

Agreeing on Climate Policy: An Accord Between the United Kingdom and California

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The UK-Californian collaboration on climate change and clean energy

On 31 July 2006, the UK Prime Minister and Californian Governor announced the UK-California collaboration on climate change and clean energy (*a copy of the Mission Statement is attached*). The collaboration is based on a shared belief that the environmental and economic consequences of climate change compel us to commit to urgent action to reduce greenhouse gas emissions and promote low carbon technologies.

Both California and the UK have committed to strong short- and long-term emissions reductions targets -

- Governor Schwarzenegger has called for a reduction of emissions in California to 2000 levels by 2010 and 1990 levels by 2020. The 2020 target has been enshrined in legislation, with the passing of the 'Global Warming Solutions Act' on 31 August 2006.
- The UK has put in place a wide range of policies that aim to reduce CO₂ emissions by 60% from 1990 levels by 2050.

Under the UK-California collaboration, we have committed to work to:

- Evaluate and implement market-based mechanisms that spur innovation.
 - The UK will share best practices on emissions trading and lessons learned in Europe
 - California and the UK will also explore the potential for linkages between our market-based mechanisms that will better enable the carbon market(s) to accelerate the transition to a low carbon economy.
- Deepen our understanding of the economics of climate change
- Collaborate on technology research
- Enhance linkages between our scientific communities

As with the Gleneagles Dialogue, the UK-California collaboration recognises that government's need to work with business, environmental leaders and other stakeholders to tackle climate change. At the 31 July 2006 announcement, Prime Minister Blair and Governor Schwarzenegger also met with a group of senior business people¹ to discuss how business and government can deploy clean energy and clean technologies to accelerate the transition to a low carbon economy.

¹ These included: Lord Browne of Madingley, Chief Executive, BP; Sir Richard Branson, Founder and Chairman, Virgin Group; Jacques E. Dubois, President and CEO, Swiss Re America Holding Corp.; Dan Hendrix, Chief Executive Officer, Interface Inc.; Chad O. Holliday Jr, Chief Executive, DuPont.

Market Mechanisms

The UK Government believes that, by providing for emissions savings to be made at the point of least cost, emissions trading is the most promising mechanisms for stimulating international investment in low-carbon technology. The UK Government has been a strong advocate of the EU emissions trading scheme since its inception.

The UK believes the true potential for emissions trading to achieve global emissions reductions will only be realised through the continued international expansion of the carbon market outside of Europe. Such expansion will be crucial for encouraging market investment and confidence and fostering the development of an efficient global carbon market up to and beyond 2012. This is reflected in the EU ETS Directive which states that:

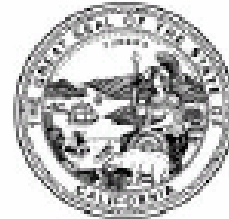
‘Linking the Community scheme to greenhouse gas emissions trading schemes in third countries will increase the cost-effectiveness of achieving the Community emissions reductions’.

The UK Government committed as part of the *Climate Change Programme 2006* to actively promote the development of domestic emissions trading schemes in countries outside Europe and for examining the potential for establishing links between those schemes and the EU ETS.

The Californian Government is currently considering policy options for achieving its emissions reductions targets, and have indicated that a cap-and-trade scheme is a likely measure. Design of a Californian emissions trading scheme could be enhanced by the experience gained in the UK and Europe, and a Californian scheme may wish to consider allowing purchases of existing EU allowances (as for example the Chicago Climate Exchange does).

The UK recognises that responsibility for linking and future development of the EU ETS lies with the Commission. Therefore work by the UK on these issues is ultimately intended to complement the work of the Commission. However the UK wishes to use its experience to help play a facilitating role in the development of emissions trading schemes overseas and the global carbon market, to minimise the cost of emissions reductions worldwide.

**UNITED KINGDOM AND CALIFORNIA ANNOUNCEMENT ON
CLIMATE CHANGE & CLEAN ENERGY COLLABORATION**



Mission Statement

The environmental and economic consequences of climate change and our dependency on fossil fuels compel both California (CA) and the United Kingdom (UK) to commit to urgent action to reduce greenhouse gas emissions and promote low carbon technologies. CA and the UK recognize the linkages between climate change, energy security, human health and robust economic growth. Working together, California and the UK commit to build upon current efforts, share experiences, find new solutions, and work to educate the public on the need for aggressive action to address climate change and promote energy diversity.

We commit to work to:

- ✓ Evaluate and implement market-based mechanisms that spur innovation.
 - The UK will share best practices on emissions trading and lessons learned in Europe. CA and the UK will also explore the potential for linkages between our market-based mechanisms that will better enable the carbon market(s) to accelerate the transition to a low carbon economy.
- ✓ Deepen our understanding of the economics of climate change.
 - Both CA and the UK have efforts underway to quantify the economic impacts of climate change, mitigation efforts, and adaptation strategies. We will share results from these on-going and emerging studies. In particular, we must understand how best to model the impact of climate change emissions reduction policies and adaptation measures on regional and national economies.
- ✓ Collaborate on technology research.
 - We will co-ordinate our energy sector efforts to switch to clean energy technologies, promote green buildings, and increase the use of efficiency and renewable energy technologies. We will share information regarding our efforts to reduce emissions from the transportation sector, including California's emission standards and hydrogen highway and the United Kingdom's experience with a renewable fuels standard and clean coal technologies.

- ✓ Enhance linkages between our scientific communities.
 - Enhanced co-ordination will help us understand the impacts of climate change at a regional level, potential mitigation strategies and adaptation measures, as well as acceptable levels at which to stabilise emissions. There are a number of efforts to build on, most notably at the UK Hadley Centre and the Virtual Climate Center in CA.

Background

Prime Minister Tony Blair and Governor Arnold Schwarzenegger have both already committed to aggressive policies to address the impacts of climate change. Leadership is vital given the potential threats of climate change - degradation to our water supply and air quality, flooding dangers, health consequences, and loss of valuable natural resources. But there are also economic opportunities in taking action, in implementing market-based solutions that will drive the innovation needed to build a low carbon economy.

New policies are critical if significant cuts in emissions and development of new technologies are to be delivered. Governor Schwarzenegger has called for a reduction of emissions in California to 2000 levels by 2010 and 1990 levels by 2020. The UK has put in place a wide range of policies that aim to reduce CO2 emissions by 60% from 1990 levels by 2050. Market-led policies that promote cleaner energy technologies will be needed to meet these targets. These technologies will be key drivers in our efforts to reduce greenhouse gas emissions and mitigate the adverse consequences of climate change.

Next Steps

Even with our successes, there is more to be done to reduce greenhouse gas emissions and prepare our environment and our economy for a clean energy revolution. Together and in coordination with business and environmental leaders and other stakeholders we can take actions that protect the planet, are good for the economy, and provide greater energy security and diversity. This should include working with China, India and other rapidly growing economies to develop and deploy clean energy technologies in those countries that will reduce worldwide greenhouse gas emissions.

We commit to an exchange of delegations to achieve these goals.

Prime Minister Tony Blair

Governor Arnold Schwarzenegger

July 31 2006