



Toward a New Climate Network

Transatlantic Solutions for a Low Carbon Economy

Transatlantic Climate Policy Group



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Editor: Till Kötter. For questions or comments, contact till@boell.org
Design: Ines Hilde
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please visit our web site: www.boell.de/climate-transatlantic/

Heinrich Böll Stiftung

Washington D.C. Office

1638 R Street, NW
Washington, DC 20009
United States
T +1 202 462 7512 **F** +1 202 462 5230
www.hbfus.org

Berlin Office

Schumannstr. 8
10117 Berlin
Germany
T +30 285 34 0 **F** +30 285 34 109
www.boell.de

Brussels Office

Rue d'Arlon 15
B-1050 Brussels
Belgium
T +32 2 743 41 00 **F** +32 2 743 41 09
www.boell.eu



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Toward a New Climate Treaty

Opportunities for Progress Under President Obama

JOHN D. PODESTA
PRESIDENT AND CEO, CENTER FOR AMERICAN PROGRESS

“Progressive accomplishments over the past six months are partially due to the foundation the President laid while on the campaign trail. As the economy deteriorated, then-candidate Obama argued that economic growth and environmental sustainability, rather than being at odds, were largely complementary—something which both the European left and right have acknowledged for years.”

With the scientific community increasingly certain of the inevitability of climate change, European politicians across the ideological spectrum have reached broad consensus that the European Union must take action to avoid climate catastrophe. Progressive and conservative parties alike agree that climate change demands a bold response, hold similar views on the broad forms that action must take, and support vigorous participation in international negotiations. This consensus has allowed Europe to institute the world’s largest greenhouse gas emissions trading scheme and make significant strides in clean energy technology and infrastructure.

But in the United States, deep divides exist between left and right regarding whether and how the federal government should address climate change. After eight years of a Republican administration that did not meaningfully participate in the international process or take steps to reduce CO₂ emissions domestically, the landslide election of progressives to the presidency and Congress last November signaled the start of a new energy era in American politics. With President Obama in the White House, strong climate policy advocates empowered in Congress, and an American public freshly engaged and eager for progress, the United States will be a constructive force in global efforts to achieve a best-case climate scenario.

Evaluation

A new direction for U.S. climate and energy policy

Only days after the keys to Washington changed hands, the Administration and Congressional Democrats acted on a range of new energy initiatives that, along with health care, education, and tax reform, comprised the four pillars of President Obama's campaign agenda. Their most recent achievement is the House of Representatives' American Clean Energy and Security Act (ACES), which places a hard cap on carbon emissions for the first time in U.S. history. The bill's passage is a historic milestone and an important element of a broader, multi-pronged approach that characterizes President Obama's presidential priorities.

Toward a green economy: Executive and legislative action

Progressive accomplishments over the past six months are partially due to the foundation the President laid while on the campaign trail. As the economy deteriorated, then-candidate Obama argued that economic growth and environmental sustainability, rather than being at odds, were largely complementary—something which both the European left and right have acknowledged for years. President Obama's promise to transition to a low carbon economy as a means to drive job creation resonated with an American public unused to viewing these two issues in this way.

After six months in office, the President has already begun to make good on his promise. The first indication of his commitment to climate change was the appointment of highly respected scientists and legislators who strongly support reducing emissions, including Nobel Prize-winning physicist Stephen Chu as Secretary of Energy; Harvard professor John Holdren as Presidential Science Advisor; former EPA head Carol Browner as Assistant to the President for Energy and Climate Change; and longtime environmental public servant Lisa Jackson as Administrator of the EPA. Soon after his inauguration, the President issued executive directives that included strict new efficiency rules for appliances, a reversal of prohibitions on the consideration of CO₂ emissions when approving new power plants, and the cancellation of drilling leases on protected land. In March, he brought together environmental groups and automobile executives to support improved fuel efficiency standards. And in April, the EPA took a step unthinkable only months before by classifying CO₂ as a threat to public health, which confers legal authority to the Administration to regulate emissions without congressional approval.

