A business path to Bali

Major corporations have become leading voices for stronger US domestic climate policy, which has positive implications for international negotiations on a post-2012 treaty, say **Truman Semans** and **Andre de Fontaine**

As world leaders prepare for climate change talks in Bali, the key question is whether the US position has evolved sufficiently to allow for meaningful progress toward a new international treaty. The politics of climate change has advanced significantly in the US, including in Congress, but the most notable progress is coming outside of Washington. States and cities are taking a lead on policy initiatives, and US businesses are engaging strongly in the call for federal action. Many leading companies are now openly calling for regulation and have helped move Congress into the design phase for climate legislation that includes mandatory carbon constraints.

These businesses realise that US greenhouse gas (GHG) limits have to be enacted for serious progress to be made in forming an effective post-2012 global climate treaty. Unfortunately, the White House meeting of major economies, in late September, made it clear that major differences remain between the voluntary approach favoured by the Bush administration and those preferred by most other governments. Under President Bush's approach, as he described it in his address to the participants, countries would agree on a long-term global goal but each would decide independently what its contribution to meeting it would be.

Thankfully, other countries rejected this, emphasising the need for new international commitments. In describing their own efforts, other developed nations also showed they are prepared to take much stronger action than the Bush administration. Europe repeated its commitment to reduce emissions 20% below 1990 levels by 2020. Canada said it plans to reduce emissions 20% below current levels in that timeframe. Australia said it plans to establish a domestic cap-and-trade system by 2011.

At December's meeting of the Conference of the Parties in Bali, the most important issue will be whether and how to launch negotiations under the UN Framework Convention that will lead to a comprehensive post-2012 agreement. The high-level UN climate meeting recently convened by Secretary-General Ban Ki-Moon underscored a strong and growing consensus among world leaders on the urgency of forging a new global climate agreement. The White House's major emitters meeting did at least reaffirm the UN as the appropriate forum for negotiating this agreement.

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Fortunately, outside of the White House, the political situation in the US is evolving to favour concrete action on climate change. In a dramatic shift, the leading proponents of mandatory carbon constraints now number many of the most powerful corporations in the US and abroad. The US Climate Action Partnership (USCAP) is the clearest example of this. A coalition of 27 major corporations and six leading non-governmental organisations, including the Pew Center, USCAP is calling on Congress to pass legislation to establish binding national limits on GHGs to slow, stop, and reverse the growth of emissions. Through lengthy negotiations, USCAP has been able to achieve an unprecedented level of detail on consensus policy recommendations that represent a workable compromise between diverse business interests and NGOs.

At the very least, the formation and continued growth of USCAP demonstrates that the political will to tackle climate change is growing in the US despite continued resistance by the White House. For the last several years, US states and cities have been racing ahead of the federal government, pledging ambitious action to reduce their own GHG emissions. Now, the companies in USCAP, which have a combined market capitalisation above $2.2 trillion, are showing that US businesses are ready to support mandatory climate policy. USCAP is another signal to the international community that US attitudes and action on climate change are not wholly defined by the White House.

But USCAP was formed with more than symbolism in mind. In its "Call for Action," the coalition urges Congress to pass legislation that establishes firm short and medium-term binding emissions targets in the US that would reduce emissions by 60–80% by 2050. These reductions are consistent with USCAP's goal of stabilising global GHG concentrations over the long-term at a carbon dioxide equivalent level between 450 and 550 parts per million.

USCAP recommends a cap-and-trade system should be the cornerstone of US climate policy, with additional policies necessary for those sectors, including coal-based energy, buildings and efficiency, and transportation, in which the initial price signal from cap-and-trade will not sufficiently reduce emissions and advance new technologies. USCAP also calls for the development of a robust federal programme with stable, long-term financing for low-GHG technologies.

The coalition also highlights the global dimensions of climate change and urges US leadership in developing post-2012 international agreements for reducing global emissions. At the same time, the Call for Action states that "US action to implement mandatory measures and incentives for reducing emissions should not be contingent on simultaneous action by other countries." Rather, US action to reduce domestic emissions is essential to coax more robust action from all major emitting countries. Accordingly, USCAP has focused the bulk of its efforts on influencing the passage of domestic legislation.

So far, USCAP's efforts have had a remarkable effect. Beginning with a 13 February 2007 invitation to testify before both the Senate Environment and Public Works Committee and House Energy and Commerce Committee, CEOs from the coalition have testified before a range of influential committees in both houses of Congress. USCAP members have briefed dozens of Congressional offices and committee staff, including several actively drafting climate policy.

Congress has clearly shown a greater willingness this year to tackle the issue. As of October 2007, there have been more than 120 climate-related hearings, and 125 climate-related bills introduced, eclipsing the previous record of 105 bills introduced during the entire two-year span of the previous Congress. Ten of these would establish cap-and-trade programmes. The chairmen of the key Congressional committees have repeatedly stated their intention to move cap-and-trade legislation through their committees before the end of the year.

