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Environmental
Stories to Watch
in **2006**

REMARKS BY JONATHAN LASH ON DECEMBER 14, 2005
NATIONAL PRESS CLUB BRIEFING FOR JOURNALISTS



PREFACE

This is the third year that WRI has invited members of the press to join us and discuss some of the interesting stories and trends to watch for in the coming year. This year, I asked two of WRI's board members to tell me what they think will be key environmental issues in 2006. Both targeted climate change. I think they have it exactly right.

In 2005, the Amazon, the world's greatest rainforest, experienced the worst drought in recorded history while Central America, Florida, and the Gulf Coast were devastated by massive storms. 2006 will be a year of climate change awakening in many parts of the world.

*Fernando Henrique Cardoso
Former President of Brazil*

With the onset of catastrophic storms, new melting of polar ice caps and other SOS signals from Mother Nature, environmental concerns are once again rising across the nation. Fortunately, there are signs that leaders in various fields are beginning to recognize the urgency and are willing to work together on solutions. The challenge for political leaders is whether they can seize this moment to fashion a bi-partisan public agenda during the campaigns of 2006 and especially 2008.

*David Gergen
Political commentator and Editor-at-Large,
US News & World Report*

International Climate Negotiations

Last year when we met, the U.S. had recently blocked all progress at a major climate meeting in Buenos Aires. The negotiation sessions had achieved nothing and delegates went home frustrated. We suggested watching international events as the Kyoto Protocol came into force, carbon trading began, and the U.S. was left outside of the regime.

Well, carbon as a commodity *is* trading. The price spiked about five to six months ago at \$30 a ton. It's now trading at round \$21 a ton. More importantly, in December in Montreal, the U.S. "Maginot Line" of obstructionism on climate negotiations began to crumble. The conference produced an agreement by the parties to the Kyoto Protocol to continue implementation of the Protocol and to move forward with discussions about a second future commitment period.

The U.S. turns out to have been wrong when it said that Europe would not implement the Kyoto Protocol and would welcome any excuse to ditch the agreement. The U.S. turns out to have been wrong when it guessed that China and India would block any discussions of reducing greenhouse gas emissions in the future.

What happened at Montreal was far short of what is really needed to address the buildup of greenhouse gases. Those agreements notwithstanding, the buildup of greenhouse gases in the atmosphere will continue to accelerate. Nevertheless, what happened there was certainly preferable to inaction.

In the coming year, watch the increasing isolation of the United States as other countries conclude that the climate skeptics are losing traction — even in U.S. politics — and that the discussions about global response have to go ahead regardless of American participation or sanction. Global public opinion, like American public opinion, has been influenced by the unprecedented drought in Brazil, the melting Arctic ice, the recent hurricane season, and a torrent of scientific findings.

And watch an increasingly aggressive China. China's 11th five-year plan actually includes measures for energy efficiency and fuel switching that significantly reduce their carbon intensity, although they would describe their plans in terms of energy security. As China faces

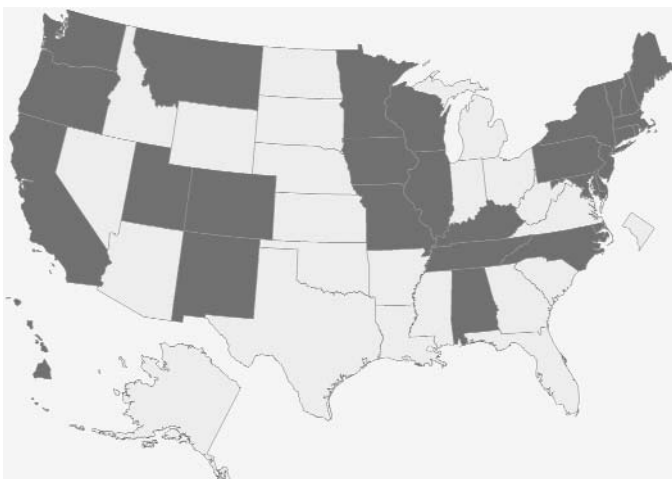
environmental issues at home and competes for resources abroad, I believe we will see an increased willingness on the part of the Chinese to enter into discussions of future climate regimes.

