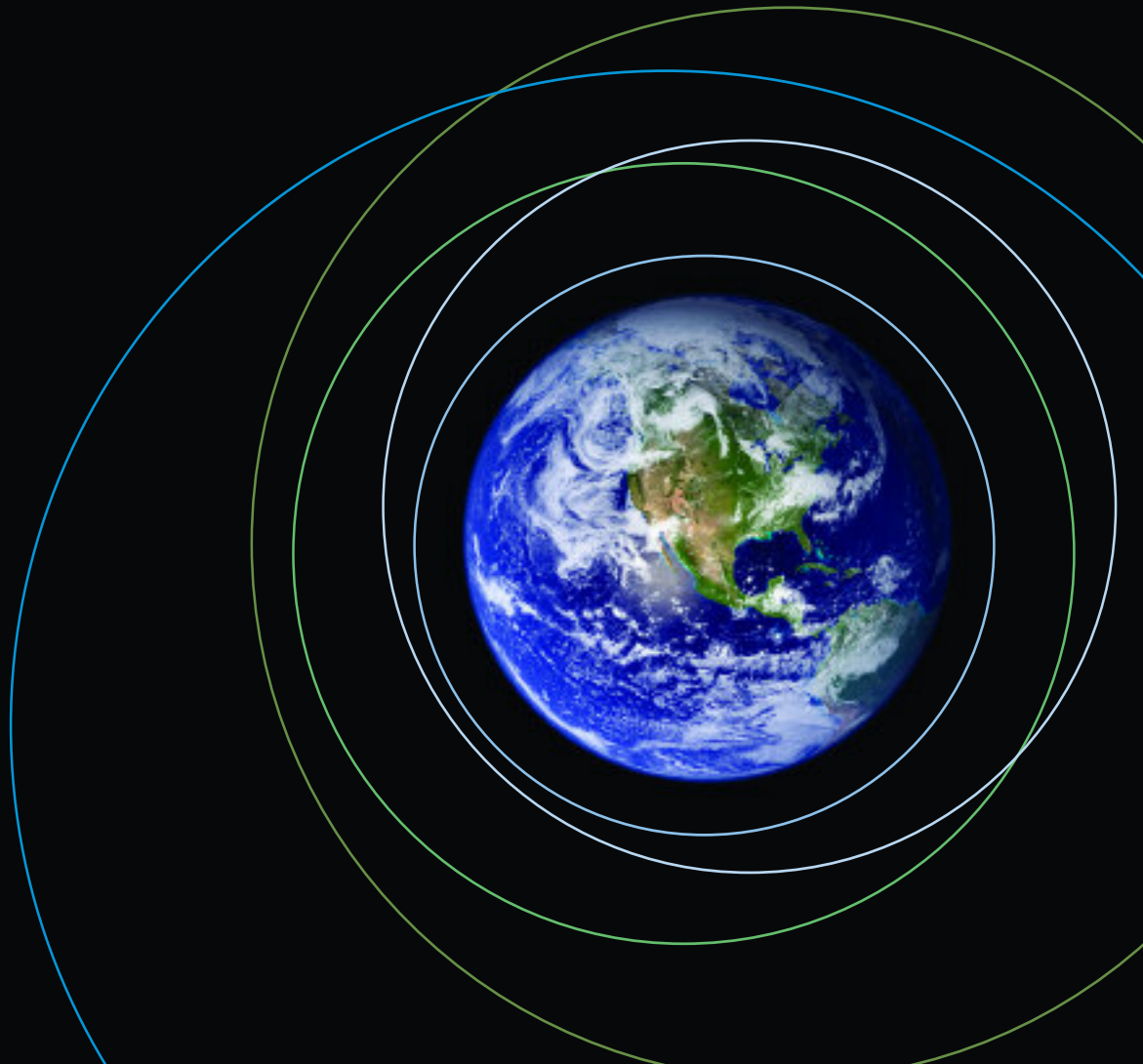




A CALL FOR ACTION

Consensus Principles and Recommendations
from the **U.S. Climate Action Partnership**:
A Business and NGO Partnership





A CALL FOR ACTION



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A CALL FOR ACTION

The Challenge is Significant, But the United States Can Grow and Prosper in a Greenhouse Gas Constrained World

The scale of the undertaking to address climate change is enormous, and should not be underestimated. For this issue to be successfully addressed—and failure is not an option—the way we produce and use energy must fundamentally change, both nationally and globally.

