



## America's Global Warming Policy: Certainty or Chaos?

By David Gardiner

In early May 2004, President Vladimir Putin announced Russia's intention to ratify the Kyoto Protocol global warming agreement. This announcement reversed months of speculation that Russia would reject the Protocol, preventing it from taking effect. The agreement couldn't enter into force until developed nations responsible for at least 55 percent of greenhouse gas emissions approved it. With the threshold now surpassed, Russia's announcement means most developed countries, including Canada, the European Union, Japan, and Russia, will shortly begin to meet the Protocol's requirement to reduce global warming pollutants approximately 5 percent by 2012. The Bush administration has opposed the treaty, and the United States will not be a part of the treaty, nor subject to its limits.

As other nations begin to implement the Kyoto Protocol without U.S. participation, now is the appropriate time to consider what this means for America and what, if anything, we should do about it. With approximately 25 percent of the world's global warming emissions, America's strategy on global warming will have important implications for the world's ability to solve the problem, our economic future, and our diplomatic relations with the rest of the world.

This is particularly important in the face of compelling scientific research that supports the need for action. The world's leading global warming scientists have argued that rising levels of global warming pollutants such as carbon dioxide are trapping the sun's heat, warming the Earth's atmosphere, and threaten to disrupt the climate system in the remainder of this century. In the next century, the planet may warm as much as it has since the last Ice Age approximately 10,000 years ago, when much of North America was covered with glaciers - an unprecedented change in climate in a short time period. Left unchecked, global warming will increase heat waves, worsen air pollution, flood coastal areas as oceans rise, and increase flooding and droughts, with the greatest impacts occurring in poor countries.

Even the Bush administration, long skeptical of the science of global warming, recently reported to Congress that only rising pollution levels from smokestacks and tailpipes could explain rising global temperatures in the last 30 years. The same report warned that carbon

dioxide could harm agricultural productivity by promoting weed growth and reducing nutritional uptake by plants.

In the face of this scientific evidence and rising public concern about it, state governments have taken the lead in requiring reductions in global warming pollutants. California has adopted legislation to set a carbon dioxide standard for automobiles, and is now considering a rule that would reduce emissions by 30 percent. Connecticut, Maine, Massachusetts, New Jersey, New York, Rhode Island, and Vermont are preparing to follow California's lead. Massachusetts and New Hampshire have set standards for carbon dioxide from electricity power plants – source of almost 40 percent of carbon dioxide emissions in the U.S. and 10 percent of worldwide emissions.

States have also turned to the courts to force action. Recently, California, Connecticut, Iowa, New Jersey, New York, Rhode Island, Vermont and Wisconsin, along with the City of New York, filed suit against the five largest global warming emitters in the United States – American Electric Power Company, the Southern Company, Tennessee Valley Authority, Xcel Energy, and Cinergy. Together, these five electric companies own or operate 174 fossil fuel burning power plants in 20 states that emit approximately 650 million tons of carbon dioxide each year – almost a quarter of the U.S. utility industry's annual carbon dioxide emissions. The action calls on the companies to reduce their pollution, and does not seek monetary damages. In addition, Connecticut, Maine, and Massachusetts have sued EPA to set a standard for carbon dioxide under the Clean Air Act.

Unfortunately, while state governments are acting, our national government is sharply divided on whether to move forward with efforts to regulate these emissions.

The Bush administration has argued that the U.S. should reduce its emissions intensity (emissions divided by Gross Domestic Product) by 18 percent by 2012 solely through voluntary actions. But this approach suffers from three problems.

First, the Bush plan makes no change from past practice, and will increase actual emissions by 14 percent between 2002 and 2012.

Second, voluntary efforts are inadequate to the task. Starting during the administration of President George H.W. Bush, the U.S. has launched dozens of programs to promote voluntary reductions in global warming pollution. Unfortunately, emissions have risen 11 percent since 1990, indicating there are simply too few who volunteer to reduce their emissions. In the electricity sector, unregulated carbon dioxide emissions have risen 25 percent between 1990 and 2002. By contrast, the Clean Air Act's mandatory emissions standards for sulfur dioxide and nitrogen oxides reduced those pollutants 35 percent and 28 percent, respectively, over the same time period.

