

## MAINTAINING U.S. INTERNATIONAL COMPETITIVENESS



# FORGING THE CLIMATE CONSENSUS

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***In essence***, domestic competitiveness and international participation are ***two sides of the same coin***. Both must be addressed to develop ***meaningful national-level legislation*** and to promote the kind of ***international cooperation*** that will be necessary to ***deal effectively*** with the climate problem ***in the long run***.

“THE COMMISSION HAS LONG ARGUED THAT A PRAGMATIC, PHASED CLIMATE APPROACH OFFERS THE MOST PROMISING PATH FORWARD.”

## INTRODUCTION

As calls for decisive global action to address climate change grow more urgent and as the U.S. Congress moves closer to adopting domestic climate legislation, concerns about competitiveness impacts and international participation—particularly with respect to the willingness of large developing countries to adopt emissions limits—continue to be major flashpoints in the broader climate policy debate. The problem, simply put, is that countries like China and India will not adopt emission limits that could be seen as slowing their drive for economic development as long as much wealthier countries like the United States fail to act. At the same time, important stakeholders in the domestic arena argue that any unilateral move to regulate will simply result in the transfer of manufacturing production, jobs, and emissions to major trading partners that lack similar greenhouse gas constraints. The result is paralysis, which all sides agree we can ill afford.

The Commission has long argued that a pragmatic, phased, and multi-pronged approach—one that acknowledges the need for U.S. leadership, but that also creates effective inducements for timely participation by all major emitters, including developing countries—offers the most promising path forward. This approach has four main elements:

- ▶ A well-designed domestic program that includes effective cost-containment mechanisms, promotes a stable investment environment,

and provides safeguards against excessive speculation and price volatility in future carbon markets. A comprehensive, forward-looking U.S. policy should also direct resources to technology innovation and skills development as a way to reduce future program costs and position the United States as a leader in the growing global market for low-carbon technologies.

- ▶ Transitional assistance to the energy-intensive, trade-exposed industries that are most vulnerable to adverse competitiveness impacts as a result of weaker or non-existent regulatory requirements in other jurisdictions. Such assistance could be delivered in a variety of forms, but a common element in many recent bills has been the use of free allowance allocation to vulnerable industries to offset higher energy costs in the first phases of a greenhouse gas cap-and-trade program.

- ▶ Tiered emission targets that make the stringency of future emission-reduction commitments by the United States contingent on commensurate actions by other major emitting countries.

Inducements for developing-country participation in the form of assistance for technology transfer and capacity building, access to international offsets markets, and support for adaptation efforts. In addition, the United States should signal that it will consider additional options, including border adjustments and other trade-related measures if problems of non-participation and related concerns about competitiveness and emissions leakage persist.



In essence, domestic competitiveness and international participation are two sides of the same coin. Both must be addressed to pass meaningful national-level legislation and to promote the kind of international cooperation that will be necessary to deal effectively with the climate problem in the long run. The four policy elements summarized above take aim at the twin objectives of (1) mitigating the impacts of a cap-and-trade program on EITE industries within the United States and (2) encouraging key developing countries to reduce their own greenhouse gas emissions. The remainder of this paper provides a more detailed discussion of the Commission's latest thinking on both sets of issues.

## COMPETITIVENESS CONCERNS

Concerns about adverse impacts on the U.S. economy generally, and on the competitiveness of U.S. manufacturing industries in particular, have always been central to the argument against adopting a policy to limit the nation's greenhouse gas emissions. A mandatory climate policy will raise production costs for domestic manufacturers, particularly those with significant energy requirements. If domestic firms are unable to pass these costs through to customers because of competition from foreign firms that do not face similar greenhouse gas costs, production, jobs, and emissions could shift to jurisdictions that have not adopted regulations.

Several recent studies have explored the impact of climate policy on the competitiveness of U.S. industries. Generally, these studies conclude that the impact on overall trade flows and competitiveness is small—largely because energy accounts for a relatively small fraction of total production costs for most goods. In certain key industries, however, energy costs play a larger role and the potential for adverse competitiveness impacts is substantially higher. Such industries, collectively termed “EITE” industries (energy-intensive, trade-exposed industries) in the current Congressional debate, are generally understood to include iron and steel, aluminum, paper and paperboard, and chemicals.<sup>1</sup> For example, a study by High Road Strategies and the Millennium Institute (HRS-MI study) found that fuel and electricity costs represent a significant portion (up to 40 percent) of these industries' total operating expenditures.<sup>2</sup> As a result, higher energy prices would be expected to increase their production costs, decrease operating surpluses and margins, and could shrink domestic market shares if investments are not made to offset

<sup>1</sup> Yudken, J. and Bassi, A. “Climate Policy and Energy-Intensive Manufacturing: Impacts and Options,” June 2009, P. 9. <http://bipartisanpolicy.org/library/report/climate-policy-and-energy-intensive-manufacturing>. Ho, M., Morgenstern, R., and Shih, J. “Impact of Carbon Price Policies on U.S. Industry,” RFF Discussion Paper No. DP-08-37, November 2008, P. 26. <http://www.rff.org/rff/documents/rff-dp-08-37.pdf>.

