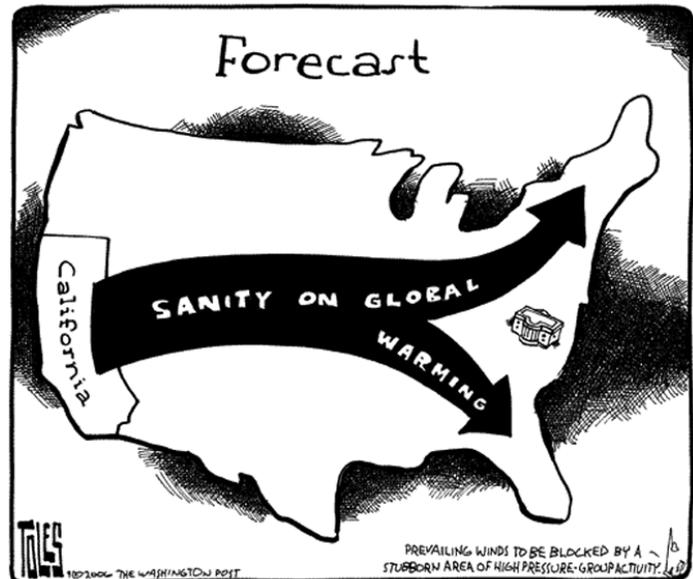




## Will the 110<sup>th</sup> Congress Address Climate Change?

The U.S. Senate will take up debate on the Lieberman-Warner Climate Security Act<sup>1</sup> in June. In this article, we will look at the prospects for passing comprehensive legislation for addressing climate change and what the key issues will be for members of Congress.

The 110th Congress (2007-2008) is both remarkably better on climate issues than the previous Congress and remarkably slow compared to what is needed. Congress has never had a serious debate on either the House or Senate floor. The Senate was famous for a hearing conducted by Senator James Inhofe (R-OK) that questioned whether the science linking human activity and climate change was real, where he stated that global warming was the "greatest hoax ever perpetrated on the American people."<sup>2</sup>



California's adoption of comprehensive climate legislation in August 2006 started a sea change in U.S. climate policy by the states. As the Senate starts debate in June, we will learn whether Congress has the same sense of urgency. (Cartoon courtesy of Tom Toles and the *Washington Post*, originally published on September 1, 2006.)

The 110th Congress began with a commitment by both Senate and House leadership to bring climate legislation to the floor. Since that time, they have worked under the assumption that the scientific debate is over - climate change is happening and human activity is the cause. The debate instead has centered on how to reduce greenhouse gases (GHG) in a manner that provides an economic advantage to the U.S. A variety of bills<sup>3</sup> have been introduced, but the main activity centers on Lieberman-Warner.

The Lieberman-Warner bill would:

- Establish a declining cap on 86% of the sources of greenhouse gas emissions,
- Reduce emissions by 18 - 25% by 2020,
- Reduce emissions by 62 - 66% by 2050, and
- Grow the auctioning of allowances to 100% by 2030.

<sup>1</sup> Information about the bill and its history available online at <http://www.govtrack.us/congress/bill.xpd?bill=s110-2191>.

<sup>2</sup> Inhofe, James M. "Climate Change Update." Senate floor statement. 2005 January 4. Available online at <http://inhofe.senate.gov/pressreleases/climateupdate.htm>.

<sup>3</sup> Solving Global Warming: Your Guide to Legislation. NRDC factsheet. 2008 January. Available online at [http://www.nrdc.org/legislation/factsheets/leg\\_07032601A.pdf](http://www.nrdc.org/legislation/factsheets/leg_07032601A.pdf).

According to a study just released by the U.S. Energy Information Administration (<http://www.eia.doe.gov/>), the official economic forecaster of the U.S. Energy Department, U.S. economic growth would be virtually identical to growth in the absence of S. 2191.<sup>4</sup>

## E2 Will Argue for Immediate Action

An E2 delegation will be meeting with members of Congress on May 13 and 14 for our sixth annual trip to Washington, DC. Our goal will be to explain the economic benefits of immediate action and the economic risks of further delay. Key points include:

