

Obama's Climate Change Strategy: Details, response and implications for Canada

Jason Dion and Philip Gass

Context and Key Elements

On June 25, President Obama announced his administration's plan for dealing with the issue of climate change over his second term (White House, 2013). The plan is an unofficial response to congressional inaction on the climate change file, particularly in Obama's first term when cap-and-trade discussions collapsed in a very public display. With legislative carbon pricing approaches off the table, the most effective tool at Obama's disposal is Environmental Protection Agency (EPA) regulation. One of the long-expected key announcements¹ is that Obama has instructed the EPA to pursue a sector-regulation approach for electricity, similar in nature to Canada's sector emissions limits. The electricity sector is the source of 40 per cent of U.S. greenhouse gas emissions.

Canadian Versus U.S. Approach

In comparing the EPA approach to Canada's sector regulations, the initial key difference is that the U.S. approach will regulate both new and existing facilities, whereas Canadian regulations have so far only focused on new facilities. It remains to be seen whether the final EPA regulations will retain broader coverage than Canada's approach and how regulatory standards will compare to those in Canada. If the EPA regulations end up being broader/more stringent than those emerging in Canada, it will be interesting to see whether additional pressure is put on the Canadian government to expand/strengthen its approach in the electricity sector.

As we are well aware, regulatory development processes can take years to unfold, and there will undoubtedly be much opposition to EPA electricity regulations. The ultimate outcome of this process is highly speculative at this time and therefore initial assessments of its implications for Canada must be taken with a grain of salt.

¹ See the appendix for an overview of the various policies and initiatives announced in the plan.

Impact on Emissions Trading Schemes

The president was careful to emphasize that the suite of policies and initiatives announced will build on the work already being done at state and local levels. What is unclear is how regional greenhouse gas emission trading systems such as the Regional Greenhouse Gas Initiative (RGGI) and the Western Climate Initiative (WCI) will be affected. However, those involved in these initiatives seemed confident that these systems would align well with the pending regulations. Mary Nichols, head of the California Air Resources Board, which pioneered the state's WCI system, believes that the state's program is under no threat from the announcement, stating that she believes California's policies "fit well with the outline the president has created" (Kahn, 2013). This sentiment was shared by those involved in the RGGI. Peter Shattuck, director of market initiatives for ENE, the environmental group that has been RGGI's chief watchdog, stated: "I think particularly with the improvements to RGGI, the region is clearly out in front of the nation as a whole... The region should be able to withstand whatever comes out of EPA" (Spiegel, 2013). Despite this confidence, the potential impact on revenue collection and allocation for these programs remains unclear. Some of the details on this will likely be ironed out at a meeting next month in Washington D.C. between EPA officials and interested states, including many of the RGGI and WCI participants.

If RGGI and WCI are able to retain their systems (which it seems would be their preference), that would provide interesting parallels with the equivalency negotiations that are currently taking place in Canada between provinces and the federal government. With the Canadian and U.S. regulatory systems developing on a similar pathway of federal regulations supported by subnational carbon pricing, there is a greater likelihood of the two systems being compatible, and the potential for a continental equivalency approach to emerge. Again, it is very early in the process, but the issue of equivalency seems only likely to grow in importance as we look ahead. With the seeds being planted for similar approaches in the United States, there may be room for both formal and informal dialogues on the issue of equivalency across the Canada-U.S. border in the future.

Reaction to the Plan

The president's plan calls for an ambitious, inclusive and flexible international agreement on climate change. In his speech, President Obama promised to redouble U.S. efforts to engage international partners in reaching a new global agreement on carbon pollution, pointing to recent enhanced climate cooperation with emerging economies, including India, Brazil and China. The response to the plan from the United Nations Framework Convention on Climate Change (UNFCCC) was positive. UNFCCC Executive Secretary Christiana Figueres, the UN's top climate change official, said that the plan is a "necessary next step" and that it could help put the international community on a path to a new global climate agreement. She noted positively that the plan utilized the "full menu" of policy options by addressing clean energy, renewable energy, energy efficiency and adaptation, and applauded the president's stated desire for the United States to be a leader at international negotiations (UNFCCC, 2013). Whether or not this announcement will change any dynamics at the international level remains to be seen. Obama's speech hit a lot of the right notes, but stopped short of a formal commitment on climate financing, which will be a key "ask" of developing countries for the development of a new multilateral agreement. That said, this announcement will at least reassure the international community that the president still considers climate change a top priority and remains committed to meeting 2020 reduction commitments. This reassurance was needed given the domestic climate policy failures in his first term. However, broader progress on a future international agreement remains dependent on other major emitters providing clarity on future commitments and on climate financing.

