

U.S. Climate Policy: Toward a Sensible Center

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Nigel Purvis, Brookings Scholar on Environment, Development and Global Issues, The Brookings Institution

MR. PURVIS: Thank you very much, Elliot, and thank you for all your hard work in making today and yesterday possible. I'd also like to take this opportunity to thank Josh Busby and Mike Cummings at Brookings and Pew, who really did the lion's share of the work to make it possible for us to be here together.

My goal is similar to Elliot's. I come here neither to praise Kyoto nor to bury it. I want to leave it aside. I want to take it as a given that the U.S. is not going to participate and at this point take it as a given that it is going to enter into force once Russia moves forward.

I'd like to say that until the United States adopts mandatory standards or a cap-and-trade system or some other more rigorous domestic approach than we have adopted to date, the case is that we'll probably have little to offer the international community beyond the types of programs that the Bush administration has put forward. And I favor those programs. I'm glad we're investing in hydrogen. I'm glad that we are working with other countries bilaterally and multilaterally to develop the science and the technology that we're going to need.

But until we have mandatory programs, the United States will not be in a position to present an alternative to Kyoto or some other grander way to lead the international community on climate change. I think that's the bad news.

The good news, though, is that once we act, I'm very confident that U.S. leadership will be able to spur international action in both developed and developing countries if we do it right. And I'd like to then premise my remarks on U.S. action. Once we act, what kind of climate foreign policy should the United States be pursuing?

What I'm going to say is a little bit controversial in that the conclusion that I come up with is that a Kyoto model for the United States is probably not the best way to go forward. I worked for four years trying to pursue the Kyoto negotiations, and while I support the entry into force of the Kyoto Protocol, I also think that Kyoto is not right for the United States and we need to find alternative ways of showing U.S. leadership that's based on our own domestic action.

The question was asked yesterday: Why should the U.S. act? Isn't that a sort of unilateral disarmament? Don't we need to, as Mike Morris said, get China and others to take on similar commitments? After all, that was one of the requirements of the Senate's climate resolution in 1997 prior to Kyoto. And I'd like to present a few reasons why counterintuitively the U.S. actually needs to act first in order to create the right environment and to address competitiveness concerns rather than trying to pull a package deal together simultaneously that deals with our concerns and those of China and India as well.

If one is a neoconservative--or perhaps one of the people who we call neoconservatives might prefer the label "realist"--one would probably agree with

the proposition that international pressure and international action should not drive U.S. policy. Instead, we need to get our act together here first, and once we've figured out what we want the international regime to look like, we need to build out from our own domestic system; and once the U.S. acts, others will follow.

If you are not a neoconservative but you are instead a pragmatist, you probably would agree with me that our history shows that when it comes to international environmental treaties, the U.S. tends to be most successful in moving forward once we have a domestic blueprint, something that we can build on. The Montreal Protocol is an example, as Ambassador Benedict would confirm, of an area where we got our act together at home and built a consensus with our own industry, and then exported that with the help of other countries and built a broader international system. So for pragmatic reasons, acting here is a very useful step.

If one is an idealist, one might see that it's the responsibility of the United States to act. It's our role in the world. It's the right thing to do for the environment, and given our historic responsibility to the problem of climate change, it's what we need to do.

So the premise of my speech is that we need to begin our foreign policy by having a domestic policy. And once we do -- [tape ends].

-- policy into a comprehensive global approach. Will that approach look like Kyoto? Could a new renegotiated Kyoto or Kyoto-style approach work for the U.S.? My answer is probably not. It would be very difficult for the U.S. to fit comfortably in such an approach. The UN is a slow and inefficient place in which to negotiate important economic agreements. It has a very poor dynamic vis-a-vis the United States. The EU tends to view itself as--tends to view its priorities as trying to push the U.S. to do more than the U.S. is probably willing to do, and in trying to do that, often reaches out to developing countries to make an alliance with them that is against the U.S., and in doing so inhibits our ability to push those developing countries to do more themselves.

Developing countries negotiate as a bloc even though their interests are enormously diverse. Some developing countries are major petroleum producers. Others run the risk of having their entire nations flooded by rising sea levels. And yet they negotiate as a group, and this complicates UN negotiations.

The UN itself is a place where both the Secretariat and many developing countries are hostile to market-oriented approaches. It's a place where there is weak international governance and where enforcement and compliance mechanisms in environmental agreements tend not to be very strong.

In addition, we have our own domestic concerns about the UN. The Congress tends to be very skeptical of major international agreements within the UN. It tends to be very cautious about approving new international treaties. In fact, constitutionally, the two-thirds requirement for advice and consent in the Senate is a very high bar, arguably too high a bar. One can only reach that conclusion just by looking at the Law of the Sea Convention, which is a treaty that, unlike any likely future climate change agreement, is endorsed by the American Petroleum Institute and the environmental community. And yet the

Law of the Sea Agreement has been sitting before the U.S. Senate for decades. Even with major revisions that the international community agreed to at the U.S. request, the U.S. has not moved forward with that agreement, which also enjoys the Pentagon's support.

