

Two Steps Forward, One Step Back: Climate Change Politics in the U.S. and Canada

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- The election of Barack Obama opened up new hope regarding the potential for ambitious international responses to climate change. He has indeed acted quicker than many expected, to put in place a well-respected team, and to support efforts in Congress to develop legislation to reduce US greenhouse gas (GHG) emissions. He has also shown the capacity to integrate climate change into other areas of policy, notably in the features of some of the US economic stimulus packages.
- But progress of the legislation in Congress has proved slower than some hoped. A Bill passed in the House of Representatives in June 2009, and a version has been presented to the Senate. But its progress has proved slow, and optimism is declining that a Bill will be passed in time for the US to be able to commit itself to a new international treaty in Copenhagen in December 2009.
- When a Bill does pass, it could be substantially compatible with the design of policy elsewhere. It could possibly contain a cap-and-trade system that will be compatible with the EU Emissions Trading System and the Kyoto mechanisms. The short-term targets for the overall economy will be relatively weak compared to those envisaged by the EU and other countries. And there will probably be some contentious issues, notably border tax adjustments.
- In Canada, successive federal governments have failed to develop comprehensive policies to limit the country's emissions. The current government shows little sign of developing more ambitious policies. Canada is strongly linked to U.S. Policy development in Canada at the federal level will be driven largely by a desire to harmonize with the US.
- In both countries, there are widespread and deepening forms of action at sub-federal levels. A large number of states (US) and provinces (Canada) have developed greenhouse gas emissions reductions strategies. Some have introduced carbon taxes, and a number are collaborating on cap-and-trade schemes. This sub-federal and cross-national development can be expected to continue and play a large role in the political debate in both countries.

Addressing Climate Change in the U.S. and Canada

Both the US and Canada have had considerably greater difficulty in addressing their greenhouse gas (GHG) emissions than many European countries. Their emissions since 1990 have increased sharply. The US withdrew from the Kyoto Protocol process in March 2001. While Canada did ratify Kyoto, it has been unable to develop action that would have reduced its emissions by anything like the amount it committed itself to. Both countries have developed on the back of hugely abundant, and thus cheap, natural resources, in particular fossil fuel energy resources. This has meant that they have particularly powerful industries in the energy sector and amongst high-energy consuming industries. This resource abundance has also led to extremely low density urban development compared to other countries, creating a high degree of car dependence – transport emissions account for noticeably higher proportions of national emissions than in many other countries. As a consequence, its politicians and industries have found it much more difficult to imagine radical reductions in GHG emissions which would require scaling back those industries considerably, and fundamentally reshaping urban development.

The knight in shining armor . . .

At the end of George Bush's period of office, many people who were interested in climate change politics, both inside and outside the US breathed a sigh of relief. During the election campaign, both candidates, Obama and McCain, had stated their desire to improve the US's performance on this issue and to collaborate more effectively with other countries. Obama's win was accompanied by more Democratic gains in Congress, so the ability to pass climate change legislation seemed also to be improved. In early 2009, many commentators were optimistic that legislation would pass in time for the 15th Conference of the Parties to the UN Climate Change Convention in Copenhagen in December 2009. A deal to replace the Kyoto Protocol might thus be agreed with US participation.

That optimism was initially fuelled by: the speed with which the new President put together a team of officials, many with good reputations amongst those involved in climate change like Todd Stern or Jonathan Pershing; the green measures included in economic stimulus measures passed in February 2009, promoting investment in renewable energy and mass transit; and the speed with which the legislation at first seemed to be passing through Congress. The American Clean Energy and Climate Security Act, more commonly known as the Waxman-Markey Bill, used previously developed proposals as its basis, and passed through the House of Representatives on 26 June 2009.