Environmental Policy in the U.S.

Despite the climate gridlock at the federal level, last year we said it was worth watching what was going on outside of Washington. Let's start by looking at cities; 194 American cities have now made climate commitments, reflecting the messages mayors are getting on their sensitive political antennae. Americans increasingly are coming to believe global warming is a problem. In November 2005, a Fox News Poll reported that 77 percent of Americans believe global warming is happening and that it is a serious problem. That surprised me, given the source. Nevertheless, public opinion is driving action.

At the state level, twenty-eight states have climate action plans. Twenty-three states have renewable portfolio standards, or requirements that a certain percentage of electrical power comes from renewable options. New Mexico joined the Chicago Climate Exchange to begin

28 States Have Climate Action Plans



trading greenhouse gas reductions. Last June, Governor Schwarzenegger announced a program that puts California on a path toward 80 percent reductions by 2050. With significant input from WRI, seven Northeastern states are moving forward with a “cap-and-trade” system for carbon dioxide emissions which will be the first regulated market in the U.S. The seven states alone produce greenhouse gases roughly equivalent to countries like Italy, France, and Mexico.

In 2005, Republican moderates took over the floor of the House of Representatives to prevent drilling in the Arctic National Wildlife Refuge. I think in 2006 we’ll see an increasing desire on the part of members of both the House and Senate to find climate bills to vote on. For the upcoming elections they will want to take some action home with them. I don’t expect to see a greenhouse gas reduction measure or cap and trade system passed in 2006, but I do anticipate more votes like the one in the Senate last year which was a nonbinding resolution urging some sort of action on global warming.

The climate debate will become increasingly visible in the upcoming mid-term elections.

The Science of Climate Change: The Debate is all but Over

Last year, we said to pay attention to the accelerating flow of scientific studies of climate change. It turns out that 2005 was a landmark year for significant, compelling new research on climate change. Unfortunately, the findings are incredibly worrisome. Taken collectively, they suggest that the world may well have moved past a key physical tipping point; the scale of the changes reported in 2005 suggest that what were historically small, incremental changes in climate-related phenomena have suddenly made a huge leap.

One study published last year in the journal *Science* found that of the 244 Antarctic glaciers, 87 percent of them have retreated at unprecedented and accelerating rates. NASA scientists have long been tracking Arctic Sea ice, and findings reported last year show significant retreat over recent years. The melting of Arctic Sea ice, according to NASA, is occurring more rapidly than predicted; a record low in win-

ter sea ice extent was recorded in 2005. Ice melting leads to changes in ocean salinity and potential alterations to thermohaline circulation, the ocean's conveyor belt effect.

The Atlantic Ocean's conveyor belt system brings warmer water to the North Atlantic and moderates the climate of Northern Europe. A scientific study last year provides data suggesting that this Atlantic conveyor belt is slowing, with volumes up to 30 percent below those during the period between 1957 and 2004. The reduction in flow is extraordinary: the equivalent of 60 times the flow of the Amazon River. With oceans covering 71 percent of the Earth's surface, any major disruptions like this will have huge impacts.

Ice and snow melt are also important to consider. A study published last year in *Nature* suggests that the 25 percent decrease in Peruvian glaciers could lead to major reductions in water supply. The case is exemplary of a looming global problem because one sixth of the world's population depends on snow and glaciers for its water supply. Decreasing glacial meltwater could lead to loss of potable water, population displacement, significant agricultural losses, and massive ecosystem degradation.

For more on the science, I urge you to visit our website (www.wri.org), where we have compiled and published some of the most significant of the 2005 climate change findings.