<sup>2</sup> Yudken, J. and Bassi, A. “Climate Policy and Energy-Intensive Manufacturing: Impacts and Options,” June 2009, P. 36. <http://bipartisanpolicy.org/library/report/climate-policy-and-energy-intensive-manufacturing>.



these higher costs. Another study for the Pew Center on Global Climate Change projects that under a \$15-per-ton CO<sub>2</sub> price, production would decline between around 1.5 and 3.5 percent for key energy-intensive manufacturing industries in the United States, correlating to a loss of nearly 1 percent to production overseas.<sup>3</sup> Recent studies by other organizations, such as Resources for the Future, reach similar conclusions.

The Commission's view is that a convincing response to jobs and competitiveness concerns begins with thoughtful program design. Implementation of a cap-and-trade system in and of itself is a good first step, as this approach is more cost effective than traditional command-and-control regulation. A cap-and-trade regime that caps costs and provides compliance flexibility by giving firms the option to bank and borrow allowances and use domestic and international offsets, will further reduce the overall cost of achieving a given emissions target and limit the potential for adverse impacts on the economy and U.S. competitiveness. In particular, a price ceiling and floor (or a strategic allowance reserve as described in our previous paper, *Managing Economic Risk*) would insulate the allowance

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<sup>3</sup> Aldy, J., Krupnick, A., Newell, R., Parry, I., and Pizer, W. "Designing Climate Mitigation Policy," RFF Discussion Paper No. DP-08-16, May 2009, P. 18. <http://www.rff.org/rff/documents/rff-dp-08-16.pdf>. The authors note that higher costs from greenhouse gas regulations have two effects. The first is to reduce overall demand for the higher priced product. The second effect is to substitute imports for some domestic production (i.e., "leakage").

trading program from harmful price volatility and help manage associated economic risks.<sup>4</sup> But while these design elements can substantially reduce the cost differential that arises when firms in one country are subject to greenhouse gas constraints while those in other jurisdictions are not, they cannot completely eliminate these cost differences.

Therefore, the most prominent climate bills introduced in Congress over the last several years contain a number of specific provisions designed to directly address lingering concerns about competitiveness. For example, the American Climate and Energy Security Act (otherwise known as the Waxman-Markey bill) that recently passed in the House of Representatives reflects a growing consensus that allocating allowances to key EITE industries can effectively (although perhaps not wholly) offset program-related costs to these industries and mitigate competitiveness concerns. In effect they "buy time" as these industries make necessary investments in new technology to reduce energy use and greenhouse gas emissions, and as developing countries adopt their own emission-mitigation programs. Additional financial incentives, such as tax breaks or direct subsidies, to help EITE industries "retool" in ways that improve efficiency and reduce greenhouse gas emissions have also been widely proposed. A further argument for these provisions is that they can help U.S. firms maintain long-term competitiveness in global markets that will increasingly be shaped by carbon constraints. (We return to the specific provisions of the Waxman-Markey bill later in this paper.)

More controversial are legislative provisions for "border adjustments" to address competitiveness concerns and limit the potential for emissions

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<sup>4</sup> The National Commission on Energy Policy, "Forging the Climate Consensus: Managing Economic Risk," July, 2009.