The President also adheres to the belief that transitioning to a clean-energy economy is critical to America's economic future. The American Recovery and Reinvestment Act, which, at \$787 billion, is the largest stimulus package in U.S. history, includes over \$70 billion in funding and \$20 billion for loan guarantees and tax incentives for clean energy projects. President Obama's budget extends these commitments by investing \$150 billion over ten years in clean energy programs.

However, the capstone of progressive efforts thus far is the American Clean Energy and Security Act, which passed the House of Representatives on June 26. The bill creates a cap-and-trade system that would reduce U.S. emissions by 2050 equal to EU targets and drive innovation, investment, and job creation in the clean energy sector. ACES also sets a national standard requiring 20% of electricity to come from renewable sources and mandates energy efficiency improvements for new coal-fired power plants, homes, office buildings, and appliances. The bill creates a Clean Energy Deployment Administration, i.e., a "Green Bank," to provide steady, affordable financing to clean energy projects that have historically had difficulty securing support.

Future commitment to developing countries: Funding for climate adaptation and technology transfer

Another important advantage of the bill is its commitment to preventing deforestation, which accounts for one-fifth of global emissions annually. The failure to capitalize on the emissions reduction opportunities which forest preservation offers was a tragic failure of the Kyoto Protocol. ACES, by contrast, makes a significant effort to take advantage of this critical source of CO₂ reduction. The bill devotes \$4 billion a year to deforestation prevention through 2025, with funding at slightly lower levels from 2026 through 2050. In total, ACES sets aside over \$100 billion to forest preservation over the lifetime of the legislation. The bill also creates a joint EPA/UN program to ensure that funds are utilized appropriately.

ACES also permits private firms covered by the cap-and-trade program to purchase international offsets. Estimates suggest international offsets could provide as much as \$15 billion to international projects annually. In addition, ACES commits steady funding through 2050 of up to \$9 billion annually to developing countries for climate change adaptation and clean technology transfer.

Challenges

The role of governments and societies

New scientific evidence indicates that the international community must double its efforts if catastrophic climate change is to be avoided. A May 2009 Massachusetts Institute of Technology study found that the consequences of continuing the current global emissions trajectory are twice as severe as climate models suggested only six years ago, and further, that without urgent action, global temperatures will rise from 3 to 7 degrees Celsius. The study's only positive finding was that immediate policy action could keep temperature increases from exceeding 2 degrees Celsius, a target considered necessary to prevent dangerous climate change.

Achieving a best-case climate scenario requires humanity to meet two broad challenges. The first calls on governments to take top-down action, for example, by acting in good faith at international forums, especially at the upcoming UN summit in Copenhagen, and to reach agreements, set targets, and initiate departures from their baseline emissions trajectories. Along with Congress's current activity, President Obama's commitment to curbing climate change will rejuvenate this effort after America's long absence. But all parties—developing and developed countries alike—must keep the consequences of failure close at hand and reach consensus.

The other challenge concerns bottom-up action. Researchers, entrepreneurs, and businesses around the world must develop and deploy new clean energy technologies that will drive the day-to-day transition from high-carbon to low-carbon ways of life. Many governments, now including the U.S., are aggressively supporting clean energy technology innovation through a variety of policy measures. Pricing carbon, mandating increased efficiency for products and buildings, or implementing renewable electricity standards, in addition to preferential tax policies, affordable government-provided financing, or other like policies, is the surest way to signal steady support for clean energy development and commercialization. Governments must pursue policies that help redirect market energy to alter the way societies produce and use energy.

Recommendations

Enhancing U.S.-European cooperation

Economic and political similarities between the United States and the European Union create substantial opportunities for cooperation. Following are four opportunities the U.S. and the EU can pursue jointly to move international negotiations forward.

