G|M|F The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

Policy Brief

Climate & Energy Program

March 2011

**Summary**: Evidence of the climate policy recession is all around us. The United States will not pass comprehensive climate legislation until at least 2013 due to strong domestic opposition. Europe is unable to decide whether to change its 2020 emission reduction goal from 20 percent to 30 percent. And the international climate negotiations would, on current trajectories, only reduce global emissions by half the amount needed. But there are promising opportunities for climate action. Both Europe and the United States are reforming traditional domestic policies like agricultural subsidies, taxation, and the electrification of automobile transport to reduce emissions. To complement these efforts, the transatlantic partners must pioneer a new style of low-emissions development diplomacy to strengthen smart energy and land-use policies in major emerging economies. This requires much better coordination of technical assistance programs among donor agencies and mainstreaming low emissions development into existing bilateral and multilateral development programs.

1744 R Street NW
Washington, DC 20009
T 1 202 683 2650
F 1 202 265 1662
E info@gmfus.org

# Weathering the Transatlantic Climate Policy Recession

*by Nigel Purvis*

We are in the midst of a serious transatlantic climate policy recession, resulting in a slowdown in climate policy innovation and implementation. Despite mounting evidence of the urgency of climate action, the United States and Europe are doing less to promote climate solutions than many hoped for only two years ago. The climate crisis hasn't gone away, but political will seems in short supply on both sides of the Atlantic, particularly in the United States.

## Climate Policy Recession

Evidence of the climate policy recession is all around us, unfortunately. In the United States, President Obama has given up all hope of passing comprehensive climate legislation until at least 2013, in view of strong opposition in the U.S. Congress. High unemployment rates, the sluggish U.S. economy, ballooning budget deficits, and the impending start of the U.S. presidential campaign, not surprisingly, have made economic growth and employment the sole focus of attention in Washington, DC. Climate change now ranks near the bottom of major political priorities for Americans.[1] In fact, President Obama didn't even mention the issue in his annual State of the Union Address to Congress in late January.

Out of the immediate headlines, the forces of change and of status quo that shape U.S. policy appear to be at a stalemate, at least for now. While the president has proposed new electric utility and energy efficiency regulations and the elimination of fossil fuel subsides, getting the Congress on board will be a major challenge. Even though both the federal government and the state of California are moving forward with new greenhouse gas regulations, Congress and industry lawsuits are threatening to delay or stop these actions altogether, and budget cuts in both climate and clean energy programs seem likely in the months ahead.

Yet the outlook for U.S. emission reductions is not as bleak as some may assume. Lower than anticipated U.S. economic growth, sharply declining

[1] Jones, J. (2011), *Unemployment Solidifies Position as Most Important Problem*, Gallup; Newport, F. (2010), *Republicans Prioritize Immigration; Dems, Financial Reform*, Gallup; Newport, F. (2010), *Americans' Global Warming Concerns Continue to Drop*, Gallup.

natural gas prices, stronger local air pollution standards and new climate policies (including recently adopted vehicle efficiency measures) could leave U.S. emissions roughly 10 percent lower than 2005 levels by 2020.[2] While this would be a far cry from the 25-40 percent reductions scientists have called for and less than the 17 percent reduction President Obama pledged in Copenhagen in 2009, the outcome would still improve considerably on President Bush's 2008 statement that U.S. emissions would continue to rise until 2025.[3]

Europe, too, appears stuck in the climate doldrums, unable to decide whether to change its 2020 emission reduction goal from 20 percent to 30 percent — even though the 30 percent target is now projected to be more affordable than the original 20 percent goal appeared at the time it was established, thanks to economic forces similar to those in the United States.[4] While some EU member states wish Europe to move immediately to 30 percent, others are concerned about the additional costs and competitiveness effects. This situation is in sharp contrast to 2009 when Europe was officially eager to reduce its emissions 30 percent, provided other countries took action in the context of a new global climate deal.

