

U.S. Climate Change Policy: Where We Are and Where We Are Headed

Research Institute of Economy, Trade and Industry

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President

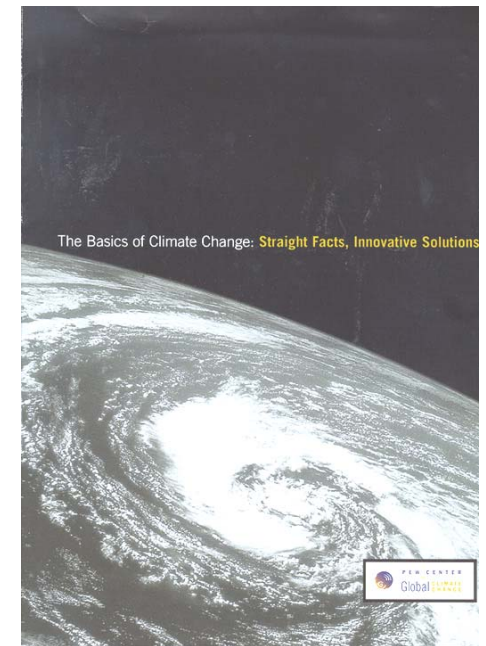
Pew Center on Global Climate Change



U.S. Climate Change Policy

- U.S. History with Climate Policy
- State and Business Activities
- Presidential Candidates
- Legislative Outlook
- Cap and Trade
- U.S. Acid Rain Program and EU ETS
- International Policy

- Founded in May 1998
- Independent, non-profit, non-partisan
- Five major program areas:
 - Scientific Studies/Analyses
 - Domestic and International Strategies
 - Outreach Activities
 - Business
 - States
 - Solutions
 - Communications



Business Environmental Leadership Council



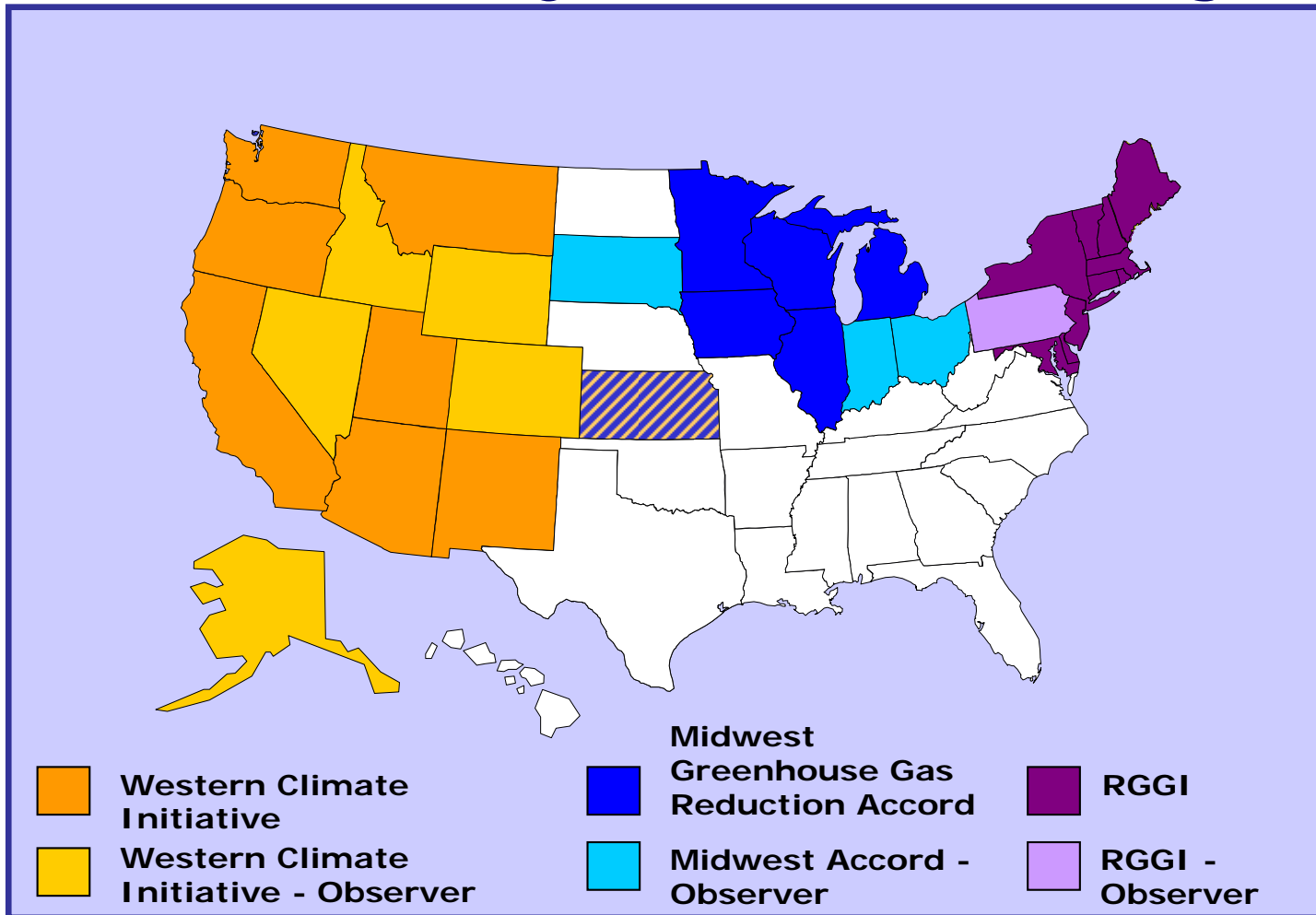
Where are we now? and Why are we here?

