



# THE NEW US PRESIDENT

– a climate briefing

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*"It will be like the difference between night and day" John Kerry on President-elect Barack Obama's commitment on climate change.*

For Europeans long accustomed to US climate scepticism, the new presidential regime's commitments on climate change are staggering. To make the US a leader in climate change. To cut carbon greenhouse gas emissions to 1990 levels by 2020 – equivalent to around a 17% reduction from latest 2006 figures. To deliver an 80% reduction on 1990 levels by 2050. All of this while also pushing ahead with five 'first of a kind' coal carbon capture and storage plants, getting 1million hybrid cars on the road by 2015 and providing a 4% year on year improvement in vehicle efficiency.

All very impressive, but will the carbon commitments fade in the reality of a US recession and a country that – even in the Democrats – is divided on climate change? Our policy tracker predicts that the US will indeed make significant strides in 2009. It could do little else given that 'green' was one of the core planks of the Democrat's campaign. A green 'New Deal' that includes construction of a new electricity transmission grid linking solar and geothermal energy from California, wind energy from Texas and tidal energy from the east coast will provide eye catching projects. And measures to improve automotive efficiency could be linked to the financial support under review today.

*Really substantial progress on the carbon cuts will be pushed back to later – even if policy announcements are dressed up as brave action today.*

A declining economy coupled to lower consumer demand could – regrettably – provide some evidence of progress in the short term. But the administration will want to avoid any hint that cutting carbon equates to cutting US jobs. A carbon cap and trade system will be in place for 2010. But exemptions to carbon intensive industries – coal, minerals, oil, metals – if granted, will reduce the price of carbon and weaken scheme effectiveness. The arguments used by Polish power stations and German steel makers in December's EU carbon cap

scheme negotiations for 2020, will be the same used in the US in 2009. A weaker regime for carbon intensive companies will make it harder for short term progress on cutting carbon and will require greater action elsewhere if the targets are to be achieved. To be further effective, the regime will need to be robustly designed with strong legal enforcement.

And what does this mean for Europe? Above all, a commitment from the US to reduce carbon emissions means that agreement in November at the Copenhagen summit (or shortly afterwards) is more likely. US action will also help to bring developing economies to the Copenhagen table – we believe that behind the scenes discussions with China are already underway. Furthermore European business has much where it can help the US. It has experience of cap and trade schemes through the Emissions Trading Scheme. It is more energy efficient and there is much scope for technology transfer. But European politicians themselves need to be brave. The Obama presidency leapfrogs many European commitments. Short term leadership in Europe could be replaced by competitive advantage in the US on renewables and low carbon technology.

The next regime looks set to be exciting, but will be far from a simple low carbon shoe in. Policies based on cap and trade are inherently weak. A better – but more politically challenging approach – could be to tax fossil fuels, distributing the revenue raised uniformly to US households. Low carbon consuming households would benefit, while higher consuming households would pay more for their higher fuel consumption.





