Oral Testimony of David D. Doniger, Climate Center Policy Director, Natural Resources Defense Council February 28, 2008

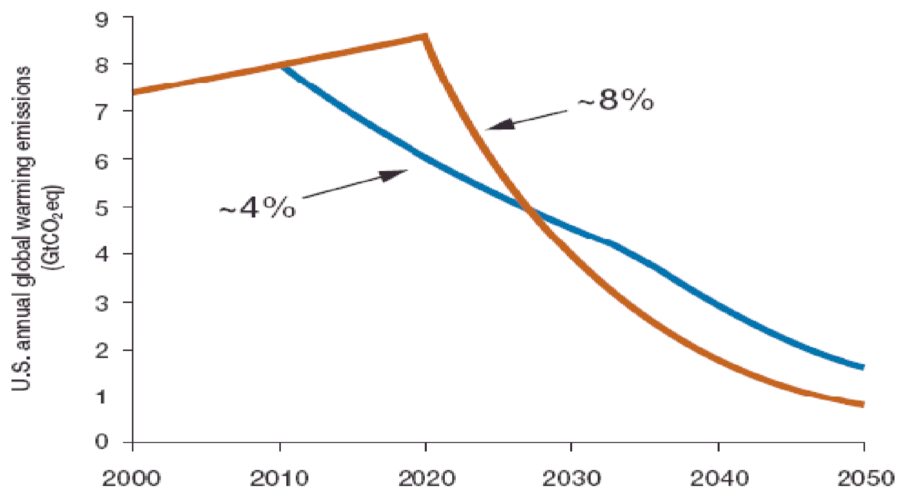
- Thank you Chairman Boucher and Chairman Dingell.

- What we do here has to be framed above all by the science. And the science is clear: Global warming has started and the time for taking effective action is very short.

- We are looking at catastrophic impacts if we let global average temperatures rise by more than another 2°F. To avoid this, global emissions need to be cut in half by 2050.

- All major emitters must participate, but the world's richest countries – with the highest per capita and historical emissions and the most technological and financial resources – must lead by starting to reduce emissions now and by 80 percent by 2050.

- Delay makes everything harder. Please look at the chart on page 4 of my testimony. Wait 10 years, and the necessary rate of emission reductions doubles. In short, a slow start condemns us to a crash finish.



- Staying under the 2 degree target is very challenging. It cannot be done without the cooperation of both the industrial North and the emerging South. But it can be done. And if the United States has a claim to leadership in the 21st century, we must be instrumental in forging the necessary coalition between North and South.

- Above all, the U.S. must lead again. Early enactment of a U.S. cap and trade program is the single most important step we can take to unlock the global negotiating gridlock of the past decade.

- The big emerging economies showed unprecedented willingness in Bali to negotiate "measurable, reportable, and verifiable actions." This is a big change from the developing countries' prior stance, adopted in Berlin in 1995, against any new commitments. In Bali, the "Berlin Wall" came down.

- While their emissions are still growing rapidly, some big developing countries are already taking significant domestic measures to change their emission trends. China, for example, is improving its industrial and vehicle energy efficiency and more rapidly deploying renewables. To reduce domestic energy use and pollution, China has even established special tariffs to *discourage* exports of cement, iron and steel. The export tariff on steel equates to $50 per ton.

- To be sure, to solve the climate problem they must do more. In my judgment, we can achieve substantial commitments from key developing countries to cut emissions growth in key industrial sectors – if we show our willingness to join other industrial countries in reducing our own emissions.

- Some manufacturing industries and the unions who represent their employees are understandably concerned about potential competitiveness impacts in the first years of a U.S. domestic program. In NRDC's view, Congress can amply address those concerns with two tools. One – the IBEW/AEP trade proposal – is reviewed in the Committee's white paper. The other – limited free allocations for the years before the trade proposal takes effect – was not considered in the white paper.

- The IBEW/AEP proposal would require that, after a certain date – 2020 as originally proposed – unless our important trading partners are taking comparable action, the importers of steel, cement, and the like will have to purchase emissions allowances at the point of entry.

- This proposal would give the Executive Branch additional diplomatic leverage in negotiations with other countries for agreement on comparable actions. It also would provide an equalizer later on, if those negotiations don't succeed with one or more important trading partners.

- Some want to bring the 2020 start date in earlier. NRDC favors another approach, because we see dangers putting the import proposal into effect too quickly. Brandishing the trade "stick" before about 2020 would, in our judgment, inflame the climate treaty talks and make it much more difficult to succeed there in getting real commitments from developing countries. Brandishing the stick too early also would weaken what I believe is a strong hand under the WTO, which requires a period of good faith negotiating before using a trade measure.

- Fortunately, Congress has another tool for the early years: Congress can allocate emissions allowances or auction revenues for a limited time to specific industries that demonstrate their disadvantage from domestic carbon control requirements.

- NRDC does not recommend using free allowances lightly. But we believe legitimate competitiveness concerns can be met with less than 10 percent of the allowances, ending in 2020. Any such free allocations should be conditioned on firms' maintaining domestic employment, and they should be phased out by the start date of IBEW/AEP provision.

- Free allocations will not be needed beyond that point because competitive issues will have been resolved by then – either by success in international negotiations on developing country commitments, or if not, by triggering the import requirement.

- In short, we can solve competitiveness concerns with these two tools.

- In NRDC's view, the proposal by Nucor and others to set globally uniform performance standards does not meet either environmental or economic objectives. Performance standards can be complements to, but not substitutes for, an overall national emissions cap. But this proposal would exempt domestic steel and other manufacturing industries from our national cap. This fails the fundamental environmental test.

- The Nucor proposal is also unfair to other sectors of the economy. If emissions from steelmaking are allowed to keep growing, other industries will have to make even greater emission cuts. And as the white paper notes, it may be a WTO requirement to recognize legitimate variation in performance standards based on the economic circumstances of developing countries.

- There one other point I want to touch on. In Bali more than 190 nations, including our own, recognized that reaching agreement on measurable, verifiable, and reportable developing country actions will require technical and financial assistance – to help those countries deploy clean energy technology, cut tropical deforestation, and cope with unavoidable climate impacts.

- Joining with others to offer this assistance is in our direct commercial, environmental, and humanitarian interest. It can help enlarge markets for U.S. firms' clean technology. It can help avoid costly ecological and humanitarian tragedies that can spiral into national security threats.

- The U.S. contribution to these objectives through the Agency for International Development is very modest. President Bush has proposed a fund for clean technology in key developing countries, but that proposal is too limited and has no secure source of funding.

- Providing stable and sufficient support for these three items would be high-payoff investments both for their direct results and for their role in encouraging developing countries to take meaningful emission reduction actions.

- To this end, NRDC recommends that Congress dedicate a limited percentage of the emissions allowances to fund these three needs – clean technology deployment, cutting deforestation, and coping with climate impacts in the poorest and most vulnerable countries.

- To be sure, key developing countries increasingly have sources of their own investment capital. They must contribute to their own cleaner development, but it is not in our interest to insist that they entirely self-finance it. We have a stake in it too.

- American firms that have pioneered low-carbon technologies will benefit as developing country markets for their technologies grow.

- Since global warming is global, Americans benefit directly from progress limiting carbon emissions in all countries.

- Finally, we need to do this to make the global bargain work in the climate treaty negotiations. We won't be able to close the deal without offering this kind of help.