

## The US takes another step backward

A draft U.S. bill that would legislate domestic action on climate change, the *Clean Energy Jobs and American Power Act*, is currently being debated in the Senate. (It's also called the "Kerry-Boxer bill" in reference to its co-sponsors, Senators John Kerry and Barbara Boxer.)

Kerry-Boxer is a successor to the *American Clean Energy and Security Act*—also known as the Waxman-Markey bill—which was passed in June by a vote of 219-212 in the U.S. House of Representatives.

Although press coverage has focused on their differences, Kerry-Boxer and Waxman-Markey actually share the same architecture. They would both legislate:

- A cap-and-trade program for US industry
- Standards targeting specific sectors (for example, renewable portfolio standards for utilities)
- Programs to encourage emissions reductions in developing countries.

All told, the integrity of the cap-and-trade scheme is a key litmus test for the bill's overall quality—since this is the main policy that promises *quantified* emission reductions.

On the surface, Kerry-Boxer promises to cut industrial emissions by 20 per cent below 2005 levels in 2020, and by 83 per cent in 2050. But if you crunch the numbers, you find it's possible for American industry not to take any action in their own operations until well past 2030.

How can this be? There are three culprits: weak targets, too many offsets, and generous banking laws.

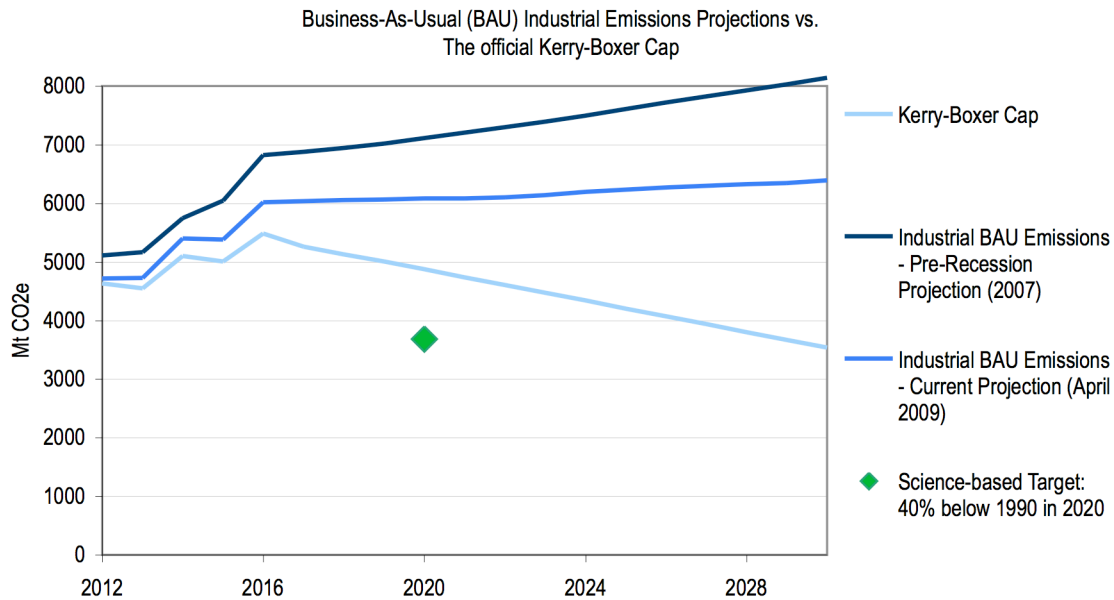
### Targets

Kerry-Boxer's mid-term targets don't measure up to the science: a 2020 cut of 20 per cent relative to 2005 is only 7 per cent relative to 1990; scientists say industrialised countries need to cut emissions by 40 per cent relative to 1990.

The targets also don't reflect the fact that US emissions growth is slowing down anyway—because of the global recession, and because of clean technology investments announced this year.

This point is illustrated in Figure 1.

