



## **America is acting on Climate Change**

The Kyoto Protocol entered into force on February 16 2005 and became international law applicable to the 166 countries that have signed and ratified the treaty but not to those who have not - most significantly the United States.

Although President Bush has steadfastly refused to join the international community he is becoming increasingly isolated at home and abroad. Reporters, the general public and the business and financial communities have started to accept that responding to climate change is a necessity. There is also growing momentum towards action on climate change as state, local and Congressional leaders react to climate impacts and growing public concern.

### **Business**

Carbon, in the form of carbon-dioxide emissions reductions, has become a tradable commodity. It is estimated that by 2007, allowances worth up to 15 billion Euro will be traded and those estimates are likely to go up dramatically in the near future. Russia is expected to earn at least 10 billion Euros for the period 2008-12 from emissions trading and other flexible mechanisms in the Kyoto Protocol.

Tradable permits are an American invention, pioneered in the effort to reduce acid-rain causing emissions in the late 80s and early 90s. The global market in carbon will harness the power of market forces to achieve emissions reductions targets in the most economically efficient manner but, ironically, American companies cannot participate.

American firms operating in 'Kyoto' participating countries will also have to follow stricter rules but they will not be able to count emissions cuts at their U.S. plants toward their overseas targets, something they would have been able to do if the Bush administration had not opted out of Kyoto in 2001.

Kyoto market mechanisms will drive technological innovation in the private sector that will ultimately bring the engineering innovation and experience that will create a smooth transition to a low carbon and ultimately carbon-free economy.

The early movers in these renewable energy, energy saving and energy efficient devices, systems and technologies markets are already reaping substantial financial and societal benefits - those companies are not American. With the introduction of the clear incentives in the Kyoto system over the next few years, it is expected that those benefits (and markets) will expand exponentially.

Many in the U.S. business community are recognizing this, along with the need for responsible action on climate change. A desire to take advantage of new markets and reduce costs as well as pressure from shareholders and consumers and the need to prepare for future regulation, are resulting in the analysis and reporting of climate risk and action to reduce emissions.

Investors are becoming increasingly concerned about companies' exposure to climate risk. In New York last year two dozen leading institutional investors managing more than US\$3 trillion in assets urged American companies to address the risks of climate change and invest more heavily in strategies to reduce those risks. In addition, many of the nation's largest banks and investment firms, including JP Morgan Chase, Goldman Sachs, Bank of America and Lehman Brothers, have announced more aggressive climate policies.

The electric utility industry is also changing its position. Currently five of the ten largest utility companies have called for regulation of carbon dioxide emissions and most utility executives now believe regulation is inevitable. Outside the utility industry, American companies are investing unprecedented amounts in climate protection. General Electric has committed US\$1.5 billion a year to research conservation, pollution and greenhouse gas emissions.

In a surprising move, Wal-Mart, the world's largest retailer has announced its intentions to become a leading company on climate solutions. In testimony before congress Wal-Mart executives have argued for a cap on carbon dioxide and the company has begun to institute carbon dioxide reduction policies internally and promote them among their suppliers.

### **States, Regions and Congress**

Frustrated with the lack of federal leadership on climate change, many states are moving forward with their own mandatory controls on carbon dioxide. Policies that support the development and deployment of clean energy technologies are also being implemented at state and regional level. California, New Mexico and the New England states have all adopted aggressive long-term carbon dioxide reduction targets.

As they have in the past on pollution issues, the states are in the process of developing comprehensive carbon dioxide reduction programs. The most developed of these is the Regional Greenhouse Gas Initiative (RGGI) being undertaken by north-eastern and Mid-Atlantic States. In December 2005, Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, and Vermont launched the nation's first regional cap on carbon dioxide emissions from power plants. In April 2006, Maryland joined RGGI and if the Democrat wins the Governors election in Massachusetts as expected he has pledged to bring his state into the group. Under the agreement the states cut carbon dioxide emissions by 10 percent by 2019.

On the West Coast, the California legislature and Governor Schwarzenegger negotiated the nation's most comprehensive carbon dioxide emissions reduction program. The bill requires that carbon dioxide emissions be reduced to 1990 levels by 2020. This law implements the state's aggressive long-term greenhouse gas reductions goals. In November the Governor signed an executive order linking the California program with RGGI. The West Coast Governors, which includes Washington, Oregon and California, are discussing cooperative action on climate change as well.

In June 2006, the Western Governors' Association, which includes governors of 19 states, issued a policy resolution designed to give credit for actions to reduce carbon dioxide emissions. In addition the governors of Montana, New Mexico and Arizona have convened advisory groups on climate change.

Last year the U.S. Conference of Mayors unanimously adopted the Climate Protection Agreement. This agreement commits the cities to reduce carbon dioxide emissions by 7 percent from 1990 levels by 2012. The mayors are now working out the implementation of these commitments.

Agreements such as these set important precedents for others, including the U.S. Congress, to follow and could lead to the creation of regional carbon markets in the U.S. that could potentially provide opportunities for linkages to international carbon markets.

U.S. Senators and Representatives are increasingly concerned about climate protection. In stark contrast to the Senate resolution in 1997 that put its opposition to Kyoto on record with a 95-0 vote, the Senate last year passed a bipartisan resolution indicating that climate change should be taken seriously. The 'Sense of the Senate' resolution, although non-binding, calls on Congress to enact a comprehensive and effective national program of mandatory, market based limits on greenhouse gas emissions. This year the several Senators have introduced federal legislation that would significantly reduce greenhouse gas pollution. These science-based plans call for greenhouse gas pollution reductions from 60 to 80 percent. Similar legislation, introduced in the House of Representatives this summer, already has 114 co-sponsors (over half of what is needed for passage).

There is absolutely no indication that the Bush administration will alter its policies on climate change. However, a domestic political will to act is developing in the U.S. The rest of the world must follow this lead and work around the White House to achieve climate protection. That means making clear to Bush that this is a priority for the international community and that his blocking, prevaricating and promotion of inadequate solutions will not be accepted.

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