



E3G

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**November 2007**

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E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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# Changing Business and Political Climates in the US and Europe: Where is Japan?

**Jennifer L Morgan and Rebecca Bertram, November 2007**

Business executives and policymakers from the United States and Europe are actively supporting an absolute mandatory cap and trade system to address the problem of climate change. In Japan, however, business associations and politicians seem to have different views, often questioning or outright blocking a mandatory cap and trade system. This paper outlines the current trends in the U.S. and Europe and finds that Japanese business, and potentially the government, could soon be standing alone in their opposition to cap and trade.

## **Changing business climate in the US and Europe:**

The business approach to climate change in both the United States and Europe has changed considerably in recent years. Major companies now agree that climate change is a serious business issue, and urge their respective governments to set clear and mandatory caps on CO<sub>2</sub> emissions.

This development is due to the increased awareness that climate change is a serious problem which carries significant risk. It also is due to the recognition from business that the response does not have to be a burden, but can in fact present a huge opportunity for their future economic performance, if managed properly.

While in Europe, where the Emissions Trading System with absolute mandatory caps is already in place and obliges companies to take measures to cut their CO<sub>2</sub> emissions, business leaders in the United States are now increasingly advocating that the government set similar mandatory caps on emissions. American business analysts agree that such mandatory regulations are no longer an uncertainty but rather a matter of time.

### Business coalitions urge politicians to set absolute mandatory caps on CO2 emissions:

- > **United States Climate Action Plan (USCAP)** assembles a group of large US companies urging the federal government to actively engage in the climate deal. Members of the USCAP include Duke Energy, General Motors and Shell. They share the view that regulatory certainty is needed in order for them to make adequate investments and to plan accordingly. The USCAP declares that it “will provide the basis for the United States to assert world leadership in environmental and energy technology innovation ... [Such leadership] will assure U.S. competitiveness in this century and beyond by putting mandatory caps on CO2 emissions.”
- > **Investor Network on Climate Risks (INCR)** calls for “mandatory market-based solutions such as a cap-and-trade system, a realignment of national energy and transportation policies to stimulate research and development of clean technologies, and for the Securities and Exchange Commission to clarify what companies should disclose to investors on climate change in their regular financial reporting.” Companies of this coalition include among others American Airlines and the Ford Motor Company.
- > **UK Corporate Leaders Group including Shell, E.ON and Centrica** calls for the President of the European Commission “to promote the necessary step-change in investments in low-carbon goods and services, a strong and clear policy framework that creates long-term value for carbon emission reductions.”
- > **The German 2 Degree Initiative** is a purely German business coalition pressing for a functioning and mandatory cap and trade system to reduce greenhouse gases. Coalition partners include BP Germany, Vattenfall, and Deutsche Bahn.

### US politics is moving ahead on the climate issue:

- > **Presidential candidates call for mandatory caps on CO2 emissions.** It is clear that the next president will have to act on the issue, and leading democratic candidates including Hillary Clinton and Barack Obama have already outlined their respective climate programs urging their strong support for a US commitment to a post-2012 international climate framework. Hillary Clinton believes that “America needs to set ambitious

targets to reduce national greenhouse gas emissions by 80 percent from 1990 levels by 2050 to avoid the worst effects of global warming. This can only be done through a mandatory cap and trade system.”

- > **Lieberman-Warner bill – America’s Climate Security Act** is currently circulating in the US Senate and proposes a considerable declining cap on electric power, transportation, and manufacturing sources, as well as on strengthening energy efficiency standards for appliances and buildings. Senator Liebermann wants to “cap carbon emissions at 15 percent below 2005 levels by 2020 and set up a system for polluting industries to trade emissions to meet the goals.” The goal is to reduce CO<sub>2</sub> emissions by 57 percent by 2050. Some permits will be auctioned, with amount increasing over time.
- > **State legislation on CO<sub>2</sub> emissions in California and the North-eastern states has played a significant role in changing the national sentiment.** Some of the major state legislations include:
  - > Automakers in California are set to produce vehicles that emit 30 percent fewer CO<sub>2</sub> emissions by 2016 than their respective levels in 1990, and thirteen states are to follow suit;
  - > **California’s cap and trade system** is establishing a state-wide CO<sub>2</sub> emissions cap on 1990 levels by the year 2020, starting on January 1<sup>st</sup>, 2008. This represents a 25 percent reduction. By 2050, California plans to reduce emissions by 80 percent below 1990 levels.
  - > **The Regional Greenhouse Gas Initiative (REGGI)** is an agreement among the ten north-eastern states to cut emissions from power plants by 10 percent between 2009 and 2018.
- > **Local initiatives have played a significant role in the US climate debate.** More than 600 mayors have signed up to the US Mayors Climate Protection Agreement, representing more than 40 million Americans. Their cities strive to meet the Kyoto Protocol and continue to urge their state governments as well as the US Congress to pass legislation on reducing CO<sub>2</sub> emissions.
- > **Public opinion is growing increasingly aware of the climate problem.** 83 percent of Americans now believe global warming to be a

serious problem, with 63 percent agreeing that the US “is in as much danger from environmental hazards, such as air pollution and global warming, as it is from terrorists.” Other estimates suggest that a majority of Americans believe that the US is either falling or has fallen behind other countries in developing clean alternative energies, with only 14 percent believing the US to have a global lead in developing these new technologies.

### **Conclusion**

Businesses across the United States and Europe have realised that climate change can not only be a burden to their economic performance but that it can indeed provide many new and exciting opportunities for new investments in low-carbon goods and services. There is the increased realisation that the relative costs of combating climate change today are much lower than they will be in the future if nothing is done today. The Stern report in the United Kingdom made the economic costs quite clear. A recent study at the University of Maryland concluded that the economic costs of continued climate change in the United States would amount to hundreds of billions of dollars of increased costs in all regions of the country.

There is a clear need for reliable political conditions that address the effectiveness and cost-efficiency of these new goods and services by encouraging investments in low carbon strategies and technologies. Companies see it to be in their vital interest to enter these new markets now, since the opportunity to shape the take off of the low-carbon goods market will not last forever. If they do not act now they will miss this great opportunity to be part of creating the necessary business conditions and, as a result, will fall behind.

The message is a clear one: climate protection from a business perspective is worth it, and absolute mandatory caps are an essential component of credible climate strategies. As public opinion becomes more aware and involved with the climate issue, consumers will tend to favour low-carbon products and services. Businesses want to be part of this public-private partnership on shaping climate change policies instead of blocking them – a climate change policy where the opportunities so clearly outweigh the risks.