

Statement by

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**regarding
America's Climate Security Act**

**submitted to
The U.S. Senate
Committee on Environment and Public Works**

I am honored to be here with you today as this Committee deliberates America's Climate Security Act. There is no more important legislation that this Committee will ever consider than comprehensive climate change policy.

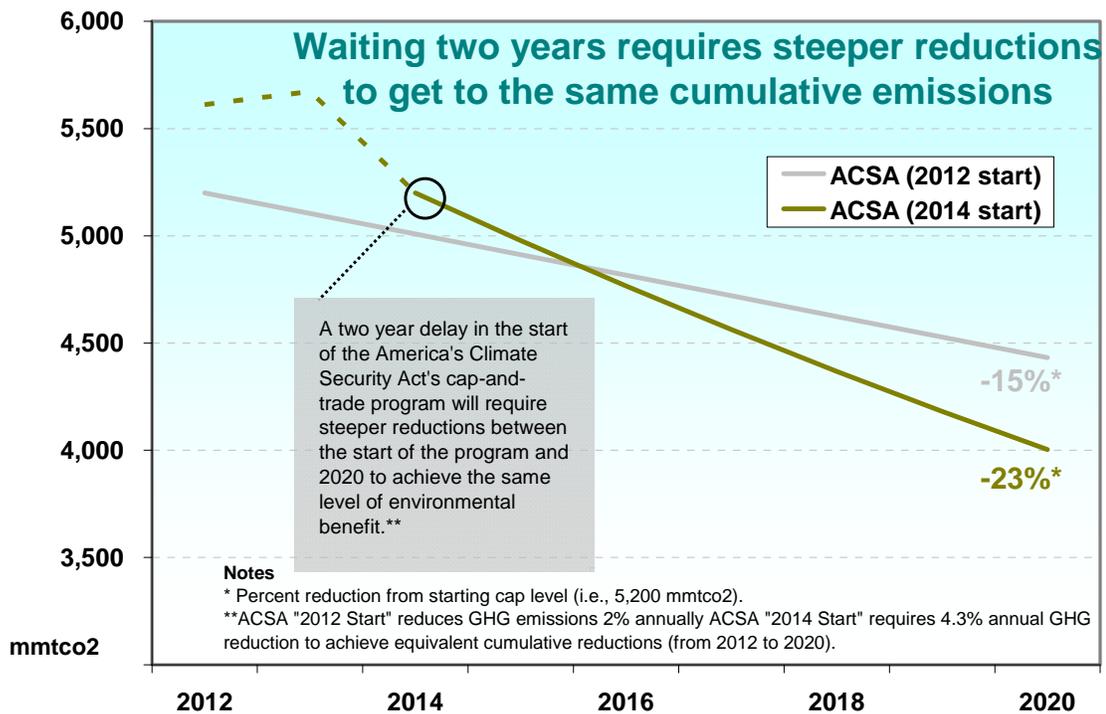
Environmental Defense is a leading national nonprofit organization representing more than 500,000 members. Since 1967, we have linked science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems. Environmental Defense is dedicated to protecting the environmental rights of all people, including future generations. Among these rights are clean air, clean water, healthy food and flourishing ecosystems. We are guided by scientific evaluation of environmental problems, and the solutions we advocate will be based on science, even when it leads in unfamiliar directions.

America's Climate Security Act contains all of the essential elements needed in legislation for the US to begin to tackle the problem of global climate change. If the members of this committee remember one thing from my testimony today – it should be this – we must pass comprehensive climate legislation now. Our economy, our environment, and our morality compels it – and if I am back here three years from now – still calling on this Committee to pass legislation – then all who are in this room today will have failed. We would have lessened our chances of preventing the most dangerous consequences of climate change and we would have raised the costs to the economy of meeting the challenge.

In my testimony today, I want to make 5 points: 1) why time is of the essence, 2) that America's Climate Security Act has the right framework to tackle climate change, 3) that we have the technology we need to get started, 4) that the carrots and sticks in America's Climate Security Act will prompt international action, and finally, 5) I will comment on a couple of amendments that I believe are worth special notice.