- **Act before fall 2009.** On November 30, 2009, the 15th United Nations "Conference of the Parties" (COP15) will meet in Denmark to establish an ambitious global climate agreement for the period beginning in 2012 when the first commitment period under the Kyoto Protocol expires. Passage of a strong United States climate bill before that meeting will position this country to play a role in setting the rules of the world's climate regime of the future. Moreover, studies have shown that a prompt start will mean a smoother transition to a low-carbon future and lower costs overall.<sup>5</sup>
- **Uncertainty is harming business.** Most companies view climate policies and limits on emissions as inevitable. However, until the issue is resolved, businesses have a difficult time making long-term investment decisions. The current situation slows down U.S. investments while encouraging investments overseas where the policies are known and the rules are predictable.
- **Climate policy will spur innovation and economic development.** Setting a price on GHG emissions will send a much-needed market signal to business that encourages innovation. We've seen industry rise to the challenge repeatedly by improving technology and reducing costs. As E2 examined in our 2007 cleantech report, *How Public Policy Has Stimulated Private Investment*,<sup>6</sup> cleantech venture capital investment is now the third-largest and fastest-growing category of venture investment in the U.S. A cap on carbon emissions will further accelerate that trend.
- **Business as usual is too expensive.** While Congress is concerned with the economic changes resulting from a cap on carbon, legislators should also be concerned with rising costs and availability of energy under business-as-usual policies. Transportation fuel pricing is completely dependent on the price of crude oil, and electricity pricing is dependent on the price of natural gas and coal. What will the prices of gasoline and electricity be in 2020 without viable competitors to fossil fuels, such as electricity from renewable sources and transportation fuels made from non-food biomass feedstocks?<sup>7</sup>

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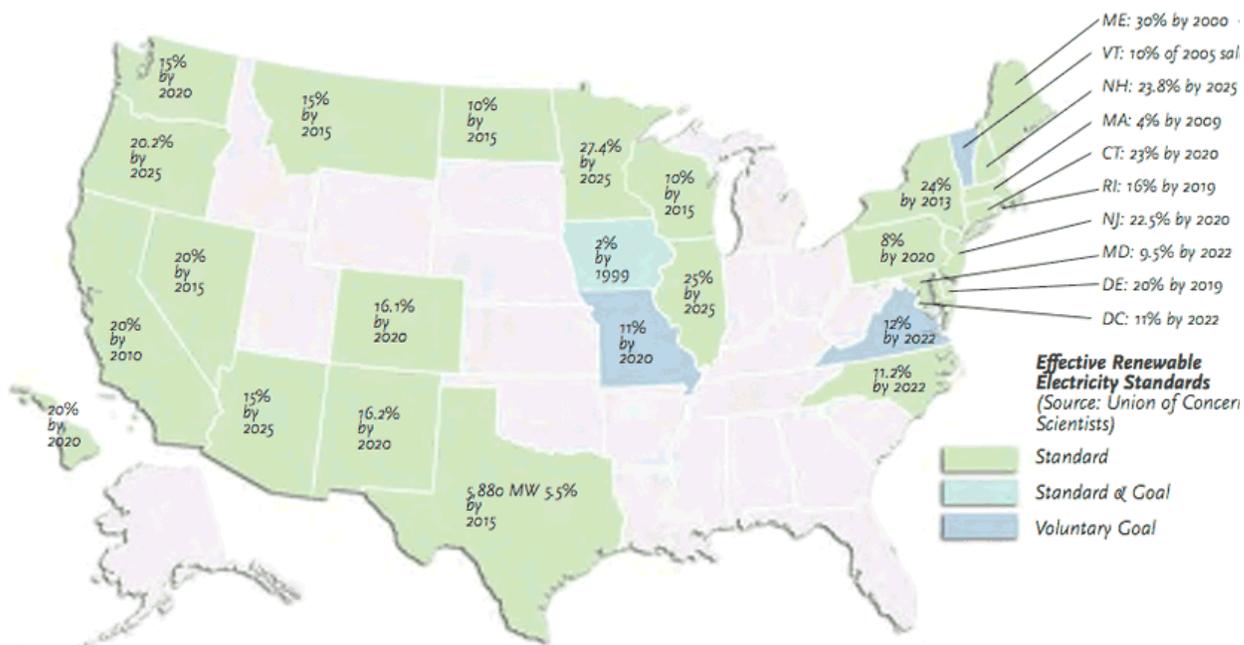
<sup>4</sup> Lieberman, Joseph. "Latest Government Analysis of Lieberman-Warner Climate Bill Shows Lowest Costs Yet." Senate office press release. 2008 April 29. Available online at <<http://lieberman.senate.gov/newsroom/release.cfm?id=296949>>.

<sup>5</sup> Doniger, David. Testimony on "Competitiveness Concerns and Prospects for Engaging Developing Countries." Subcommittee on Energy and Air Quality, Committee on Energy and Commerce, United States House of Representatives. 2008 February 28. Available online at <[http://docs.nrdc.org/globalwarming/glo\\_08022802A.pdf](http://docs.nrdc.org/globalwarming/glo_08022802A.pdf)>.