In our view, the climate change challenge, like other challenges our country has confronted in the past, will create more economic opportunities than risks for the U.S. economy. Indeed, addressing climate change will require innovation and products that drive increased energy efficiency, creating new markets. This innovation will lead directly to increased U.S. competitiveness, as well as reduced reliance on energy from foreign sources. Our country will thus benefit through increased energy security and an improved balance of trade. We believe that a national mandatory policy on climate change will provide the basis for the United States to assert world leadership in environmental and energy technology innovation, a national characteristic for which the United States has no rival. Such leadership will assure U.S. competitiveness in this century and beyond.

In our view, the climate change challenge will create more economic opportunities than risks for the U.S. economy.

We Need a Mandatory, Flexible Climate Program

We believe a U.S. policy framework must include the following.

- Mandatory approaches to reduce greenhouse gas emissions from the major emitting sectors including emissions from large stationary sources, transportation, and energy use in commercial and residential buildings that could be phased in over time, with attention to near-, mid- and long-term time horizons;
- Flexible approaches to establish a price signal for carbon that may vary by economic sector and could include, depending on the sector: market-based incentives; performance standards; cap-and-trade; tax reform; incentives for technology research, development, and deployment; or other appropriate policy tools; and
- Approaches that create incentives and encourage actions by other countries, including large emitting economies in the developing world, to implement GHG emission reduction strategies.

We Know Enough to Act on Climate Change

In June 2005, the U.S. National Academy of Sciences joined with the scientific academies of ten other countries in stating that “the scientific understanding of climate change is now sufficiently clear to justify nations taking prompt actions.”

Each year we delay action to control emissions increases the risk of unavoidable consequences that could necessitate even steeper reductions in the future, at potentially greater economic cost and social disruption. Action sooner rather than later preserves valuable response options, narrows the uncertainties associated with changes to the climate, and should lower the costs of mitigation and adaptation.

For these reasons, we, the members of the U.S. Climate Action Partnership (USCAP) have joined together to recommend the prompt enactment of national legislation in the United States to slow, stop and reverse the growth of greenhouse gas (GHG) emissions over the shortest period of time reasonably achievable.

Please see the Appendix on page 12 for a list of USCAP members and please visit www.us-cap.org for more information.



OUR DESIGN PRINCIPLES

We believe U.S. Climate legislation must include the following design principles.

Account for the Global Dimensions of Climate Change

The effects of climate change are global, as are the sources of GHG emissions. Success will require commitments by all of the major emitting countries. Toward this end, the U.S. government should become more involved in developing the post-2012 international arrangements for addressing climate change that are now being discussed. While care should be taken that policies do not merely push emissions from U.S. facilities to overseas plants, ultimately there must be an international program for addressing climate change and its impacts. U.S. action to implement mandatory measures and incentives for reducing emissions should not be contingent on simultaneous action by other countries. Rather, we believe that U.S. leadership is essential for establishing an equitable and effective international policy framework for robust action by all major emitting countries.

Recognize the Importance of Technology

There are a number of technologies that are currently available that emit little or no GHGs, such as wind, solar, and nuclear power, hybrid vehicles, and numerous energy efficiency technologies. The cost-effective deployment of existing technologies to improve energy efficiency and reduce GHG emissions should be a priority, as it will yield emission reductions in the near-term while new technologies are developed. The most efficient and powerful way to stimulate private investment in research, development, and deployment is to adopt policies establishing a market value for GHG emissions over the long-term. Where near-term price signals are insufficient to deploy cleaner existing technologies, additional incentives or other measures must be considered, especially where carbon emissions could be significantly reduced and the “lock-in” of future carbon emissions avoided. Rapid advancement and deployment of new, breakthrough technologies are also core elements of any climate change solution. Thus, an effective climate change program must include policies to promote significant research, development and deployment of hyper-efficient end use technologies; low-or zero-GHG emitting technologies; and cost-effective carbon capture and storage, which will be particularly important in the deployment of advanced coal technologies.