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## THE POLICIES IN DETAIL

The commitment	Will it happen?	Implications for Europe
To make the US a leader in climate change	<ul style="list-style-type: none"> <li>- Will depend on the amount of political capital the president is prepared to spend. Expect much action early in 2009.</li> <li>- A green new deal could provide the strong fiscal stimulus. One key project being openly discussed is a new super grid.</li> <li>- Overall package likely to be proposed in the first half of 2009.</li> </ul> <p>WSP success score 7/10. Will happen, but partly because Europe is fudging its own 'leadership' agenda today.</p>	<ul style="list-style-type: none"> <li>- Will Europe continue to be a leader itself?</li> <li>- Could Europe develop a similar transmission grid linking the sunny south, Scandinavian hydro, and northern Europe's tides?</li> </ul>
On Carbon – to reduce greenhouse gas emissions to 1990 levels by 2020 and to 80% below 1990 levels by 2050. Delivered by a cap and trade system.	<ul style="list-style-type: none"> <li>- US emissions are 17% up in 2006 from 1990 levels (Source: UNFCCC).</li> <li>- Action in the short term will be key. The temptation will be to defer tough actions to the future.</li> <li>- Slow ramp up likely given state of economy. Dovish opinions in the Administration will hold sway as in the 1997 Clinton administration.</li> <li>- The overarching focus on jobs will defer tough decisions in carbon intensive industries (aluminium, cement, oil and car making).</li> <li>- Cap and trade schemes will only work if there aren't lots of loopholes and if there's an enforcement regime that makes the hard decisions happen.</li> <li>- Straight carbon tax is the alternative, but unlikely given political and economic difficulties. A tax and 100% dividend – dividing return to all households on a per capita basis could be the strongest second option?</li> <li>- Getting legislation through Congress in time for the Copenhagen Summit (the replacement to Kyoto) in November will be very challenging. More likely that if this goes ahead it will be in early 2010 at best.</li> </ul> <p>WSP success score – 1/10. A cap and trade scheme will be implemented, but like Europe will contain so many loopholes that it will significantly reduce effectiveness, in the short term at least.</p>	<ul style="list-style-type: none"> <li>- Matches UK's commitments on carbon, making progress more likely.</li> <li>- Internationally, the key focus will be for the US to commit to legally enforceable carbon-emissions reductions for the second period of Kyoto, from 2012 to 2016 and beyond.</li> <li>- But it will be agreement with the industrialising nations that will be the biggest impediment / opportunity for agreement in Copenhagen in November.</li> <li>- Possible US tariffs for imports from countries that America thinks are not doing enough to cut emissions.</li> <li>- An international carbon price?</li> <li>- Will a US cap and trade scheme contain similar loopholes as those negotiated in Brussels last year for energy intensive sectors?</li> </ul>
On coal – to develop five 'first of a kind' carbon capture commercial coal fired power plants.	<ul style="list-style-type: none"> <li>- Will be leading edge and the future of coal in a climate changed world, which will rely on carbon capture and storage.</li> <li>- Technology still at beta stage and practical application many years off. Will not be in operation in a first term.</li> </ul> <p>WSP success score – 8/10. The technology is years off, but the US has so much political capital in coal that it's a natural leader of this research. Cost of development and operation could be key and something that the US could deliver given its financial and technological muscle.</p>	



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On Renewables – 10% of electricity from renewables by 2012 and 25% by 2025	<ul style="list-style-type: none"> <li>- Renewable generation accounted for 9% of electricity generation in 2008 but the majority of this is hydro power.</li> <li>- Biomass and wind generation likely to be the largest sources of growth.</li> <li>- A first super grid connecting areas of renewable power could provide the framework for a renewables economy.</li> </ul> <p>WSP success score – 10/10 for 2012 target if hydro power is included in the target. 5/10 for the 2025 target</p> <ul style="list-style-type: none"> <li>- Technically possible, but key will be prompt investment and a revenue and pricing structure that promotes long term investment.</li> </ul>	<ul style="list-style-type: none"> <li>- Could US investment provide critical mass for Europe?</li> <li>- High demand could provide opportunity to supply-side investors and lead to long-term supply side expansion</li> <li>- Alternatively, high US demand could expose massive capacity constraints in Europe – wind turbines are already in short supply.</li> <li>- A supergrid could provide a role model for Europe</li> </ul>
On vehicles – to get 1m hybrid cars on the road by 2015 while increasing fuel economy standards by 4% each year.	<ul style="list-style-type: none"> <li>- 634,000 hybrid vehicles on the road in the US in 2006 (latest year data available) – rising historically at 30-40,000 vehicles per year for the past three years.</li> <li>- Will depend on available fuel network and incentive programmes. National adoption of Californian and Texas policies would significantly increase hybrid ownership.</li> <li>- Fuel efficiency for US vehicles has been static at 17miles per gallon for the past decade.</li> <li>- Improvements in efficiency certainly practical, but will require behaviour as well as technology change. Universal application will also be important.</li> </ul> <p>WSP success score – 9/10 on hybrid vehicles. 7/10 on fuel economy standards – also noting that the target itself provides flexibility on declaration of success.</p>	
On energy efficiency – reduce electricity demand by 15% from projected levels by 2020?	<ul style="list-style-type: none"> <li>- Current projections are for a 1% year on year increase in electricity consumption.</li> <li>- Could be more ambitious in WSP's opinion.</li> <li>- Behaviour change as well as technology change will be key.</li> </ul> <p>WSP success score – 5/10. Should certainly be possible but significant behaviour change will be necessary.</p>	<ul style="list-style-type: none"> <li>- Europe has the potential to provide rapid and high quality technology transfer.</li> </ul>

## FURTHER INFORMATION

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## ABOUT US

WSP Environment & Energy is a market leader in environmental, energy and sustainability consultancy. Globally we have over 1,100 people in 65 locations, and we are a part of WSP Group plc.

Thought leadership is at the heart of our business. We pride ourselves on having an opinion. We use this to help our clients create sustained value from environmental issues and opportunities.