

# Governors on the march

As US federal legislators plan long-anticipated climate change legislation, they would do well to look to the practical progress made by state governors, say

**Michael Northrop, David Sassoon and Ken Colburn**

**E**ven though America seems to be turning inexorably greener, there remains a lack of clarity about the precise nature of eventual national climate law. Despite the urgent need for solutions, this may prove to be a blessing in disguise, because the nation's best experience on climate action that's emanating from the states has yet to be incorporated into federal legislation.

The precise prognosis for such legislation is similarly uncertain. While proponents have made demonstrable progress, they have not yet been able to overcome the longstanding opposition within the Beltway to climate action.

In both the design of climate legislation and the broad support from civil society needed to secure its passage, the US is now only partially prepared to move forward. Make no mistake, climate legislation will be the subject of loud political debate on Capitol Hill this summer when the Senate considers the Climate Security Act – also known as Lieberman-Warner. But this will only be a dress rehearsal; few are under any illusion that final climate law will emerge from this initial exercise.

In less than a year, however, this situation could easily be reversed.

The elections in November will refresh the political landscape, and the new chief executive will likely be a game-changing force. But even more decisive might be a new movement of US governors who are publicly demanding a state-federal partnership to address climate and energy issues proactively.

It turns out that governors are the elected leaders most qualified to show the way on climate action and rally public support for it. But up to now, what they have had to offer has not registered prominently on the Washington radar.

During the current administration, state governments have been the primary locus of policy innovation and policy action on climate change. Evidence of this is best illustrated by the map, which shows 27 states that have or are in the process of developing comprehensive climate action plans.

Individually, the size of these state economies rivals those of most countries. State climate policy activity – though nominally sub-national – is collectively among the most advanced anywhere. It provides a profound but largely unrecognised platform for national action, and for a potential reassertion of global environmental leadership. Indeed, it has provided hope to those in the global community who have waited patiently for the US to engage meaningfully in international climate efforts.

States' experience in giving birth to groundbreaking environmental policies that ultimately evolve into national law is well established. State innovation was, for example, at the heart of the battle against acid rain and the Clean Air Act Amendments of 1990. With little action on climate change at the federal level to date, state governments – led by governors – have once again been the primary venue for policy innovation and best practice in the US.

The governors of 18 of these leadership states – where fully half the US population lives – had a collective coming out in April at the Governors' Conference on Climate Change hosted

by the Yale School of Forestry and Environmental Studies. This gathering celebrated – and echoed – the fact that, 100 years earlier, President Theodore Roosevelt had convened a similar conference of governors to launch the modern conservation movement.

Invoking that precedent, the governors issued a declaration in which they laid claim to their rightful role as partners with federal lawmakers in the design and implementation of national climate law: "Standing in the shadows of President Theodore Roosevelt ... we – Republican and Democratic governors alike – are gathered to challenge ourselves, our Congressional leaders and the presidential candidates to learn the lessons these men have taught us and fully embrace the conservation challenge of our time: the threat of climate change..."

"Today, we recommit ourselves to the effort to stop global warming, and we call on Congressional leaders and the presidential candidates to work with us – in partnership – to establish a comprehensive national climate policy."

**W**ashington took little note. It was after all, yet another declaration on climate change, albeit from a group of prominent Americans. But between the lines of that declaration lies a blueprint for developing effective national climate law, as well as the political formula for building the overwhelming consensus necessary to pass it.

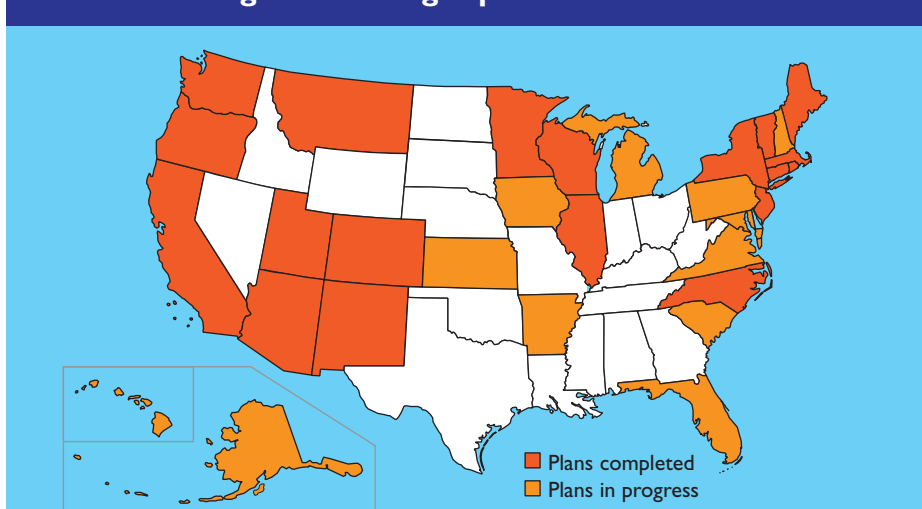
States possess most of the advanced knowledge on climate solutions that is available in the US – whether bottom-up (policies and measures) or top-down (cap and trade).