So what would it take to actually get two-thirds of the Senate to endorse an agreement that had very significant economic implications where there would likely be significant business opposition, even if a moderate sector of the business community did endorse it. I think the standard is just too hard, the constitutional standard, and it's unlikely that the Senate would approve a new Kyoto-style climate agreement.

If I'm right about that, what are the implications? What do we need to do instead? If a Kyoto-type approach might not work for the U.S., what could we do, how can we show U.S. leadership? Well, I think we need to adopt a pragmatic step-by-step approach, one that perhaps builds on the approach that's taken by the United States and other countries in the area of trade. When it comes to trade agreements, we work multilaterally. We work in the WTO. In the climate context, the analogy would be under the Framework Convention. We should continue to work multilaterally.

But in trade, we also work regionally and bilaterally. We pursue progress wherever it is possible, with any grouping of countries. Rather than insisting on a purely global agreement, we should be open to parallel and diverse tracks.

In addition, the trade law is largely built on national interest and incentives. We negotiate with other countries in a way that is what economists call *pari passu* superior. They win, we win. And yet the dynamic on climate change negotiations has tended to be about sharing burden, and we need to find a way to reinvent the climate discussions so that they're built on progress and incentives rather than on burden sharing.

We also need to find a way that is responsive to U.S. interests and where the U.S. can drive the process. Robert Zoellick has been very skillful in pushing through bilateral trade agreements, the Clinton administration as well, whether it's with Jordan or Singapore or the Central American countries. We've been able to make progress even as progress at the global level has proved difficult, as the Cancun discussions in the WTO showed. If we adopted this model of a more pragmatic step-by-step approach, I think we would find that we had more success.

Okay. So that's how we would approach it, but what exactly would we do? And what would be the political narrative that a future President or a second Bush administration would use to explain this approach to the American people? Let me go over it in broad brush and then kind of hone in on a few of the specific concrete steps that I think would be necessary.

In my view, the United States should say that the U.S. will lead without preconditions, that we will set an example, that we will enact long-term, market-oriented, domestic regulation. We will set affordable national climate targets at home. We will work with other nations to leverage our action into strong and more affordable international action now. And I'll describe shortly how we would do that.

But for political reasons, I imagine that it would be necessary to accompany that statement with the following additional statement: We should stipulate that even further U.S. action, a strengthening of our domestic regulation down the road will depend on leadership by other major emitters, including developing countries such as China and India; that other developed countries need to prove to us that they are taking on the same kinds of obligations that we are enacting, once we enact domestic regulation, and the developing countries should be seen as being on the road towards the same kinds of steps that we have taken, that their action needs to be equitable. International action by the poorest nations, of course, should be unambiguously contributing to their economic growth. We cannot make climate change an obstacle to poverty alleviation.

So if that's the narrative, if that's how we describe U.S. policy and our international climate foreign policy, what would it mean in its specifics? What would be the specific policies that we would adopt in order to give life to that narrative? Let me suggest five concrete steps.

Step one, we need to enact a mandatory domestic climate change cap-and-trade program. I've noted that we've had two kinds of speakers at this conference: those who support cap and trade and support enacting it now domestically, and those who support cap and trade but don't support domestic regulation. But there's universal support for cap and trade as the approach that the United States should take if we take domestic regulation.

So I think that the question, as has been said, is not whether but when, and once we make that decision, I'm confident that we will adopt a cap-and-trade style approach similar to the proposal that Senators McCain and Lieberman are advocating. So if we adopt this approach, that's step one.

Then step two, we need to make sure that our cap-and-trade program links in and provides credits for investment in developing countries and developed countries by U.S. firms. The reason for doing this is self-interest. We can reduce our own costs of meeting any given goal that we adopt by allowing our companies to get the benefit of low-cost emission reduction opportunities abroad.

Step three, we need to link our cap-and-trade systems with those that are adopted by other countries and regions. We need to make them compatible. We need to set the rules for the trading of emission reduction credits that are certified in other systems with those that are developed here in the United States. The reason for doing this is also economically rational. Companies that are able to reduce emissions here in the United States at low cost will find that they have a new economic value that they can sell to others where the marginal cost of emission reduction is higher and the overall cost of the climate effort can be reduced.

Step four, we need to allow developing countries that prove that they're able to reduce emissions to sell those emission reduction credits into the system. They need to be able to participate. Now, I understand that developing countries are not likely to adopt national targets in the Kyoto-style approach. But I believe that if we allow countries that can prove that they actually have reduced emissions to get economic benefit from those reductions, it will create strong incentives for the right kinds of actions in developing countries. So instead of

asking China and India for a national target, for a promise, a commitment to the international community that they will reduce emissions, we give them an option. We allow them to sell emission reduction credits to our companies and participate in our system once they have proven that they actually have reduced those emissions.