Be Environmentally Effective

Climate stabilization requires immediate action and sustained effort over several decades. Mandatory requirements and incentives must be stringent enough to achieve necessary emissions reductions within timeframes that prevent an unacceptable level of GHG concentrations and climate change. We must start a program in the near-term that captures short-range reduction opportunities, puts us on the path to stabilizing concentrations, and preserves our options to avoid an unacceptable level of climate change in the future.

Climate stabilization requires immediate action and sustained effort over several decades.

Create Economic Opportunity and Advantage

Addressing climate change must be achieved in a highly cost-effective manner that allows for economic growth in both the developed world and emerging economies. A climate protection program must use the power of the market through reliance on institutional and regulatory structures that establish clear targets and timeframes. Requirements for reducing emissions may vary between sectors and should be designed to promote sustained economic growth and prompt, efficient action in the shortest time reasonably achievable, compatible with the goal of preventing dangerous human interference with the climate.

Be Fair

Some economic sectors, geographic regions, and income groups may be disproportionately impacted by both climate change impacts and mandatory GHG reductions. Any climate protection program needs to take account of these impacts and provide appropriate assistance to those disadvantaged or disproportionately impacted by such program.

Encourage Early Action

Prior to the effective date of mandatory emission limits, every reasonable effort should be made to reduce emissions. Those companies that take early action should be given appropriate credit or otherwise be rewarded for their early reductions in GHG emissions.



OUR RECOMMENDATIONS

Congress Needs to Enact Legislation as Quickly as Possible

We offer the following interconnected set of recommendations for the general structure and key elements of climate protection legislation that we urge Congress to enact as quickly as possible. The legislation should require actions to be implemented on a fast track while a cap and trade program is put in place, including the establishment of a GHG inventory and registry, credit for early action, aggressive technology research and development, and policies to discourage new investments in high-emitting facilities and accelerate deployment of zero and low-emitting technologies and energy efficiency. We recommend these fast track actions begin within one year of enactment.

The Environmental Goal

U.S. legislation should be designed to achieve the goal of limiting global atmospheric GHG concentrations to a level that minimizes large-scale adverse climate change impacts to human populations and the natural environment, which will require global GHG concentrations to be stabilized over the long-term at a carbon dioxide equivalent level between 450–550 parts per million.

Take a Stepwise, Cost-Effective Approach

While achieving our environmental goal will require a fundamental transformation of the energy system over the long-term, we cannot predict with accuracy all technological developments between now and 2100. For these reasons, legislation should focus on what we know can be cost-effectively achieved over the next twenty to thirty years while putting us on a trajectory for deeper emission reductions by mid-century.

Cap and Trade is Essential

Our environmental goal and economic objectives can best be accomplished through an economy-wide, market-driven approach that includes a cap and trade program that places specified limits on GHG emissions. This approach will ensure emission reduction targets will be met while simultaneously generating a price signal resulting in market incentives that stimulate investment and innovation in the technologies that will be necessary to achieve our environmental goal. The U.S. climate protection program should create a domestic market that will establish a uniform price for GHG emissions for all sectors and should promote the creation of a global market.

We are committed to a pathway that will slow, stop and reverse the growth of U.S. emissions.

Establish Short and Mid-Term GHG Emission Targets

To begin the process of reducing U.S. emissions, we recommend Congress establish a mandatory emission reduction pathway with specific targets that are:

- between 100–105% of today's levels within five years of rapid enactment
- between 90–100% of today's levels within ten years of rapid enactment
- between 70–90% of today's levels within fifteen years of rapid enactment

The short- and mid-term targets selected by Congress should be aimed at making it clear to the millions of actors in our economy and to other nations that we are committed to a pathway that will slow, stop and reverse the growth of U.S. emissions. Furthermore, Congress should specify an emission target zone aimed at reducing emissions by 60% to 80% from current levels by 2050.