- U.S. Legislative Outlook
- State Action
- Business Leadership

- McCain-Lieberman bill introduced: First GHG cap-and-trade proposal (2003)
- Senate passes nonbinding Resolution supporting mandatory climate action (2005)

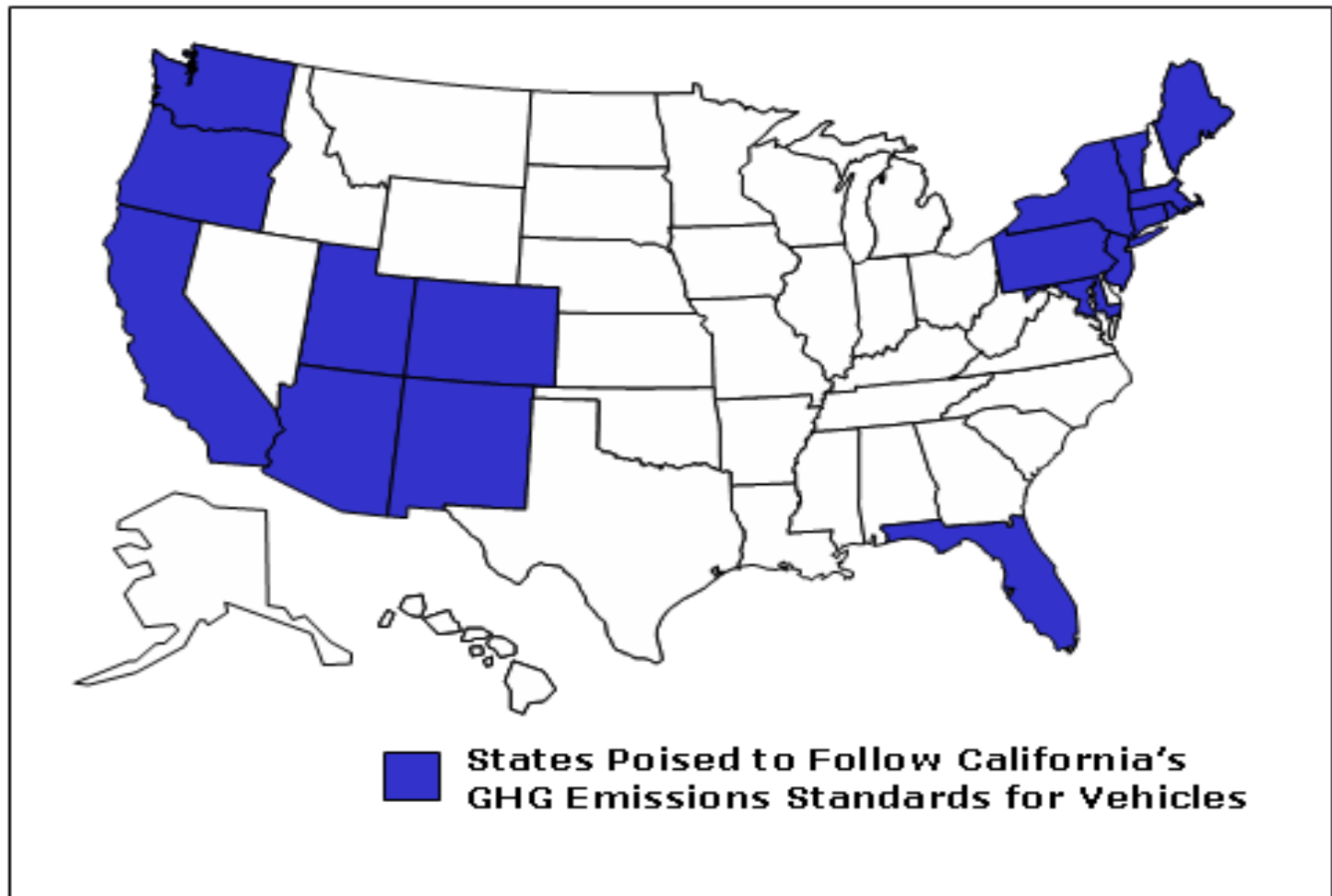
State Cap and Trade Efforts

23 States Pursuing Cap & Trade Programs
10 More States May Join These Programs