Third, President Bush's approach creates needless uncertainty for the business community. Business leaders know that limits on global warming pollutants are coming, but do not know how stringent those limits might be or when they will occur. Businesses with significant emissions of global warming pollutants – electricity, transportation, and manufacturing – are unsure what to expect. Indeed, American Electric Power, the country's largest emitter of carbon dioxide pollution, said recently "The central challenge the company faces is making decisions about large investment in long-lived assets in a setting of uncertain public policy and rapidly changing technology".

At a recent conference of institutional investors on global warming, John Coomber, CEO of Swiss Re, called uncertainty "the enemy of corporate enterprise". Business leaders should be up in arms about the failure of the national government to address global warming because America's current policy path is the most chaotic and uncertain that we could possibly pursue.

Indeed, investors are beginning to express concerns about global warming, and have begun to insist that companies develop plans to address it. Connecticut State Treasurer Denise Nappier, who oversees approximately \$18 billion in pension fund assets for 160,000 teachers, state, and municipal employees, filed a shareholder resolution at American Electric Power seeking corporate disclosure to shareholders of climate risks, which the company agreed to earlier this year. A record-setting 37 percent of shareholders at Apache, an oil company, voted for a similar resolution, indicating that investor concern about global warming risks is on the rise. Nappier and 12 other major pension fund leaders managing \$800 billion in assets have called on the Securities and Exchange Commission to require disclosure of global warming risks to investors.

Many in Congress are pushing for certainty. Last October, Senators John McCain (R-AZ) and Joseph Lieberman (D-CT) offered a proposal to legally limit or cap global warming pollutants in the U.S. 43 Senators voted for it – an unexpectedly high level of support.

The sharp polarization on global warming policy has created gridlock. But it is also an unwise approach to solving the problem. There is little doubt that the U.S. will adopt mandatory emissions reduction strategies for the global warming as our competitors on other countries have done. The only issue is how and when we will do it. Gridlock delays answering these critical questions, and creates uncertainty for businesses as they plan for the future. This uncertainty about U.S. global warming policy is completely unnecessary. We should stop pretending that we can ignore this problem, and move ahead now.

To move forward with certainty will require greater presidential leadership than we have had to date. Two steps are required from either President Bush or President Kerry.

First, the President should propose a policy to require reductions in emissions of global warming pollutants over the next decade. This policy should allow industry flexibility through emissions trading, as the McCain-Lieberman legislation does. Industry leaders are

prepared to meet this challenge. Wayne H. Brunetti, CEO and chairman of Xcel Energy Inc., the nation's fourth-largest electricity and gas utility says, "Give us a date, tell us how much we need to cut, give us the flexibility to meet the goals, and we'll get it done."

Second, because energy use causes more than 80 percent of U.S. emissions of global warming pollutants, the President should propose an energy policy that is consistent with the need to reduce emissions of global warming pollutants and other air pollutants. That energy policy should have energy efficiency and renewable energy as its two most important priorities. By 2020 the U.S. could produce 20 percent of its electricity from renewable sources, such as wind and solar, while saving consumers \$49 billion and creating 355,000 new jobs, according to the Union of Concerned Scientists. Liquid fuels from biomass can replace gasoline and reduce our dependence on foreign sources of oil. New hybrid gas and electric cars, such as the Toyota Prius, demonstrate huge potential to improve energy efficiency in the U.S. auto fleet, especially in the Sport Utility Vehicles and minivans that dominate today's market.

By proposing an economically friendly global warming policy and an environmentally friendly energy policy, the President can turn us from our current uncertain and chaotic path to a clear path forward. Such an approach would reduce risks and uncertainties for business and investors, and create new job opportunities for clean energy technologies. It would improve America's national security by reducing imports of foreign oil. Other countries would applaud our leadership, an important step towards mending the current rift over climate issues. And future generations would thank us for solving the problem and not foisting it on them.

While other nations are moving ahead with the Kyoto Protocol, the U.S. still faces a fundamental choice on its global warming policy between chaos and certainty. Now is the time to choose certainty and the brighter future that it offers us.