The environmental community's response was generally favourable, but many underscored their preference for a nationwide carbon-pricing instrument such as cap and trade or a carbon tax (options that were not on the table without congressional consent), and emphasized the need to get moving on implementing the new regulations. Eileen Claussen, president of the Center for Climate and Energy Solutions, noted that, although her organization would like to see a congressional mandate on a price on carbon, the plan was an important initiative, and she was pleased to see long-overdue power plant regulations as the centerpiece (Center for Climate and Energy Solutions, 2013). Others were less impressed. Friends of the Earth (2013) called the plan "a selection of actions" rather than the "broad, ambitious plan that is needed to combat climate change and extreme weather." The stringency of and timeline for the new regulations were the key considerations for many environmental groups. A number of groups encouraged the EPA to release all of its standards for new and existing plants at the same time, rather than one at a time, as is widely expected. The latter time frame could push implementation of the regulation of existing plants into the next administration's term (Stecker, 2013).

Overall, environmental groups' responses fell into two camps: those that would prefer a much broader carbon pricing approach, but realize that EPA regulation presents a path of much less resistance (perhaps the only path for U.S. greenhouse gas mitigation, particularly in the near term), and those who feel that, difficult or not, a national price on carbon along with a suite of complementary measures is the only way to enact the significant reductions that are needed to prevent catastrophic climate change.

Implications for Canada

The plan's implications for Canada are thus far unclear. The stringency of the ultimate regulations and the degree to which Canada and U.S. regulations are parallel will be important in determining the implications for Canada with regard to the electricity sector. As stated above, the United States' decision to regulate existing facilities may prompt Canada to examine its own approach.

An important aspect of U.S. climate and energy policy for Canada is the approval of the Keystone XL Pipeline. Many had expected the president to avoid the topic, but he went as far as to state that the pipeline must not "significantly exacerbate" the problem of carbon pollution, emphasizing the significance of the pipeline's net effects on climate (Obama, 2013). The State Department, in charge of the pipeline review, has already said that the pipeline would likely not have a substantial impact on the environment and would not increase the rate of development in the oil sands. So there is reason to believe it may still be approved this year despite (or because of—depending on your view) Obama's strong language on the subject. Pressure in the United States to approve the plan is high. Following the president's speech, prominent Republican Senator Lindsay Graham tweeted: "even if we don't build Keystone the Canadians have made it clear they will sell oil from the oil sands," adding that rejecting Keystone would be "one of the most short-sighted decisions in memory" (Graham, 2013).

Conclusion

Obama's climate change plan is a significant step forward and provides much-needed action on a number of fronts, addressing domestic mitigation, adaptation and the international context. While the plan provides concrete details in some areas, many of the more important considerations, such as the form and stringency of power plant regulations, have not yet been provided. The perception and ultimate efficacy of this plan will hinge on these details. While it isn't a national carbon pricing plan, it is probably best to view the approach on domestic mitigation as "half a loaf is better than none," as no loaf was a significant risk if the plan was to push congressional pricing proposals. IISD will be watching closely as more details emerge.

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Appendix: Overview of the Plan's Specific Elements

The following provides a summary of the main policies and initiatives found in Obama's Climate Change Action Plan. Several actions contained in the plan had been previously announced and are already underway. The more concrete announcements are provided in bold.

Cutting Carbon Pollution

Fossil fuels:

- Rules for new standards for new and existing power plants will be drafted by the EPA by June 2014 and completed a year later; rules will be developed in a transparent manner and build on cities' and states' existing initiatives.
- US\$8 billion in self-pay loan guarantee authority for advanced fossil energy projects (avoidance, reduction or sequestration) will be made available.
- Natural gas drilling will be made cleaner and safer and it will be used as a "transition fuel."