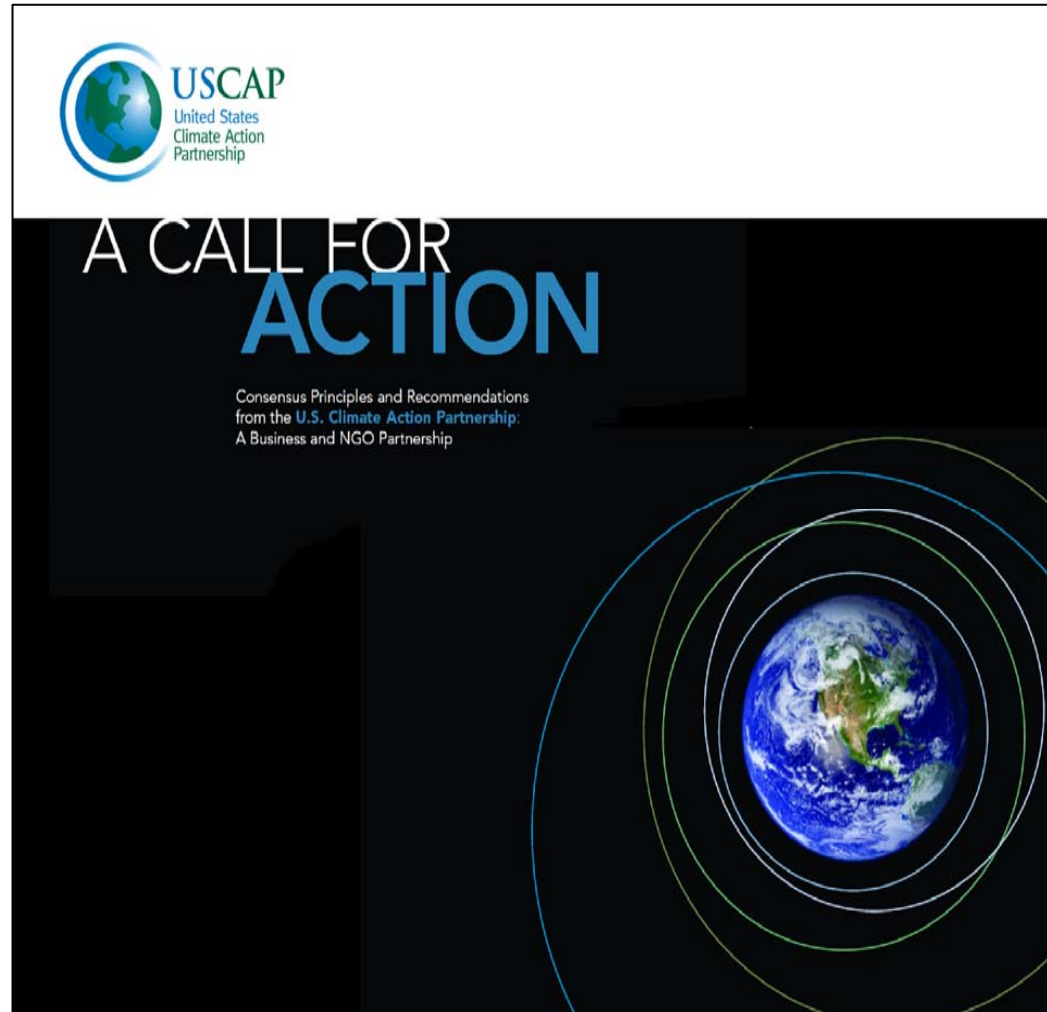
State Automobile Standards

17 States Have Agreed To Adopt California Vehicle GHG Standards



USCAP:

**27 Corporations
and 6 NGOs
that Support
Cap and Trade**





USCAP

United States
Climate Action
Partnership

"We are committed to a pathway that will slow, stop and reverse the growth of U.S. emissions while expanding the U.S. economy."