# “ A POLICY THAT WOULD CONDITION THE STRENGTHENING OF A U.S. TARGET OR COST-CONTAINMENT MECHANISM ON ACTION BY DEVELOPING COUNTRIES MAKES SENSE FROM ECONOMIC, ENVIRONMENTAL, AND DIPLOMATIC PERSPECTIVES.”

leakage. For example, one option that has drawn attention (and was included in the Waxman-Markey bill) involves requiring key trading partners that are not subject to greenhouse gas limits to obtain and surrender emission allowances when selling energy-intensive products into the U.S. market. Alternatively, a charge could be levied on imports, or a tax rebate could be provided to exports.<sup>5</sup> Proponents of border adjustments argue that these types of provisions are necessary to level the economic playing field and ensure that a U.S. climate bill will not simply shift emissions to facilities located in countries without greenhouse-gas reduction programs. They also point out that this approach would give foreign governments an incentive to enact their own emission-reduction program so as to avoid trade penalties when exporting to the United States. Critics of these mechanisms, on the other hand, counter that a border adjustment could disrupt free trade and expose the United States to retaliatory trade measures and, potentially, World Trade Organization (WTO) sanctions.<sup>6</sup> According to this view, erosion of free trade would raise costs for consumers and could jeopardize U.S. jobs that are dependent on exports. Opponents have also argued that a border adjustment mechanism would be cumbersome to implement and costly to administer. For example, if a carbon charge or allowance requirement was imposed on certain imported products, the U.S. government would have to implement a system

capable of determining the carbon footprint of imported products from a variety of countries.<sup>7</sup>

The Commission's original recommendations in 2004 focused on promoting greater international participation as the best long-term solution to competitiveness concerns. To that end, our climate policy proposal included a direct linkage between future U.S. emission-reduction commitments and action by other major emitting nations. The primary mechanism to establish this linkage consisted of a periodic review by the President and Congress—to be conducted every five years—for the express purpose of assessing progress internationally and for adjusting U.S. policy accordingly. The Commission has not taken a specific position on border adjustments, but we have recommended that the United States “signal its intention to work with other countries to develop forceful and coordinated responses to international trade and competitiveness concerns if major emitting nations fail to adopt comparable climate policies in a reasonable timeframe.”

Consistent with the Commission's early recommendations, Senators Bingaman and Specter subsequently introduced legislation that conditioned the ultimate U.S. emissions target and the escalation of a price ceiling on a review of developing-country actions. More recently, Australia proposed a two-tier emissions target for its own domestic program. Specifically, the Australian legislature considered a proposal to establish a long-term emissions reduction target of 60 percent below 2000 levels by 2050,

<sup>5</sup> *General Agreement on Tariffs and Trade 1994, Article II:2(a), Apr. 15 1994.* [http://www.wto.org/english/res\\_e/booksp\\_e/analytic\\_index\\_e/gatt1994\\_02\\_e.htm#article2](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_02_e.htm#article2).

<sup>6</sup> *The extent to which a border tax adjustment mechanism would be legal under WTO law depends on the design of the mechanism. If the WTO made a determination that the border tax adjustment mechanism is illegal, then the U.S. could be subject to retaliatory tariffs.*

<sup>7</sup> *General Agreement on Tariffs and Trade 1994, Article II:2(a), Apr. 15 1994.* [http://www.wto.org/english/res\\_e/booksp\\_e/analytic\\_index\\_e/gatt1994\\_02\\_e.htm#article2](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_02_e.htm#article2). P. 6.

# “THERE IS NO PATH TO STABILIZING GLOBAL GREENHOUSE GAS CONCENTRATIONS THAT DOES NOT REQUIRE SUBSTANTIAL STEPS TO REDUCE EMISSIONS GROWTH IN DEVELOPING COUNTRIES.”

together with a range of mid-term reduction targets between 5 and 15 percent below 2000 levels by 2020. The actual targets would depend upon the progress of international negotiations. Under the legislation, Australia would commit to a 5 percent reduction independent of international progress and would reduce up to 15 percent below 2000 levels under an international agreement among all major economies. This approach was intended to communicate a good-faith effort to balance competitiveness concerns for Australia's industry and citizens while contributing positively to prospects for an international climate agreement.<sup>8</sup> We believe this idea has value and could be adapted to whatever targets and cost containment mechanisms Congress considers.

In addition, the Commission supports the use of allowance allocation to assist EITE industries during the transition to a low-carbon economy. Specifically, we believe that these industries should receive enough allowances in the early years of the program to fully offset the increased costs of the trading program, with allowance allocations phasing out over the first decade or so of the program as industries adjust and as international competitors take commensurate action. We estimate that this approach would require up to 10–15 percent of the total allowance pool at the start of a domestic program. In addition to free allowances, complementary policies can help assure the long-term competitiveness of the U.S. manufacturing sector by supporting the development of breakthrough low-carbon

manufacturing technologies. The HRS-MI study found that industries face several financial and technological barriers to adopting efficiency and advanced technology solutions that could offset program costs and even generate additional profits. Therefore, complementary policies could include industry-specific RD&D and incentives for capital investment in low-carbon technology.

