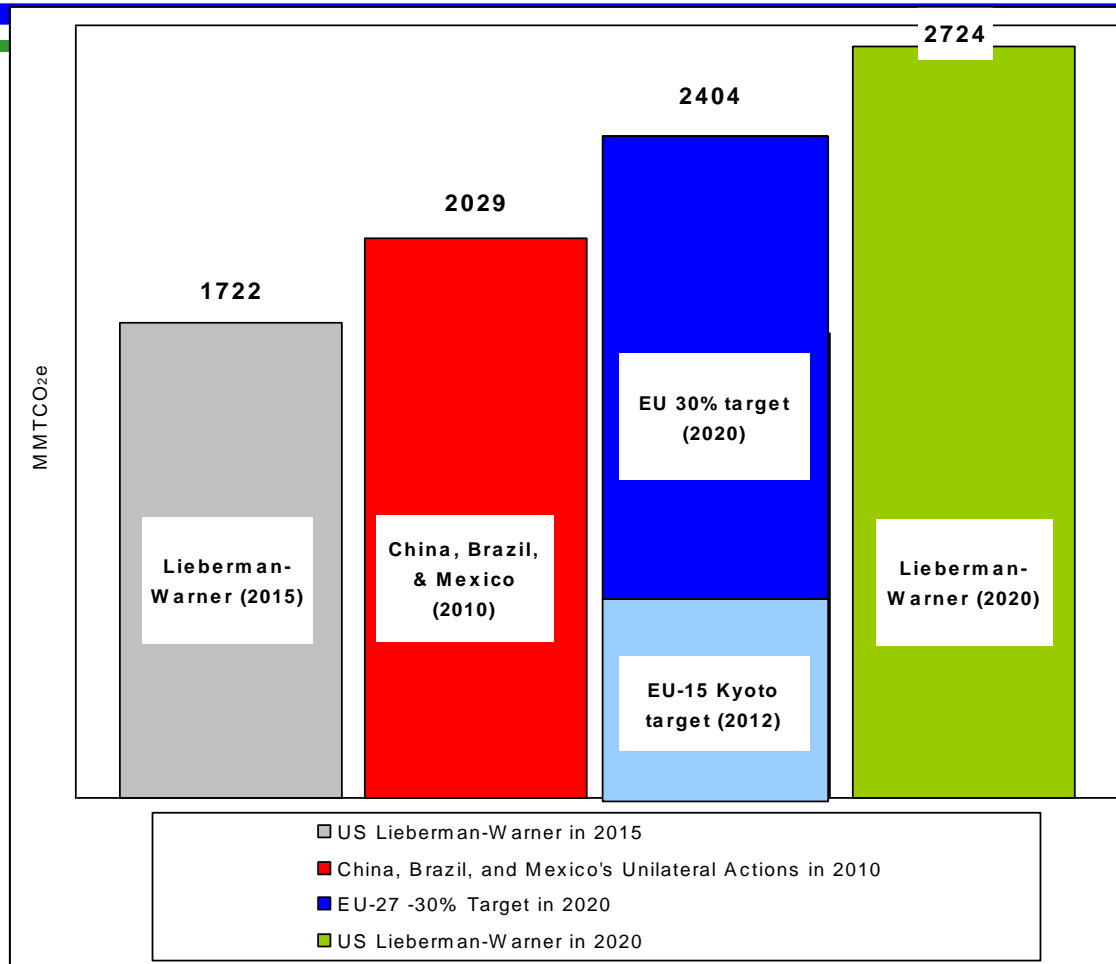
CO₂ Emissions by Region - 2000 & 2050



¹ Includes Fossil and other industrial CO₂.

Source: U.S. Climate Change Science Program. 2007. *Scenarios of Greenhouse Gas Emissions and Atmospheric Concentrations* (MINICAM Results).

