

THE AMERICAN CLEAN ENERGY AND SECURITY ACT PROTECTS U.S. INDUSTRIAL PRODUCTION AND KEEPS JOBS AT HOME

Summary of Competitiveness Provisions

The American Clean Energy and Security Act of 2009 (ACES) will create a declining cap on harmful emissions of greenhouse gases and will encourage innovation, efficiency and new, clean energy jobs across the country. However, for U.S. industries that use a lot of energy and are subject to international competition, the new costs could place them at a competitive disadvantage and result in production, emissions and jobs leaving the country for countries that have not yet taken action to reduce emissions.

ACES includes two key provisions supported by a wide array of industry and labor organizations that will prevent jobs from being exported because the U.S. has a carbon price:

- **Free allowances** (approximately 15 percent of the total) to fully compensate U.S. industries that could be disproportionately affected by having to purchase emission allowances, such as aluminum, cement, chemicals, iron and steel, lime, pulp and paper, and many others that use or purchase large amounts of energy and produce products subject to international competition (Inslee-Doyle), and
- **A border tax adjustment** on imports from countries that have not taken action in these key sectors that will level the carbon cost playing field. The border tax is designed as a backstop and would only need to be used after the free allowances are phased out after 2025 and other countries have not taken action or in case free allowances prove to be insufficient.

ACES fully compensates each affected industry sector for its climate change costs

During the first 14 years of the program (2012-2025), the bill provides free allowances to affected industry sectors at a level that will provide:

- **Full compensation for the costs of direct emissions and the carbon costs of electricity purchases.** Plants that directly emit *less* than the sector average (on an emissions per unit output basis) will benefit by receiving more allowances than they need to cover the added costs of their direct emissions, while plants that emit *more* than the sector average will receive an added incentive to reduce their emissions. After 2025, the bill anticipates a gradual phase-out of free allowances *unless* a significant proportion of producers outside the U.S. continues to emit at greater rates than U.S. firms and continue to lack regulatory programs that would impose costs or requirements that significantly close the gap with the U.S. mandate.

The bill also grants substantial numbers of free allowances to electricity distribution companies that must be passed through to their consumers, including industrial consumers. **This mechanism will help all industries and businesses that rely on electricity purchases**, not just the heaviest energy users in internationally competitive markets. (The bill seeks to ensure that recipients cannot double dip by receiving duplicate compensation for their electricity purchases through both the free allowances and the rebate from the electricity distribution company.)

ACES taxes the imports from countries that have not taken action

In 2022, the President will make a determination whether a given U.S. industry sector remains disproportionately affected by the U.S. price on greenhouse gases, even considering the free allowances provided to that sector. If he finds that it does, ACES authorizes the President in 2025 to stop or slow the phase out of free allowances and/or to establish border tax adjustments that would apply to imports from countries and sectors producing primary products that fail to take sufficient action to mitigate greenhouse gas emissions.

Final negotiations on the bill are considering moving up the date of the border adjustment to allow it to begin in 2020 or earlier. Any such change will strengthen the protection for U.S. industries.

For more information on the approach taken in the American Clean Energy and Security Act to protect U.S. industry, contact Marty Spitzer, Director of Legislative Affairs, at mospitzer@ccap.org or (202) 669-0601.

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