

Question 3. International Linkage

Submitter's Name/Affiliation: John Coequyt / Greenpeace US

Should a U.S. system be designed to eventually allow for trading with other greenhouse gas cap-and-trade systems being put in place around the world, such as the Canadian Large Final Emitter system or the European Union emissions trading system?

A domestic trading system will be a powerful mechanism by which the United States can demonstrate its seriousness in tackling global warming. A trading system that is fully compatible with the emerging Kyoto system and with the European Union trading system would allow U.S. enterprises to fully capture the economic benefits and efficiency of access to an efficient global market. It would also permit the United States to regain its leadership on this issue: the Kyoto architecture is American architecture and represents a huge intellectual investment by U.S. companies, government and experts over more than a decade. A global trading system of which the United States is a part is the most obvious vehicle to draw in the large scale involvement of the large emitters in the developing world through the development of new innovative mechanisms such as national sectoral caps with no lose targets as an initial entry point. It is essential that the domestic trading system be compatible with the other national and international trading systems.

To facilitate linkage with other cap-and-trade systems the United States will be required to set up a compliance regime that is similar to the international systems, especially the ETS, a relatively straightforward task. It will also require the adoption of limits and timetables that are comparable to the level of commitments that have been made by other nations, especially the European Union and Japan. In practical terms this would mean that the U.S. could not set up a system that included a price cap, extensive use of offsets or any other mechanism that undermined the integrity of the system, because it would undermine all the systems connected to it.

The U.S. system should also be connected to the Flexible Mechanisms of the Kyoto Protocol – the Clean Development Mechanism (CDM) and the Joint Implementation (JI). The Flexible Mechanisms are important instruments for facilitating technology and capital transfer to developing countries and, as such, should be encouraged by the United States.

Trading across international borders and purchases of credits under the Flexible Mechanisms should not substitute for domestic action. The American system should generate the vast majority of the carbon reductions within the borders of the United States. It will be impossible to limit global warming to 2°C unless the United States takes immediate action to cap and reduce global warming gases within the United States borders. It is also in the long-term economic interest of the United States to transform our economy through innovation and change. If the United States were to simply buy credits to meet short-term targets, long-term action will be more costly and disruptive.

To drive technological change and innovation and hence to reap the longer term economic benefits within the U.S. borders while allowing for international cooperation it will be necessary to set both aggressive limits on global warming gasses and to limit the extent to which domestic

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targets may be met through the so-called Flexible Mechanisms.

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Clarifying Question 3b:

- If linkage is desirable, what would be the process for deciding whether and how to link to systems in other countries?

It is essential that they system be linked to the international systems set up under the Kyoto Protocol. These systems are basically “made in the USA,” having been negotiated by the previous administration. It is essential that these markets function smoothly together and grow to promote widespread change.

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Clarifying Question 3c:

- What sort of institutions or coordination would be required between linked systems?

This would depend on the scope of the US system and how this would relate to other domestic systems such as the European Union trading system. The main architectural points in common that would be needed include very similar emission reporting methodologies, registries and an ability to coordinate compliance issues where liability issues across system may arise.