

**U.S. House of Representatives
Select Committee on Energy Independence and Global Warming**

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Thank you, Chairman Markey, Ranking Member Sensenbrenner, and members of the Committee for holding today's hearing on the international climate negotiations. I am Karen Harbert, President and CEO of the Institute for 21st Century Energy, an affiliate of the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

My testimony will focus on what I believe are some of the major challenges to a new climate change agreement and where I believe the U.S. can play a constructive role. As the business community will be largely responsible for developing and deploying the solutions that might emerge both from the Congress and from these international negotiations, it is important that we have a voice at the table. Therefore, I appreciate that the Committee has reached out to the Chamber's Energy Institute for input.

Climate change is among the most complex issues facing the international community. Negotiations are currently taking place under both the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol with a goal of completing a new arrangement to address climate change in Copenhagen, Denmark at the end of 2009. These negotiations are being guided by the outcomes of the 13th Conference of the Parties (COP) in Bali in December 2007 and the 14th COP in Poznan in December 2008 and revolve around a shared vision for long-term cooperative action, mitigation, adaptation, technology, and finance.

The World Has Changed

It is important to keep in mind the global context in which these negotiations are occurring. The world has changed considerably since the UNFCCC was launched in 1992, and a new arrangement should take into account changing trends in global emissions and economic development. The old model of donor and recipient countries reflects neither the current nor future state of affairs.

The vast majority of future energy demand and greenhouse gas emissions growth is expected to come from the developing world. Our policies must recognize—indeed, embrace—the aspirations of people everywhere for economic growth, abundant and affordable energy, an improved quality of life, and a clean environment. An estimated 1.5 to 2.0 billion people lack access to modern energy services. Providing these energy services is a priority for governments around the world to lift people out of poverty.

Indeed, significant transitions are occurring and will continue in world energy markets, especially in non-Organization for Economic Cooperation and Development (OECD) countries. This has changed the structure of energy markets dramatically. The Energy Information Administration projects that by 2030, global energy demand could be 50 percent higher than in 2005, with the vast majority of this growth—roughly three quarters—coming from developing countries. The anticipated growth in energy demand from large developing countries is enormous. For example, between 2005 and 2030 the increase in energy demand from China alone is expected to be nearly twice that from all OECD countries combined (88.1 vs. 45.0 quadrillion Btu).

This increase in energy use will lead to an increase in greenhouse gas emissions, primarily carbon dioxide. Over 80 percent of the increase in carbon dioxide emissions from energy between 2005 and 2030 is expected to come from developing countries.

Climate change risks need to be addressed as part of an integrated agenda that enhances energy security, increases economic prosperity, reduces pollution, *and* mitigates greenhouse gas emissions. In the climate change debate, energy is viewed as the problem. In reality, affordable energy provides a solution to climate change because it allows the economic growth necessary to drive technology change and environmental protection. History has shown that poor economies do not have the resources to make protecting the environment a priority, but vibrant economies do. A smart energy policy can capitalize on this dynamic, providing clean energy to power economic growth and poverty eradication across the globe. Strategies that recognize these realities can raise the level of trust between and among developed and developing countries and win international support.

In addition to these broad trends, the UNFCCC negotiations will be complicated further by the recent financial crisis.

Bumpy Road to Copenhagen

The COP-14 meeting in Poznan marked the half-way point between COP-13 in Bali and COP-15 in Copenhagen, where the negotiations are expected to conclude in a new international arrangement. The Poznan meeting did not deliver any dramatic developments. Indeed, the difference in atmosphere between Bali and Poznan was

palpable. In Poznan, the world financial crisis, a transition to a new administration here in the U.S., squabbling in the European Union over a new package of greenhouse gas emissions rules, and rising concern about energy security worldwide loomed over negotiations that would have been hard enough even in the best of times.

Looking ahead, 2009 promises to be a busy year, with as many as five negotiating sessions before Copenhagen. Most of the focus over the coming year will be on four of the five areas identified at Bali—mitigation, technology, adaptation, and finance. There was general agreement in Poznan that these four elements will be central to a global goal for emissions reductions in discussions that promise to be among the most contentious.

The U.S. must continue to be the voice of reason as the negotiations unfold. To be frank, there is in much of these negotiations an air of unreality that ultimately could derail an agreement. Unachievable emission reduction targets, the weakening of intellectual property protections, and unrealistic demands for financial support, for example, are all on the table. We must learn to temper our ambition with realism, which means that while we must promote a positive, pro-growth agenda that both developed and developing countries can align with, we also must be willing to walk away from a bad deal. U.S. acquiescence to the Berlin Mandate and the Kyoto Protocol, neither of which were practicable nor in the best interests of the U.S., continues to bedevil U.S. efforts.

Moreover, to ensure our energy-intensive industries retain their competitiveness, any new national domestic climate change policy should be conditional on an international agreement that has full international participation. The idea that if the U.S. goes first, China, India and other emerging economies will fall into line behind is an article of faith that carries with it great risk.

Principles for a New International Agreement

We have seen with the Kyoto Protocol that top-down approaches do not work. A new agreement needs to accommodate a wide range of national circumstances and approaches, and it should be as simple as possible to implement. Therefore, the U.S. should work to promote a more bottom-up international approach to energy security and climate change that considers growing energy needs; sets realistic goals; ensures global participation, including major developing countries; promotes the development and commercialization of, and trade in, clean energy technologies and services; protects intellectual property; and maintains U.S. competitiveness.

A long-term global emissions reduction goal should motivate and provide direction for national and regional cooperative activities. Such a goal should be realistic and achievable and take into account emerging science and the pace of technology development and diffusion. Moreover, a global goal should not undermine economic growth, which is a necessary prerequisite for technology investment.