...And developing countries are already doing more than many believe



Reductions from BAU

Source: CCAP, updated

International Policy Context

- Bali Action Plan calls for verifiable “Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development”,
- Supported and enabled by verifiable technology, financing, and capacity-building support from A1 countries
- Roadmap envisions a menu of options that developing countries can elect to pursue including tech transfer, CDM, sectoral approaches, and reductions from deforestation (REDD)
- Also envisions a range of financing from A1 including expanded carbon market mechanisms (based on tougher A1 targets) and new financing beyond ODA

US Policy Context

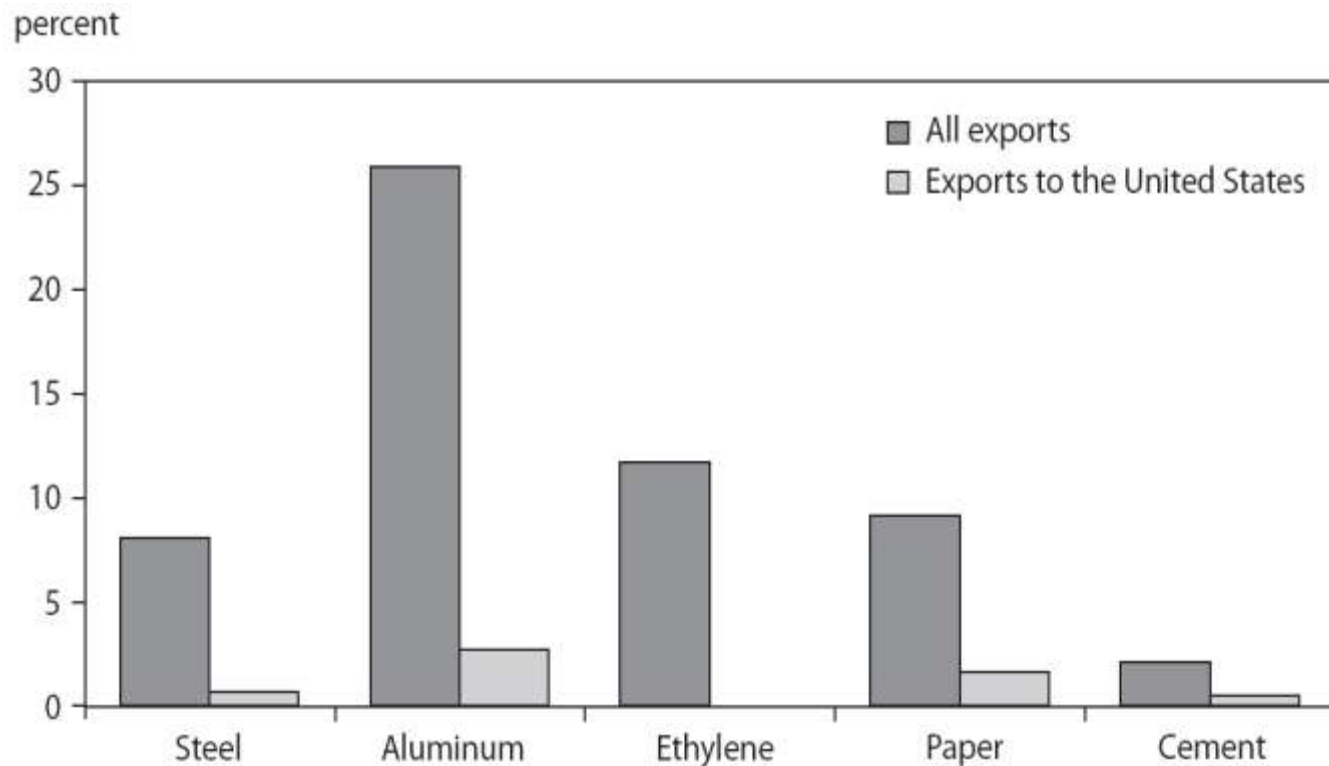
- Trying to address two critical issues:
 - » Ensure that US companies are not at a competitive disadvantage vis-à-vis competitors as a result of US action w/o similar action in other countries
 - » Encourage significant developing country emissions reductions
- Best solution: International cooperation where all countries undertake the same efforts.
 - » Not likely in the near-term, so...
- **How do we accelerate developing country action in the near-term?**