## Neither the United States nor Europe have a plan for financing climate action in developing nations.

Internationally, global climate negotiations under the United Nations remain the primary focus of climate diplomacy. Progress achieved at the Cancun session last December has rebooted the global negotiations after the high profile 2009 Copenhagen crash. Yet, on their current trajectory, climate talks would only reduce global emissions by half the amount needed.[5] Uncertainty exists, furthermore, about whether emissions mitigation pledges will be legally binding for key countries and result in strong consequences for noncompliance, giving rise to reasonable fears that many nations will fail to really implement their modest climate pledges. Plus, if global negotiations result in an agreement that requires the advice and consent of the U.S. Senate, as the Kyoto Protocol required, U.S. participation could prove nearly impossible to obtain anytime soon. A UN climate treaty, in short, could become — indeed is likely to become — a lowest common denominator affair and not the robust climate solution advocates envisioned two or three years ago.

Many developing country policymakers also worry whether the United States, Europe, and other developed nations will have the political will, policy mechanisms, and financial resources to help developing nations take ambitious climate measures. New international climate investments are needed to protect international peace and security, accelerate global emissions mitigation, increase climate resilience, and maintain recent gains against poverty in least developed nations. These international financial flows from developed to developing nations are also needed to ensure that global climate solutions are fair, durable, and timely since emissions mitigation and climate adaptation investments are required in nations that have done far less than Europe and the United States to cause the climate problem and have less capacity to act on their own. In Cancun and Copenhagen, developed nations promised to mobilize $100 billion per year in public and private resources by 2020 to meet developing country needs. Unfortunately, neither the United States nor Europe has come up with a plan to meet this financial commitment — i.e. they have yet to describe how they will raise these resources in a manner consistent with solving the climate crisis.

### Domestic Action

The foregoing is deeply worrying, of course, but avenues for climate progress remain. To begin with, traditional domestic policies may offer other opportunities for progress.

[2] Burtraw, D., Fraas, A., and Richardson, N. (2011), *Greenhouse Gas Regulation under the Clean Air Act: A Guide for Economists*, Washington, DC: Resources for the Future; Bianco, N., and Litz, F. (2010), *Reducing Greenhouse Gas Emissions in the United States Using Existing Federal Authorities and State Action*, Washington, DC: World Resources Institute.

[3] Runningen, R., and Rosenkrantz, H. (2008), *Bush Sets Goal of Halting Emissions Growth by 2025*, Bloomberg.

[4] Euractiv (2011), *30% greenhouse gas emissions cut 'still on the table'*; Euractiv (2010) *Move to 30% $CO_2$ cuts 'feasible' if distributed across sectors.*

[5] United Nations Environment Programme (2010), *The Emissions Gap Report*.

Clean energy export promotion programs and liberalizing trade in environmental goods and services can help create good jobs and position climate action as part of the economic recovery political narrative. President Obama has set a goal of doubling exports over the next five years, with clean energy as a leading sector. U.S. financing for renewable energy and energy efficiency exports doubled to $500 million in 2010.[6] Similar ideas enjoy support in Europe. Britain and France, for example, are banking on investment and trade deals with China in order to drive their economic recovery. France signed $22.8 billion in deals last fall, while Britain pushed forward $4 billion in clean energy trade with China and has made similar progress in India.

Fiscal policy is also ripe for climate-friendly action. As Europe and the United States seek to reduce their unsustainable budget deficits, they should eliminate domestic fossil fuel subsidies and raise new revenues through levies on climate pollution. The most recent Europe-wide estimate of energy subsidies is from 2001, and identified about $32 billion for fossil fuels a year.[7] Recently, President Obama has proposed eliminating about $4 billion in annual U.S. fossil fuel subsidies, although few analysts expect strong support in Congress, where positions on subsidies tend to be regional rather than partisan.

Similarly, with oil prices nearing record levels, the United States and Europe should respond to growing public interest in reducing dependence on petroleum, such as through increased vehicle efficiency standards and subsidies for low emissions vehicles. President Obama has proposed a goal of 1 million fully electric cars on U.S. roads by 2015, backed by incentives for consumers to purchase electric vehicles and federal government investments in electric vehicle infrastructure. As part of its comprehensive climate and energy package Europe also set strong greenhouse gas efficiency standards for vehicles. Both parties are promoting alternative fuels and new technologies. Surely more can be done here too by learning from best practices on both sides of the Atlantic.

