

DISCUSSION PAPER

US Climate Change Policy: Where Next?



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ACCA EVENTS

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ACCA held the third in a series of 'Friday Forums' on Friday 17 July 2009, on US climate change policy.

The event was chaired by Mark Miller, director of Future Perfect Limited, and speakers were:

- **Jock Whittlesey, environment, science, technology and health counsellor at the US Embassy, London, and**
- **Dr Keith Allott, head of climate change at WWF UK.**

Copies of the presentations and a podcast of the event can be downloaded from the ACCA website at www.accaglobal.com/general/activities/subjects/sustainability/Friday_Forums

The key points raised at the event are summarised in this discussion paper.

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US CLIMATE CHANGE POLICY – WHERE NEXT?

INTRODUCTION

The issue of climate change is one that is now universally recognised as being urgent and therefore needs to be addressed imminently. Increasingly, we see a growing proportion of national budgets being devoted to working towards a 'low carbon economy' (although the number of governments investing is still worryingly low). These budgets are going towards research into 'green' and low-carbon technology, funding renewable energy projects, and sustainable construction, and generally boosting the green economy and jobs market.

The climate change community, along with business, academia, government and society in general, is awaiting the outcomes of 'COP 15', the annual 'Conference of Parties', the United Nations Climate Change Conference, which this year will be discussing and formulating a global climate framework to replace the Kyoto Protocol (whose targets are due to expire in 2012). COP 15 is being held in December 2009 in Copenhagen and will be attended by national government and United Nations representatives, civil society organisations, and the press. 2009 is widely considered to be 'the year for action' and it is hoped that the outcomes of COP 15, along with the various negotiating meetings that will precede it, will be more aggressive in the fight against climate change than previous years' efforts.

One issue that is commonly agreed upon is that any resulting global climate change framework will only succeed if it is ratified and implemented by the world's largest emitters (the US and China being two of these countries). Many people blame the problems encountered with the Kyoto Protocol as arising largely because the most energy intensive nations did not ratify it, and the targets set were not challenging enough. Fortunately, in the case of the US, the election of President Obama in November 2008 has led to a greatly increased focus on climate change, including a \$100 billion budgetary allocation and regulatory action for emissions reductions. Obama has also recruited an extremely experienced team of experts to advise and assist him in pushing forward the country's climate change policy framework, including a Nobel physics laureate, Dr Stephen Chu; Dr John Holdren, a Harvard University expert on climate change; and Carol Browner, who headed the Clinton administration's EPA. All in all, this is an encouraging start to the president's agenda and one that has been very welcome to the global climate change community.

KEY DEVELOPMENTS – FEDERAL LEVEL

The US has had a number of initiatives running at a State level for several years, but it is only recently that cap-and-trade policies to prevent climate change have been addressed at the US Federal level. The key developments at the time of writing (July 2009) are the ‘American Clean Energy and Security Act’ (or the Waxman-Markey Bill, as it is more commonly known) and the EPA proposals for mandatory reporting of GHG emissions.

Waxman-Markey Bill

On 26 June 2009, the US House of Representatives passed the ‘American Clean Energy and Security Act’, which calls for a national cap-and-trade system similar to the one that has operated in the EU since 2004 – a significant step forward. At the time of the ACCA event, the Bill had not been passed or voted on by the US Senate. A tough political battle is expected. The Bill, which is some 950 pages long, covers the climate-change-related issues that the US needs to address in a Federal policy, including: a renewable electricity standard (similar to the renewables obligation policy in the UK), emission reduction targets, emissions permits and decisions on how revenue from auctions will be spent, investment in low-carbon-energy technology, carbon offsets, energy efficiency, the ‘greening’ of coal power stations, and the transition to a greener economy and job market.

If the Waxman-Markey Bill is passed by the Senate, it will affect around 85% of the US economy and will have a significant impact on industry.