A bottom-up approach that recognizes the results of domestic, bilateral, and multilateral activities may be the most appropriate approach, and one that could garner a broad range of support. Such an approach should incorporate sufficient flexibility to permit new ideas and approaches to be introduced as they emerge. In particular, voluntary sectoral approaches, of which the Asia-Pacific Partnership on Clean Development and Climate is a good model, could help capitalize on opportunities in a number of energy-intensive sectors and provide flexibility for countries with different circumstances.

To be effective in reducing global emissions, any new international arrangement addressing climate change must include active participation from developing countries, like China and India. In this regard, the Bali Roadmap that emerged from the UNFCCC talks in Indonesia in 2007 was a welcome development in that developing countries agreed to consider actions that are measurable, reportable, and verifiable. A new arrangement should include commitments by all countries, developed and developing alike, in accordance with the principle of “common but differentiated responsibilities and respective capabilities” enshrined in the UNFCCC. However, all too often this principle is invoked as an excuse for inaction. These notions of “responsibilities” and “capabilities,” then, ought to change as the economic conditions of countries change.

This is not to say we expect developing countries to take on commitments similar in scope to developed countries. While the character of the commitments in developing countries should be similar to those in developed countries in terms of ambition, the content of those commitments could be quite different depending on national circumstances. The focus, therefore, should be on the mitigation potential of different countries and on actions to achieve that potential that are “measurable, reportable, and verifiable,” in accordance with the Bali Roadmap.

The Major Economies Meetings, initiated by the Bush Administration, should continue. The 16 participating countries and regions account for about four-fifths of global greenhouse gas emissions. An effective deal will be impossible without the agreement of these key players. We are encouraged that the Obama Administration is seriously considering continuing this important forum.

Technology development and deployment will be one of the most important factors determining how quickly and at what cost greenhouse gas emissions can be reduced. In many developing countries, providing citizens with energy services is a much more pressing need than addressing climate change. It is a simple fact that much of the energy needed to power economic growth will likely be supplied by fossil fuels. Many developing countries have large resources of coal, natural gas, and oil, and it would be unrealistic to expect them not to use it. However, the increased use of existing and advanced technologies can limit the environmental impact of using these fuels, reduce demand for them through efficiency, and provide alternate sources of energy.

The UNFCCC process should consider ways to overcome barriers to technology transfer and commerce. We are therefore concerned about efforts by China and the G77 to weaken intellectual property protections for clean energy technologies. Without proper intellectual property protections, new technologies will be slower in coming just when we need them most.

The U.S. should continue to encourage the proper environment for technology commerce, cooperation, and investment in developing countries—e.g., transparent markets, the rule of law, property rights, etc. Developing countries must be convinced that intellectual property rights protections are in their interests as well as ours, and that technology commerce *is* technology transfer.

Moreover, we need to boost funding for technology development worldwide. Together, the U.S. and Japan account for about 80% of all energy R&D funding by national governments. The Institute has proposed a doubling of the federal government's funding of clean energy technology research, development, demonstration, and deployment over the next five years to accelerate the development of clean energy technologies, and we should be encouraging other countries to do the same.

And we have to resolve the role of nuclear power and carbon capture and storage under the new agreement. If we really are serious about reducing global emissions significantly, both have to be a part of the solution.

Eliminating tariff and non-tariff barriers to environmental goods and services also should be pursued to lower costs and increase global access of clean energy technologies. It is important that the international climate negotiations are not used as an excuse to erect barriers to free and open trade, or as a way to gain competitive advantage or redistribute wealth. The World Trade Organization (WTO), not the UNFCCC, is the appropriate forum for trade discussions, and we would encourage Congress and the Obama Administration to continue to work within the WTO to remove trade barriers for these technologies.

Financing is critical to advancing climate change solutions, but it will be generated outside the UNFCCC and will depend in large part on investment environments and the effectiveness of institutional arrangements in developing countries. Clearly, there is not enough government financing available to increase significantly technology diffusion on its own. Most financing will come from the private sector, with government financing serving to spur and bolster these investments.

The U.S. should work with other industrialized countries to establish an International Clean Energy Fund, housed at the World Bank, to reduce capital costs for clean energy projects in the developing world, and Congress should see that funding is available for this activity. Furthermore, our country should examine all of its tools through the Export-Import Bank, U.S. Trade and Development Agency, and the Overseas Private Investment Corporation, and work closely with multilateral development banks to ensure that attractive instruments are made available for clean energy projects.

Conclusion

The Energy Institute at the U.S. Chamber of Commerce believes that a new international approach to climate change should encourage the broadest possible participation and should:

- Consider growing energy needs, circumstances, and resource endowments of all countries;
- Set realistic and achievable goals that take into account science and technology development and diffusion and ensure that economic growth is not undermined;
- Strike a good balance between environmental protection, energy security, and economic growth;
- Ensure global participation and effective commitments by all major emitting countries, including developing countries;
- Allow for diversified approaches tailored to meet national circumstances;
- Ensure that mitigation actions by all parties are measurable, reportable, and verifiable;

- Recognize technology development and commerce, and the enabling environments that promote them, as crucial prerequisites to achieving emissions reductions breakthroughs;
- Protect intellectual property rights and the rule of law to accelerate technology deployment and cooperation;
- Remove trade barriers to environmental goods and services in a non-discriminatory manner; and
- Place the U.S. on an equal competitive footing with the rest of the world.

In closing, it is important that the business community have a strong voice and seat at the table for these negotiations as they progress. The Energy Institute plans to stay engaged and offer sensible solutions to challenge of energy security, economic growth, and climate change.