Since then, the legislative process has slowed considerably. The President decided to try to get healthcare reform proposals through first, proposals that were always going to be highly contentious. At the same time, corporate interests and Senators with either ideological objections or threatened constituencies started to throw their weight around in ways that weren't wholly anticipated. A number of Senators, like Sen. James Inhofe (R-Oklahoma) or Sen. David Vitter (R-Louisiana), vowed to try to "kill" the climate bill in the Senate. They have used a variety of tactics to slow progress, including simply not turning up to committee meetings. Corporations have spent huge amounts of money lobbying, including funding specific Senators to oppose the bill. Exxon Mobil alone has spent US\$7.2m (€4.84m) in the third quarter of 2009.² Senators John Kerry (D-Massachusetts) and Barbara Boxer (D-California) produced a bill in late September, entitled the Clean Energy Jobs and American Power Act, and hearings are currently being held, but most commentators now think it unlikely that legislation will pass before the end of the year. Nevertheless, a draft that would approximate the final version to be passed by the Senate is possible before Copenhagen, which might enable US negotiators to agree to a deal there. The current realistic timescale for legislation in the US is that it will be "on Obama's desk" by April 2010.³

Nevertheless, the legislation that is still likely to have passed by mid-2010 does contain a number

of features that make it broadly compatible with legislation elsewhere. The targets, while noticeably weaker than for example proposed by the EU in the short term, are substantially similar over the longer-term. Both propose 83% cuts by 2050, and 42% cuts by 2030, compared to a 2005 baseline. For 2020, Waxman-Markey proposes 17% cuts, while Kerry-Boxer proposes 20% cuts. Given US emissions growth since 1990, these would roughly amount to emissions stabilization by 2020. Both have a federal cap-and-trade system as their centerpiece, which would work in a way broadly similar to the EU emissions trading system. Both also envisage linking a US cap-and-trade market to international offset markets, much as the EU emissions trading system is linked to the Clean Development Mechanism (CDM). Both however envisage capping prices in the carbon market: Kerry-Boxer imposing a price cap of US\$28 (€19) per ton in 2012, and rising afterwards. This price cap difference to the EU system may pose some problems of compatibility.

... and his rusty cousin?

In Canada, the state of climate change policy is considerably poorer. Canada's emissions grew by 26% between 1990 and 2007, the highest rate of growth of any OECD country.⁴ The Canadian economy in some ways can be seen becoming dependent on the oil sands in Alberta for economic growth. This form of oil extraction is exceptionally emissions-intensive, consuming 1 barrel of oil for every 1.3 barrels produced. The oil industry, and many ancillary industries, are particularly important to the economy and have been highly resistant to policies to reduce emissions or limit development of these resources. Given that Canada is particularly decentralized, they have been helped by the concentration of these resources in one province – Alberta – that has stalled the implementation of federal level policies.

Governments during that time have introduced a number of climate change plans, but nothing by way of overarching legislation, with clear targets, fiscal policies, or any other strong regulatory measures. Through to 2006, the

governing Liberal Party made many positive noises, and ratified the Kyoto Protocol, but was not willing or able to develop strong legislation.

In 2006, Stephen Harper's Conservative Party came to power, albeit in a minority government. The rhetoric switched to match the low ambition that had already prevailed. Harper explicitly tied Canadian climate policy both to the US under George Bush and to Canada's interests as a major oil exporter. He developed policies drawn directly from Bush – focused on “intensity targets” (reducing emissions per unit of GDP rather than absolutely) and technology partnerships. He joined the Asia-Pacific Partnership on Climate and Energy, which Bush had initiated as an “alternative” to Kyoto. He stated publicly that he wouldn't aim for Canada to meet its Kyoto emissions target, preferring to pursue what he called a “made in Canada” response. Because Canadian emissions had grown so fast, and no policies had been put in place to check them, it became rapidly obvious that the only way Canada could meet these obligations was to buy large amounts of credits from the CDM or even more likely, simply to buy “Assigned Amount Units” – Kyoto's basic unit of accounting for GHG emissions – from a country like Russia or Ukraine. Harper balked at the payments for “hot air” – since Russian and Ukrainian emissions had simply declined because of the economic collapse in the early 1990s – hence his rhetoric of a “made in Canada” solution.

The Canadian government did introduce and pass legislation, the Clean Air Act, in 2006, which established the basis for regulating GHG emissions. The Act was developed in the government action plan entitled “Turning the Corner”, produced in April 2007. This contains a long term reduction target of 60-70% below 2006 levels by 2050, and introduces a short-term target of a 20% reduction over 2006 levels by 2020 (this is, however, an increase over 1990 levels, given the increase in Canadian emissions since that date).