Complementary Policies and Measures Will be Necessary

Climate protection policies must be complemented with U.S. energy policies that result in diverse and adequate supplies of low-GHG energy. In addition, as described below, an aggressive technology research, development, and demonstration program, along with policies aimed at deploying low- and zero-emission technologies will be necessary to achieve our policy goals. In sectors that are insensitive to price signals and that face market barriers to the introduction or utilization of low or zero-emission technology, we recommend appropriate sector-specific policies.

Scope of Coverage and Point of Regulation of the Cap and Trade Program

We recommend the cap and trade program should cover as much of the economy's GHG emissions as is politically and administratively possible. We believe there are potentially effective approaches to achieving these objectives including the following.

- An “upstream” program that requires fossil fuel producers (or shippers in the case of natural gas) to be covered by allowances that equal the emissions released when the fuel is combusted, thereby adding the cost of the emission reduction allowance to the price of the fuel; OR
- A “hybrid” program that includes a downstream cap applied to GHG emissions from large stationary sources (e.g., covering 80% of the emissions from the fewest possible number of sources) combined with an upstream cap or another policy tool applied to the carbon content of fossil fuels used by remaining sources.

Emission Offsets

Legislation should permit entities subject to the cap to meet part of their obligations through the purchase of verified emission offsets from a range of domestic sinks, domestic sources of emissions that are not subject to the cap, and projects outside the US. The offset must be environmentally additional, verifiable, permanent, and enforceable.

Emission Allowance Allocations

An emission allowance allocation system should seek to mitigate economic transition costs to entities and regions of the country that will be relatively more adversely affected by GHG emission limits or have already made investments in higher cost, low-GHG technologies, while simultaneously encouraging the transition from older, higher-emitting technologies to newer, lower-emitting technologies. A significant portion of allowances should be initially distributed free to capped entities and to economic sectors particularly disadvantaged by the secondary price effects of a cap including the possibility of funding transition assistance to adversely affected workers and communities. Free allocations to the private sector should be phased out over a reasonable period of time.

Cost Control Measures

Cost control measures are policies designed to provide capped entities with greater confidence that their cost will be limited and flexibility to manage emission reduction compliance costs. We believe the most powerful cost control measure is a robust cap and trade program since markets do the best job of controlling costs over time. If used, cost control measures must be designed to enable a long-term price signal that is stable and high enough to drive investment in low- and zero-emitting technologies, including carbon capture and storage. Any additional cost-control option considered by Congress must ensure the integrity of the emissions cap over a multi-year

period and preserve the market's effectiveness in driving reductions, investment, and innovation. As policy makers weigh additional cost control options, it is important for them to consider who and what portions of the economy are impacted, the time duration of the impact and remedy, international competitiveness, the implications for international emissions trading, and how the measure impacts the price signal necessary to stimulate investment and technological innovation. Some possible additional cost control options include but are not limited to a safety valve, borrowing, strategic allowance reserve, preferential allocations, dedicated funding, technology incentives and transition assistance.

Inventory and Registry

A national emissions baseline must be established. Legislation should establish a registry by no later than the end of 2008. The final regulations establishing a national registry and inventory of GHG emissions should ensure consistency in the definition, counting, and reporting of GHG emissions from all regulated entities (i.e., those that are subjected to the cap) and from all other emission sources on a voluntary basis. The U.S. inventory should include an estimate of all GHG emissions, not just those in the registry.

Credit for Early Action

It will take time to get a cap and trade program up and running. We need to reward those firms that have acted to reduce GHG emissions and encourage others to do so while the program is being established. Legislation should require regulations to be promulgated by no later than the end of 2008 establishing an early action program that grants a credit for reductions made starting from a specified date, such as 1995, until such time as the mandatory program becomes effective. Claimants would be required to demonstrate their eligibility for the credit based on accurate data.

We need to reward those firms that have acted to reduce GHG emissions and encourage others to do so while the program is being established.

Technology Policies and Measures

A federal technology research, development and demonstration (RD&D) and deployment program is a necessary complement to the GHG reduction policies that will drive demand for low-carbon technology. The program should be designed with the following key characteristics.