Because it combines many of the practical ideas for addressing competitiveness concerns described above, the Waxman-Markey bill recently passed by the House of Representatives provides a promising basis for final legislation. First, it allocates a portion of the value of the emission allowances directly to EITE industries to compensate for policy-driven energy cost increases. Industrial entities are initially allocated roughly 15 percent of available emission allowances, a percentage that declines over time to 2035. Eligible facilities would receive allowances based on an updating output-based formula, which essentially serves as a subsidy for production and lowers the price of the product produced. Under these types of formulas, companies receive more free allowances if they expand production and fewer allowances if they downsize or move offshore. Second, the bill contains a provision that would provide grants and financing for energy efficiency and low-carbon technology investments by small- and medium-sized manufacturers. Finally, Waxman-Markey would provide auction revenues for a Climate Change Worker Adjustment Assistance Fund, which would assist eligible unemployed workers in energy-intensive industries through direct compensation and employment services and training.

<sup>8</sup> Australian Government, Department of Climate Change, “Carbon Pollution Reduction Scheme: Australia's Low Pollution Future,” Executive Summary, December 2008. <http://www.climatechange.gov.au/whitepaper/report/pubs/pdf/V100eExecutiveSummary.pdf>.



## DEVELOPING-COUNTRY PARTICIPATION

Increased developing-country participation in global greenhouse gas reduction efforts not only provides the best long-term response to competitiveness concerns, it is politically and ecologically imperative. While developing-country emissions have historically been low in comparison to emissions from the developed world, emissions from developing countries as a group are now estimated to exceed those of developed countries, with China overtaking the United States as the leader in overall emissions. More importantly, the Intergovernmental Panel on Climate Change projects that the developing-country share of global emissions will continue to grow over time.<sup>9</sup> Without significant action to reverse current trends, projected growth in developing-country emissions will swamp any reductions taken in developed countries. The implications are clear: There is no path to stabilizing global greenhouse gas concentrations that does not require substantial steps to reduce emissions growth in developing countries.

On the other hand, it has also become clear that developing countries will not commit to such steps unless the United States and other developed countries (1) demonstrate leadership and a willingness to “go first” and (2) provide

material support for developing-country efforts to pair continued economic development with the introduction of low-carbon technologies. Developing countries point out that their emissions remain generally far lower than those of the developed countries on a per capita basis and that developed countries are overwhelmingly responsible for the current build-up of greenhouse gases in the atmosphere.<sup>10</sup> In light of the failure of the United States to adopt mandatory emission reduction commitments thus far, many developing countries view demands that they take on an equal share of the global abatement burden as, at best, grossly unfair and, at worst, as calling into question their fundamental right to pursue a level of economic prosperity equal to that of the developed countries.

The question of how countries with different levels of development should contribute to global greenhouse gas reductions has been central to international climate negotiations for the past two decades. The 1992 United Nations Framework Convention on Climate Change put forward the concept of differentiated responsibilities for developed and developing countries. In 1997, the Kyoto Protocols established targets for developed countries but did not set current or future targets for developing countries.

<sup>9</sup> IPCC 4th Assessment Report, Synthesis Report, Summary for Policy Makers.

<sup>10</sup> This view has led some countries, including India, to argue that developing countries are entitled to reach the same level of per capita emissions as the developed world before undertaking mitigation efforts.

“ IN 1997, THE KYOTO PROTOCOLS ESTABLISHED TARGETS FOR DEVELOPED COUNTRIES BUT DID NOT SET TARGETS FOR DEVELOPING COUNTRIES. ”

Developing-country commitments have again come to the fore in ongoing efforts to negotiate climate commitments for the post-2012 period. The 2008 Bali Action Plan, which provides the mandate to guide these negotiations, explicitly calls for: “Nationally appropriate mitigation actions (NAMAs) by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner.” This is significant in that it represents the first time that developing countries have indicated a willingness in principle to accept new commitments. These issues were revisited in December 2009 when representatives from 192 nations met in Copenhagen to negotiate the next round of international climate agreements.

Although it is impossible to predict what will be decided in future U.N. negotiations, most observers believe that a successful global climate deal will include the following elements:<sup>11</sup>

► **EMISSIONS GOALS FOR DEVELOPED COUNTRIES AND COMMITMENTS TO MITIGATION MEASURES FOR DEVELOPING COUNTRIES:**

Emissions goals could include an overall global target together with shorter- (i.e., 2020) and longer-term targets for developed countries. Commitments to mitigation measures by developing countries could be contingent on financial, technical, and other support from developed countries and could be articulated through detailed plans that would specify near-term policies and measures and financing needs and would be subject to measurement, reporting and verification requirements. These mitigation measures would add up to some emission-reduction contribution, possibly representing a reduction from projected levels of growth.