It will particularly affect electricity producers, oil refineries, natural gas suppliers, and energy-intensive industries such as iron, steel, cement, and paper manufacturers. The proposed emissions cuts outlined in the bill are:

- a 3% cut by 2012, as compared with 2005 levels
- a 17% cut by 2020
- a 42% cut by 2030
- a cut of more than 80% by 2050.

Although the reaction to this Bill has been largely positive, environmental campaigners still do not feel that it is doing enough. Greenpeace USA have issued a statement since its release saying that the emissions-reduction targets are nowhere near as stringent as they need to be to reduce global levels of greenhouse gas (GHG) emissions by the percentage recommended by the Intergovernmental Panel on Climate Change (IPCC), especially the short-term

target.¹ They also disapprove of the plans for new coal-fired power stations and say that the Bill had been ‘watered down’ significantly since its initiation in early 2009.

Dr Keith Allott outlined some of WWF UK’s concerns at the ACCA event, including:

- the high level of offsets indicated in the bill, which in a capped country can lead to the displacement of potential for investment in other parts of the economy; in other words, the targets are far less challenging than they originally appear
- the need to increase dramatically the finance provision for adaptation and clean technology
- the political issues that are leading to problems such as imposing trade sanctions for imports, which will not help the cause.

EPA proposals for GHG emissions reporting

The EPA launched its ‘Proposed Mandatory Greenhouse Gas Reporting Rule’ consultation in March 2009 and after its publication in the Federal registry it was open for 60 days for comment. It has been written as a result of legislation passed in December 2007 (during the Bush administration) that requires the introduction of a US-wide GHG emissions registry and that covers 85–90% of US emissions.

In summary, the Rule proposes that suppliers of fossil fuels or industrial GHG emitters, manufacturers of vehicles and engines and any other facilities that emit 25,000 metric tons or more per year of GHG emissions will have to submit annual mandatory reports to the EPA, accounting for Scope 1 emissions (direct emissions) and Scope 2 emissions (emissions from electricity use). The rule will be developed under the Clean Energy and Security Act outlined above and, if passed, the first annual reports would be submitted to EPA in 2011 for the calendar year 2010, except for vehicle and engine manufacturers, which would start their reporting for 2011 emissions. The rule has been welcomed by the climate change and sustainability communities, which have been advocating mandatory reporting requirements for carbon and other sustainability issues for many years. In order to avoid any duplication of emissions reporting, the EPA will be liaising closely with any state-level initiatives that require the same type of disclosures; for example, the Chicago Climate Exchange (outlined below).

¹ <http://www.greenpeace.org/usa/news/greenpeace-waxman-markey-clim>

KEY DEVELOPMENTS – STATE-LEVEL

As mentioned above, there have been several state-level climate change initiatives in operation for a number of years, which will affect some of the Federal proposals emerging in 2009. The following is a summary of the main ones.

Chicago Climate Exchange

The Chicago Climate Exchange (CCX) operates North America's first formal cap-and-trade system for all six GHGs and was launched in 2003. CCX members are leaders in GHG management and represent all sectors of the global economy. They make a voluntary but legally binding commitment to meet annual GHG emission reduction targets, and those who emit above the targets ensure compliance by purchasing CCX Carbon Financial Instrument® contracts (carbon credits). The CCX is owned by Climate Exchange Plc, which also owns the European Climate Exchange (the operating body of the EU Emissions Trading Scheme.)

California Climate Exchange

The CCX has launched a series of financial instruments called the California Climate Exchange to be used alongside the California Global Warming Solutions Act (AB32), which calls for mandatory emissions reporting and reductions in line with the Kyoto Protocol. Signed into law in 2006, the California Global Warming Solutions Act requires that GHG emissions are brought down to 1990 levels by 2020, by using a trading mechanism similar to that used by CCX and the EU Emissions Trading Scheme. This trading scheme is due to be introduced in 2012 and will involve mandatory carbon reporting requirements.