- Joint public/private sector cost-sharing and oversight;
- Establishment of performance criteria and a technology roadmap to guide RD&D and deployment program investment decisions;
- Stable, long-term financing (e.g., a dedicated federal revenue stream or other means not reliant upon annual congressional appropriations);
- Establishment of a public/private institution to govern the administration of the RD&D and deployment program fund; and
- A mix of deployment policies to create incentives to use low-GHG technologies and address regulatory or financial barriers. Such policies could include loan guarantees, investment tax credits, and procurement standards.

Sector-Specific Policies and Measures

Policies and measures are needed to complement an economically sound cap and trade system to create additional incentives to invest in low-GHG approaches in key sectors. The need and scope of sector specific policies and measures will depend on the stringency of targets, scope of coverage, and point of regulation in the cap and trade program. Some of the sector-specific policies and measures are intended to be transitional in nature and should be phased out over time. The following are suggestions for sector-specific policies and measures.

NEW COAL-BASED ENERGY FACILITIES AND OTHER STATIONARY SOURCES

Policies are needed to speed transition to low- and zero-emission stationary sources and strongly discourage further construction of stationary sources that cannot easily capture CO₂ emissions for geologic sequestration. Regardless of how allowances are generally allocated, they should not be allocated to such new sources.

CARBON CAPTURE AND STORAGE

Congress should require the EPA to promulgate regulations promptly to permit long-term geologic sequestration of carbon dioxide from stationary sources. Congress should fund at least three sequestration demonstration projects in depleted and abandoned oil and gas fields and saline aquifers with CO₂ injection, each at levels equivalent to emissions produced by a large coal-based power plant.

TRANSPORTATION SOURCES

Climate protection legislation must achieve substantial GHG emission reductions from all major emitting sectors of the economy, including the transportation sector. We recommend Congress enact policies to reduce GHG emissions in the transportation sector, including consideration of policies to:

- Promote lower-carbon transportation fuels;
- Cost-effectively decrease allowable GHG emissions of automobile manufacturers' fleets and promote new low-emissions vehicles, for example with GHG or fuel economy performance standards;
- Efficiently decrease vehicle miles traveled and enhance mass transit and other less carbon-intensive transportation alternatives;
- Promote better growth planning;
- Educate consumers; and
- Address emissions from air, rail, and marine transport.

BUILDINGS AND ENERGY EFFICIENCY

Policies are needed to realize the full potential of energy efficiency as a high priority energy resource and a cost-effective means of reducing GHG emissions. To achieve this objective, climate legislation should establish federal and state policies that align financial and regulatory incentives with utilities' business interests to aggressively pursue energy efficiency programs and promote policies that "decouple" utility sales and revenues in conjunction with requirements for utilities to pursue all cost-effective energy efficiency savings. Stronger energy efficiency codes and standards are needed for whole buildings and for equipment and appliances, as are incentives and tax reform measures to advance the infrastructure necessary to support new "smart" and highly-efficient technologies and distributed generation. Finally, the legislation should create separate incentives for regulated entities, building owners, and other parties not subject to the cap to go even further in producing energy efficiency savings.

Policies are needed to realize the full potential of energy efficiency as a high priority energy resource and a cost-effective means of reducing GHG emissions.

International Engagement and Linkage

While taking the necessary first step of placing limits on our own emissions, Congress should strongly urge the Administration to safeguard U.S. interests by engaging in international negotiations with the aim of establishing commitments by all major emitting countries. The post-2012 global framework should establish international GHG markets, assist vulnerable populations in adapting to climate impacts, and boost support for climate-friendly technology in developing countries.



We, the members of the U.S. Climate Action Partnership, pledge to work with the President, the Congress, and all other stakeholders to enact an environmentally effective, economically sustainable, and fair climate change program consistent with our principles at the earliest practicable date.