Border Adjustment & Output-Based Free Allocations

- Border allowance purchase requirements and free allowance allocations could eliminate any competitive disadvantage that domestic carbon regulation might cause
- BUT, they may not prevent job shifts due to labor costs, tax policies or other factors
- AND they will not create incentives for developing countries to reduce their domestic emissions or to cooperate in negotiations

Developing country production is often largely to meet growing domestic demands

Chinese Exports as a Share of Domestic Production, 2005



Note: Chinese ethylene exports to the United States are negligible.

Source: Peterson Institute & World Resources Institute, 2008, *Leveling the Carbon Playing Field*.

Border Adjustment & Output-Based Free Allocations (2)

- Border requirements could start trade problems
- Free allowances are less likely to promote trade policy retaliation but will need to be phased out as developing countries take comparable actions to reduce emissions

Whatever strategies we use have to...

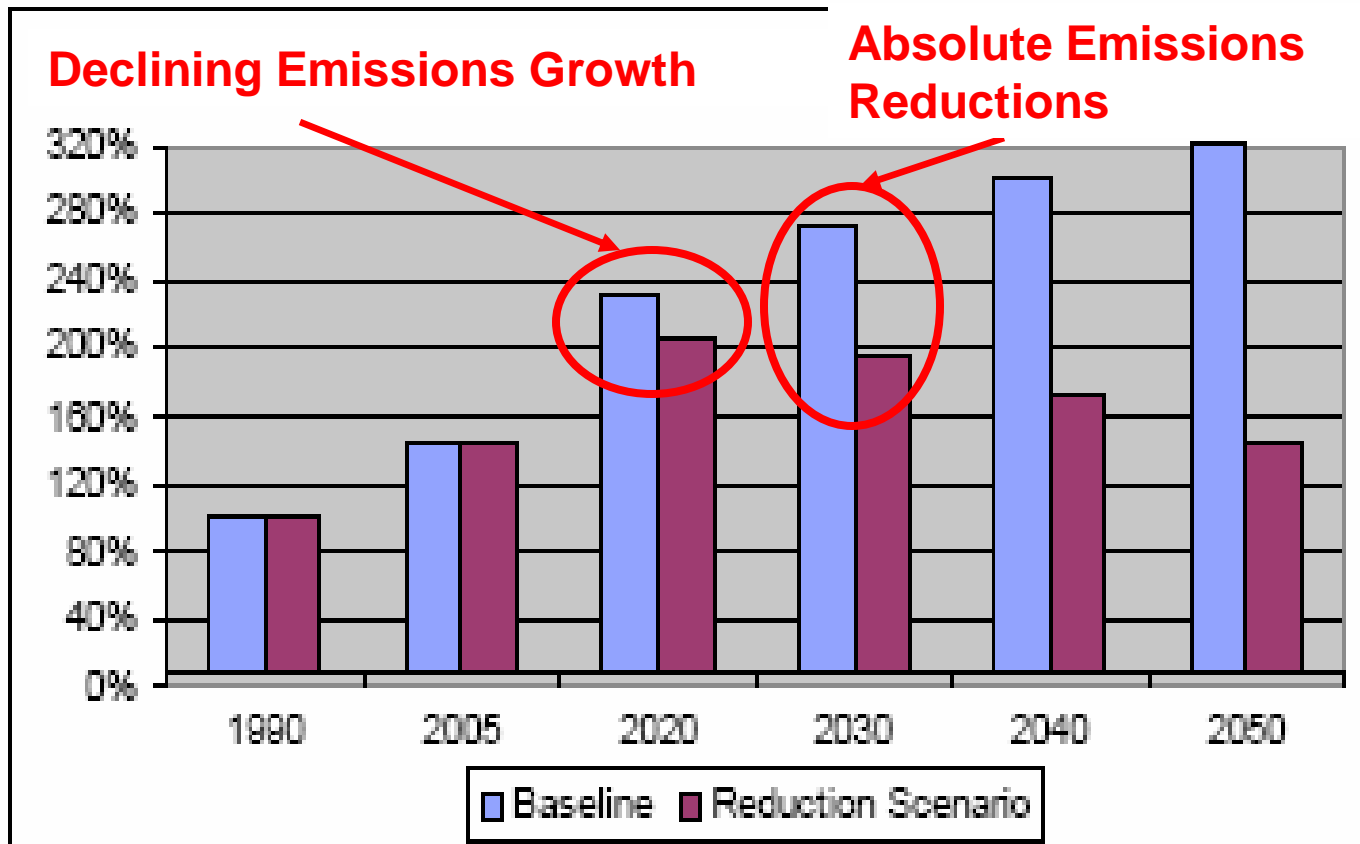
- Reduce the rate of growth of developing country emissions

