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## *How the IBEW – AFL-CIO – AEP International Proposal Operates within Climate Legislation*

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## *Which countries are covered?*

- *The allowance requirement only applies to foreign countries that are –*
  - *large-emitters of GHG emissions, and*
  - *not taking “comparable action” to address their emissions.*
- *“Comparable action”*
  - *Must be measured and verified with demonstrated enforcement within that country*
  - *Determined solely by the President or independent U.S. agency*
- *Foreign countries are excluded if they –*
  - *Have taken “comparable action” to limit their GHG emissions,*
  - *Are among the poorest developing countries, or*
  - *Have de minimis levels of GHG emissions.*

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## *What are the objectives?*

- *The goal is to establish an environmental framework that protects the environment and fairly treats U.S. workers.*
- *The framework seeks to –*
  - *find a global solution to the global climate change problem, and by solving this problem, also:*
  - *helps prevent the shifting of U.S. jobs to foreign countries that would have lower manufacturing costs merely because they refuse to do their part to limit greenhouse gas (GHG) emissions.*

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## *How does the allowance requirement work?*

- *U.S. importers must hold allowances (see next slide) to cover emissions from imported goods.*
- *Failure to submit allowances bars entry of imported goods into the U.S.*
- *The allowance requirement –*
  - *applies after the start of the U.S. cap-and-trade program, and*
  - *strives to mirror allowance requirement that the U.S. program imposes on producers of domestic goods.*

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## How do importers comply?

- Importers may comply with the allowance requirement by –
  - obtaining emission allowances issued pursuant to other foreign GHG regulatory programs
  - obtaining certified emissions credits issued pursuant to the U.S. program or other foreign GHG regulatory programs
  - purchasing “international reserve allowances” from a separate pool that is reserved only for this purpose (see next slide)

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## When does allowance requirement apply?

- To fully comply with WTO, the U.S. first must make good faith efforts to negotiate with foreign countries to limit their GHG emissions.
- The allowance requirement is a measure of last resort that applies after the promulgation of regulations and the start of the U.S. cap-and-trade program.
  - This ensures that the “comparability” of foreign action on GHG emissions can be measured against domestic action, thus complying with WTO and rebutting any allegation that the requirement is “protectionist.”

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## What are the key features of international reserve allowances work?

- The allocation of international reserve allowances will not reduce the number of allowances allocated for domestic compliance.
- The international reserve allowances –
  - cannot be used for domestic compliance, and
  - can only be used for meeting the allowance requirement applicable to imported covered goods.
- The price of the international reserve allowances would be pegged at the U.S. market price for domestic allowances.
- International reserve allowances may be traded and banked for future use.

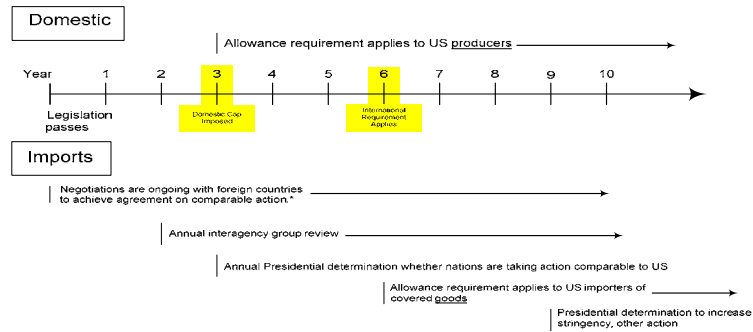
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## When does allowance requirement apply?

- Not protectionist – The requirement would not actually be applied against any country outside of the U.S. until 2015, with the precise date of implementation depending on date of enactment of climate legislation, how long it takes to promulgate regulations for the entire domestic program, and allowing 2 or 3 years after the cap begins for the results of the cap to be measured and demonstrated. (By contrast, a protectionist trade measure would take effect almost immediately.)
- Provides negotiating leverage -- The proposal provides U.S. climate negotiators with a “stick” -- with leverage -- to use in negotiations with other major emitting nations. The global political pressure for action on climate change will become even stronger during the next decade. That change in global opinion on this issue, and the need for all major emitting nations to reduce their own domestic emissions -- when coupled with the IBEW – AEP “stick” -- will likely mean that the IBEW – AEP proposal will never actually have to be implemented against any major emitters.

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## Implementation Timeline of IBEW – AEP International Proposal as Part of Climate Legislation



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## Which goods are covered?

- The allowance requirement applies only to “greenhouse gas intensive” goods from countries that are found to have not taken comparable action as the U.S. Limiting the scope of the program again takes off the table concerns that the international allowance provision will interfere with international trade with respect to the vast amount of imported goods that do not generate significant GHG emissions during their manufacture.
- Covered goods include –
  - primary goods (such as iron and steel, aluminum, cement, bulk glass, and paper) and
  - Other goods sold in bulk that are determined to have substantial amounts of GHG emissions.
- Goods not covered include finished products and other goods that do not generate substantial amounts of GHG emissions (on emissions per dollar basis) during their manufacture.

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## How is the allowance requirement set?

- The allowance requirement is –
  - set for each category of covered goods from each covered foreign country,
  - applied on a per unit basis to each good,
  - adjusted each year to reflect production changes in the foreign country,
  - adjusted to ensure consistency with WTO requirements.

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## What adjustments do WTO rules require?

- To ensure WTO compliance, adjustments are made to each category of covered goods.
- The WTO adjustments are intended to –
  - avoid discrimination between countries where the same conditions prevail.
    - *Example:* Take into account the level of economic development of the foreign country.
  - maintain rough comparability in burden on imported and domestic goods.
    - *Example:* Lower international allowance requirement to reflect “free” allowances given to domestic producers. (This ensures that imported goods are “not treated less favorably” than domestic goods.)

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*Can the allowance requirement  
be adjusted further?*

- *The President or an independent agency can increase the stringency of the international allowance requirement or take other appropriate action to address GHG impacts of imports.*
- *Either action is authorized if –*
  - *the President or an independent agency determines the current requirement is insufficient to address GHG impacts, and*
  - *the adjusted requirement complies with WTO laws.*
- *The President or an independent agency also may make adjustments to address concerns raised in WTO challenges lodged by foreign countries.*

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