1. There is no time for delay.

If the legislation is enacted and takes effect in 2012, the emissions caps would result in an annual reduction of emissions of just under 2% per year and, for covered sources, arrive at a reduction of 15% below current levels by 2020. But what happens if we delay enacting legislation by two years? Just two years of delay – holding everything else constant – has major consequences. As you can see in the diagram behind me, in order to result in the same amount of cumulative emissions by 2020 (and with climate change, it is the cumulative emissions that matter), a two-year delay will require that emissions fall by 4.3% every year – over twice as quickly! Instead of a reduction of 15% in the annual emissions for the year 2020, two years of delay means 2020 emissions have to be reduced by 23% – just to get to the same place. The worst thing we can do for our economy and our environment is to do nothing at all, the second worst thing we can do is to delay – and as this chart shows, even by just two years.¹



2. America's Climate Security Act has the right framework to address the challenge of climate change in a way that makes sense for the environment, entrepreneurs, and the economy.

The Act sets strong early targets. As I have mentioned earlier, these targets are important to the environment and the economy. Aggressive early year targets increase our ability to avoid a greater than 2° increase in warming and the consequences that

would bring. The early targets will jump start the entrepreneurial energy we need to deploy current technology and develop even better technology. The Act contains long-term targets that provide assurance to our grandchildren and our financial markets that we will stay committed to the task.

A recent report by the University of Maryland reviewed data and studies on the economic impacts of climate change and the costs of inaction. The review finds that economic impacts of climate change will “occur throughout the country, [and] economic impacts will be unevenly distributed across regions and within the economy and society.” Just to highlight one finding of the report, it “found that negative climate impacts will outweigh benefits for most sectors that provide essential goods and services to society.” The review finds that

New York State’s agricultural yield may be reduced by as much as 40%, resulting in \$1.2 billion in annual damages. Expected water shortages in California’s Central Valley are likely to affect the agricultural sector in the area. Agriculture around the San Antonio Texas Edwards Aquifer region is likely to suffer a similar fate. The regional impact may reach losses of \$3.6-6.5 billion by 2030 and \$6.75-10.13 billion by 2090. Even those farms and regions that temporarily benefit from altered environmental conditions (e.g., carbon fertilization and extended growing season) risk economic losses if temperatures exceed those preferred by the crops they currently produce. Climate change will also trigger increases in energy demand for cooling and will outpace declines in heating requirements. For example, electricity demand in Massachusetts may increase by 40% in 2030 because of climate change alone, most of which will occur in summer months and require significant investment in peak load capacity and energy efficiency measures. Nationwide, the required investment may exceed \$300 billion by the middle of this century. Given the long lead times of capacity expansion in the energy sector, little time remains to act on anticipated warming trends. ²

In addition to safeguarding the environment, the Act protects the economy in many ways. First, it uses the time-proven mechanism, cap-and-trade, that allows regulated entities access to the lowest cost emissions reductions possible. Cap-and-trade provides a whole range of cost management mechanisms that allow companies a wide choice in managing their compliance with emissions limits. Companies can

- make emissions reductions at their own facilities,
- purchase allowances from other facilities whose cost of reductions are even lower (so much so that they can “over-comply” and sell their excess allowances to others), and
- optimize plant development schedules and maintenance and can “bank” and “borrow” emissions allowances to fit into those schedules.

As experts have written “enhanced environmental performance can be attributed to the increased flexibility associated with emissions trading. Where emission reduction requirements are phased in and firms can bank emission reductions – as was the case in

the Lead Trading, Acid Rain, ABT, and Northeast NOx Budget Programs – the achievement of the required emission reduction has been accelerated.”³ (See Attachment 1 for more information on cap and trade programs.)

Companies can also purchase offsets from American farmers. They can earn credits by reducing international forest destruction. The ability to sell excess allowances creates an incentive for inventors and entrepreneurs to develop and deploy new technologies. All of these processes work together to allow us to meet our challenge at the lowest possible cost.

3. **Some question whether we have the technology to meet the emission requirements of the Act. It is natural to ask: How will we get there? How can we accomplish the deep reductions in global warming pollution that science tells us we must achieve, and that this bill would require?**

The good news is that we know how to cut emissions today, with proven technologies.

