

Clean Energy and Climate Action: A North American collaboration

Washington Expert Dialogue
Summary of key messages

May 11, 2010

Canadian Embassy, Washington, DC



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IISD and the Pembina Institute supported an expert dialogue on clean energy and climate action in Washington, D.C. The dinner was hosted by **Gary Doer**, Canadian Ambassador to the United States, and **Marc LePage**, Special Advisor on Climate Change and Energy with the Canadian Embassy. Fifteen participants from government, industry and policy research institutions discussed opportunities and challenges in furthering a continental approach to climate change and clean energy. The key messages from the discussion are listed below.

- The North American climate change policy arena is characterized by political and policy uncertainty. While a clean energy agenda will continue to be promoted in North America for reasons related to future prosperity, jobs and energy security, developments regarding a strong regulatory framework or price signal on carbon are less certain.
- Legislation in the United States is a major element in the continental relationship because developments in the United States have and will continue to shape Canada's policy dynamics. A Canadian wait-and-see approach might have unforeseen consequences, as U.S. policies will not necessarily be a fit for Canada. Canada should undertake unilateral activities that do not carry strong competitiveness implications.
- A number of challenges persist to furthering collaboration between the United States and Canada. A critical missing link in the bilateral energy and climate policy relationship is a price on carbon. Many private sector actors welcome the shift to low carbon energy sources, yet need clear policy signals and incentives before making decisions.
- State- and provincial-level initiatives might continue to be critical policy drivers. Differing provincial/state interests in Canada and the United States add a complex layer to national, let alone continental, policies.
- Little has been done to address the consumption (demand) side. A major determinant of any clean energy and climate policy's long-term success will be the ability to achieve a balance between the supply and demand approaches.

Washington Expert Dialogue Report

The goal of this event was to bring together a select, high-level group of policy leaders in the area of clean energy and climate change policy from key constituencies (including government, industry and civil society) from Canada and the United States. Participants discussed the current state of play regarding federal legislation, existing dynamics within the United States and Canada on clean energy, and the opportunities and challenges in furthering a continental approach.

The evening was hosted by **Gary Doer**, Canadian Ambassador, and **Marc LePage**, Special Advisor on Climate Change and Energy with the Canadian Embassy. Attendees included:

| Name | Organization | Title |
|----------------------|--|--|
| Jessica Boyle | International Institute for Sustainable Development (IISD) | Project Officer, Climate Change and Energy |
| Elliot Diringer | Pew Center on Global Climate Change | Vice President for International Strategies |
| John Drexhage | IISD | Director, Climate Change and Energy |
| Danielle Droitsch | The Pembina Institute | Director, United States Policy |
| Nathaniel Gorence | National Commission on Energy Policy | Senior Policy Analyst |
| Jeffrey Hopkins | Rio Tinto Alcan | Principal Adviser, Energy and Climate Policy |
| Hilary McMahon | World Resources Institute (WRI) | Senior Associate, Climate and Energy Program |
| Robert Noël-de-Tilly | Western Climate Initiative (WCI) | Co-Chair, Quebec |
| Chris Perrault | Direct Energy | Senior Director, Climate Change Strategy |
| Marcus Schneider | Climate Program Director | The Energy Foundation |
| Franz Tattenbach | IISD | President Elect |
| Brian Turner | Office of Governor Arnold Schwarzenegger | Deputy Director |
| Daniel Weiss | Center for American Progress | Senior Fellow, Director of Climate Strategy |
| Carol Werner | Environmental and Energy Study Institute | Executive Director |
| Ed Whittingham | The Pembina Institute | Group Director, Consulting Services |

The event began with opening remarks from Ambassador Doer. He explained the value and importance of the North American energy relationship, and spoke about finding a pragmatic approach to work together to achieve emissions reductions in the most efficient and effective ways possible.

The Ambassador also noted the importance of governments (at all levels) in providing policy leadership in addressing clean energy and climate change issues, but also stated the importance of other organizations, such as those in attendance, in furthering the policy debate and providing insights on what can be done moving forward.

The evening's discussion was facilitated by Marc LePage, Special Advisor on Climate Change and Energy with the Canadian Embassy. Many of the issues discussed within the previous regional dialogues, from the effectiveness of various policy mechanisms to the advantages and disadvantages of a collaborative approach, were also raised by participants at the Washington event.

The discussion took place on the eve of the release of a discussion draft of the American Power Act (APA), a major climate and energy bill to be considered by the United States, and speculation remained as to the specific contents of the bill. Many attendees agreed that the general policy direction and mechanisms in the bill (including price floors and ceilings, consumer rebates and sector-specific approaches) were generally positive developments and a useful framework for action. However, serious doubt was expressed as to whether legislation can be passed this year. A number of factors were discussed as major challenges for passage in 2010.

First, the Gulf of Mexico oil spill has had a significant impact on the political landscape in the United States. While the event has underscored the importance of reforming energy policy, the APA includes provisions for boosting offshore drilling, included mainly to help win votes from states where the economies depend on energy production. Such provisions are no longer considered politically viable by many politicians and policy-makers.