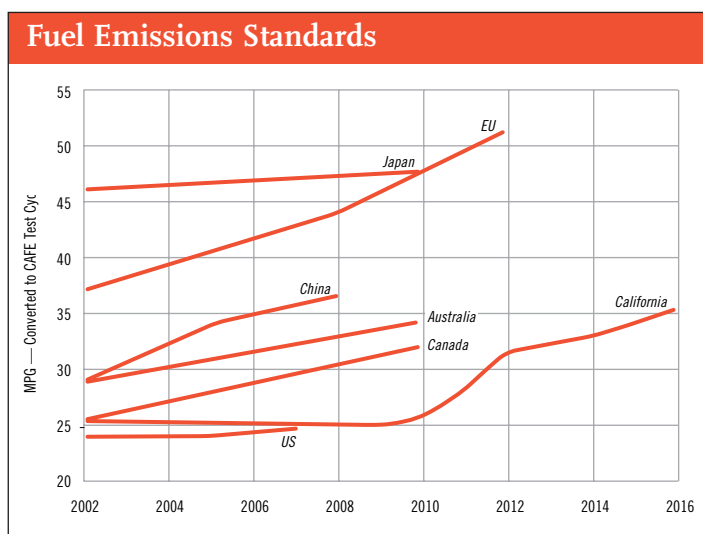
Scientists around the world have voiced increasing frustration about the failure of the press and political leaders to recognize the strength of climate science and the urgency of the problem. They will become increasingly outspoken in the coming year as the science becomes even more compelling — and the press will have to respond.

U.S. Auto Companies Continue to Struggle

Last year, we predicted that U.S. auto companies would face serious challenges to their SUV-based business strategies. In fact, driven by gasoline prices and increasing environmental concerns, SUV sales declined precipitously. Ford SUV and light truck sales were down over 50 percent and GM's were down by 34 percent. Hybrid sales, on the

other hand, have continued to climb rapidly. Both companies are in financial trouble. GM paper has been reduced to “junk” status.

California has adopted strong fuel economy standards, and nine other states — New York, Maine, Vermont, Massachusetts, Rhode Island, New Jersey, Pennsylvania, and Oregon — have said they will follow the California standards. If the auto industry’s litigation against those standards is not successful, the U.S. market will effectively move beyond the weak federal standard. The same man who launched the Subaru in the United States is now getting ready to import Chinese automobiles that will be highly fuel efficient and sell for a price below \$10,000.



A line up of gas guzzlers isn’t the only problem for Ford and GM; they attribute their difficulties to “legacy” issues — pensions and health care. But no remedy to these problems will help in the absence of cars that consumers want, and everything points to higher prices and concerns about carbon in the future.

Oil prices, energy security issues, and carbon concerns will drive an increasingly important strategic debate about the future of transportation fuels: hydrogen or biofuels?

Brazil, for example, already has an ethanol program from sugar cane that has avoided 574 million tons of carbon emissions and saved them about \$100 billion in hard currency by avoiding the need for oil imports. The Brazilians think their program is both a climate program and an energy security program, and it's been enormously successful.

Private Sector Leadership

Last year, we suggested more private-sector leaders would begin to address climate issues. They did. Starting with the very visible GE Ecomagination launch last spring and then followed by companies like JP Morgan Chase, Goldman Sachs, and Wal-Mart, it was a year in which leading companies took strong positions on climate change.

In the past, companies took steps like improving energy efficiency that made sense for economic reasons. The positions of leading corporations today are much more aggressive. WRI has collaborated with more than 20 Fortune 100 companies on their climate change strategies. GE, for example, didn't just say it would look at its own emissions; the company said it would increase its sales of climate-friendly products from \$10 billion to \$20 billion in five years. Wall Street leader Goldman Sachs committed to reducing its emissions and advising its customers about major investments in technology to reduce emissions. NatureWorks, a Cargill company, makes plastics from corn driven by non-fossil energy not because they are "greenies," but because it is good business strategy.