Developing a common metric for counting emissions reductions

Some parties criticize the U.S. mid-term emission targets under the economy-wide cap-and-trade program proposed in the American Clean Energy and Security Act, arguing that U.S. 2020 targets should be more aggressive. But it would be unfortunate if such concerns complicate international climate negotiations, because the current method of calculating emissions reductions is not only short-sighted; it is also flawed. A fairer, more comprehensive mechanism to count emissions reductions could help resolve this impasse and bring us one step closer to an agreement in Copenhagen. The Center for American Progress has developed a “carbon cap equivalent” accounting system to help break the current stalemate and move the globe onto a meaningful emissions reduction trajectory.

Carbon cap equivalents, as debated by the Australian government, would account for a country’s entire emissions reduction portfolio and not just for sources covered by an economy-wide cap-and-trade program. Reductions attributable to renewable energy standards or avoided deforestation,

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for example, would be included in overall measures of each country’s mitigation actions. Counting such efforts in a rigorous and quantifiable way would provide a better picture of all parties’ activities beyond economy-wide targets, help account for countries’ unique political constraints, and unlock the flexibility necessary to accelerate the negotiating process in advance of Copenhagen.

ACES provides a good example of how this approach could work. Under its cap-and-trade provision, emissions reductions will not meet the EU’s current target of 20% below 1990 levels by 2020. For that reason, it would also fail to trigger the deeper cuts the EU has offered if the U.S. agrees to more aggressive targets. But additional provisions of the bill bring total reductions up significantly, namely, from 17% below 2005 levels to 17% below 1990 levels—close to the target that would trigger 30% reductions in the EU.

Given the bill’s appropriate long-term emissions cuts and the imperative to act as quickly as feasible to avoid the worst effects of climate change, the EU should do all it can to reduce its own emissions at these deeper levels. In addition, EU recognition of a broader accounting methodology for assessing national emissions reduction commitments would expand the political realm in which countries can act on climate, help the international community move past current disagreements over U.S. midterm targets, and demonstrate a more unified U.S. and EU position to other major carbon emitters, especially developing countries.

Integrating EU ETS with U.S. regional carbon trading schemes

The European carbon market is currently expanding both in volume and in scope. After an initial period of calibration, the European Union achieved emissions reductions of 3% in 2008, with analysts crediting about half of that decrease to the EU ETS and the other half to economic recession.

While a national carbon market in the U.S. is still some years away, trading among the European Union and the three U.S. regional cap-and-trade initiatives could be pursued before a national system is enacted. The Northeast Regional Greenhouse Gas Initiative (RGGI) began trading in 2008; the Western Climate Initiative will commence full trading in 2012. A Midwestern Initiative is in an earlier stage of development, but would likely begin operations prior to a national program.

At present, these regional initiatives incorporate varying levels of planned international integration. All could be augmented through steps to increase confidence in international trading via federal assistance in forging trading agreements.

Integration of “minilateral” initiatives

Given the fact that only a small number of countries are responsible for over 80% of total global greenhouse gas emissions, the inclusion of “minilateral” initiatives between major emitters should be a key goal of climate negotiations. This is especially important for engaging both China and Russia, whose cooperation is critical to lowering global emissions trajectories.

China, which recently surpassed the U.S. as the world’s largest CO₂ emitter, agreed to consider binding emissions reductions contingent on technology assistance from developed countries as part of the 2007 Bali Action Plan. The EU and the U.S. are proposing a range of options for technology cooperation, from state-to-state programs to public-private partnerships. The EU and the U.S. should coordinate these efforts among sector-specific initiatives, such as joint carbon capture and sequestration projects. Although China has already experienced significant assistance through the UNFCCC Clean Development Mechanism, further programs should seek to position China as a responsible peer rather than a repository for carbon offsets.

The U.S. and EU should also continue to make climate change a new strategic priority in advance of the UN Copenhagen summit. Secretary of State Hillary Clinton’s first trip abroad was to China, where climate change led the agenda. Most recently, China and the U.S. signed a memorandum of understanding (MOU) at the conclusion of the Strategic and Economic Dialogue held in July; this will generate additional opportunities for discussion and cooperation. These attempts to make progress with China should be seen as complementary rather than antagonistic to the framework convention process, and should involve Europe as well. In-principle agreements with China and other major emitters in advance of Copenhagen may secure a more positive result than could otherwise be achieved.

