



# Integrating a U.S. Cap-and-Trade Program with the International System

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**Implementing Climate  
Change Policy: Looking  
Forward to the Hard Part**

# Integration



- Recent thinking: economy-wide cap-and-trade program
  - International trading
  - Allowance-based funding
- Purposes of integration
  - Trading:
    - Cost containment for US
    - Meet commitments for funding
    - Use access to US market as driver for deeper commitments by developing countries
  - Allowance-based funding
    - Meet commitment for funding
- Can this model hold in 2010?
  - Implications of departure from economy-wide cap-and-trade approach?

# Waxman-Markey Bill

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- Exemplifies model
  - Passed by House
  - Basis of Kerry-Boxer bill
- Contemplates integration
  - Trading with other cap-and-trade programs
  - Offsets trading
  - Allowance-based funding

# International allowances



- Capped entities can use allowances from other cap-and-trade programs
- Must be EPA-qualified program
  - Mandatory absolute tonnage limit
  - At least as stringent as US program
- No limits on use for compliance

# International Offsets



- Non-OECD countries only
- Subject to 5-4 discount
  - Objective: use international offsets trading to drive further overall reductions
- Must have agreement in place with host country
- Three categories
  - Conventional project-based offsets (CDM)
  - Sectoral trading
  - Activities to reduce emissions from deforestation and degradation (REDD)

# Sectoral Trading



- Directs EPA and State Department to identify countries/sectors
  - Major economies
  - Major emitters
  - Trade competitors
- Shift to sector-based trading only
  - reductions measured against a “domestically enforceable baseline level of absolute emissions established in a country-specific agreement.”
- Deadline: no use of offset credits from identified countries after 2016
- Tension
  - Use of US market to drive deeper commitments by developing countries
  - Use of international offsets for cost containment in US program

# Cost Containment from International Offsets



- January 2010 EPA Supplemental Modeling of Waxman-Markey bill
- Scenario: No international offsets
  - Allowance prices increase 54 to 148%

# Other Type of Integration: Allowance Funding



- Waxman-Markey bill sets aside allowances for international purposes:
  - REDD (5%)
  - Adaptation (1%)
  - International clean technology assistance (1%)

# Heading into 2010 . . .



## ■ Uncertainties

- Will there be any US legislation?
- Will US legislation depart from economy-wide cap-and-trade model?
- How strong are headwinds against markets and international offsets?

# Implications of Departure from Economy-Wide C/T



- Greater uncertainty about US commitment
- Diminished availability of allowance-based funding
- Diminished ability to use international offsets for
  - Cost containment
  - Financial transfers
  - As driver to encourage deeper commitments from developing countries

For more information

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