Big reinsurance companies and risk professionals have begun to drive the process. After Hurricane Katrina, Munich Re quadrupled its insurance for drilling rigs in the Gulf of Mexico. Companies have begun to market climate risk related products, and to exclude climate liability from directors and officers insurance.

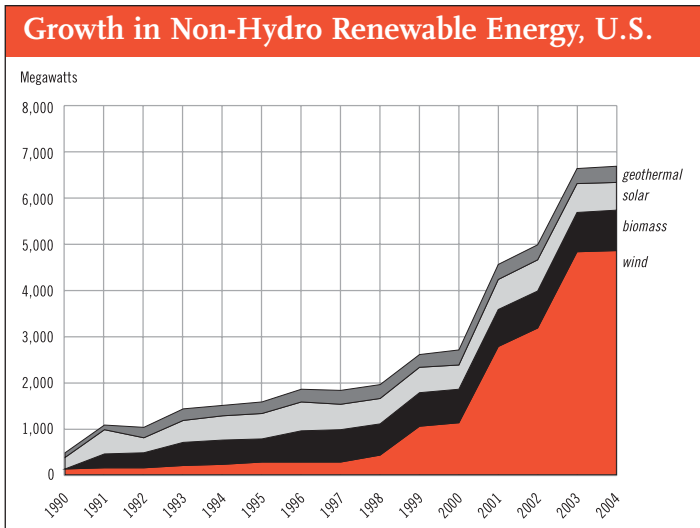
Climate risk and markets for climate friendly products are becoming important drivers in business choices. Many companies assume there will be legislation to reduce emissions within the next 5 years.

Increasingly, they see the uncertainty about what will happen when as dangerous and expensive. In 2006, it will be worth watching which business leaders say so publicly.

And what about Exxon? Will the company begin to change its dismissive stance on climate after the retirement of its CEO Lee Raymond?

Energy Choices: the Year of Renewables

2006 will be the year of renewables. Renewable energy has become a financially and technically viable option. WRI is playing a role in helping build the corporate market for renewable power. Our Green Power Market Development Group is a unique commercial and industrial partnership that has catalyzed some of the largest corporate purchases of wind, solar, and biomass energy in the country. Whole Foods Market, the natural foods grocery chain, recently announced it will buy enough wind power to cover its power use at all of its US stores, bakeries, distribution centers, regional offices, and headquarters. The commitment, facilitated by WRI, makes Whole Foods the biggest user of wind power in the country.



I also want to note that the governors of several western states are nearing a commitment for 30,000 megawatts of green power purchases. While there will be debate over large-scale energy projects, and perhaps a rush to new coal-fired power plants, the most interesting outcome will have to do with renewables.

Last month, WRI and fourteen companies jointly announced new green power purchases totaling 360 megawatts (the average of a coal-fired power plant). That's a lot of solar, wind, and biofuels. Both customers and investors will drive this market in 2006.

Air Pollution and Children's Health

Mercury poisoning is relatively rare, asthma increasingly common, but there is mounting evidence that air pollution, particularly from the burning of coal, is contributing to increases of both, especially among children. People are being told not to eat tuna fish sandwiches. Doctors are talking about the "asthma disgrace."

I believe this issue will heat up in 2006. Public health experts will raise its profile; it will be fought over in Congress; and it is likely to play a role in some Congressional races.

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QUESTIONS FROM JOURNALISTS

QUESTION: Could you talk a little bit about the Bush administration's approach of working with other governments to seek voluntary greenhouse reductions? Have they been able to show any progress at all beyond their claims that the negotiation is ongoing to get voluntary international reductions?

MR. LASH: I haven't seen it. I have not seen the reductions, and voluntary action is not a substitute for international agreement. The United States is the largest source of the pollution that causes global warming. We need to put some skin in the game if we want to negotiate for real.