AND

- Lay the foundation for absolute emissions reductions

Scenario for Developing Country Emissions

- EU analysis of 50% chance of staying below 2 C
 - » Developed countries 32% reduction below 1990 by 2030; 60% below 1990 in 2050



Technology Finance Assistance to Encourage Stronger Actions

- Technology & finance assistance could be provided:
 - » To build first-of-a-kind advanced technologies which are not cost effective
 - » To accelerate deployment by bringing down the cost of advanced technologies
 - » As incentive for participating developing countries to establish more aggressive “performance goals”
- To receive incentives, developing countries would have to meet “performance metrics”, such as adopting binding national emission reduction programs

Sources for Technology Finance

- Countries could provide financing by setting aside a portion of allowances or auction revenues in domestic trading systems, e.g.,
 - » German Parliament has earmarked 30% of auction revenues
 - » European Commission has proposed that at least 50% of auction proceeds should be used for CCS deployment, int'l EE/RE, adaptation, and measures to avoid deforestation.
 - » Norwegian Finance Minister has proposed use for international programs including adaptation, technology, and reducing deforestation
 - » Lieberman-Warner bill used such an approach for int'l forestry

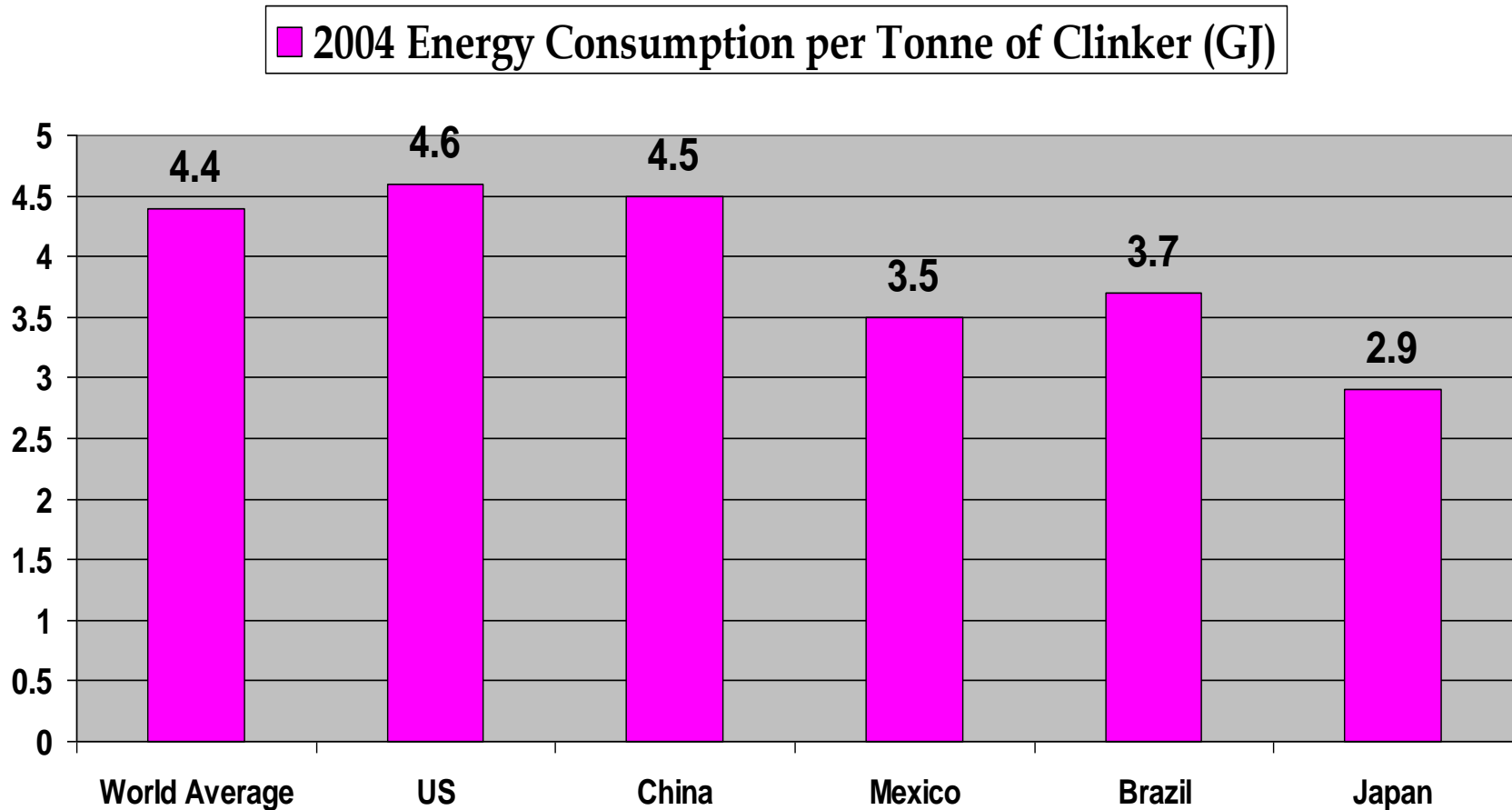
Mexico is proposing sectoral action

- Pres. Calderon has set an ambitious aspirational goal to reduce GHG emissions 50% below current levels by 2050