- **Energy efficiency.** Based on programs already in place at the state level, the National Action Plan for Energy Efficiency has estimated that by 2025 we will be able to reduce carbon dioxide emissions by over 400 million tons a year simply by using energy more wisely. [And in many cases, conserving energy ends up saving consumers money.]⁴
- **Farms and forests.** The US EPA estimates that activities such as improved forest management, agricultural soil carbon sequestration, and methane and nitrous oxide mitigation could cut emissions by 620 million metric tons a year by 2015 at a cost of under \$15 per ton – and that figure would double at prices of \$30 a ton. (See Attachment 2 for a summary of EPA’s findings.)⁵

Just putting those numbers together yields over one billion tons of reductions a year. This is more than a third of the way (or more precisely 35%) to the abatement required in the year 2025.

And that is just the tip of the iceberg. The next generation of coal-fired power plants will have “carbon capture and sequestration” technology available to them. While that may sound far off, in fact all of the components have been tested and are in place. Gasification technology has been available for decades. And oil and gas companies are already pumping CO₂ into geologic reservoirs as part of enhanced oil recovery. The only reason we have not deployed these technologies widely for electric power generation is that there has been no financial incentive to do so. Placing a cap on carbon will change all that.

I could list all of technologies available today from wind power – which is exploding across the Plains and the West – to more efficient vehicles like the hybrid diesel vehicles being built in Ohio – to low carbon fuels being developed in Tennessee and other states – to the substitution of chemical processes at plants in Delaware - to methane management

for farms all across America. The list goes on and on. And putting a cap on carbon will bring even more technologies to market.

4. America's Climate Security Act has a system of carrots and sticks to prompt action from major emitting developing countries.

The first carrot is the opportunity for participation in the US greenhouse gas emissions market. If emitters in other countries would like to sell allowances that they earn in their home countries into the United States emissions market, then those countries will have to meet the practices and standards called for in this Act. Another important carrot is the International Forest Carbon provision. Every year, the cutting and burning of the world's tropical forests causes 20% of greenhouse gas pollution world-wide, irrevocably destroying the richest repositories of biological diversity on the planet, and impoverishing the hundreds of millions of people who depend on forests for their livelihoods – all because the forest is worth less alive than it is dead. This Congress can change all of this and, for the first time, give living forest economic value for tropical nations and forest peoples, by allowing tropical countries that make real, verifiable reductions of their national deforestation emissions to sell those reductions in our carbon market.

A stick is present in what is commonly referred to as the Bingaman-Specter provision because it mirrors what is in the Low Carbon Economy Act of 2007 (S. 1766). This provision would prompt action to ensure that the emission reductions of ACSA are not undone by emissions associated with imported products manufactured in major emitting uncapped nations. The bill's authors recognize that our domestic greenhouse gas reduction program will move forward in a world grappling with the realities of globalization and its impacts on the US. As the USCAP Call for Action states: “[C]are should be taken that policies do not merely push emissions from U.S. facilities to overseas plants, ultimately there must be an international program for addressing climate change and its impacts. U.S. action to implement mandatory measures and incentives for reducing emissions should not be contingent on simultaneous action by other countries. Rather, we believe that U.S. leadership is essential for establishing an equitable and effective international policy framework for robust action by all major emitting countries.”

Recognizing that poorer nations might not be able to cap and cut emissions as quickly as the United States, but that we cannot address the global warming problem effectively unless all major emitting nations do cut emissions, the bill first calls for new international agreements engaging all major emitting nations in cutting their emissions. If negotiation of these new agreements proves unsuccessful, the bill would, after a certain time period, level the environmental and competitiveness playing field by requiring that imports of products produced in uncapped nations submit emissions allowances sufficient to cover the emissions incurred by the production of those products abroad.

As part of a comprehensive framework, a combination of these kinds of carrots and sticks makes sense. However, if we want nations with less capacity, fewer resources, and more

problems to take serious action to cut GHG emissions, then we as a nation must act forcefully and without equivocation. Let's show them how to do it credibly and effectively and set a reasonable timeframe for their comparable action.

