

**Statement of Jonathan Lash
President
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**To the
U.S. Senate Committee on the Environment and Public Works
February 13, 2006**

Chairman Boxer, distinguished members of the Committee, good morning and thank you for inviting me to testify about a matter of compelling national and global significance. I am Jonathan Lash, President of the World Resources Institute. I appear today both in my capacity as President of WRI and as a partner in the US Climate Action Partnership.

The World Resources Institute provides analysis and builds practical solutions to the world's most urgent environment and development challenges. We work in partnership with scientists, businesses, governments, and non-governmental organizations in more than seventy countries to provide information, tools and analysis to address problems like climate change, and the degradation of ecosystems and their capacity to provide for human well-being.

The United States Climate Action Partnership started from the premise, as Mr. Holliday has noted, that we know enough now to know that we need to act on climate change, and that delay will only increase the costs of the action. Since the release of US CAP's joint "Call to Action" the IPCC has reported its findings based on a review of all of the climate science of the last five years. As an individual who has worked on these issues for several decades, I have to say that report, in its dry scientific language, offers as stark a picture of the scale and immediacy of the environmental challenge we face as I have ever seen.

The ten companies and four non-profit organizations that make up the US CAP partnership reached rapid agreement on the need for an immediate and sustained effort to reduce US GHG emissions and change our energy infrastructure. We worked hard to develop an interconnected set of recommendations for the general structure and key elements of a policy that would implement the six principles described by Mr. Holliday.

US CAP recommends that legislation be designed consistent with limiting global atmospheric concentrations of greenhouse gasses to a level of 450-550 parts per million. There is growing evidence, scientists indicate, that concentrations above those levels would create large scale adverse impacts to human populations and the natural environment, and increase the risk of unpredictable and abrupt global changes.

In light of that goal, we recommend a pathway with targets that slow, stop and reverse the growth of US emissions. Specifically, in "A Call for Action" we recommend a mandatory emissions reduction pathway of:

- Between 100-105% of today's levels within five years of rapid enactment
- Between 90-100% of today's levels within 10 years
- Between 70-90% of today's levels within 15 years

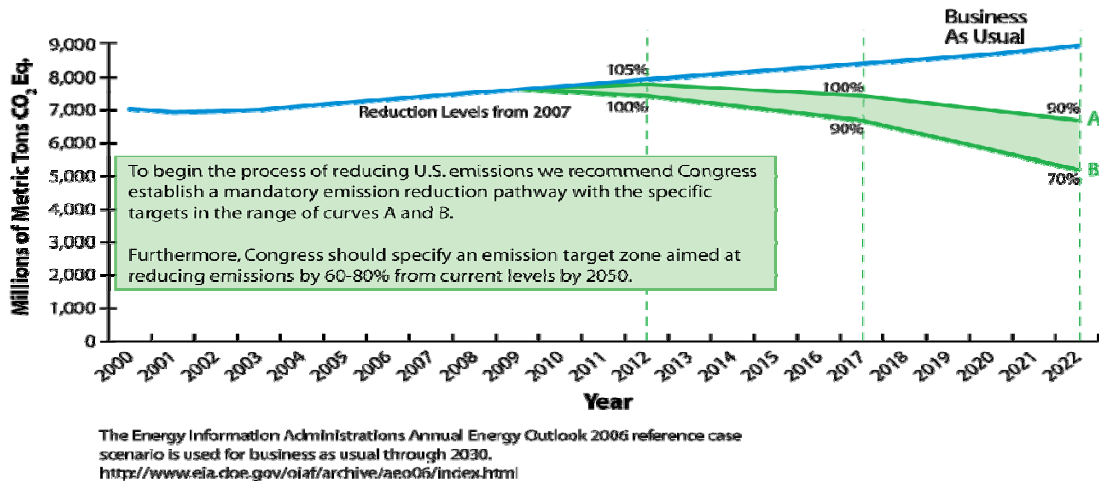
So, by 2023, we would have achieved reductions of 10-30%. We also recognize that to achieve our long-term goal, we will need to cut emissions by 60-80% by 2050.