- Mexico announced in Poznan that it will establish sectoral intensity targets for oil refining, cement, electricity and steel for 2020, based on a Stern-like review and CCAP analyses
- Mexico would meet those goals thru a cap & trade system covering the four sectors
- unilateral reduction efforts in cement and oil refining could produce 5-11% reductions below BAU, and 19-22% reductions if international support is made available

Chinese Perspective & Actions

- Chinese experts are considering a technology penetration type of sectoral approach because such an approach is more consistent with traditional five year plan strategies
- China has already:
 - » Required industries to improve energy intensity by 20% by 2010,
 - » Set tough CAFÉ stds and taxed SUVs
 - » Installed more wind capacity than any other nation in 2007 with a goal of 10% of electric capacity from renewables by 2010
 - » Retired many aging coal power plants (14 GW in 2007), cement kilns and steel mills

Global Cement Efficiency Comparison



Source: IEA. 2008. Worldwide Trends in Energy Use and Efficiency

Conclusions

- Addressing competition is critical to a climate solution in US & EU
- A border adjustment or output-based allocation could level the carbon playing field, but will not cause developing countries to significantly reduce emissions
- A promising option to accelerate developing country emissions reductions is a performance-based sectoral approach
 - » It could:
 - Create jobs and opportunities to access new growing markets
 - Deploy advanced technology in developing countries faster than the world has done previously
 - Establish a bridge strategy until absolute emissions reduction cuts in developing countries are more realistic