

US Private Sector Perspectives Post-Kyoto

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The US has experienced record low temperatures through much of the country this winter. Clearly, those of us who are involved in climate change at a professional level know that that one unusually cold winter or one unusually hot summer does not indicate a long-term trend. Nevertheless, for those in the political sphere, who work on the basis of a short-term focus, one cold winter can become enormously important.

It is an honour to be here today. You will all be aware of the very great differences of opinion that exist within the United States when it comes to climate change. Even within the energy industry, we are very splintered when it comes to climate change. The oil industry is not of one mind, nor is the electric power industry. To this, we can add the divergent views of the coal industry, the natural gas or renewables sector, the energy efficiency sector, and the environmental NGOs. In summary, we have nothing short of a recipe for policy gridlock.

The only thing that all of these groups do agree on is the theme of this Forum: acting efficiently against climate change. Whatever the outcome of the Paris Conference – be it a treaty, a protocol or an instrument – it must be economically efficient. Given the size of the issue we face, and the magnitude of actions and investments required, let us be efficient. Let us not structure an agreement that calls for our industry – that is, our customers – to pay for a less efficient approach. We cannot afford to spend capital on technologies that will not achieve the multiple goals with which a post-Kyoto Agreement must deal.

We know that everything that is energy-related is also politics-related. We cannot divorce energy from politics. COP21 is sandwiched between the US 2014 and 2016 elections. In 2014, the US Republican Party regained control of both houses of Congress. The Democrat Party continues to control the administration, and President Obama has made it very clear that he has no intention of being a “lame duck” President. In this context, the outcomes from Paris are certain to become a political football in the United States, both before and after COP21.

The Private Sector Perspective: 10 Expectations

What does the private sector expect to see in the US negotiating approach in Paris? First, and most importantly, we believe and hope that the base year for measuring emissions reductions will be 2005. This is critical to those of us who will be tasked with implementing emissions reductions. In the past 10 years, we have seen sizable CO₂ reductions in the US. By using 2005 as a base year, the United States will receive credit for the reductions already made.

Second, we believe that the US will make a pledge to cut emissions by 26% to 28% by approximately 2025. Many will say that is not sufficient but it is certainly a beginning to the dramatic emissions reductions that the US is expecting to see by 2050.

Third, we are also seeing signals that there will be an earlier rather than later release of the US Intended National Determined Contribution (INDC). If the United States steps forward well before COP21, that will make other countries bolder than they would otherwise have been. In the recent US-China Agreement, China has for the first time made a pledge to have a date for capping its CO₂ emissions.

Fourth, in practical terms, President Obama's Climate Change Plan announced some time ago is based on 3 pillars: reducing emissions, dealing with increased temperatures, and international collaboration. That has been translated into Environmental Protection Agency (EPA) regulations calling for reduced greenhouse gas emissions on coal-fired power plants. Essentially, no new coal-fired plants will be built in the US without carbon capture and storage facilities. The only wild card we are unsure about relates to whether the EPA will also issue regulations for carbon capture and storage on natural gas fired plants. Most agree that this will occur but are unsure of when it will occur, although most believe that it will be sooner rather than later – probably by 2020.

Fifth, we believe that the United States will accept that the Paris Agreement contains different goals for different countries and different pathways forward. In the past, the US negotiating posture was based on everyone doing the same. Going forward, the US will accept that one size does not fit all.

Sixth, we believe that the United States will insist that the outcome of COP21 be a non-binding agreement. That is, under US law any treaty or a protocol, by definition, has to be ratified by the US Senate. It is abundantly clear today that that ratification will be impossible to achieve today. It is therefore quite obvious that the US will find it very difficult to agree to a text that has to be ratified by the Senate. Therefore, negotiators in the US are tending to refer to such a non-binding text as an “instrument”. I realise, however, that many are likely to be disappointed by this US negotiating posture.

Seventh, it will be necessary for the US to resolve the debate about the authority of its executive branch versus its legislative branch. President Obama has exercised many powers by regulation or by executive order. That is certainly the case with US greenhouse gas policies as well as its immigration and healthcare policies.

Eighth, an item that we are completely uncertain about is the US approach to the treatment of forestry and land use patterns, which act as a sink for capturing CO₂ emissions and as a source of CO₂ in the atmosphere. We do not know what stance the US will take in this regard.

Ninth, there is growing recognition in Washington that if COP21 fails, the United Nations Framework Convention on Climate Change is broken and unfixable. As such, the world's countries will move to another mechanism to deal with climate change. The US view in December 2015 will be less important than its view in December 2016, after the next elections.

The Private Sector Perspective: 10 Wishes

The following 10 items describe what the private sector would like to see as the outcome of those negotiations.

- ▶ First, industry believes that every technology that has zero CO₂ emissions should be treated in the same way, whether it be nuclear, fossil fuels with carbon capture and storage, renewables, efficiency improvements, or improvements to transmission and distribution.
- ▶ Second, by doing so, the policies will leave all energy options open.
- ▶ Third, we must incentivise the mobilisation of capital, attracting it to energy infrastructure projects.
- ▶ Fourth, industry would like to see equal treatment of all energy sectors, including transport, electricity, agriculture, chemicals, manufacturing, and so on. All of these sectors have to be treated equally in addressing climate change.

- ▶ Fifth, we would like to see a reasonable and achievable technology deployment timeline. We believe we can meet the 2030 targets but meeting the 2020 targets will be very difficult with hundreds of facilities needing to be modified at the same time.
- ▶ Sixth, we would like to see market-based solutions.
- ▶ Seventh, we would like to see simplified bureaucracies, both at the national and global level.
- ▶ Eighth, we would like to see sufficient global indication that individual country contributions are meaningful. If greenhouse gas emissions are reduced in Australia by 50%, that represents a 0.5% global reduction that would soon be counteracted by China or India. We therefore have to agree that different goals and pathways are possible, with everybody participating in a meaningful manner.
- ▶ Ninth, the Paris Instrument must support carbon capture and storage with enhanced oil recovery counted as storage. North America uses CO₂ for enhanced oil recovery far more than any other country, and it is critically important that it is treated as a permanent storage mechanism.
- ▶ Finally, we believe in our ability to act efficiently against climate change.