<sup>6</sup> 2007 May. Available online at <<http://www.e2.org/ext/doc/CleantechReport2007.pdf>>.

<sup>7</sup> Environmental Entrepreneurs. *State of the Union: Replacing Gasoline with Biofuels*. 2006 March. Available online at <<http://www.e2.org/jsp/controller?docId=9837>>.

## States Lead the Way



Twenty-five states have established renewable electricity programs. States have provided leadership while Congress has failed to act. As Congressional activity increases, Congress needs to work in partnership with the states and not pre-empt their rights. (Information provided by Union of Concerned Scientists)

While Congress has been slow to respond, the states have been active. State activity includes:

- Renewable energy standards - in place in 25 states and the District of Columbia.
- Energy efficiency policies that enable utilities to prioritize efficiency over new generation.
- Automobile tailpipe emission standards enabled by California legislation in 2002 and supported by 15 other states. The Bush Administration currently blocks implementation of the standard, but the three front-running presidential candidates have all expressed their intentions to allow the standard to proceed.
- An economy-wide emissions cap in California (AB 32) and activity in ten other states that are establishing caps on portions of their economy's emissions. The most recent is Colorado.<sup>8</sup>

Clearly the activity level for climate legislation has increased remarkably since former Vice President Al Gore's call to action in 2005. The Regional Greenhouse Gas Initiative, the California Global Warming Solutions Act of 2006 and the change in Congressional leadership in 2007 are all moving us in the right direction. Despite this activity, it is very unlikely that Congress will pass a law in 2008. In fact, President Bush, while acknowledging the role of

<sup>8</sup> Ritter, Bill, Jr. Colorado Climate Action Plan: A Strategy to Address Global Warming. Governor's office report. 2007 November. Available online at <[http://www.colorado.gov/energy/in/uploaded\\_pdf/ColoradoClimateActionPlan\\_001.pdf](http://www.colorado.gov/energy/in/uploaded_pdf/ColoradoClimateActionPlan_001.pdf)>.

human activity in climate change, recently reaffirmed his plan<sup>9</sup> to pursue voluntary measures that would not start to reduce of emissions until 2025.

The states that have taken unilateral action have all done so because it is in their best economic interests. Yet Congress is having a hard time reaching that same conclusion.

### **Sense of Urgency**

The most important message for E2 to deliver is that we must act immediately for the sake of both the economy and the environment. While there are members of Congress who understand the environmental urgency of addressing climate change, we need to reinforce the economic urgency of having a climate policy and being a part of international climate efforts.

In crafting the legislation, Congress must deal with difficult issues including the following:

1. **State Pre-emption.** Some members of Congress want to take away the long-standing ability of states to regulate GHG emissions from vehicles. In a separate issue, some members want to take away states' abilities to create their own emissions cap and carbon credit auction once there is a federal cap.

There is no reason to take away the right of states to regulate their own vehicle emissions to a higher standard. States have successfully reduced vehicle emissions for more than 30 years under the provisions of the Clean Air Act that allow states to either adopt a common standard based on California's or to use the Federal standard.

State-level leadership is currently the driving force in GHG reductions in this country. Congress should do nothing to discourage states from implementing their goals and achieving carbon emissions reductions. There is no need for Congress to remove states' rights. If Congress comes up with an attractive, equivalent program, states will voluntarily adopt the Federal program since it will be much more cost-effective to be part of a larger, Federal market.

2. **Cost containment.** Cost containment mechanisms are important to smooth out price swings while the market develops and to deal with shortages of carbon credits resulting from supply disruptions or extreme weather conditions. Some in Congress have proposed "safety valves" which prevent the price of carbon from rising above a pre-determined price. E2 prefers market mechanisms such as banking and borrowing emissions (i.e. agreeing to additional reductions next year in exchange for additional emissions this year) because they provide flexibility without violating the overall cap on emissions.
3. **Allocation method.** The Lieberman-Warner bill contains a complicated set of formulas for determining how rights to emit carbon are assigned and/or sold and who benefits from the value of those rights. E2's goals are to (1) ensure that the value of the emission rights are used to further the goals of the legislation and do not become a source of windfall profits for companies, and (2) that the allocation drives innovation in each sector and does not allow one sector to avoid innovation by paying another sector to reduce its emissions.

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<sup>9</sup> "President puts forward global warming plan weaker than Presidential Candidates, Companies, Congress." NRDC media release. 2008 April 16. Available online at <<http://www.nrdc.org/media/2008/080416.asp>>.

Unfortunately, the allocation methods in the Lieberman-Warner bill are like "ear-marks" - they provide specific assistance to various industries and constituencies. Each state has a different mix of businesses and needs, and finding an overall solution that will satisfy each region and industry will be difficult. One Senator told us the allocation system in the bill was the "mother of all ear-marks."