Renewable energy:

- Interior Department will green light private, renewable energy on public lands to produce 10GW of capacity by 2020.
- 100 MW of installed renewable energy capacity across the federally subsidized housing stock.
- Federal government will consume 20 per cent of its power from renewable sources by 2020 (currently 7.5 per cent).
- Increase funding for clean energy technologies by 30 per cent to US\$7.9 billion.
- Expand and modernize the electric grid.
- Use budget to call on Congress to end tax breaks for big oil and invest in clean energy companies.
- Work to mobilize private capital for energy efficiency and renewable energy investment.

Efficiency:

- Update efficiency standards for appliances and federal buildings to mitigate 3 billion tonnes of carbon dioxide (unclear how much of this will come from the new policy).
- Develop increased fuel economy standards for heavy-duty vehicles for the post-2018 period.
- Provide up to US\$250 million for rural utilities to finance efficiency investments by rural businesses and homeowners.
- Expand the program to make commercial and industrial buildings 20 per cent more energy efficient by 2020 to include multifamily housing.
- Institute a federal quadrennial energy review.
- Develop alternative transportation technologies and fuels.

- Work on factoring energy efficiency into mortgage underwriting and appraisal processes for homes.
- Move to curb emissions from hydrofluorocarbons and methane, and to preserve forests.
- Synchronize building codes and leverage the “Green Button” standard in federal government decision making regarding energy, greenhouse gases and sustainability.

Keystone XL Pipeline:

- **Must be in national interest, which will be served only if the project “does not significantly exacerbate the problem of carbon pollution.”**
- Pipeline’s *net* effects on climate are “absolutely critical” to whether the project goes forward.

Preparing for the Impacts of Climate Change

- Department of Agriculture will create seven new Regional Climate Hubs to work with partners to support and develop climate resilient agriculture.
- Launch a cross-agency National Drought Resilience Partnership to help communities manage risk.
- Create a virtual climate resilience toolkit for state, local and private sector actors to centralize available resources and tools.
- Direct agencies to support climate-resilient investment and continue to support communities to prepare for climate change impacts.
- Short-term task force to engage with state, local and tribal officials to get insights and offer suggestions.
- New effort to create sustainable, resilient hospitals in cooperation with the healthcare industry.
- Continue work on Hurricane Sandy recovery and gather lessons learned.
- Continue the study of present climate change impacts on the energy and other key sectors.
- Promote leadership from the insurance industry for climate safety.
- Study how to conserve and protect land and water resources.
- Continue to work to make landscapes more resistant to wildfires.
- Have federal agencies update flood risk-reduction standards for federally funded projects to develop consistent approach.
- Increase the availability, accessibility and utility of scientific information and tools through investment in research, a new Climate Data Initiative and its third National Climate Assessment.

Leading International Efforts to Address Climate Change

- End U.S. support to coal plants overseas unless:
 - Country has no feasible economic alternative and uses most efficient technology available.
 - Facilities use carbon capture and storage technology.

- Enhance multilateral engagement and work at the negotiations.
- Expand bilateral cooperation, especially with China, India and other major emitters.
- Work through the Climate and Clean Air Coalition and the Global Methane Initiative to combat short-lived climate pollutants.
- Continue to work on reducing emissions from deforestation and degradation (REDD).
- In terms of energy use abroad:
 - Promote natural gas as a bridge fuel and encourage adoption of heavy-duty natural gas-powered vehicles.
 - Continue to promote safe and secure use of nuclear power.
 - Work to promote clean coal and remain active in the Carbon Sequestration Leadership Forum.
 - Improve efficiency of buildings, appliances, water and waste/water treatment.
- Negotiate global free trade in environmental goods and services.
- Work to phase out global fossil fuel subsidies.
- Promote clean energy globally.
- Strengthen global resilience to climate change.
- Mobilize climate finance by combining public resources with private sector investment in low emissions and climate-resilient infrastructure.

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Head Office

161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4

Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Web site: www.iisd.org

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