

Can Climate Change Legislation be Kept from Destroying American Competitiveness?



BY ALAN PRICE AND SCOTT NANCE

President Obama has pledged his support for climate change legislation, which will almost certainly impose additional costs on American manufacturing, especially in the form of higher energy costs. There are a number of actions the United States could take to lessen the impact on competitiveness, but many would be inconsistent with international obligations meaning the

Administration and Congress will need to consider creative alternatives.

The most commonly discussed climate change legislation is a cap and trade system, where certain types of facilities, such as electric generation plants that emit greenhouse gases would be required to buy emissions allowances. This would lead to increased electricity prices for industrial users and, because of higher demand, natural gas prices will also rise. Manufacturing facilities that emit significant amounts of greenhouse gases, such as steel mills, would also be required to buy emissions allowances.

One approach to lessen the competitive impact of climate change legislation is to apply the same measures to imports as to domestic products. Importers of certain energy-intensive products like cement and steel would be required to submit "international emissions" allowances equal to the average emissions in the exporting country for that product. An importer bringing in steel from China, for example, would have to submit "international emissions" allowances in an amount

equal to the average amount of greenhouse gases emitted in China from the production.

This approach, however, could conflict with the international obligations of the United States. Under the General Agreement on Tariffs and Trade (GATT), the United States must accord "national treatment" to imports, meaning that it must treat imports exactly like domestically produced products with respect to taxation and internal regulation. Requiring importers to submit international emissions allowances would

probably violate the GATT because it would violate this principle of identical standards. Allowance requirements for U.S. producers would be based on the producers' actual emissions, while the allowance requirement for imported products would be based on national averages. Importers might be required to submit more allowances for a product than the same product would need if manufactured in the United States.

Most models for cap and trade assume that all allowances would be sold at auction. If some allowances were provided free of charge to manufacturers in energy-intensive industries, they could either use these allowances or sell them to offset at least in part higher energy costs.

A cap and trade regime could also be supplemented with carbon intensity standards, which would set maximum greenhouse gas emissions limits from the production of certain products, whether they were made in the United States or imported. If a product exceeded the maximum, it simply could not be sold in the United States. This would force American producers to improve their efficiency, while preventing heavily polluting producers abroad from exploiting the U.S. market.

Ultimately, the United States must produce more of its electricity from renewable sources. Given the current economic climate, it is unlikely that private investors can provide the hundreds of billions of dollars in capital needed to produce even a fraction of the nation's electricity from renewable resources. Investment by the federal government in a "green grid" may also be vital in creating an alternative to coal-fired electricity.

A cap and trade system will impose substantial new costs on American industry in the form of higher electricity and natural gas costs. This would give manufacturers in countries like China and Brazil an advantage over their American competitors in the U.S. and world markets. Measures such as the free allocation of emissions allowances or rebates, combined with carbon intensity standards or other border measures, could partially offset the higher energy costs likely to result from climate change legislation. When combined with investment in a green grid, they can play a key role in helping American manufacturers adjust to a radically new economic environment. **WT**

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