The centerpiece of this legislation is a carbon market system. This system was due to come

into existence in January 2010, although in October 2009 the government announced a delay in the implementation. This system is based on the one already introduced in the province of Alberta in 2007. Unlike any other carbon market in operation or development anywhere in the world, it is neither strictly a cap and trade nor a carbon offset market. Instead, it is based on an intensity target. Firms regulated are required to reduce their emissions per unit of production by 18% by 2010 over 2006 levels, and then continue to increase efficiency by 2% per year after 2010.⁵ As many critics have pointed out, this is only a marginally faster efficiency improvement than business-as-usual, thus requiring little action to meet the goal.

Companies can meet their obligations directly, or by buying extras from companies that can beat this 18% efficiency gain, or by investing in domestic (i.e. within Canada) offset projects, or by paying (at only Can\$15 per ton, equivalent to around €9.50 per ton) into a technology fund, which is then mostly redistributed to the firms themselves to finance R&D in new technologies like Carbon Capture and Storage. In the Alberta system already running, about 75% of the obligations are being met by paying into this technology fund, meaning that the system is in practice more like a low-level carbon tax than a true carbon market. Crucially from an international point of view, this market is not fungible with any other market, because it doesn't have the clear, unambiguous unit of a "ton of carbon dioxide equivalent" as its basic unit. A futures market was established in 2008 through the Montreal Stock Exchange, but trading in that market is slack and prices are low, revealing the lack of expectations about its prospects as a carbon market.

Canadian Dependence on the U.S.

One of the reasons for relative inaction in Canada is the high degree of dependence on the US, a relationship once characterized by Prime Minister Pierre Trudeau as like "sleeping with an elephant". In 2007, 76% of Canadian exports went to the US, while 65% of Canadian imports came from the US. The regulation of various

aspects of the Canadian economy thus tracks that in the US. Environmental regulation is a paradigm example, especially in those areas, like automobiles, where the market is highly integrated. Canada is clearly a "policy-taker" in this regard. So while the Liberal governments of Jean Chrétien and Paul Martin may have wanted to act, they felt constrained by this relationship, especially once George Bush pulled the US out of Kyoto in 2001.

But this dependence on the US may now become an opportunity. Policy developments in Canada are likely to track those in the US closely. The Canadian government has already initiated talks with US officials about the possibility of a North American cap-and-trade system. It is however unclear whether they understand that this will entail a dramatic overhaul in the design of the current Canadian system, specifically involving the abandoning of intensity targets. Nevertheless, in the current context, the driving of Canadian policy by the US is likely to be a positive development, once it comes to fruition.

Action beyond the Federal Level

In comparison with most other countries who have already developed more ambitious climate policy measures, the US and Canada are extremely decentralized political systems. US states and Canadian provinces have a great deal of autonomy, and many have used this autonomy to develop climate change policies considerably more ambitious than those of their federal governments.

In the US, these developments were stimulated in many ways precisely by Bush's withdrawal from Kyoto.⁶ Ashamed of their federal government's inaction, states like Massachusetts or California took the lead in developing their own programs. States and provinces are also now collaborating with each other across the US-Canada border to develop carbon markets between them.

The first of these markets, known as the Regional Greenhouse Gas Initiative (RGGI, pronounced "reggie"), auctioned its first

allowances in September 2008. Its members are a group of 10 states in the northeastern US (plus two others and three Canadian provinces as observers), who have an agreement to reduce emissions and have implemented a cap-and-trade system to pursue that goal. In RGGI, allowances are auctioned, but prices are still low – around US\$4 (€2.67) – to stimulate significant shifts in consumption or investment. Nevertheless, there is some evidence that smaller shifts are occurring, such as increases in the number of jobs in improving energy efficiency of homes.⁷

The other two main initiatives are the Western Climate Initiative (WCI) and the Midwestern GHG Reduction Accord.⁸ These are in earlier stages of development. WCI plans to start formally in January 2012, while the Midwestern Accord doesn't yet have a finalized timescale. Like RGGI, they also involve both US states and Canadian provinces with a view to establishing a cap and trade system amongst them.

Many individual states have also enacted unilateral policies. Perhaps best known is California's plan. California's is relatively modest, aiming only to stabilize emissions at 1990 levels by 2020, roughly similar to that now envisaged at the federal level in the US. Nevertheless, this preceded federal action and many suggest helped to stimulate action within the US Congress.