5. We strongly support moving the bill forward in its current form and will oppose amendments that would weaken the bill.

As the bill moves forward to Senate floor and through the legislative process, there are issues that we hope Senators will continue to work on:

- 1) The best science we have today indicates that we will need to make economy-wide emissions reductions of 80% by 2050. The bill's science review (sometimes called "lookback") provisions, can be amended to ensure that new scientific information generated in the future is not only evaluated but also leads directly to action with minimal delay. The EPA should be given the authority to take additional actions if the science reviews mandated by the bill demonstrate that the bill's emissions targets will not be met.
- 2) Senator Whitehouse has discussed an amendment to establish an Ocean Trust as part of the adaptation assistance provisions in the bill. Elevated CO₂ levels are projected to profoundly impact the health of the oceans, which provides about 20% of the world's protein, and the coasts, where over half the US population now lives. The bill amendment will help our fisheries and oceans adapt to ocean acidification, increasing water temperatures, and rising sea levels, by establishing a dedicated funding mechanism for on-the-ground efforts to protect and restore ocean and coastal ecosystems. Establishing such an oceans trust was a priority recommendation of the US Commission on Ocean Policy created by Congress – and I thank Senator Whitehouse for his efforts here.
- 3) International-adaptation provisions should not be limited solely to national-security considerations and resources provided international adaptation should be increased. Currently, ACSA would provide international adaptation funding only where such expenditures are deemed "necessary to enhance the national security of the United States," specifically to "assist in avoiding the politically destabilizing impacts of climate change in volatile regions of the world." While national security is one appropriate consideration in this context, it is not the only one. Many of the world's poorest peoples will be adversely affected by climate change that is, to a significant degree, of America's making.

We will oppose amendments that would:

- 1) Weaken the targets and timelines of the bill.
- 2) Include any price cap (or so-called "safety-valve"). A safety-valve set at any price would gut the environmental targets in the bill and would prevent investors from making the commitments needed to develop and deploy needed technology.

3) Further restrict the use of offsets. We believe high-quality offsets can play an important role in reducing emissions quickly, providing new revenue streams for farmers, and lowering costs for regulated entities and yield important environmental benefits.

ENDNOTES

¹The data used to derive this chart is the national allowance account for the years 2012 - 2020 from the introduced version of S.2191. The emissions growth from 2005 to 2013 is assumed to be 1.1% (which is an average of the 2004 and 2005 rate
<http://www.epa.gov/climatechange/emissions/downloads06/07ES.pdf>)

²M. Ruthe, D. Coehlo, D. Karetnikov, "The US Economic Impacts of Climate Change and the Costs of Inaction" A review and Assessment by the Center for Integrative Environmental Research (CIER) at the University of Maryland, October 2007.)
<http://www.cier.umd.edu/climateadaptation/index.html>.

³Ellerman, et al. (2003), p. 34)

⁴ National Action Plan for Energy Efficiency. July 2006. Chapter 1, p. 1-8
http://www.epa.gov/solar/pdf/napee/napee_report.pdf.

⁵ Environmental Protection Agency, "Greenhouse Gas Mitigation Potential in U.S. Forestry and Agriculture." November 2005, Appendix 4.A

ATTACHMENT 1: WHY CAP-AND-TRADE IS THE PREFERRED POLICY TO ADDRESS CLIMATE CHANGE

The Cap-and-Trade Experience

WHY IT IS THE PREFERRED POLICY TO ADDRESS CLIMATE CHANGE.

All serious climate change policy proposals have identified cap-and-trade as the regulatory mechanism of choice. As Congress begins to craft its climate change policy, it is imperative to revisit the reasons why cap-and-trade is the best regulatory mechanism to address the challenge of climate change.

Numerous reports (both federal and state), academic articles, and other publications analyze cap-and-trade policies – past, present and future – and articulate clearly the benefits of such policies. Relevant excerpts from five select sources have been compiled here to exemplify how a well-designed cap-and-trade policy can deliver superior environmental performance and significantly reduce economic costs when compared to conventional regulatory mechanisms. These excerpts also highlight other benefits of cap-and-trade policies, including: how they spur innovation, improve and accelerate compliance, and provide emitters with considerable flexibility.