Second, the legislative schedule remains clogged with numerous competing priorities, including financial reform, immigration and Supreme Court nominations. Similarly, as mid-term elections draw closer, many Senators in closely contested seats feel the clean energy and climate change issue is volatile and do not wish to risk an election loss over this issue. It was noted that a number of Senators who champion the cause will be retiring in the near future.

Finally, the Environmental Protection Agency (EPA) and Energy Information Administration (EIA) are undertaking economic analyses of the bill, which is not expected to be completed in June or July. It was largely agreed that if a Bill does not reach the floor shortly thereafter, it will have no chance of passing before the November mid-term elections. One of the many consequences of delayed action

at the federal level will be similar delays at the international negotiations, as it is widely believed that the United States will not agree to any international agreement ahead of having domestic legislation in place.

One particular aspect of the APA that was discussed in detail was the potential for preemption. The current version of the APA includes the provision that federal legislation would supersede: a) any greenhouse gas (GHG) regulatory capabilities of the EPA and b) state- and regional-level cap-and-trade schemes. Despite the recent announcement by the EPA that it will move to regulate if Congress does not legislate, it was agreed by many attendees that the potential for EPA regulatory power remains weak as the President could veto any regulatory decisions by the EPA. According to many attendees, the goal of such a veto would be to push for broader energy legislation.

With regard to potential preemption of regional-level initiatives, opinions varied as to how existing initiatives could or would exist under a federal framework. Participants noted that this is a critical issue, and policy complementarity was discussed the same day at a meeting of the three North American regional groups; namely the Northeast and Mid-Atlantic Regional Greenhouse Gas Initiative (RGGI), the Midwestern GHG Reduction Accord (the Accord) and the WCI.

For climate and energy, legislation in the United States is a major element in the continental relationship; and developments in the United States have and will continue to shape Canada's policy dynamics. In Canada, the federal government has not proposed legislation or regulations to cap emissions from industry, and appears to have no plans to do so until there is a U.S. system to harmonize with. However, in the absence of broad regulatory framework, there has been some constructive cooperation on vehicle emission and energy efficiency standards and regulations.

The energy relationship between Canada and the United States is a very complex system and a Canadian wait-and-see approach may have unforeseen consequences, as policies will not necessarily be applicable in both countries. It was noted that when the issue is framed as "energy security and independence" in the United States, Canadian energy is widely considered as part of the U.S. domestic supply. As such, energy independence for the United States in fact means interdependence with Canada.

Many discussants noted that regional initiatives and provincial and state actions are policy drivers in the absence of federal legislation in Canada and the United States. In many ways, this is viewed as a positive development, as jurisdiction for many of aspects of clean energy and climate change policy fall under state and provincial control. The state of California and province of British Columbia were noted as key policy drivers and leaders on clean energy and climate change action in the North American context.

Nonetheless, it was stressed that the federal government has a critical role in setting broad directions, enabling legislation, and using fiscal policies to achieve objectives, including through taxation and investment. Some view the federal government as a facilitator in that it should support the states, provinces and municipalities that are ultimately responsible for implementation.

Regardless of the level at which clean energy and climate change policies are designed, implementation is a very complex process, particularly because of the broad range of actors and institutions involved. The low-carbon fuel standard (LCFS) policy was discussed as an example of a policy framework that is “good on paper” but much more difficult to implement than anticipated. Both the ability to implement policies effectively and the level of success in achieving a desired goal can be improved by better cooperation and coordination at all levels. This is particularly true in the bilateral relationship between Canada and the United States— yet energy and climate policy-making remains compartmentalized within North America.

A number of challenges to further collaboration persist. A key missing link in the bilateral energy and climate policy relationship is a price on carbon. The highly integrated economic and energy relationship between the two countries could be further harnessed through the use of market mechanisms to help reach emission reductions goals. Representatives from the business community stressed the importance of clear policy signals to allow for adequate risk assessment. Many private actors welcome the shift to low-carbon energy sources, yet need incentives and a better sense of policy certainty before making decisions. While substantial discussions continue on the supply-side aspects of carbon pricing in North America, little has been done to address the consumption (demand) side. It was agreed that the ability to achieve a balance between the two approaches will be a major determinant of any policy’s long term success.

While a great deal of intellectual and political capital has been built up in both Canada and the United States, further commitment is needed to increase both the breadth and scope of policies that address clean energy and climate action within North America. Participants broadly recognized that a “wait-and-see” policy stance will not result in the needed emission reductions and low-carbon development.

Reaching emission-reduction and sustainable development goals throughout North America will require a broad and complex mix of policy tools and mechanisms. Dialogue participants concluded that a pragmatic approach is needed in the short term: one that recognizes the comparative advantages of each country, builds upon past progress and existing architectures, and furthers a long-term vision of cooperation on clean energy and climate action throughout North America.