In addition to participating in the various regional initiatives, a number of Canadian provinces have developed plans. British Columbia and Québec have both implemented carbon taxes, with BC's being much more substantial than Québec's. Alberta has developed a carbon market, as already noted. Ontario is starting, after having been slow to start, to develop a range of policies to limit emissions, and has stated its aim to develop a cap and trade system either jointly with Québec or as part of one of the regional agreements (it is an observer both with RGGI and the WCI).

What can we expect?

So what can be expected in the next year or so?

It has to be said that the prospects for anything ambitious at the international level built around the current levels of ambition in either the US or Canada are relatively bleak. The concrete targets for 2020 being proposed in the US Bills are weak compared to those being proposed by the EU, the recent announcements by the new Japanese government, or many developing countries. Countries like Brazil are proposing to reduce their own emissions by more than the US or Canada (although most of Brazil's proposed reductions will come from reduced deforestation).⁹

What can be said, however, is that the basic design of regulation in the US is broadly compatible with that in the EU and elsewhere. Moreover, Canada will follow the US lead once that direction is more clearly established. In the run-up to Copenhagen, US negotiators have made much of the need to find a new design for a multilateral agreement not based on Kyoto. But much of this is for a domestic audience who want to be reassured that when the US joins multilateral agreements, it is from a position of leadership. What they propose – a system of “pledge and review” targets along with flexibility mechanisms – has many similarities to the Kyoto agreement. This is not a surprise since Kyoto was also designed largely to suit US interests.

In Copenhagen, therefore, negotiators from other countries may be faced with a choice of a weak agreement with the US in and a stronger one with the US out. They should not worry about Canada in this context, which will follow the US lead. The problem is rather that the US political dynamic requires in effect that the US be seen to lead in the design of the agreement.¹⁰ This is the stronger sticking point than the details of specific targets to emissions reductions, around which various fudges and compromises are imaginable. So lots in effect rides on whether US negotiators have enough of a signal from Congress that they can propose something in the UN negotiations that will have a chance of being ratified in the US Senate, as well as being acceptable to other countries. At the moment, this looks at best to have a 50% chance of occurring in time.

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The position of the author does not necessarily represent that of the Friedrich-Ebert-Stiftung.

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² On obstruction in the Senate, and corporate lobbying, see Noreen Nielsen, “The audacity of nope: the GOP obstructs the Clean Energy bill”, *Climate Progress*, November 4 2009, at: <http://climateprogress.org/2009/11/04/party-of-no-gop%E2%80%99s-delay-obstruction-of-clean-energy-climatebill/>.

³ “Sen. Baucus (D-MT): ‘There’s no doubt that this Congress is going to pass climate change legislation’,” *Climate Progress*, November 6, 2009, at: <http://climateprogress.org/2009/11/06/baucus-congress-is-going-to-pass-climate-bil/>.

⁴ Environment Canada, *National Inventory Report: Greenhouse Gas Sources and Sinks in Canada 1990-2007, Submission to the United Nations Framework Convention on Climate Change*. Gatineau QC: Environment Canada, 2009.

⁵ Environment Canada, *Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions*, last modified August 2008, available at: http://www.ec.gc.ca/doc/virage-corner/2008-03/541_eng.htm.

⁶ Barry Rabe, *Statehouse and Greenhouse*. Washington DC: Brookings Institute Press: 2004; Henrik Selin and Stacy D. VanDeveer (eds), *Changing Climates in North American Politics Institutions, Policymaking, and Multilevel Governance*. Cambridge MA: MIT Press, 2009.

⁷ See for example Doug Struck, “Cap-and-Trade Program Creates Green Jobs”, *Scientific American*, April 23 2009. Online at: <http://www.scientificamerican.com/article.cfm?id=cap-and-trade-creates-jobs>. See also RGGI’s

website at: <http://www.rggi.org>.

⁸ See their websites at: <http://www.westernclimateinitiative.org/>, and <http://www.midwesternaccord.org/index.html>.

⁹ Tom Phillips, “Brazil pledges deep emission cuts in ‘political gesture’ to rich nations,” *The Guardian*, November 10 2009. Online edition, at: <http://www.guardian.co.uk/environment/2009/nov/10/brazil-emissions>.

¹⁰ For more details of this geopolitical dynamic, see Matthew Paterson, “Post-Hegemonic Climate Politics?,” *British Journal of Politics and International Relations*, 11, 2009: 140-158.