- The light blue line shows Kerry-Boxer's cap for industrial emissions, which shrinks after 2016. (Note: the line is squiggly and rising from 2012 to 2016 because different industries join the scheme in different years. In 2012, 66% of the economy is affected; after 2016, it's 85%.)
- The deep blue line shows projected emissions for regulated industries, based on data from 2007.
- The bright blue line modifies these projections to account for the recession and technology investments.



In the short-term, until about 2020, Kerry-Boxer isn't at all ambitious relative to where the US is headed.

## Offsets

Every year, Kerry-Boxer allows industry to use 2,000 million tons (Mt) of offsets instead of cutting emissions in their own operations. Of this amount, 500 Mt can be sourced internationally, which—by shifting cuts overseas—delays a long-overdue decarbonisation of the American economy.

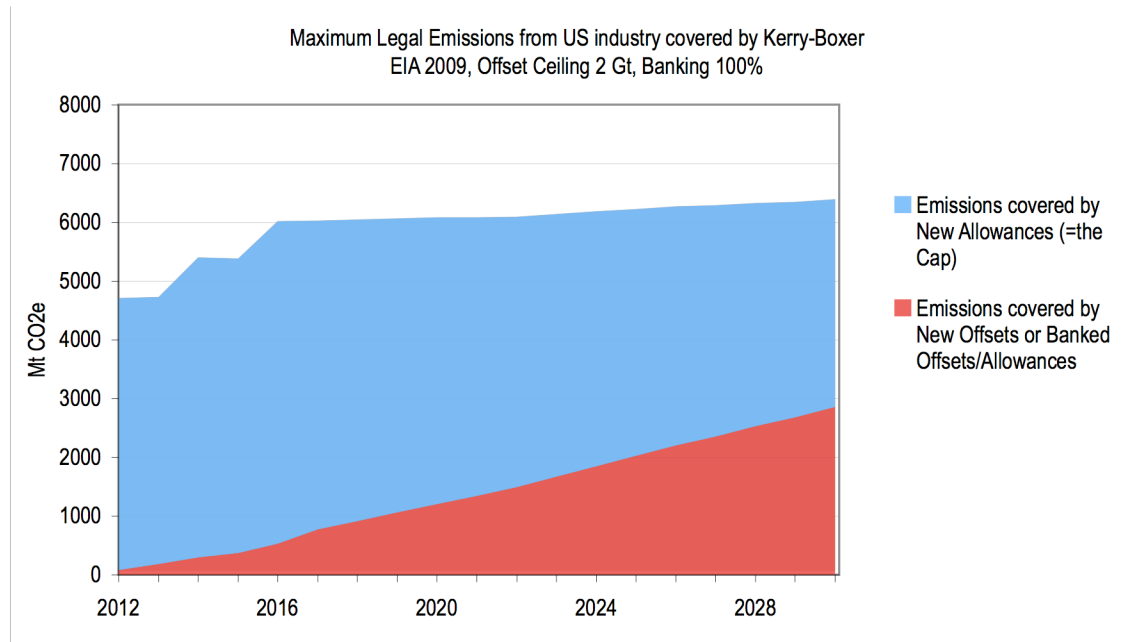
Meanwhile, the greatest opportunities for domestic offsets appear to be in agriculture, forestry and methane capture. If the rules are strong enough, the emissions cuts may be real; but again, it won't be US industry doing the cutting!

## Generous Banking Laws

Now combine a weak target with a huge quantity of legal offsets and what do you get? A situation where businesses can buy more permits to pollute than they need—and *save the surplus*. If these permits don't expire, they add up fast, like money in a savings account.

This result is illustrated in Figure 2.

- The area in light blue shows new emissions allowances granted annually under Kerry-Boxer's cap.
- The area in red shows *saved* permits that businesses can withdraw each year from their bank account.



It turns out industry can save so many permits, they can keep increasing emissions past 2030.

(Even in a more conservative scenario—where only 1,000 Mt of offsets are available, and businesses only bank half the surplus—industry isn't forced to cut its own emissions until 2023.)

What does it all mean? Weak targets + too many offsets + generous banking laws = the Kerry-Boxer bill = not good enough.