



Oxford Institute for
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Where Next for US Policy on CO₂ and Climate Issues?

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1. Introduction and summary

- EU has a climate change “alliance” with the US
- The US almost passed climate change legislation
- The prospects for CC legislation are dim
- Risk of pull back at state level – California
- But expect activity from EPA on coal-based power – this could lead to a bipartisan “deal”
- Otherwise, negative implications for US and global negotiations
- The EU should rethink its alliance



2. The US almost passed federal CC legislation Summary of Waxman-Markey (WM)

- WM passed in the HR in June 2009 with a majority of 8
- Cap and trade regime to reduce CO₂ emissions from major US sources, by 17% in 2020 and 83% in 2050 (2005 base)
- Cost mitigation measures to limit CO₂ price and overall cost to the economy (estimated at 1-3.5% of GDP in 2050)
- Allocation of free permits a currency to win votes
 - Special protection for certain customers, notably electricity and gas customers.
 - Financial support for clean energy technologies, notably CCS – potentially over \$200 billion by 2050.
- 20% Renewable Energy and Energy Efficiency Target.
- International trade restrictions to deal with leakage concern.



2. The US almost passed CC federal legislation The “Big Deal” with coal/power lobbies

White House and Environmental Lobby Got – a Climate Bill (WM)

- Price for carbon – reduces coal’s competitiveness, promotes clean energy
- Emission standards for new coal power stations, incentives to fit CCS early

What coal and power lobby got:

- fund (from tariffs) to support demonstration plants
- Up to \$240 billion in bonus CO2 permits to fund CCS plants
- No mandate or standards imposed on **existing** coal
- Protection for its customers
- Cost mitigation measures on CO2 price – offsets and cap
- Regulatory clarification for investment in CCS
- Postponing CO2 emission reductions



3. Why the Senate failed to pass CC legislation

- Kerry-Graham-Lieberman made deals with oil, gas and coal, but stalled in Senate in 2010
- Climate not THE top priority for the White House
- Partisan politics, mid term elections and the economy
- Public indifference on climate issues
- Perception of high cost
- Over-ambitious in coverage: focus now on power
- Opposition from coal state politicians
- Bad luck – the deal with oil backfired (Deepwater)! ⁶



4. What to expect from the US on climate issues

- Depends on elections and Proposition 23
- Most likely, no major federal legislation for 2+ years, but perhaps an RES on power (or low carbon quota)
- SEC, cities, state and regions will press
- The big fight is over EPA authority to regulate coal-based power – CO₂, SO₂, NO_x, mercury, ash, water.
 - White House will use EPA to regulate
 - Industry will challenge in the courts
 - Possible “bipartisan” deal on power – like WM but more carrots (e.g. nuclear, no EPA authority)
- A key to outcome and possible deal is the coal states



5. Likely implications of inaction

- Less finance and innovation in low carbon technology
- Continued reliance on hydrocarbons and emissions will increase, raising cost of reducing more later;
- US companies will fall behind in global green tech markets
- Protectionist trade policy, especially with China
- Further delays in international negotiations



6. Conclusions

- The US almost passed federal legislation to curb CO2
- It is still possible for a bipartisan deal – it would require support from the coal-based states: key is a deal with the power sector deal
- Absent that, there will no legislation in the US for 2+ years; this will hurt US green tech, trade and UNFCCC negotiations.
- The EU should rethink its alliances
- Consider closer relations between the EU and China.