Cap-and-trade policies differ from other regulatory systems. Cap-and-trade is not a three syllable word – it identifies two different components of a policy that, working together, achieve results. The *cap* limits emissions and *trading* lowers compliance costs.

- Cap-and-trade is recommended due to its putting "a clear and specific limit on aggregate emissions and its potential to achieve the emissions-reduction target at lower cost than would otherwise be possible." (MAC (2007), p. 5)
- Cap-and-trade "provides a framework to meet emissions reduction goals at the lowest possible cost...by giving emissions sources the flexibility to find and apply the lowest-cost methods for reducing pollution. Emission sources with low-cost compliance options have an incentive to reduce emissions more than they would under command-and-control regulation." (Ellerman, et al. (2003), p. iii, Executive Summary)

Cap-and-trade achieves results at lower costs. Experience shows that, when compared to command-and-control policies, cap-and-trade is more environmentally effective and economically efficient. Cap-and-trade also reduces the informational burden on regulators, lowering administrative costs.

- "Savings under the trading program amounted to 43-55% of expected compliance costs under an alternative regulatory program that imposed a uniform emission standard." (MAC (2007), p. 7)
- The Acid Rain Program, achieved "...savings of over 65% compared to a policy that might have forced post-combustion controls (scrubbers) to achieve the same level of emissions." (MAC (2007), p. 7)
- "In the long run, allowance trading may achieve cost savings of \$700-\$800 million per year compared to an 'enlightened' command and control program characterized by a uniform emission rate standard. The cost savings would be twice as great if the alternative to trading were forced scrubbing." (referring here to the Acid Rain Program, Carlson, et al. (2000), p. 12)
- Over the first 13 years of the Acid Rain Program, the ability to trade allowances nationwide across affected units and through time is estimated to reduce compliance costs by a total of \$20 billion, a cost reduction of about 57% from the assumed command-and-control alternative. (Ellerman, et al. (2003), p. 16)
- "Administrative costs can be lower because regulators are relieved of responsibility for establishing specific targets on a facility-by-facility basis." (MAC (2007), p. 5)

Cap-and-trade provides firms flexibility in meeting environmental goals. Cap-and-trade policies offer businesses flexibility for compliance; this is a key source of cost reductions. Firms can choose how, when, and where they meet the program's requirements. These choices are created through several policy components including trading, rewards for early action, and banking.

- "Offsets bring in less expensive emission reductions from uncapped sources and thereby allow compliance at a lower cost than could be achieved by the covered sectors acting alone." (RTI/Nicholas (2007), p. 4-5)
- "The flexibility of the trading program has encouraged utilities to capitalize on advantageous trends, such as changing fuel prices and technological innovation that might have been delayed or discouraged by traditional regulatory approaches." (Carlson, et al. (2000), p. 25-26)
- McCain-Lieberman 2003 (S.139) "provides some measures that give entities a certain amount of flexibility in complying with the emissions limits. These provisions include early action credits, allowance trading and banking, and a mechanism to allow participation from non-covered sources. These flexibility measures are expected to result in a relatively smooth transition through the first and second compliance periods. As a result, the economic burden of controlling emissions is rolled in gradually over time." (EIA (2003), p. 64)

Trading

- "By giving firms the flexibility to reallocate (trade) emissions credits or allowances among themselves, trading can reduce the compliance costs of achieving the emissions target." (Ellerman, et al. (2003), p. 1) "Differences in emission control

costs across emissions sources create the opportunity to reduce costs through trading." (Ellerman, et al. (2003), p. 5)

- "Enhanced environmental performance can be attributed to the increased flexibility associated with emissions trading. Where emission reduction requirements are phased in and firms can bank emission reductions - as was the case in the Lead Trading, Acid Rain, ABT, and Northeast NOx Budget Programs - the achievement of the required emission reduction has been accelerated." (Ellerman, et al. (2003), p. 34)
- "Spatial trading has allowed sources with high abatement costs to reduce emissions less—and those with low abatement costs to reduce emissions more—than under a command-and-control mechanism requiring uniform emissions rates, and thus has reduced the overall cost of the mandated emissions reduction." (Ellerman, et al. (2003), p. 14)
- "The available evidence suggests that the increased compliance flexibility of emissions trading yields costs savings of as much as 50 percent." (Ellerman, et al. (2003), p. iv, Executive Summary)