4. **What about China?** Another question is whether the U.S. should act independently from China. According to the Energy Foundation ([www.ef.org](http://www.ef.org)), the U.S. is responsible for 27.5% of all carbon dioxide in the atmosphere since 1750. Comparatively, China is responsible for 8.2% (although annual emissions are now roughly the same for both countries). In many areas, China is ahead of U.S. Federal policy. For example, China has a national target of 15% renewable energy by 2020. At the end of 2007, China had already met its 2010 goal. By contrast, the U.S. Congress failed to pass a renewable energy bill last year. Similarly, last year, Congress passed rules requiring automakers to increase the fuel economy of their car fleet to average 35 miles per gallon by 2020, whereas China requires 36 miles per gallon by 2008.

We will have far greater influence on China's climate policies if the United States passes a strong climate bill. The U.S. has an obligation to act first and lead since we historically put most of the carbon into the atmosphere. But beyond our obligation, delay only makes our inevitable reductions more expensive since we will have to cut faster if we start later. In addition, China could become an important market for U.S. clean energy innovations. As U.S. innovation from climate policies takes hold, we will develop the technology that China will need to reduce their energy demands and avoid expensive carbon emissions in the future. If U.S. companies develop the technology first, we will have a competitive advantage. Waiting for China can only add risk.

5. **Role of coal.** Coal is the fuel used to produce over 50% of the electricity in the U.S. and is a major constituency factor in more than half of states. To pass Congress, a climate bill will need to define a way for coal to compete in the future through the capture of emissions and the permanent storage of the greenhouse gases produced.

## Senate Strategy

The Senate will vote in the coming weeks on bringing S.2191 to the floor. We expect enough senators will vote to begin the amendment process. After that, there will be a series of floor amendments - some that will weaken the bill and states' rights (i.e. pre-emption on state caps or on auto emissions), and some that will strengthen the bill (i.e. increasing emissions reduction to 80%). If the overall bill is not weakened, it will be brought to a vote. If not, the bill will be deferred, as Senator Barbara Boxer (D-CA) has vowed to pull the bill from the floor if it is significantly weakened.

If S.2191 is brought to a final vote, it will first need the votes of 60 senators to close debate. At this point, it is unclear if a bill that is strong enough for us to support would also have 60 senators who would vote to close debate.

While the target date to bring the bill to the floor is June 2, that date could slip. The Senate is preparing for its most significant effort - ever - on the issue of climate change.

## Business is Leading

The debate on climate change has advanced from science to economics. When E2 first started working on a climate change bill in Congress in 2003, we spent much of our time discussing the environmental impacts of global warming with legislators. That is no longer necessary. Now we must clearly articulate how a mandatory cap on emissions will provide economic benefits to the country, as well as how to minimize the negative impacts. Last year, a group of U.S. businesses and Environmental groups - including NRDC - established the U.S. Climate Action Partnership ([www.us-cap.org](http://www.us-cap.org)). The group, including many of the largest U.S. corporations has "come together to call on the federal government to quickly enact strong national legislation to require significant reductions of greenhouse gas emissions."

An analysis by McKinsey & Company<sup>10</sup> demonstrated that the costs of reducing carbon about 50% from current levels by 2030 are approximately equivalent to the savings that would be derived from an aggressive use of energy efficiency.

## Summary

As the debate on climate change policy heats up in Congress, E2 will be building support for our four key points:

- **Act before Fall 2009** - Make sure the U.S. is a welcome international player in the decision on international policy for 2012 and beyond.
- **Uncertainty is harming business** - U.S. businesses cannot make intelligent long-term decisions without knowing the rules. Consequently, more investment is moving overseas.
- **Climate change policy will spur innovation and economic development** - U.S. entrepreneurs can invent the New Energy Economy if Congress guarantees a market for low-carbon energy and energy efficiency.
- **Business as usual is too expensive** - Energy costs will continue to rise until we create alternatives to fossil fuels.

The good news is that activity at the state level is accelerating. E2 is very active through our chapter efforts in New England, New York, the Northwest and the Rocky Mountains, and the E2 Climate Campaign ([www.climate.e2.org](http://www.climate.e2.org)) in California. The knowledge that has been gained in the states can be leveraged nationally if Congress chooses to make climate policy a national priority and candidates for Congress and President chose to include it in their political agenda.

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<sup>10</sup> Reducing US Greenhouse Gas Emissions: How Much at What Cost? McKinsey & Company. 2007 November. Available online at <http://www.conference-board.org/publications/describe.cfm?id=1384>.