Electricity policy is also in play in the United States and Europe. President Obama has proposed that 80 percent of U.S. electricity come from low or moderate carbon energy sources (mainly renewables, nuclear, and natural gas) by 2035, approximately double current levels. Europe's climate and energy package includes a target of 20 percent renewable electricity by 2020, with some countries such as Germany and Spain adopting domestic policies such as feed-in-tariffs to go even further. For advocates on both sides of the Atlantic, energy policy is the new climate policy, and gains in these areas must be maximized.

**Europe and the United States must pioneer a new style of ambitious low emissions development diplomacy.**

As noted above, the EU continues to debate whether to reduce emissions 20 or 30 percent by 2020. Whereas once Europe considered a new global climate agreement an essential prerequisite for this move, now many of the more prosperous European nations (U.K., France, Germany) view an unconditional move to 30 percent as sound economic and environmental policy. This proposal faces fierce opposition in eastern and southern Europe, which is less wealthy, more coal dependent and in deeper debt than other parts of Europe. One possible compromise could involve providing European companies greater flexibility to achieve more ambitious emission reduction goals under the EU Emissions Trading System (ETS), such as through investments in tropical forest conservation. This would reduce costs and help finance climate action in developing nations. The EU should pursue ETS strengthening and reform now without waiting for the conclusion of a global climate agreement.

Proposed reforms in U.S. and EU internal agricultural policies, if adopted, could also have significant climate implications. Few expect a major European debate this year on revising the Common Agricultural Policy — with Britain in favor, and Germany and France opposed — even though surely it is finally time to make the hard choices. The

[6] Export-Import Bank of the United States (2010), *Ex-Im Bank Joins Seven Other Agencies in Launching Renewable Energy and Energy Efficiency Export Initiative.*

[7] European Environment Agency (2004), *Energy subsidies in the European Union: A brief overview.*

EU spends about $71 billion on farm subsidies each year.[8] The United States will also be re-authorizing its farm bill, although primary debate is not expected to take place until 2012.

Agricultural reforms could help or hurt the climate. Agricultural price supports and other subsidies for American and European farmers reduce the competitiveness of foreign beef and soy producers in Brazil and other emerging economies. Reducing domestic price support for farmers in the EU and the United States, therefore, could result in an expansion of international agriculture and an increase in emissions from tropical deforestation. In contrast, directing a portion of current agricultural subsidies to conserving international forests could help advance the Doha World Trade Organization negotiations, stabilize the amount of foreign lands in competition with European and American farms, and reduce emissions from deforestation, while still leaving some savings to reduce budget deficits.

China, Mexico, and South Korea view controlling the commanding heights of the new energy economy as essential to their long term economic, energy security, and national security objectives.

None of these solutions will be easy. In Britain, for example, petrol prices are edging close to $9.60 (6 pounds sterling) per U.S. gallon as a result of high fuel taxes, an increase in the value-added tax, and rising global oil prices. The high prices are seen as hitting the middle class hard and — according to some economists — threatening economic recovery, so Prime Minister David Cameron is coming under pressure to scrap new fuel duties or condition them on future declines in petroleum prices. Petroleum prices in the United States this summer could reach $4 or $5 per gallon — historic highs for the United States. The political challenges in other areas are just as great. Thus, while domestic policies can be part of the climate solution, ramping up international climate diplomacy will also be vital.

### Rethinking Climate Diplomacy

Given this environment, Europe and the United States must pioneer a new style of ambitious low emissions development diplomacy.[9]

Fortunately, key opinion leaders in Europe, the United States, and around the world are coming to realize that smart energy and land-use policies — ones that make sense in purely local terms — also produce global climate co-benefits. Indeed, the global movement toward "green growth" and low emissions development seems strongest in the world's major emerging economies, including China, Mexico, and South Korea. These countries are in a position to lead partly because they face lower economic, social, and political transition costs than developed nations (since emerging economies are building or rebuilding their industrial infrastructure anyway). These emerging nations also view controlling the commanding heights of the new energy economy as essential to their long term economic, energy security, and national security objectives. Capitalizing on the opportunities created by this trend will require answers to a new set of climate foreign policy questions.