Banking

- "The reason for the remarkable reduction in [SO₂] emissions in 1995...is the availability of 'inter-temporal trading' in the form of banking. The prospect of higher marginal abatement costs after 2000 made abating more than required in Phase I an appealing option for smoothing the transition to the more demanding Phase II cap. As a result, the reduction in emissions experienced in Phase I was about twice what would have been required to bring emissions below the level allowed in these years." (Ellerman, et al. (2003), p. 14)
- "Because allowance can be sold or held for future use, covered entities will have an incentive to reduce emissions under the bill even if they are allocated sufficient allowances to cover their annual emissions." (EIA (2003), p. 5)

Cap-and-trade policies encourage continuous technological innovation. Because every incremental reduction in emissions has value in a cap-and-trade market, cap-and-trade encourages continuous innovation. Money can be made and competitive advantage can be gained through innovations that reduce emissions at a lower cost.

- "The actual realized cost of the policy will depend significantly on the development and deployment of low-carbon technologies that are not widely in use today. Indeed, it may involve deployment of technologies not yet on the drawing board." (RTI/Nicholas (2007), p. 7)
- "The cap not only limits emissions, it creates a market for emissions allowances where every ton of emissions has a price. This price provides sustained incentives for developing new technologies that can reduce GHG emissions" (MAC (2007), p. 14)
- "...since allowances are valuable, cap-and-trade programs give firms continuing incentives to identify low-cost reduction opportunities: additional reductions are

- attractive because they allow firms to either sell more allowances or to reduce the number of allowances they must purchase." (MAC (2007), p. 7)
- "The incentive to abate in cap-and-trade programs, where there is no specific standard for any single plant, is continuous and any improvements in abatement technology will result in allowance savings." (Ellerman, et al. (2003), p. 35)

Cap-and-trade policies have high compliance rates. This is because of two factors: 1) cap-and-trade's inherent ability to avoid differing hardship for particular sectors, and 2) clear and automatic penalty provisions. Under cap-and-trade, fair treatment, clear penalties, flexibility and incentives make it cheaper for firms to comply than to seek the relaxation of the cap.

- "Four features describe the environmental performance of the Acid Rain Program. First, a large reduction of emissions was accomplished relatively quickly—in the fifth year following passage of the enabling legislation. Second, the schedule of emission reduction was accelerated significantly as a result of banking. Third, no exemptions, exceptions, or relaxations from the program's requirements were granted. Four, the 'hot spots' that were feared to result from emissions trading have not appeared." (Ellerman (2003), p. 3)
 - "...it becomes cheaper for these firms to comply than to seek some relaxation of the standard. Moreover, the existence of a market removes the primary reason for seeking relaxation: unique hardship due to the uniform application of a rule to source-specific circumstances. No one is uniquely disadvantaged in a market with many buyers and the highest cost is that of a permit. The happy result is a regulatory system in which compliance has been made cheaper than seeking some type of relaxation." (Ellerman (2003), p. 7)
 - The SO₂ "program was implemented without the granting of the exemptions, exceptions, or relaxations of the regulatory requirement that are typically issued to avoid the undue hardship that can result when a more or less uniform mandate is imposed on sources exhibiting cost heterogeneity." (Ellerman (2003), p. 4)
 - "Allowing firms that face high marginal costs of abatement, or even technical infeasibility, to comply with environmental requirements by buying allowances—effectively paying others to reduce more on their behalf—has eliminated one of the features of command-and-control programs that diminishes environmental effectiveness. In a command-and-control program, economic hardship or technical barriers can be dealt with only by relaxing the emissions standard in some way. While often justified, these exceptions reduce the regulation's environmental effectiveness because they are one-sided: standards are relaxed to avoid "hardships" for some facilities, but increased emissions cannot be offset by increasing standards at facilities for which abatement is less expensive or easier technologically." (Ellerman, et al. (2003), p. 34)
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References

Carlson, et al. (2000): Carlson, Curtis, Dallas Burtraw, Maureen Cropper, and Karen Palmer, "Sulfur Dioxide Control by Electric Utilities: What Are the Gains from Trade?" Resources for the Future, April 2000.

