

Issue Overview:

Energy Intensive Industries



On January 15, 2009, the U.S. Climate Action Partnership (USCAP) issued the *Blueprint for Legislative Action* – a detailed framework for legislation to address climate change. This brief addresses the issue of energy intensive industries with trade-exposed products. It should be considered in the context of our *Blueprint*, which includes interconnected and interdependent recommendations on climate protection legislation.

USCAP recognizes that without appropriate design features, a domestic cap-and-trade program could pose significant challenges to energy-intensive industries. The *Blueprint* includes proposals that will help these industries manage a transition to lower greenhouse gas (GHG) emissions by dampening the impact on feedstock price volatility and by preventing undue economic harm from excessively high allowance prices, such as an excessive run-up in natural gas prices due to fuel switching. USCAP also recommends measures to address competitive pressures on domestic manufacturing of energy-intensive products that compete with similar products made in countries without established climate protection programs.

- U.S. manufacturers of energy-intensive products exposed to significant international competition from firms in countries without climate protection programs may be unable to pass on the costs of reducing their carbon emissions. If not addressed in cap-and-trade design, this could lead to leakage of investments, jobs and emissions to those other countries. To prevent this, USCAP recommends that an adequate amount of allowance value be provided to manufacturers of energy-intensive, trade-exposed products. For example, these allocations could be based on net incremental costs due to climate policy and adjusted to reflect economic output, thereby discouraging outsourcing of jobs and emissions. USCAP recommends the allocations be tied to any GHG-related competitive imbalance and reduced or eliminated when the GHG-related competitive imbalance is reduced or disappears.
- Energy-intensive industries will be protected first through a robust cost containment program and direct allocation of allowance value to these industries during the early years of the program.
- Our *Blueprint's* recommendations aim to avoid undue economic harm from excessively high allowance prices through the availability of ample offsets, accelerated deployment of carbon capture and sequestration (CCS), and improved energy efficiency throughout every sector of the economy. The *Blueprint* also recommends that a cap-and-trade program should not cover fossil energy used as a non-emitting feedstock material by U.S. industries.
- USCAP does not recommend exempting energy-intensive industries from the cap because we believe GHG emissions must be reduced from all major sectors in the economy.
- USCAP recommends that U.S. climate policy be designed to safeguard environmental integrity, maintain competitiveness and avoid carbon leakage. In the long run, these concerns are best met through multilateral commitments ensuring equitable effort by all major emitting countries. However, these issues should be a priority early on and continue until an international agreement is reached. USCAP recommends that any resolution of near-term competitiveness issues be consistent with World Trade Organization (WTO) rules.
- USCAP recommends that Congress should consider a mechanism which, while safeguarding the environmental integrity of the cap, would offer preferential access to U.S. GHG markets for countries moving swiftly to reduce emissions broadly across the bulk of their national economies, and would gradually restrict such access for countries failing to curb their emissions.

- USCAP believes that a cap-and-trade program that follows our recommendations will avoid shifting jobs, investments or emissions from the U.S. to other nations and assure that energy-intensive industries face the same incentives to reduce emissions as every other capped sector of the economy and set the stage for reaching global agreement on climate change.

To learn more about the USCAP *Blueprint for Legislation Action*, please visit www.us-cap.org.

The U.S. Climate Action Partnership is a non-partisan coalition composed of 25 major corporations and five leading environmental organizations that have come together to call on the federal government to quickly enact strong national legislation requiring significant reductions of greenhouse gas emissions. USCAP has issued a landmark set of principles and recommendations to underscore the urgent need for a policy framework on climate change.