There are four reasons why laying out the pathway of steadily declining emissions is important:

- It is what is required to control global warming;
- It will provide a clear road map of future market conditions for companies making choices regarding new technologies and products;
- It will encourage investors to support innovative low carbon technologies;
- It will greatly enhance US credibility in seeking international agreement on reductions.

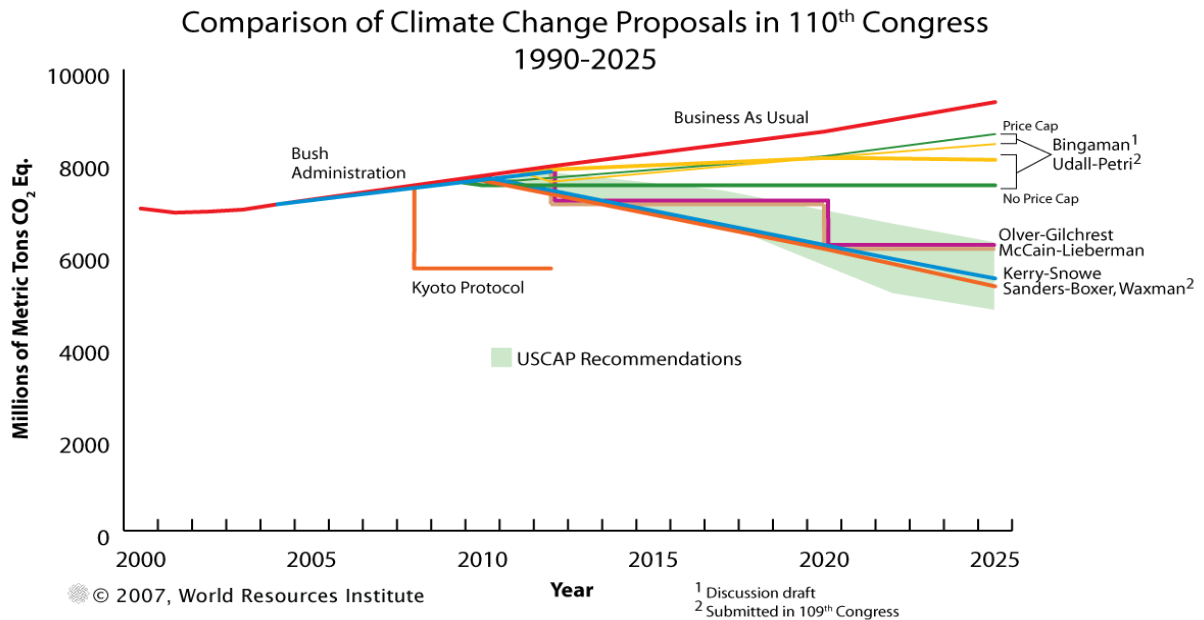
Figure 1 depicts the US CAP recommended targets and timetables.

Figure 1: US CAP targets and timetables for 2000-2023



In Figure 2, WRI overlays US CAP targets with legislative proposals under discussion by Congress. US CAP has not reviewed, and does not endorse any specific legislative proposal. Figure 2 represents WRI's analysis alone, and I offer it simply as a useful way to understand the importance of long-term goals, and the range of outcomes resulting from different proposals.

Figure 2: WRI overlay of US CAP with Congressional Proposals



Clearly, the emissions reductions that we recommend will require fundamental changes in our energy systems over a period of decades. Legislation should focus on a step-wise, cost-effective approach -- US CAP efforts focused on targets to help set us on a course over the next 20-30 years to bring new technologies forward and reduce emissions. Harnessing the innovation and entrepreneurial nature of the private sector requires that there be a roadmap and markets open to new technologies.

Since markets play an important role in shaping behavior, we believe there needs to be a price for GHG emissions for all sectors of the economy.