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EIA (2003): Energy Information Administration, Analysis of S.139, the Climate Stewardship Act of 2003, June 2003.

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RTI/Nicholas Institute (2007): Murray, Brian and Martin Ross, "The Lieberman-Warner America's Climate Security Act: A Preliminary Assessment of Potential Economic Impacts," Policy Brief, October 2007.

ATTACHMENT 2: SUMMARY OF EPA'S FINDINGS OF POTENTIAL EMISSION REDUCTIONS IN AGRICULTURE AND FORESTRY SECTORS

Table 4.A.1: Key Results at the National Level by Activity, Time Period, and Constant-Price Scenarios
Quantities are Tg CO₂ Eq. per year net emissions reduction below baseline for representative years 2015, 2025, and 2055.

Year ^a	Activity	GHG Price (\$/t CO ₂ Eq.)				
		\$1	\$5	\$15	\$30	\$50
2015	Afforestation	0	0	145	557	877
	Forest management	27	121	227	271	301
	Agricultural soil carbon sequestration	66	139	194	191	177
	Fossil fuel mitigation from crop production	17	23	35	46	55
	Agricultural CH ₄ and N ₂ O mitigation	11	15	28	48	69
	Biofuel offsets	0	0	0	16	17
	All activities	121	298	629	1,129	1,496
2025	Afforestation	0	12	228	806	1,296
	Forest management	22	89	156	250	309
	Agricultural soil carbon sequestration	67	149	204	187	153
	Fossil fuel mitigation from crop production	14	18	32	49	62
	Agricultural CH ₄ and N ₂ O mitigation	7	17	36	76	119
	Biofuel offsets	0	0	0	21	83
	All activities	110	285	655	1,390	2,021
2055	Afforestation	1	-7	-270	-873	-426
	Forest management	-10	48	171	322	325
	Agricultural soil carbon sequestration	1	-26	-22	-10	-30
	Fossil fuel mitigation from crop production	14	49	62	92	111
	Agricultural CH ₄ and N ₂ O mitigation	7	11	26	52	101
	Biofuel offsets	0	0	121	990	1,021
	All activities	13	74	86	572	1,101

From Greenhouse Gas Mitigation Potential in U.S. Forestry and Agriculture, November 2005, EPA 430-R-05-006, (<http://www.epa.gov/sequestration/pdf/greenhousegas2005.pdf>).

ATTACHMENT 3: COMPENSATED REDUCTION

Compensated Reduction

A POSITIVE INCENTIVE FOR TACKLING THE LARGEST SOURCE OF GREENHOUSE GAS EMISSIONS IN THE DEVELOPING WORLD

Compensated Reduction (CR) is an innovative proposal that provides positive incentives for developing countries to reduce deforestation rates on a voluntary basis and strengthen the global effort to mitigate climate change.

- According to the Intergovernmental Panel on Climate Change (IPCC, 2001) and the 2006 Stern Review, tropical deforestation accounts for approximately 20% of annual GHG emissions and is the largest source of emissions in the developing world.
- If current rates of deforestation in Brazil and Indonesia alone remained the same through 2012, the emissions from this deforestation would offset nearly 80% of the emission reductions of the Kyoto Protocol. (Santilli et al, Climatic Change (2005) 71: 267–276).