Russia’s cooperation is also critical to the development of a new climate treaty. The U.S. has already reoriented its bilateral relations with Russia around climate change by creating a working group on energy efficiency under the auspices of the July 2009 Presidential Commission on U.S.-Russia cooperation. The German government is also developing a joint energy efficiency initiative with Russia. Broadening these efforts to focus on Russia’s potential for achieving emissions reductions through improving energy efficiency could encourage Russia’s constructive engagement in climate negotiations at the UN summit this December.

Reconciliation of trade implications of climate policies

The controversial idea of imposing trade tariffs on countries that are unwilling to regulate carbon emissions has experienced a surge of popularity in recent months. Nobel-prize winning economists Paul Krugman and Joseph Stiglitz have both noted the policy implications for “border adjustment taxes” that incorporate the cost of pollution of goods imported from countries reluctant to impose a price on carbon domestically. In 2006, then Prime Minister of France Dominique de Villepin proposed an EU carbon tax on imports. Border tax adjustments have also become attractive to American policymakers who fear a potential loss of competitiveness among industries subject to carbon pricing (although President Obama has publicly dismissed the idea). ACES stipulates border taxes on goods imported from countries that do not regulate emissions after 2020.

There is reason for caution regarding the use of tariffs as primary instruments of climate policy. Trade has lifted millions of people around the world out of poverty, and climate-based trade restrictions could trigger a trade war with developing countries. Basic implementation would also pose a challenge given the complexities of measuring countries’ carbon footprint. But the imperative to move the world away from its current emissions trajectory means it may make sense to keep some trade tools on the table. The WTO, for example, suggests border adjustment taxes may be viewed in the same way as a value-added tax, i.e., as a method of reducing economic distortions as some countries implement pricing policies on carbon emissions.

Neither the EU nor the U.S. have reached consensus on the economic and political implications of border adjustment taxes. A joint workshop between the EU and U.S. could help reconcile

competing opinions on their inclusion in national climate strategies. Such a workshop could clarify the economic and political implications of border tariffs and provide the opportunity to develop a more unified position in advance of Copenhagen.

Conclusion

If catastrophic climate change is to be avoided, it will require nothing less than an Olympian feat of international cooperation over the coming years. However, with this challenge, the international community is also given an enormous opportunity—that of reviving the global economy, improving the lives of millions of people, and saving fragile ecosystems from climate-related disasters. Therefore, transatlantic partnership should be at the forefront of international cooperation, ready to turn bold, innovative ideas into action and reevaluate old assumptions about what is possible.



John D. Podesta
President and CEO
Center for American Progress

Biography

John D. Podesta is President and CEO of the Center for American Progress. Under his leadership, the Center has become a notable leader in the development of and advocacy for progressive policy. Prior to founding the Center in 2003, Podesta served as White House Chief of Staff to President William J. Clinton. Most recently, Podesta served as Co-chair of President Obama's transition, where he coordinated the priorities of the incoming administration's agenda, oversaw the development of its policies, and spearheaded its appointments of major cabinet secretaries and political appointees. Additionally, Podesta has held numerous positions on Capitol Hill, including Counselor to Democratic Leader Senator Thomas A. Daschle (1995-1996); Chief Counsel for the Senate Agriculture Committee (1987-1988); and Chief Minority Counsel for the Senate Judiciary Subcommittees on Patents, Copyrights, and Trademarks; Security and Terrorism; and Regulatory Reform (1981-1987). A Chicago native, Podesta is a graduate of Knox College and the Georgetown University Law Center, where he is currently a Visiting Professor of law. He is also the author of the *Power of Progress: How America's Progressives Can (Once Again) Save Our economy, Our climate and Our country.*



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