Western Climate Initiative (WCI)

The WCI is a collaboration of several independent jurisdictions that work together and with other regional initiatives to formulate and discuss regional-level climate change policy and mitigation. Each member state has a designated representative to sit on the committees and task groups. The main output of the initiative is proposals for a regional cap-and-trade system, the design of which was released in September 2008. Due to start in 2015, the scheme will cover nearly 90% of WCI emissions and will focus on issues such as energy efficiency and reduced fuel consumption. This trading scheme will run alongside the California initiative, the Regional Greenhouse Gas Initiative (RGGI) and the forthcoming Federal regulation. The WCI is also working on a series of 'complimentary policies' which will support the trading scheme and focus on increased energy efficiency; increased renewable energy generation; improved air quality and reduced water pollution; job growth; and increased provincial, state, and local revenue.

Regional Greenhouse Gas Initiative (RGGI)

The RGGI operates the US's first mandatory, market-based effort to reduce the greenhouse gas emissions of the power sector in ten north-eastern and mid-Atlantic states. These states will cap and then reduce emissions by 10% by 2018. The RGGI is composed of ten individual Carbon Trading Programs, one for each of the participating states. These are implemented through state regulations and are linked to one another through emissions allowances, therefore functioning as a single regional-compliance, market-based scheme.

Midwestern Greenhouse Gas Accord (MGGGA)

Nine midwestern states are participating in the MGGGA, which was first initiated in 2007. The MGGGA Advisory Group has written a report outlining a series of recommendations on how these nine states can address and mitigate their contribution to climate change (which are significant owing to the heavy agricultural and industrial activity in the region). This group has also been tasked with developing an effective cap-and-trade scheme that draws on the region's strengths, such as its emerging renewable energy resources, vast coal reserves and carbon capture and storage (CCS) knowledge, strong agriculture, and forestry reserves that can offer carbon offsets.

KEY DEVELOPMENTS – CITY-LEVEL

Under the Clinton Climate Initiative, 40 major world cities, including Los Angeles, Chicago, Houston, and New York in the United States, plus Paris, Berlin, London, Tokyo, Rio, Seoul, Moscow, Beijing, and others, have formed a group called 'C40'² to work on climate change issues at the municipal level. Activities at the city level include the following.

Chicago has its own climate change agenda³ and is undertaking research in four key areas, in partnership with leading environmental groups: Chicago's current emissions model and opportunities to reduce it, the economic implications of action versus inaction, specific impacts of global warming on the city, and policy development.

New York City has set a city-wide target to reduce emissions by 30%. It has an overall sustainability plan called 'PLANYC', one element of which is addressing climate change,⁴ including adaptation initiatives (city-wide and community-specific), and a city-wide strategic planning process, covering issues such as efficiency, sustainable buildings, cleaner power, and transportation.

2 <http://www.c40cities.org/cities/>

3 http://www.lohas.com/content/SustainableCitiesKaren_HobbsChicago.pdf

4 http://www.nyc.gov/html/planyc2030/downloads/pdf/report_climate_change.pdf

Los Angeles has its own action plan for climate change, called 'Green LA'.⁵ This includes a target for reducing emissions by 35% (compared with 1990 levels) by 2030, by means of energy efficiency measures, green transportation, increased investment in renewable energy, adaptation measures, boosts to the green economy and reductions in water use and waste production.

SO, WHAT NEXT?

Recent climate change discussions at the G8/MEF (Major Economies Forum) summit in June 2009 resulted in an agreement from all participants to try to limit global temperature change to two degrees Celsius above pre-industrial levels, a point above which the world's climate system will become 'dangerously unstable'.⁶ G8 members agreed at the same summit to reduce emissions by 80% by 2050, but unfortunately failed to persuade developing nations to reduce their own emissions by 50% by 2050, resulting in a 'stand-off' of sorts that has not yet been resolved.