Our environmental goal and economic objectives can best be accomplished through an economy-wide, market driven approach that includes a cap and trade program with specific limits on greenhouse gas emissions. To offer the most reduction opportunities, we recommend that the program should cover as much of the economy as possible through either an upstream or hybrid program with stationary sources regulated downstream.

Cap and trade programs like the SO₂ program in the Clean Air Act have a demonstrated track record of creating environmental value at acceptable economic cost. As the program was being debated in Congress, there were many who thought the costs of controlling acid rain would ruin U.S. competitiveness. It did not, and CO₂ trading will not. According to venture capitalist John Doerr, who endorses cap and trade, "The choice is clear: Are we going to innovate and prosper, or stagnate and suffocate?"

An economy-wide cap and trade program will allow companies to review their options to control greenhouse gas pollution by making process changes, changing fuel, or purchasing allowances from other entities that can more cost-effectively cut emissions. This flexibility lowers the cost to the economy, and with a declining cap on overall pollution levels, it effectively achieves its environmental goals. For those sectors that are insensitive to price signals or that face market barriers, we recommend sector specific policies -- my US CAP colleagues will speak more to some of these recommendations in a moment.

Cap-and-trade provides both certainty and flexibility. Sources can choose whether to make reductions or buy credits. Innovators can invest in technology to produce and sell excess credits. Cap-and-trade creates a market that chooses the best solutions.

Just as a robust market can reduce costs, there are several other program design features that can help do that as well – one is the establishment of an offsets program. These are verified emissions reductions that are made by companies, farmers or other sources of emissions not regulated under the cap. The offsets must be real reductions that are verifiable, permanent and enforceable.

Massachusetts, Oregon and Washington already require power plant operators to purchase offsets for a portion of their CO₂ emissions and the Regional Greenhouse Gas Initiative cap and trade program in the Northeast will include an offsets program. Several years ago, WRI offset our emissions by helping a school in Oregon invest in a new high efficiency boiler. They had no funds for this upgrade which could offer significant emissions reductions. The new boiler reduced their energy costs, and we got “credit” for the environmental improvement. This type of program can be very cost-effective.

If other cost control measures are used in climate policy, US CAP believes they would need to be designed to:

- enable a long-term price signal that is stable and high enough to ensure that the investments in low and zero emitting technologies are not undercut.
- Ensure that the integrity of the emissions cap
- Preserve the market’s effectiveness in driving reductions, investment and innovation.

Possible additional cost control measures include, but are not limited to, a safety valve, borrowing, strategic allowance reserve program, preferential allocations, dedicated funding, technology incentives and transition assistance.

An emission allowance allocation system in a cap and trade program can help mitigate economic transition costs. Allocations can help the regions or groups relatively more adversely affected by GHG emission limits and recognize those who have made investments in higher cost, low-GHG technologies.

A significant portion of allowances should be initially distributed free to capped entities and to economic sectors particularly disadvantaged by a cap, including the possibility of

funding transition assistance to adversely affected workers and communities. Free allocations to the private sector should be phased out over a reasonable period of time.

US CAP also recommends moving forward with a fast track of activities and reductions that need not wait for the cap and trade program to begin. For example, companies that can reduce their emissions now should get credit for doing so, and those that have been leaders to date should receive credit for early action.

We recommend legislation should establish a national registry no later than the end of 2008. In addition, the fast track policy program should establish a program that offers credit for early action, support aggressive technology research and development, and include policies that discourage new investments in high-emitting facilities and accelerate deployment of zero and low-emitting technologies and energy efficiency. We recommend these fast track actions begin within one year of enactment.

We must act now if we are to preserve all our options for cost-effective greenhouse gas reductions and engage the international community. We in the U.S. must take the first step by reducing our own emissions. And we hope Congress will urge the Administration to re-engage the international community at it discusses post-2012 policies. International cooperation is necessary, and can also help to improve cost-effectiveness, but US action is imperative from both an environmental and political perspective.

Thank you for the opportunity to join you today to share my thoughts and some highlights of the US CAP recommendations.