



CLIMATE FOCUS

Climate Focus: Carbon Market Background Paper. May 2008

Update: Lieberman-Warner Climate Security Act

Post Scriptum -21 May 2008

On May 21st the offices of Senators Lieberman and Warner both released the substitute version of the Climate Security Act (CSA). This was preceded on May 16th by a short summary of the key changes that Senator Boxer's office released regarding the substitute version.

Notably the substitute version of the CSA includes provisions allowing the use of credits (referred to as offset allowances in the bill) from international projects and international forest carbon activities. The CSA now provides that covered facilities may meet up to 5 percent of their compliance obligation with offset allowances generated from international project-based reductions and up to 10 percent of their compliance obligation with credits from international forest carbon activities. When the eligible percentage of offset allowances from project-based or forest activities is not fully utilized, international allowances from emission trading schemes such as the EU ETS are eligible for use up to the remaining unutilized percentage.

As set out in the substitute version of the CSA, Certified Emission Reductions (CERs) from projects carried out under the Clean Development Mechanism (CDM) of the Kyoto Protocol would be eligible to be used for compliance. With the initial cap of the CSA set at 5.7 billion metric tons CO₂e in 2012, a five percent eligibility of CERs would mean almost 289 million CERs could be utilized for compliance for the initial year.

Eligible international forest carbon activities would be activities for reducing emissions from deforestation and forest degradation (REDD) and activities for carbon sequestration through forest restoration, afforestation and management. The CSA directs the US Environmental Protection Agency in consultation with other federal agencies to adopt the regulations establishing project requirements and eligible host countries for such forest carbon activities.

The percentage of domestic offset allowances covered facilities may use for compliance remains at 15 percent in the substitute version of the CSA. The CSA's previous allocation of 2.5 percent of annual allowances for funding forest carbon activities is now reduced to 1 percent. Other changes to the CSA include further specification of measures the Carbon Market Efficiency Board may utilize to a control allowance prices. These include increasing the percentage of eligible offset allowances and, in addition to regular auctioning, the holding of annual "cost-containment auctions" under which allowances would be sold initially for a price of no less than USD22 and no more than USD30.