► **FUNDING FOR TECHNOLOGY AND MITIGATION ACTIONS:**

An international agreement will likely strengthen and build upon existing commitments to fund technology R&D in both developed and developing countries. This could include increased developed-country support for R&D investment, an R&D fund for low-carbon



<sup>11</sup> This is, of course, a simplified and general summary of possible elements of a global climate agreement. There are a number of more detailed proposals. See, for example, Project Catalyst, “Towards a Global Climate Agreement, Synthesis Briefing Paper,” ClimateWorks, June 2009.



technologies specifically designed for deployment in developing countries, support for international pilot and demonstration projects, and support for capacity-building, standard setting, and training in the context of sectoral plans.<sup>12</sup> Developed countries could also commit to help cover the incremental costs of climate-friendly technologies and provide financing for forest preservation efforts in developing countries.

### ► **FUNDING FOR ADAPTATION:**

An agreement might include provisions and funding for adaptation activities, including planning and preparation and investments in climate-resilient infrastructure and technology for developing countries.

The existing international climate regime explicitly links the implementation of greenhouse-gas mitigation actions by developing countries to the provision of financial, technical and technological support by developed countries. This means that developing countries will view the adequacy of resource commitments by developed countries in the context of their estimated mitigation costs. Projections of the required investment to

cover incremental costs for climate mitigation by developing countries vary widely from as little as \$25–\$50 billion annually, up to \$332–\$835 billion annually on a global basis.<sup>13</sup> U.S. policymakers will therefore need to consider the level of funding they are willing to make available, and recognize that developing countries' willingness to commit to more stringent actions will probably require more resources.

A variety of financing mechanisms have been proposed to help developing countries transition to greenhouse-gas mitigation commitments. The current Waxman-Markey bill, for example, would direct from 1 percent to 4 percent of the total allowance value in a new U.S. cap-and-trade program to support international technology transfer—an average of 85 million allowances annually. Funds for this purpose could be deployed in a variety of ways:

### ► **INTERNATIONAL COORDINATION OF RD&D:**

The United States and the developing world have a shared interest in developing and deploying clean-energy technology and could clearly benefit from cooperation on technology research, demonstration, and deployment. For example, the United States already has bi-lateral

<sup>12</sup> One possible avenue is to develop an international university network to support industries with clean energy practices and technology transfer. By building on the Industrial Assessment Center (IAC) network established by the DOE, universities and public research organizations could play a role in implementation of key technologies in a manner that is well-suited to the local conditions of developing countries. The IAC network currently engages faculty and students from 26 U.S. universities to perform thorough energy analyses at small- to medium-sized industrial facilities.

<sup>13</sup> Project Catalyst estimates \$100–\$150 billion on average per year from 2010–2020. See Project Catalyst, "Financing Global Action on Climate Change – Finance Briefing Paper," Working Draft, August 2009, p. 5.



# “FINANCIAL ASSISTANCE TO KEY DEVELOPING COUNTRIES SHOULD BE CONTINGENT ON SIGNIFICANT COMMITMENTS BY THESE COUNTRIES TO REDUCE EMISSIONS AND TO AGREE TO ROBUST MONITORING AND REPORTING REQUIREMENTS.”

agreements with China to further the development and deployment of carbon capture and sequestration (CCS) technology, which is potentially critical for both countries given their extensive coal reserves.<sup>14</sup>

## ► **INTERNATIONAL TECHNOLOGY**

**FUND:** Several new or strengthened fund mechanisms have been proposed to support the adoption of clean technology in developing countries. The fund could function as a bank, covering the incremental cost of a commercially viable facility with baseline costs covered by financing from private banks. Access to the fund would be limited to countries that have adopted domestic climate policies. Over time, the fund would phase out and developing countries could take responsibility for their own carbon emission reductions.

## ► **U.S. TECHNOLOGY EXPORT:**

Domestic producers of low-carbon technologies could benefit from expanded markets in developing countries as result of increased funding for technology transfer. A 2008 bill introduced by Senators Biden and Lugar would have built upon the technology export incentives included in the Energy Policy Act of 2005 by authorizing \$2 billion over the period

2009–2011 to create an International Clean Technology Deployment Fund that would support the international deployment of U.S. low-carbon energy technologies. (This fund would be similar to the World Bank-administered Clean Technology Fund proposed by the George W. Bush administration). The Biden-Lugar bill would also have added greenhouse gas emissions to the elements considered in dispensing foreign aid. To access resources from the fund, a developing country would have to establish its own domestic climate change mitigation strategies.