In 2009, the Regional Greenhouse Gas Initiative (RGGI) will launch the first US cap-and-trade programme. Ten northeastern states will regulate power plant emissions using a cap on emissions and a price on carbon and providing a marketplace for trading carbon allowances.

Two other regional groupings of states are working to establish carbon trading – the Western Climate Initiative and the Midwestern Governors Association. They have rolled up their sleeves, convened key stakeholders and are hammering out the actual details of how to establish and implement an effective cap-and-trade mechanism.

These groups are accumulating wisdom that would go a long way in Washington as lawmakers debate Lieberman-Warner, which would create a national cap-and-trade programme. One important element of the debate inside the Beltway concerns the formula for allocating or auctioning carbon credits, and a number of states have developed valuable expertise surrounding this issue. A RGGI expert working group, for instance, conducted an in-depth analysis on the subject, and many states have already made this crucial policy choice; opting to auction 100% of carbon credits under RGGI trading, and reinvest auction proceeds to protect vulnerable citizens

## I. US state greenhouse gas plans



from potential price increases, boost energy efficiency and subsidise renewables.

But the states have far more to offer. They have also constructed a scaffolding of quantified, bottom-up climate policies and measures that can support and dovetail with cap and trade. They have developed a comprehensive vision of how to get the job done while promoting economic development and job creation.

Their climate action plans contain a portfolio of dozens of policies designed to touch all economic sectors. For example, one set of policies provides both emission reductions and substantial economic savings from the building sector through improved building codes and insulation, and lighting retrofits. From the waste management sector, waste reduction and recycling programmes can yield similar two-pronged benefits when the energy and emissions embedded in the manufacture and transport of products are recovered and reused, instead of being thrown away.

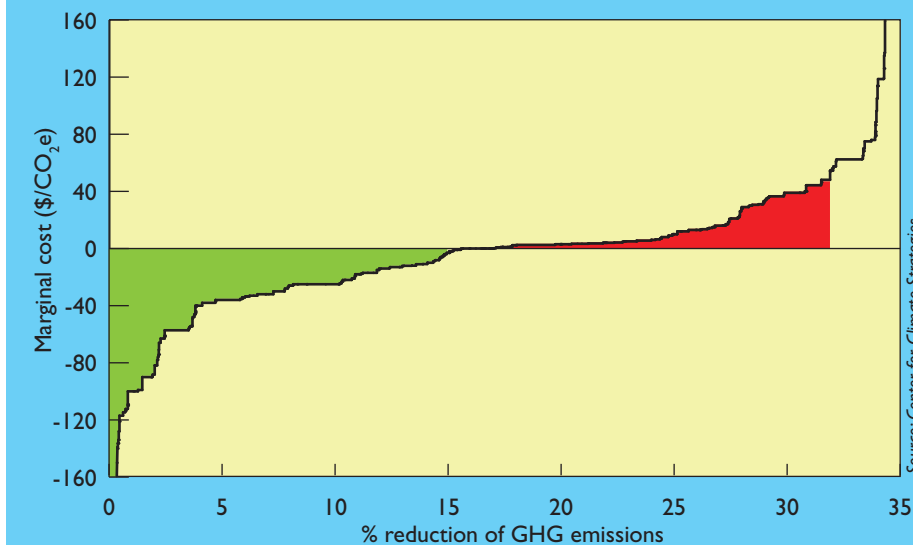
The agriculture and forestry sectors of state economies also offer emission reductions through policies that support low- or no-till practices, land preservation and improved forest management. These policies sit side by side with others that make more efficient use of energy – like increasing use of combined heat and power (CHP) – or that supply cleaner energy through such mechanisms as renewable portfolio standards. States have shown similar national leadership on auto emissions standards, leading Congress to increase national vehicle standards last December in response.