QUESTION: You saw how the Bush Administration operated at the recent Montreal climate negotiations. The chief U.S. negotiator said he didn't want to discuss future options and then he objected to the various non-Kyoto ways forward. Do you see any likelihood of the Administration changing or do we have to wait for a regime change?

MR. LASH: Well, it was interesting that the U.S. chief negotiator first walked out of and then had to walk back into the climate talks. You would think the Administration would try to offer other alternatives and persuade people. But the more important signal is what the world is saying. The world is simply saying to the U.S. that you can join us or not, but we will continue these discussions. Will the Administration change its position before 2008? I find it hard to believe. I can believe that Congress will pass some sort of climate legislation before 2008, but I don't think the U.S. position on international cooperation will change.

QUESTION: Do you have a sense of what kind of legislation might be passed and how significant it will be in the context of this international climate debate?

MR. LASH: There is a long history that says just before elections the Congress tends to pay more attention to the environmental issues that are troubling the public. This issue is going to play in the midterm elections, but it will play more in the 2008 elections. Therefore, I think it's likely that Congress will look for things to vote on. But, they are not likely to pass mandatory limits in 2006 — perhaps something symbolic.

QUESTION: Do you have any good reason to believe that Exxon will change?

MR. LASH: I'm speculating. They have a relatively good recent record on conventional pollution. They are an outlier in their industry on climate change. They should want to get it right — for their stockholders, their employees, and their reputation.

QUESTION: If renewables are going to be the thing to watch in 2006, inevitably many of the renewables — nuclear, natural gas, and wind — involve the building of new facilities, and that's always been where the environmental movement has kind of coalesced. They have been generally against new facilities that generate power.

MR. LASH: Yes, if we want to address climate change we have to decide what we are for, and that will be a tough debate in a movement that is politically diverse. I personally think wind turbines have an elegant grace.

QUESTION: There's been increasing talk over the last several years about the incremental use of renewables. Renewables aren't going to be wholesale replacing fossil fuels in 2006, so what of significance will be happening?

MR. LASH: I would look at where people invest and how much money is going into renewables, as well as what industrial users do to purchase renewable supplies. The reason that WRI works with fourteen companies to buy green power is that we believe it will accelerate that market, drive down prices, and increase opportunities. WRI is headquartered in a building owned by the American Psychological Association. We've convinced them to go entirely with green power, in our building and in another one they own. Five years ago, they couldn't have done this if they'd wanted to — they couldn't have found the green power to buy. Now they're doing it at no significant price premium. Their tenants love it. We love it. We're walking the talk.

I believe such opportunities are going to increase. I think you will see an increasing effort to provide individual citizens with information on how they can change what they do. I'm talking about more than just buying compact florescent bulbs, but about how they can make decisions in terms of their automobiles, their electricity supply, the investment of their pension funds. I think that will have an impact. I think people want to get engaged.

World Resources Institute (WRI) is an environmental think tank that goes beyond research to find practical ways to protect the earth and improve people's lives.

Our mission is to move human society to live in ways that protect Earth's environment and its capacity to provide for the needs and aspirations of current and future generations.

Because people are inspired by ideas, empowered by knowledge, and moved to change by greater understanding, WRI provides — and helps other institutions provide — objective information and practical proposals for policy and institutional change that will foster environmentally sound, socially equitable development.

WRI organizes its work around four key goals:

- ◆ **People and ecosystems.** Reverse rapid degradation of ecosystems and assure their capacity to provide humans with needed goods and services.
- ◆ **Climate change.** Protect the global climate system from further harm due to emissions of greenhouse gases and help humanity and the natural world adapt to unavoidable climate change.
- ◆ **Markets and Enterprise.** Harness markets and enterprise to expand economic opportunity and protect the environment.
- ◆ **Access.** Guarantee public access to information and decisions regarding natural resources and the environment.

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