## ► **INTERNATIONAL OFFSETS**

**MARKET:** Access to the U.S. offsets market under a domestic cap-and-trade program could constitute a significant source of funding for developing countries. As discussed in another Commission paper in this series, international offsets thus provide an important conduit for engaging developing countries and creating positive inducements for them to engage in mitigation activities.<sup>15</sup> In particular, establishing offset credits for sector-level emission reductions may provide a strong source of leverage for promoting broad-based clean technology investments.

<sup>14</sup> Gallagher, Kelly Sims. “Breaking the Climate Impasse with China.” Forthcoming.

<sup>15</sup> The National Commission on Energy Policy. “Forging the Climate Consensus: Domestic and International Offsets.” Sept. 2009.

## CONCLUSION

The Commission continues to believe that the United States and other developed nations must provide leadership and begin to reduce greenhouse gas emissions before China, India, and other developing countries can be convinced to follow suit. Even then, however, there is no guarantee that developing countries will act, or even if they do that they will undertake mitigation commitments that are comparable in magnitude or timing. For this reason, the potential for adverse impacts on the competitiveness of U.S. firms, especially in the EITE sectors, is likely to remain a high-profile source of concern in the domestic political debate. The Commission believes that these concerns can be effectively addressed through a suite of policies, including cost containment and other good cap-and-trade design elements, allocation of allowances to EITE industries to compensate for higher costs in the phases of the transition to lower-carbon energy systems, and support for clean-energy investments. Most of these policies are already reflected in current climate legislation proposals.

At the same time, it is imperative that we use every tool at our disposal to engage and encourage key developing countries to reduce their emissions. We believe that a policy that would condition the strengthening of a U.S. target or cost-containment mechanism on action by developing countries makes sense from economic, environmental, and diplomatic perspectives. Similarly, financial assistance to key developing countries should be contingent on significant commitments by these countries to reduce emissions and to agree to robust monitoring and reporting requirements.



With regard to the controversial issue of border adjustments, Commission members hold diverse views. We note that many recent Congressional proposals have included some version of a border adjustment and that much of the recent debate in Congress has been focused on how to structure such a mechanism rather than on whether it should be included. Specifically, there has been a particular focus on when a border adjustment would take effect and to what extent the President

should have discretion over the decision to take this action. We believe that the addition of the two-tiered target discussed above might create room to agree on a compromise version of the border adjustment that provides enough time and discretion to negotiate a climate agreement with key developing countries and to evaluate the results of that agreement before implementing potentially controversial trade measures.

## SEPARATE OPINIONS

*NCEP Commissioners are welcome to provide additional statements that clarify specific issues or express a separate view from the majority position.*

### **LEO W. GERARD AND NEWTON B. JONES**

In our *Forging the Climate Consensus* series, the National Commission on Energy Policy has outlined pragmatic recommendations on several substantive policy issues critical to successful passage of climate legislation in the 111th Congress. We support these policy positions and agree that a multi-pronged approach is necessary to ensure domestic competitiveness and engagement of developing countries. However, we feel strongly that an effective border adjustment mechanism is an imperative component of climate legislation and must be included among a comprehensive set of policies to prevent carbon and job leakage.

A border adjustment mechanism is an important tool not only to mitigate the

competitive disadvantage experienced by American manufacturers, but to encourage other countries to commit to and enact similar emissions standards. Ideally a new global climate treaty with enforceable penalties for inaction will be crafted and adopted. Absent that, domestic climate legislation must include an effective border adjustment mechanism to prevent American manufacturing workers from being disadvantaged when competing with producers in nations that have not committed to solving climate change. A border adjustment mechanism along with the other complementary policies detailed in this paper is key to reducing global carbon emissions and ensuring that U.S. manufacturing and U.S. workers play a significant role in the clean energy economy.

*“ INCREASED DEVELOPING-COUNTRY PARTICIPATION  
IN GLOBAL GREENHOUSE GAS REDUCTION EFFORTS  
PROVIDES THE BEST LONG-TERM  
RESPONSE TO COMPETITIVENESS CONCERNS. ”*



# MAINTAINING U.S. INTERNATIONAL COMPETITIVENESS



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