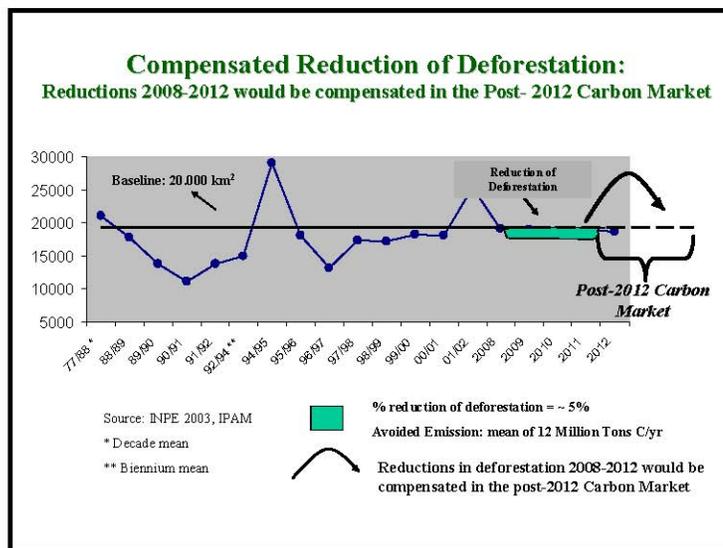
Compensated Reduction would reward countries that demonstrate a real decrease in deforestation. The concept is simple: Any nation that reduces national deforestation below a baseline (based on average historical deforestation rates) would be eligible for compensation, receiving emissions allowances tradable in the global carbon market.

- The compensation would be post facto. Successful countries would receive compensation after 2012 after real reductions were concretely measured; a portion of the tradable allowances would be held in an insurance reserve.
- To determine if real reductions occurred, a country's forests would be monitored by robust, reliable satellite imagery, supplemented by ground-truthing.
- At least one nation, Brazil, has already begun to demonstrate that it is possible, with serious and committed effort, to reduce deforestation.

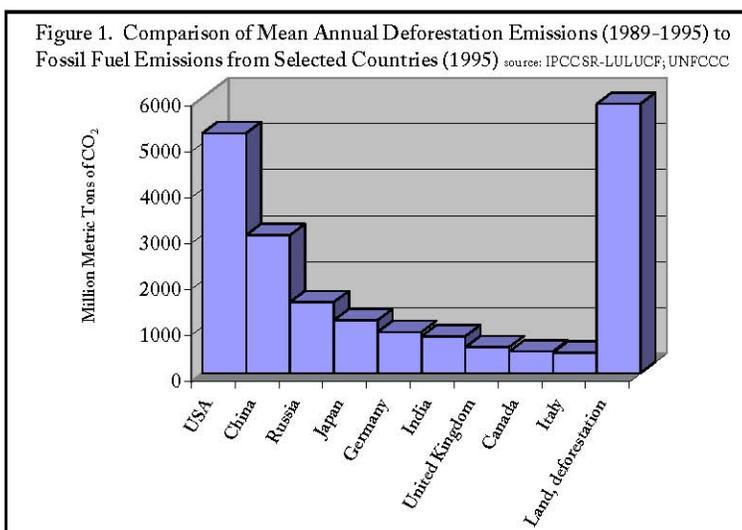
Compensated Reduction involves a nation's entire forest system, not just individual projects, thereby avoiding problems that have hindered consensus on forest issues.

- CR addresses key flaws in the Kyoto Protocol, enabling those developing nations that choose to do so to receive compensation – through the global carbon market – for reducing emissions.

- By harnessing market forces in favor of forest protection, building capacity and enhancing community involvement, and providing incentives for better monitoring, CR has the potential to engage orders of magnitude more financial support than even the most optimistic estimates of official development assistance (ODA) that could reasonably be expected from foreign aid. CR therefore supports both President Bush's Initiative Against Illegal Logging (see <http://www.whitehouse.gov/infocus/illegal-logging/piail.html>) and the U.S. Senate's 2005 Resolution stating that it is time for Congress to enact mandatory, market-based limits and incentives to slow, stop, and reverse greenhouse gas emissions growth in a manner that will not significantly harm the U.S. economy; and will encourage comparable action by other nations that are major trading partners and key contributors to global emissions.
- A coalition of developing nations has formally asked to have the issue of reducing emissions from deforestation placed on the agenda for the Twelfth Conference of the Parties the UN Framework Convention on Climate Change.



Any nation that reduces national deforestation below a baseline (based on average historical deforestation rates) would be eligible for compensation, receiving emissions allowances tradable in the global carbon market.



The largest share of developing country emissions is from the deforestation sector, an amount comparable to total US fossil fuel emissions.