



For Immediate Release

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IETA Statement on Kerry-Boxer: a strong market-based approach but further work needed

The International Emissions Trading Association today released a statement (attached) on the US Senate's Kerry-Boxer draft legislation on energy and emissions trading by its President and CEO, Henry Derwent. While a number of important issues remain unclear, in particular the treatment of allocations and market oversight, enough of the Kerry-Boxer approach is visible to justify a positive reaction at this stage. However, the treatment of international offset projects and deforestation includes some provisions that will reduce the proposal's effectiveness and increase costs to the US economy.

Henry Derwent said:

"This market based-approach is the right way to reduce emissions while keeping costs in check. Governments around the world have adopted cap and trade as their leading choice to mitigate climate change and transition to a clean energy economy. Senators Boxer and Kerry are doing the right thing by following suit. We are glad to see some improvements in the legislation in specific areas compared to the House of Representatives version

But:

- We are deeply concerned by the stipulation limiting international offsets to a maximum of ¼ of the 2 billion credits available. Depriving the US carbon market of international offsets has no benefit, and would lead to higher costs and a less efficient, more volatile marketplace.
- We recommend removing the stipulation that, after 2018, 1.25 international offset credits would be required to equal 1 allowance or domestic offset credit.
- The legislation should honour full crediting periods for international offset projects with crediting periods that extend beyond the 2016 phase out.
- More work needs to be done to create a system that better attracts crucial private capital to address deforestation."

IETA has been the leading voice of the business community on the subject of carbon markets since 2000. IETA's 170 member companies include some of the world's leading corporations, including global leaders in oil, electricity, cement, aluminum, chemical, paper, and other industrial sectors; as well as leading firms in the data verification and certification, brokering and trading, legal, finance, and consulting industries.

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**Statement of Henry Derwent, President and CEO
International Emissions Trading Association
On the Kerry-Boxer "Clean Energy Jobs and American Power Act"
October 2, 2009**

The International Emissions Trading Association (IETA) commends Senators Boxer and Kerry for taking an effective, market-based approach to addressing climate change. The Boxer-Kerry "Clean Energy Jobs and American Power Act" adopts a "Pollution Reduction and Investment" program to reduce greenhouse gas emissions. This market based-approach is the right way to reduce emissions while keeping costs in check.

IETA has been the leading voice of the global business community on the subject of emissions trading since 2000. Our 170 member companies include some of the world's largest industrial and financial corporations, including global leaders in oil, electricity, cement, aluminum, chemical, paper, and banking; as well as leading firms in the data validation, verification and certification, brokering and trading, legal, and consulting industries. A complete list of our members is attached.

The United States faces the challenging task of addressing climate change in a way that spurs the innovation and investment needed to achieve a new clean energy economy. Cap and trade legislation is the best means to secure these critical objectives because it provides both

environmental certainty—the ultimate goal of any U.S. climate change response—and the right incentives to do so at the lowest cost.

A cap and trade program, like the Pollution Reduction and Investment approach taken by Senators Boxer and Kerry, sets a hard limit on greenhouse gas (GHG) emissions, while creating a regulated market for companies to trade emissions credits. A well-designed cap and trade program will result in an environmental and economic system that improves our environment, creates a newer, cleaner, energy, transportation and industrial infrastructure, and encourages a new generation of 21st century entrepreneurs. Governments around the world have adopted cap and trade as their leading choice to mitigate climate change and transition to a clean energy economy. Senators Boxer and Kerry are doing the right thing by following suit.

Unlike a carbon tax or other alternative proposals, a cap and trade system provides the flexibility for businesses to implement tailored, low-cost strategies. Rather than force companies to adapt to costly “one size fits all” regulations or taxes, cap and trade allows for industry-specific customization of technology and physical capital. Ultimately this reduces the potential of an economic shock and minimizes price impacts on consumers.

The Kerry-Boxer bill adopts the right overarching framework and is a step in the right direction for the United States to reduce emissions using a cost-effective market-based system. Nevertheless, the legislation is in need of significant improvement in order to fully tap the innovative power of American businesses and reduce emissions as cost-effectively as possible. Some of the necessary changes include:

- **Reverse the decision to remove 50% of international offsets from the market.** IETA is deeply concerned by the stipulation limiting international offsets to a maximum of $\frac{1}{4}$ of the 2 billion credits available. The ratio of $\frac{1}{2}$ passed in the House should be a minimum; the Senate bill moves in exactly the wrong direction on this issue, potentially creating an artificial scarcity that would unnecessarily raise prices for covered parties and the consumers they serve. Consensus is emerging that the domestic offset market will have trouble producing more than 900,000 credits in the near term – less than the $\frac{1}{2}$ allowed by the House bill and far less than the $\frac{3}{4}$ allowed in Kerry-Boxer. Depriving the US carbon market of international offsets thus has no benefit, yet would lead to higher costs and a less efficient, more volatile marketplace.
- **Eliminate the 1.25 international offset penalty.** IETA recommends removing the stipulation that, after 2018, 1.25 international offset credits would be required to equal 1 allowance or domestic offset credit. This provision will increase the cost of compliance to both regulated entities and society at large. Devaluing international credits by 20% will render uneconomic many otherwise cost-effective and environmentally sound offset projects. Further, it artificially encourages society to forgo the emissions

reductions that could have been gained from these projects under an unbiased economic treatment.

- **Honor full crediting periods for international offset projects with crediting periods that extend beyond the 2016 phase out.** Kerry-Boxer calls for a switch to sector-based crediting after January 1, 2016, but doesn't recognize continued crediting for projects established before the phase out, and doesn't provide certainty for businesses that establish projects without knowing which sectors in which countries will move to sector based approaches in which year. Unless fixed, this provision would derail the development of project activities in sectors and countries with ample, low-cost mitigation potential, and in doing so would increase the cost-of-compliance for all American companies. IETA believes international offset projects under development at the time a sector is listed for transition to sectoral crediting should continue to receive offset credits for the project's full crediting period. In order to ensure against double-counting, these credits should be accounted for in the sectoral baseline.
- **Create a system that better attracts crucial private capital to address deforestation.** IETA applauds Kerry-Boxer's comprehensive approach to addressing the critical problem of deforestation in developing countries, including financing supplemental emission reductions from reduced deforestation and creating an offset mechanism for activities that reduce deforestation. However, in order to attract crucial private finance to the offset mechanism, the legislation needs to 1) explicitly recognize project-level activities "nested" within sub-national and national frameworks; 2) extend the phase-out of sub-national accounting and crediting from 5 to at least 10 years; and 3) provide explicitly for early action crediting from international reduced deforestation activities. These changes will provide a clear policy signal to begin project development immediately—which is critical to generating the offsets needed for cost containment.

The above changes are among those necessary to ensure the legislation keeps costs down on American consumers and businesses. While these and other changes are necessary, IETA notes there have been some improvements in the legislation in specific areas compared to the House version. For example, IETA applauds the choice to qualify offset projects registered as long ago as 2001 as potential emission reduction providers. This is a marked improvement over earlier proposals to limit early action to projects started after Jan. 1, 2009.

The Kerry-Boxer bill employs a strong overarching framework and is another step forward in the United States' efforts to address climate change using an effective cap-and-trade system. IETA looks forward to working with Senators Boxer and Kerry as they work to improve this legislation and continue their efforts to develop a cost-effective approach to reducing greenhouse gas emissions.