APPENDIX

U.S. Climate Action Partnership Members

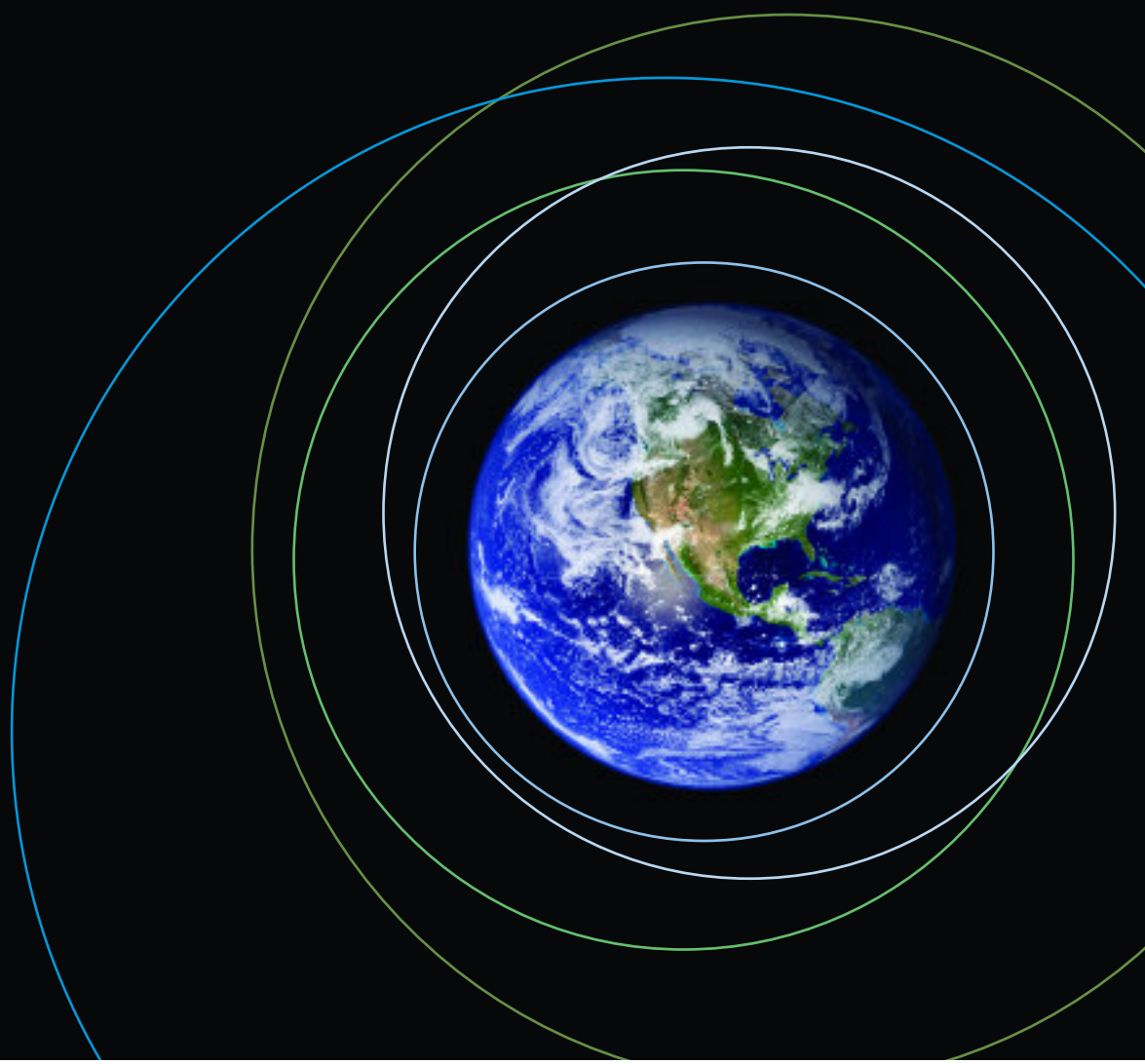
- Alcoa
- BP American Inc.
- Caterpillar Inc.
- Duke Energy
- DuPont
- Environmental Defense
- FPL Group
- General Electric
- Natural Resources Defense Council
- Pew Center on Global Climate Change
- PG&E Corporation
- PNM Resources
- World Resources Institute



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The members of the USCAP wish to acknowledge the valuable assistance provided by the Meridian Institute in guiding and facilitating our discussions leading to this important agreement.



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