According to Jock Whittlesey, President Obama would like to see the Waxman-Markey Bill pass before COP15 takes place in December. Now that the bill is with the US Senate, President Obama is exerting pressure to finalise it in time for the global negotiations. This will undoubtedly be a welcome development, although there are concerns that the Senate will water the bill down even more, bowing to pressure from the remaining parties that are yet to sign the agreement. It is the opinion of some stakeholder groups that it may even be better to enter negotiations at Copenhagen with a bill that is almost, but not quite, 'signed and sealed', to encourage a better, more challenging international dynamic at the conference.

Jock Whittlesey also explained that it is the priority of Obama's climate change team to get the cap-and-trade scheme up and running as soon as possible, rather than finalise the finer points of its outcomes (such as short-term targets). Issues that the US Senate will be discussing at length prior to the final decision include economics, the cost of the bill to the US economy, and industry and job creation. One issue that Keith Allott raised is that although these are all valid points, the US Senate should also be considering the positive impact that the bill will have on the rest of the world's climate change negotiations, as well as the domestic issues.

CHINA AND US NEGOTIATIONS

The question that is on everyone's minds is: 'will the US co-operate with developing a challenging global framework at COP15'? As explained by Jock Whittlesey, this goal very much depends on significant participation by China and other developing countries in a Copenhagen deal.

The US Senate is unlikely to agree to any ambitious and costly proposals for the United States if China and other major developing countries do not agree to their own challenging emissions-reductions goals.

Conversely, China is of the opinion that the US should be doing more about emissions reductions before developing nations agree to their own targets, because the per capita emissions in the US are much higher than in China (20.6 tonnes per capita in the United States compared with just 3.8 tonnes in China). In fact, in April 2009 China's climate negotiator was quoted as saying 'China hasn't reached the stage where we can reduce overall emissions, but we can reduce carbon intensity', indicating that aggressive reductions targets are not on the Chinese agenda.⁷ Both these arguments are valid, but the fact remains that whatever action the US takes on its commitment to climate change, it will have a huge knock-on effect on the subsequent decisions made by developing nations such as China and India, as well as fellow developed nations such as Japan, Australia and Canada.

The Union of Concerned Scientists also recently published its *Climate 2030: A National Blueprint for a Clean Energy Economy*,⁸ which outlines the ways in which the US can do more through its action plan against climate change. The key points made in the report are as follows.

- Domestic emissions can be cut from 2005 levels by 26% by 2020, and 56% by 2030.
- There is huge potential for energy efficiency (with projected demand cut by one-third).
- 57% of the reduction can be in the power sector (which accounts for 34% of the US's emissions).
- These changes would result in only a modest impact on GDP and greatly reduced energy bills by around \$465bn by 2030.

5 http://www.cityofla.org/EAD/EADWeb-AQD/GreenLA_CAP_2007.pdf

6 <http://news.bbc.co.uk/1/hi/world/europe/8142825.stm>

7 *The New Climate Deal: A Pocket Guide*, WWF UK, May 2009.

8 http://www.ucsusa.org/global_warming/solutions/big_picture_solutions/climate-2030-blueprint.html

CONCLUSION

There can be little doubt about the huge impact that the US will have in the coming months in the development of a global climate change framework. The build-up to Copenhagen will witness national and international discussions and activities on the best way to achieve a 'green new deal', including the G20 summit in Pittsburgh in September. People will be waiting, in particular, for the outcomes of the forthcoming Waxman-Markey Bill to see just how far the US is prepared to go in terms of emissions reductions and finance for low carbon initiatives. It remains to be seen whether President Obama's decisions will meet the demands of environmental groups and governments around the world, in particular China's. Nonetheless, in order for the 'two degree' limit to be met, the general consensus is still that much more needs to be done, and fast.

LINKS TO FURTHER INFORMATION

COP 15 website, <http://en.cop15.dk>

EPA website (for information on Federal developments), <http://www.epa.gov/climatechange/index.html>

Future Perfect, <http://www.fpsustainability.com>

Union of Concerned Scientists, <http://www.ucsusa.org>

WWF UK Climate Change, http://www.wwf.org.uk/what_we_do/tackling_climate_change/

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