

Non-Kyoto Markets – Emerging
Markets in a Global System
Efforts at the U.S. Federal Level

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- United States, although a signatory to the UNFCCC, decides not to ratify the Kyoto Protocol.
 - Bipartisan opposition because developing countries such as China and India are not required to reduce emissions.
- Federal government does not impose mandatory emission reduction requirements within the U.S.
 - Study and research programs
 - Voluntary emission reduction programs
 - Technology and tax incentive programs, including the Asia-Pacific Partnership

Efforts To Compel Regulation

- There is disagreement within the U.S. over the approach expressed by Congress and the President. Numerous and diverse efforts by states and environmental organizations have taken place in the last few years to compel GHG regulation.
- Litigation efforts
 - Efforts to regulate under the federal Clean Air Act
 - Nuisance suits
 - Suits under the National Environmental Policy Act

- State regulation efforts
 - Regional Greenhouse Gas Initiative
 - California's A.B. 32 and S.B. 1368
 - Western Regional Climate Action Initiative
 - State regulations limiting greenhouse gas emissions from electric generating units and automobiles
- Goal of efforts: Force action at the federal level

- Within the last six months, there has been a noticeable change in the political landscape with regard to climate change regulation:
 - Congress now controlled by the Democrats
 - Increased public perception and awareness
 - Pressure on corporations
 - Supreme Court decision in *Massachusetts v. EPA*

Legislative Efforts in Congress

- Since the start of the 110th Congress in January, several bills addressing climate change regulation have been introduced:
 - 9 bills create cap-and-trade programs (7 in the Senate; 2 in the House).
 - 1 bill introduced in the House imposes a carbon tax
 - Tax on fossil fuels based on their carbon content, as set by the Secretary of the Treasury
 - \$10 per ton of carbon content

Legislative Efforts in Congress

- S. 317 Electric Utility Cap and Trade Act of 2007
(Feinstein, Carper)
- S. 280 Climate Stewardship and Innovation Act of
2007 (Lieberman, McCain)
- S. 309 Global Warming Pollution Reduction Act
(Sanders, Boxer)
- S. 485 Global Warming Reduction Act of 2007
(Kerry, Snowe)

- S. 1168 The Clean Air Climate Change Act of 2007 (Alexander)
- S. 1177 The Clean Air Planning Act of 2007 (Carper)
- S. ____ The Clean Power Act of 2007 (introduced 24 April 2007) (Sanders)
- H.R. 620 Climate Stewardship Act of 2007 (Olver, Gilchrest)

Legislative Efforts in Congress

- H.R. 1590 Safe Climate Act of 2007 (Waxman)
- H.R. 2069 Save Our Climate Act of 2007 (Stark)
(carbon tax)
- The cap-and-trade bills vary in the following respects:
 - Whether they amend the Clean Air Act
 - Sectors covered
 - Levels and timetables for reductions

- The cap-and-trade bills vary in the following respects (*— continued*):
 - Safety valve provisions
 - Whether they cover other pollutants
 - Allocation of allowances
 - Offsets
- Many also contain energy efficiency performance standards and renewable portfolio standards

- Clean Air Act: 6 of the 9 cap-and-trade bills would amend the Clean Air Act to add a new Title VII addressing climate change
- Sectors: 5 bills impose reductions economy-wide; 4 bills impose reductions only on electric generating units
- Levels and Timing of Reduction:
 - The bills all contain interim caps over multi-year timeframes that progressively get more stringent.

→ Levels of Reduction (— *continued*):

- 35% below 2000 levels by 2050
- 67% below 2000 levels by 2050
- 17% below 1990 levels by 2050
- 80% below 1990 levels by 2050
- One bill doesn't contain exact targets but has a goal of reaching a stabilized level of 450 ppm CO₂ equivalent in the global atmosphere.

→ Safety Valve:

- Four bills have no explicit safety valve provision, but allow EPA to step in under certain circumstances to do certain prescribed things:
 - EPA can permit allowances to be used a year in advance
 - EPA can revisit the targets (2 bills)
 - EPA can extend deadlines by two years
- Four bills do not have any safety valve provision at all.

→ Safety Valve (— *continued*):

→ One bill provides for a technology indexed stop price. If the price of an allowance goes above the technology indexed stop price, the cap remains the same and does not decline until the price goes below the stop price or three years passes, whichever occurs first.

→ Other Pollutants: Three bills – all addressing electric generating units – also set decreasing limits for sulphur dioxide, nitrogen oxides, and mercury.

→ Allocation of Allowances:

- Almost all of the bills have a mix between allocating allowances to sources and auctioning allowances.
- Two bills increase the auction component to a 100% auction by 2036.
- Some bills provide for the allocation of allowances not just to regulated sources but also to households.
- Some disagreement over whether to allocate to electric generating units based on traditional fuel use or based on amount of electricity generated.

→ Offsets:

- Four of the bills explicitly allow the use of international allowances to meet emission reduction requirements up to varying percentages (30%, 20%, 15%).
- Most of the bills are silent on the subject, and there does not appear to be clear consensus on the issue.
 - Some members of Congress support strongly because climate change is an issue.
 - Other members are concerned about problems with verifiability of international offsets.

- No bill is a “front runner” at this point.
- It is unlikely that Congress will pass any broad regulatory program in 2007; Congress is lacking focus on what exactly it wants to do.
- A smaller bill on energy efficiency performance standards or renewable portfolio standards is possible in 2007.
- Congress will not pass any broad regulatory program in 2008 because it’s an election year.

- The best guess for when the United States will enact legislation at the federal level is 2009.
- It is unknown whether EPA might put in place regulatory programs under the Clean Air Act.
- The effect of federal legislation on state regulatory programs is also uncertain.
- The Bush Administration remains steadfast in its opposition to joining Kyoto unless China and India are subject to binding reduction requirements. This could change in 2009 with a new Administration.