Boston
Scientific



CATERPILLAR®



ConocoPhillips



Duke
Energy®



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ENVIRONMENTAL DEFENSE
finding the ways that work



FPL
GROUP



JOHN DEERE

Johnson & Johnson

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Conservancy. 
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SIEMENS

USCAP:

- CEO partnership
- Calls for reductions of US GHG emissions
 - 100 – 105% of current levels within 5 years
 - 90 – 100% of current levels within 10 years
 - 70 – 90% of current levels within 15 years
- Long term target:
 - 20 – 40% of current levels by 2050

U.S. Domestic Legislation

- 2008 – Possible
- 2009 – Likely
- 2010 – *Inevitable*

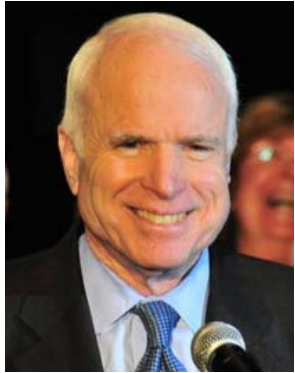


2007-2008 Developments in Congress

- 158 hearings and 195 bills introduced related to climate policy.
- 2007 Energy Bill will have profound climate implications:
 - CAFE standards
 - Renewable fuel standard
 - Energy efficiency standards

Presidential Candidates

Candidates All Support Cap and Trade



McCain is a long-time advocate for climate action. McCain-Lieberman cap and trade bill proposed in 2003.



Clinton and Obama support 80% emission reductions by 2050.

- Senate = 100 votes
- To Pass Legislation = 60 votes
- Between 48-50 Senators Now Support Legislation
- Vote expected in June on Lieberman-Warner bill

Lieberman-Warner Bill

- Cap and Trade
- 19% reduction from 2005 levels by 2020
- 71% reduction from 2005 levels by 2050
- Limited offsets
- 74% allocation; 26% auction

- Climate Change policy is a top issue for Majority Leader Pelosi
- Motivated leadership on Key Committee
 - Chairman John Dingell (D-MI)
 - Subcommittee Chairman Rick Boucher (D-VA)
- Some moderate Republicans support cap and trade bill

Advantages of Cap and Trade

- GHGs are well-mixed in the atmosphere, therefore...
 - Location of reductions is irrelevant
 - Cheapest reductions first
- International linkage
- Providing positive incentives for innovation

How Cap and Trade Works

- Set overall cap on emissions
- Allocate allowances up to the cap
- Emitters and others may trade allowances on open market

Cap and Trade Issues

- Targets and Timetable
- Allocation or Auction
- Cost Containment
- Competitiveness and Trade

Targets and Timetables

- Environmentally sufficient
- Economically sustainable

A Distributional Question

- Free Allocation—allowances given to emitters covered by program
- Auction—Emitters bid to purchase allowances
- Hybrid of free allocation and auction

Allocation or Auction

- Who should receive allowances?
 - Emitters only
 - All product generators or producers
 - Affected entities
 - State or Federal governments
- How much should be auctioned?

Cost Containment

- Cap-and-trade cheaper than traditional regulation
- Concern about high allowance prices addressed through:
 - Greater flexibility (banking, borrowing, offsets)
 - Carbon Management Board
 - Safety valve?

Competitiveness and Trade

- Leakage concerns
- Engage developing countries
- Short-term measures for trade-sensitive industries

Complementary Policies Also Needed

- Research and development
- Sectoral programs
 - Land Use
 - Transportation
 - Fuel efficiency standards
 - Low-carbon fuels



U.S. Acid Rain Program

- Successful history
- Good design
- Strict monitoring



EU Emissions Trading System

- Trial phase (2005-2007)
 - CO₂ only GHG covered
 - Electricity sector only
 - Allowances allocated free based on historic emissions

- What went right?
 - Developed infrastructure for a multi-national trading program
 - Established a price for CO₂ now included in business decisions
 - Reductions in emissions from covered sectors (as much as 5%)

EU Emissions Trading System

- What went wrong?
 - Over-allocation
 - Price volatility
 - “Windfall profits”

- What corrections are proposed?
 - Over-allocation: Better data on emissions and more centralized cap-setting and reporting
 - Price volatility: Unrestricted banking between compliance periods
 - "Windfall Profits": Increasing reliance on auction

International Policy

- U.S. support for binding treaty
- Commitments for **all** major emitters
 - Different types
 - Different levels of stringency



- Multi-Track Framework
 - Flexible and integrated commitments
 - Sectoral Approaches: Different commitments for different industries
 - Verifiable



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