**How can the transatlantic community work together to ensure that nations with the political will and investment capital to pursue low emissions development have the necessary knowledge and capacity to do so?** The proliferation of technical assistance programs for low emissions development in donor agencies is encouraging but nations need to create a stronger global mechanism to ensure these efforts are strategic, coherent, and at the scale needed for success. Elsewhere, I have proposed the creation of a Consultative Group for Low Emissions Development that would have as its mission providing policy and technical

[8] Hunt, N. (2011), *EU farm reforms should be more ambitious — UK*, Reuters.

[9] See, e.g., Purvis, N. (2010), *Jumpstarting Global Green Growth: International Climate Strategies in the New Transatlantic Political Context*, Washington, DC: The German Marshall Fund of the United States.; Purvis, N. and Stevenson, A. (2010), *Rethinking Climate Diplomacy: New Ideas for Transatlantic Cooperation Post-Copenhagen*, Washington, DC: The German Marshall Fund of the United States.

support to nations to promote peer-to-peer learning about what policy frameworks work and how to tailor them to local circumstances.[10] As a network of the world's leading experts in smart energy and land-use policies, supported by predictable and adequate funding, this consultative group could help interested nations make informed policy decisions and speed implementation of climate solutions. This in turn would lead to smarter and more successful energy and land-use policies.

**In addition, how can we make better use of scarce overseas development assistance?** Surely, this requires, at a minimum, mainstreaming the idea of low emissions development into the heart of existing bilateral and multilateral development programs. Europe and the United States must find a way of helping developing nations provide access to energy and meet their growing energy needs without using taxpayer's money to support yesterday's highly polluting technologies. In the coming months, all eyes should be on the World Bank and its forthcoming new energy sector strategy. As a first step toward decarbonizing global energy-sector lending, donor nations should increase their capital contributions to the World Bank and other multilateral development banks to cover the additional up-front and incremental costs of clean energy projects in developing nations in exchange for an agreement with developed nations that all international public sector energy lending must be consistent with global climate goals.

Clear skies for climate policy may not return soon enough. After the success in Cancun, climate diplomats are likely to continue elaborating building blocks for a new global climate agreement through the end of the year and probably beyond. This is important work but it cannot remain the central focus of transatlantic and global climate cooperation. Given the urgency of climate solutions, policymakers also must pursue a broad range of domestic and international opportunities for action right now and thereby overcome the current climate policy recession.

### About the Author

Nigel Purvis is the founder and CEO of Climate Advisers, a senior transatlantic fellow at the German Marshall Fund and a visiting scholar at Resources for the Future. This paper benefited from analysis provided by Andrew Stevenson of Climate Advisers.

### About GMF

G|M|F The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

The German Marshall Fund of the United States (GMF) is a nonpartisan American public policy and grantmaking institution dedicated to promoting greater cooperation and understanding between North America and Europe. GMF does this by supporting individuals and institutions working on transatlantic issues, by convening leaders to discuss the most pressing transatlantic themes, and by examining ways in which transatlantic cooperation can address a variety of global policy challenges. In addition, GMF supports a number of initiatives to strengthen democracies. Founded in 1972 through a gift from Germany on the 25th anniversary of the Marshall Plan as a permanent memorial to Marshall Plan assistance, GMF maintains a strong presence on both sides of the Atlantic. In addition to its headquarters in Washington, DC, GMF has seven offices in Europe: Berlin, Bratislava, Paris, Brussels, Belgrade, Ankara, and Bucharest.

### About the Transatlantic Climate Bridge

Transatlantic Climate Bridge

This paper would not have been possible without funding from the "Transatlantic Climate Bridge," an initiative jointly launched by the German Federal Foreign Office and the German Federal Environment Ministry to connect and support those working to address the challenges of climate change, energy security, and economic growth at the local, the state, and the federal level in the United States and Germany.

[10] Forthcoming, Jones, A. and Purvis, N. (2011), Consultative Group for Low Emissions Development.