Step five, for political reasons, as I've said, I think we'll need to condition stronger U.S. action--that means a ratcheting down of the U.S. cap--on a review of action at the international level and some conclusion that the Congress and the President would make together about the adequacy of that action as a basis for tightening U.S. regulation.

So why would developing countries go along with this approach? Well, the first point I would make is that we wouldn't ask them to. We would just do it. We would just adopt our cap and trade. We would just open up and give credit, give regulatory relief to companies that invest internationally in emission reduction projects.

We would just give countries opportunities to sell into our markets, and it would be their choice as to whether they chose to do so. In my experience diplomatically working with China and India and other developing countries, they're very eager to take advantage of proven economic opportunities. If we show them that there is an economic opportunity, I'm confident that they will follow.

In addition, I think that they would find it a refreshing approach. We wouldn't be asking for commitments. Instead, we would be working with them to create value in their own economies.

Well, when should the U.S. cap become more stringent? If we're going to condition a tightening of the U.S. cap on international action, what would be the standard? Well, for developed nations we should ask them to take comparable action. We could establish any of a number of different metrics for determining what is comparable. They could match U.S. improvements in carbon intensity. We could look to see whether the economic costs of their programs and of their emissions reductions are the same as ours. There are a variety of different approaches, and I leave it to further discussions to determine what the right standard should be.

For developing nations, we should ask that they take equitable action. We notice that China has already outperformed the United States in terms of improvements in its carbon intensity. The rate of decarbonization in the Chinese economy is far greater than that here in the United States. I would think by any equitable measure, China is doing its share. Now, whether that trend will continue I know is a topic that is very open for debate. I don't claim to have a crystal ball. But if we judge past performance, we should be able to determine whether countries are doing their share.

Why should this be enough for the business community? We heard from Michael Morris yesterday that he's extremely concerned and other members of the business community are concerned about the competitiveness effects of a possible U.S. mandatory approach or cap and trade. Well, I would argue that it's largely within our own control, at least initially, for controlling the extent to

which there would be real competitive distortions. If we set the U.S. cap at an affordable level, if we choose the right target, if we include the right kinds of mechanisms to control economic uncertainty, there should be ways of satisfying the concerns of those who are particularly concerned about the competitiveness distortions.

In addition, if we open up our trading system to developing countries and allow them opportunities to sell into a U.S. domestic trading system, that will create an incentive for developing countries to reduce their own emissions, and this will, in effect, raise the price of carbon in those countries, minimizing the competitiveness distortions. If the market works--and I believe that to a large degree it can--then business leaders in China and India will realize that there's an economic cost, an opportunity cost for them if they allow emissions to rise. And they'll make the same kinds of business decisions that our companies will make here.

In pursuing this pragmatic approach, this approach that is largely driven by U.S. policy, which countries should we work with? How should we proceed? Well, I would argue, as Elliot said, that there are only really a relatively small handful of countries that really matter. The G-8 by far are our largest trading partners. We should begin there. But there's no need to stop with the G-8 because most G-8 countries are also members of the OECD. And most of the OECD countries have already or are willing to adopt national emissions targets and to engage in emissions trading. So by working with the OECD, we can capture the 30 largest industrialized nations who are our largest trading partners and where our businesses would have some of the most significant competitiveness concerns.

But we also need to work with major emitters in the developing world, both because they're a big part of the environmental problem and because their companies are increasingly economic competitors. China, India, and Brazil in particular are important.

If we worked with these countries--this would be 33 countries rather than 180 under the UN Framework Convention--we would capture the 15 largest emitters, over 80 percent of global emissions, 75 percent of U.S. trade, 13 out of 15 of the top U.S. trading partners, leaving aside Singapore and Taiwan. And I would argue that that would go a long way towards addressing the competitiveness concerns in the U.S.

Let me wrap up by providing benefits, a summary of the benefits of this approach. If we start at home, we can set modest goals. We can work incrementally rather than seeking a big bang in the Kyoto style. We can deploy our action in phases. The approach would be less complex and more within U.S. control. If we lack a global consensus, it wouldn't stop progress. We could find progress among willing participants in smaller blocs.

It would avoid overreliance on the UN which has political baggage both in itself as a negotiating body and here in the U.S.

We could guarantee cost-effective approaches because the rules would largely be written in the United States as part of our domestic regulation. We could focus on the countries matter, and there are only just a handful of them.

We could address competitiveness concerns of U.S. industry by dealing with our largest trading partners, and we could improve the negotiating dynamics by negotiating directly with the European Union and with developing countries where the complications of trying to attract the support of other groups would not be present.

I think this provides a great reason for optimism. If we act at home, there are ways forward internationally. If we act, we can leverage that action into international leadership. And there's every reason to believe that we can be successful.

Thank you.

[Applause.]