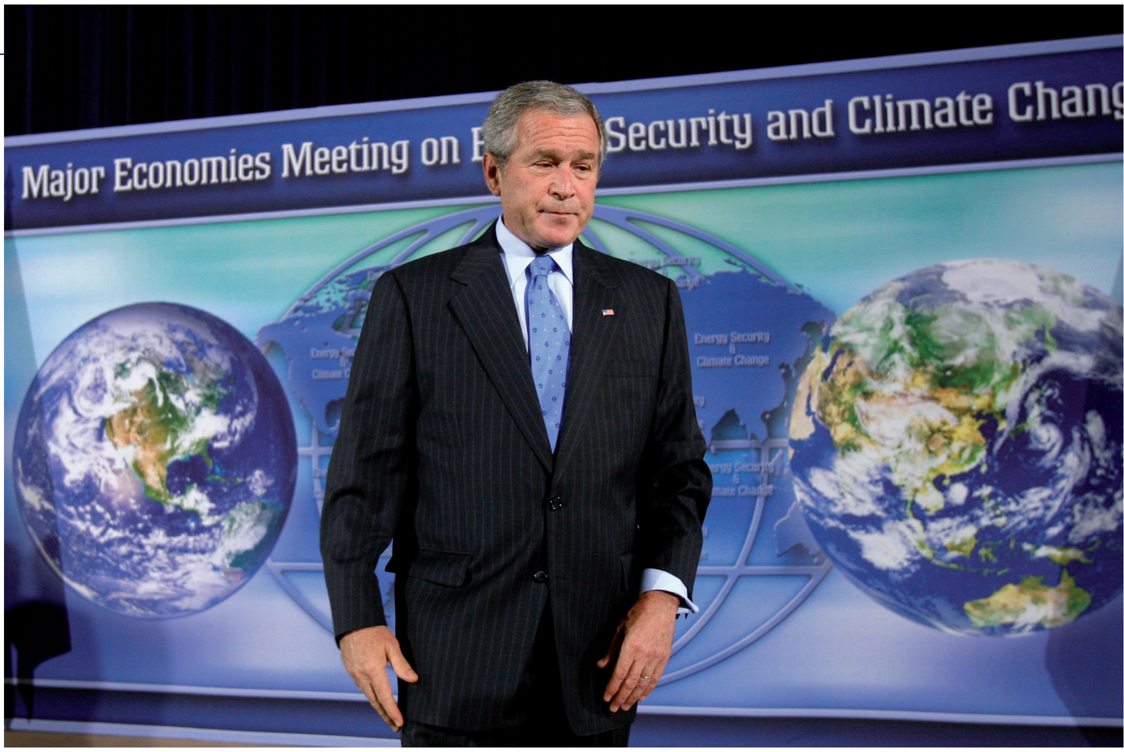
Perhaps the most promising legislative development has been the bipartisan legislation from independent Senator Joe Lieberman of Connecticut and Republican Senator John Warner of Virginia, which combines many of the best elements of earlier cap-and-trade bills. Both senators have repeatedly cited USCAP as a major influence in the development of their legislation.

The proposal includes ambitious GHG targets and innovative mechanisms to ensure the costs of meeting them are reasonable. Importantly, it avoids the use of 'price caps' to prevent carbon prices rising too high, but which would also undermine the programme's environmental effectiveness and depress investment in clean technologies. Moreover, if put in place in the US, price caps could make the domestic market incompatible with foreign systems and severely constrain the prospects for international linkage.

While passage of legislation establishing mandatory emissions targets at home would provide an immeasurable boost to crafting an international climate change framework, it is not the case that all domestic legislative efforts are necessarily helpful. Price caps on emissions allowances, which are favoured by some members of Congress, are one example of this.

But perhaps just as dangerous are proposals to include in domestic legislation punitive trade measures intended to prod the developing world into action – the idea being that the US would impose import tariffs on trading partners that failed to take comparable action on climate change. A number of companies with major operations and long-time experience in China have raised concerns that such trade measures could lead to severe unintended consequences. Threats of retaliatory action could alienate China and others and actually delay the time when they take on meaningful climate commitments.

This is not to say that concerns about fast-growing emissions from China and India are baseless. On the contrary, it is clear that without increased commitments, the growth in emissions from China could offset whatever reductions the US takes on through even the most ambitious legislative proposals. There are also real competitiveness concerns, which are particularly acute for industries whose goods trade globally, such as aluminium and cement. The issues of developing country participation and economic competitiveness are closely related, and both are ultimately most effectively addressed through binding multilateral commitments.



President Bush: his rhetoric is shifting, but he's still resisting caps

However, these binding commitments need not all come in the form of hard caps on emissions. One promising approach is sectoral agreements, in which governments commit to a set of targets, standards, or other measures to reduce emissions from a given sector, rather than economy-wide. Sectoral agreements can help resolve industry competitiveness concerns by ensuring a more level playing field, and are sometimes easier to negotiate due to the limited number and homogenous nature of the parties.

Another possibility is policy-based commitments – where developing countries commit to implement nationally defined policies that moderate their emissions but are not bound to a specific emissions level. China, for instance, could commit to fully implement its existing energy efficiency targets. Tropical forest countries could commit to reduce deforestation. Such commitments would need to be credible and binding, with mechanisms to ensure close monitoring and compliance.

Still, negotiating a treaty that comes to terms with cost and equity concerns, bridges the gap between the developed and developing worlds, and successfully engages and binds the world's major economies is an extraordinary diplomatic challenge. Success will require fresh thinking and approaches, a genuine readiness to compromise, and a collective political will that, while perhaps emerging, is by no means assured. Most importantly, the way forward depends on leadership from the US. Once the largest historical emitter is ready to take on binding actions, China and other emerging economies will be more willing to strengthen their commitments as well.

While the Bush administration has shifted its rhetoric over the past year to convey a deeper understanding of the realities and risks of climate change, it still appears unwilling to take the next step of accepting binding reduction commitments. In the absence of leadership from the White House, states and cities have pressed ahead with their own climate plans, and this year, business leaders too have answered the call. Working with their NGO partners, the companies in USCAP have helped lead the political transformation in Congress on this issue.

The critical question is whether the coalition will be successful in pushing a bill through Congress and then convincing the president to sign it. How this question is answered has deep implications for international climate negotiations. Without decisive domestic action from the US, the rest of the world will not be willing to negotiate strong new commitments. USCAP has given the process a crucial shot in the arm, but much remains to be done if a new agreement is to be in place when the present commitments expire in 2012.

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