States have considered such policies on the basis of their ability to reduce greenhouse gases, their cost effectiveness, their feasibility and their potential co-benefits. The fact that so many states are acting with a similar impetus begs an important question bearing on the upcoming national debate: What would happen if you aggregated these policies and measures and applied them on a national scale?

The Center for Climate Strategies (CCS) – a non-partisan NGO that has facilitated climate policy-making and analysis in many of these states – has started to answer that question, using data available from 12 leadership states.<sup>1</sup> Its work provides another snapshot of the significance of state climate action (see figure 2).

This “cost curve” was constructed using more than 500 data points, each of which corresponds to an actual policy option adopted by states. Each is plotted as a line segment – its width reflective of its ability to reduce GHG emission as a percentage of national emissions. The line segments are also positioned to reflect their cost to the economy (above zero) or the savings they bring (below zero). In this way – segment by segment, policy by policy – the curve takes shape to reveal a story that should encourage Washington lawmakers.

## 2. US economy-wide stepwise marginal cost curves, 2020



Taken together, the areas coloured green (economic savings) and red (costs) reflect an aggregate economic saving of \$25 billion were the US to reduce emissions to 1990 levels through national adoption of the portfolio of policies developed by the 12 leadership states represented.

In other words, if all US states adopted a similar portfolio of climate actions as these 12 leadership states, the nation could cost-effectively achieve a 33% reduction in projected business-as-usual GHG emissions by 2020. This level of reduction would be consistent with a common interim target recommended by many scientists and policy-makers – reducing GHG emissions to 1990 levels by 2020.

This approach also offers another important advantage: it helps to diversify the risk of relying solely on a national cap-and-trade scheme. Such schemes can be vulnerable to unexpected consequences. For example, an unexpected surplus of allowances in the first phase of the EU Emissions Trading Scheme (caused by a mixture of generous target-setting and greater-than-expected abatement) caused prices to crash, dampening the incentive for further reductions. Although a recalibration has since occurred and the lessons learned are being incorporated, it seems reasonable to expect that a US cap-and-trade system will encounter similar trials en route to optimal effectiveness.

This is why partnership with US governors is crucial to the development of successful national climate law. The policies and measures developed at the state level can strengthen and support the top-down cap-and-trade approach. They would take the pressure off the trading mechanism to perform perfectly right out of the gate and would distribute the effort to reduce emissions across all sectors of the economy and all levels of government working together.

Emission reductions from such policies and measures, for example, could ease demand for carbon allowances, likely lowering their market price. They would also allow policy-makers to target action geographically, and could provide incentives for reductions beyond the reach of

cap and trade. In addition, there is mounting evidence that they would create new jobs and promote broad economic development. As importantly, such policies and measures can spur immediate action, achieve short-term results and help guard against the danger that implementation of a cap-and-trade system could be delayed or prove too weak to do the job alone.

Opportunities for such policies and measures abound, perhaps best exemplified in a recent analysis by McKinsey. The world-renowned consultancy produced a report<sup>2</sup> in December 2007 that included a cost curve remarkably similar to the one constructed from state data by CCS. It provides independent and powerful corroboration from the business sector of the states' approach to climate policy.

There is another gift besides policy wisdom that the governors bring to the table: a new kind of public support for climate action that carries the possibility of overcoming the deadlock that has crippled climate policy development in Washington.

The crafting of climate plans at the state level has been based upon a model of bipartisan, multi-sector consensus-building. Utility executives, trucking interests, builders, business leaders and others have worked face-to-face with environmentalists and non-profit public interest groups to develop policy solutions that were in most cases adopted unanimously.

As a result, in the home districts of Congressional representatives, governors have created an informed network of stakeholders committed to responsible climate action and ready to support a needed national response. Federal partnership with state governments opens a new political possibility as well – of forging a genuinely bipartisan national consensus of the scale needed to secure passage of crucial federal climate legislation.

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<sup>1</sup> Arizona, Colorado, Connecticut, Maine, Minnesota, Montana, New Mexico, New York, North Carolina, Rhode Island, Vermont, Washington

<sup>2</sup> Reducing US Greenhouse Gas Emissions: How Much at What Cost?, McKinsey, 2007. See [www.mckinsey.com/clientservice/ccsi/pdf/Greenhouse\\_Gas\\_Emissions\\_Executive\\_Summary.pdf](http://www.mckinsey.com/clientservice/ccsi/pdf/Greenhouse_Gas_Emissions_Executive_Summary.pdf)