



Business Roundtable™

**Testimony for the Record**

**Of**

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President, Business Roundtable**

**On**

***International Climate Change Negotiations: Bali  
and the Path Toward a Post-2012 Climate Treaty***

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Committee on Foreign Relations**

**On**

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Good afternoon, Mr. Chairman and members of the Committee. I appreciate the opportunity to testify today. My name is John Castellani. I am President of Business Roundtable (BRT).

Business Roundtable is an association of chief executive officers of leading U.S. companies with \$4.5 trillion in annual sales and more than 10 million employees. Member companies comprise nearly a third of the total value of the U.S. stock market and represent more than 40 percent of all corporate income taxes paid to the federal government. Roundtable companies are technology innovation leaders, with \$90 billion in annual research and development (R&D) spending – nearly half of total private R&D spending in the US.

### **Summary**

In my testimony, I will first discuss Business Roundtable CEOs' work on the important and interrelated issues of climate change and energy security. Then I will turn to the subject of today's hearing: the international dimension of climate change and the path toward an international agreement following last month's Conference of the Parties in Bali, Indonesia.

Roundtable CEOs agree that there is increasing evidence that the earth's climate has been warming over the last century and that greenhouse gas (GHG) concentrations have increased in the atmosphere due to rising worldwide emissions of GHGs. We believe that steps to address global warming are prudent now even while the science continues to evolve. Our members have a range of views and preferences regarding the policy tools that should be used to address the warming threat. However, we agree on the need for collective actions that will lead to the reduction of GHG emissions on a global basis with the goal of slowing increases in GHG concentrations in the atmosphere and ultimately stabilizing them at levels that will address the risk of climate change.

Collectively, the Roundtable believes that climate change is global in both its causes and impacts and requires a global response. We have called for a comprehensive international agreement which establishes an equitable and effective global framework for addressing climate change.

Under this agreement, all major emitting countries (including China, Brazil and India) should commit to appropriate emission reduction goals.

The 13<sup>th</sup> Conference of the Parties (COP) which occurred in Bali, Indonesia from December 3-15, 2007 represented a positive and constructive step toward a new global framework which BRT applauds. This conference was at times acrimonious and divisive but in the end resulted in agreement on a negotiating roadmap for achieving a new global climate agreement by the end of 2009 that would be in place by 2012. For the first time, key developing nations committed in Bali to take “nationally appropriate mitigation actions . . . in a measurable, reportable and verifiable manner.” This commitment is non-specific and could encompass many different options but it opens the door to meaningful developing nation participation in a climate change agreement.

We are pleased that the U.S. supported the Bali roadmap and will be actively engaged in the process going forward. BRT believes that U.S. leadership in international climate negotiations is essential. Nonetheless, we should be under no illusion that the upcoming negotiation process will be easy or free from conflict. The obstacles to reaching agreement remain large. In Bali, an impasse was reached between the U.S. and EU over whether common emission reduction targets should be set for developed countries and what level of reduction these targets should achieve. The debate at Bali over emission targets for developed nations mirrors in many ways the debate we are having domestically in Congress over climate legislation. Unfortunately, that debate may not be resolved until 2009, well into implementation of the Bali roadmap. During this interim period, there needs to be close and continuous coordination between the Executive Branch officials representing the U.S. in the international negotiations and the Congressional leadership so that evolving policies here in the U.S. are well-aligned with our negotiating positions. Business leaders, like our CEO members, should be an integral part of this process. We believe that all venues – including the major emitter’s initiative launched by President Bush and the G-8 summit in Japan – should be used to encourage dialogue among the major players.

## **Business Roundtable's Climate Policy Statement**

In the last few years, climate change has vaulted into the top tier of issues that have engaged the direct attention of our CEOs. Many of our CEOs have devoted considerable time to understanding the science with the help of outside experts on climatology and atmospheric chemistry; they've talked to policymakers to understand the range of options under consideration domestically and internationally; and they've looked hard at their product portfolios and investment strategies to understand how they might be affected in a world of carbon constraints. Working closely with many members of Congress, the Administration, NGOs, and others, several prominent CEOs within our ranks have taken highly public positions on the seriousness of the climate challenge and what to do about it.

With interest rising across the business community, early last year we at Business Roundtable convened a dialogue among CEOs from a diverse set of economic sectors, including utilities, oil and gas, chemicals, autos, manufacturing and financial services. We did our homework by surveying the range of views among CEOs and consulting with scientists, NGOs, Congressional leaders and the Administration. Additionally, many companies have had conversations with employees to gain their perspective. Then our CEOs sat down to hammer out a statement that merged their differing perspectives. We did not achieve common ground on all the issues but made progress in some very important ways. Development of our policy statement was spearheaded by Chad Holliday, Chairman and CEO of DuPont and Chair of BRT's Environment, Technology & the Economy Task Force.

The BRT policy statement, issued on July 17, 2007, is attached to my testimony. It represents one of the first times that a broad cross-section of business leaders from every sector of the U.S. economy has reached consensus on the risks posed by climate change and the need for action. The statement acknowledges that "there is increasing evidence that the earth's climate has been warming over the last century and that increases in the earth's temperature are affecting many global ecosystems, especially the polar areas." It notes that, concurrent with this warming trend, "greenhouse gas (GHG) concentrations have increased in the atmosphere due to rising worldwide emissions of GHGs." The statement then emphasizes that "the consequences of

global warming for society and ecosystems are potentially far-reaching" and steps to address the risks of such warming are prudent now even while the science continues to evolve." While recognizing the remaining uncertainties, the statement calls for "collective actions that will lead to the reduction of GHG emissions on a global basis with the goal of slowing increases in GHG concentrations in the atmosphere and ultimately stabilizing them at levels that will address the risk of climate change."

Our CEOs also agreed on many of the elements of an effective long-term strategy to achieve this goal. Our statement highlights the many opportunities to improve energy efficiency that exist throughout the economy – in residential and commercial buildings, motors and other industrial equipment, home appliances, cars and trucks, and the production, distribution and use of electricity. We also highlight the importance of accelerating the development of efficient, low carbon technologies and the need for increasing R&D investment in the public and private sectors to speed the process of technological change and innovation. These technologies are essential to reducing GHG emissions while meeting rising energy demands to support economic growth. We make clear that the responsibility for taking action lies not just with government but with the private sector and that our companies should act now without waiting for legislative mandates. Thus, the statement calls on our members to make commitments to reduce their emissions, report publicly on their progress and spend more on climate-related R&D.

In fact, we are now in our fifth year of implementing a program to motivate our members to take voluntary action to reduce emissions and track their accomplishments. Business Roundtable's Climate RESOLVE (Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts) is the only broad-based business initiative dedicated to helping its members reduce their GHG emissions through one-on-one counseling, learning sessions, workshops, networking opportunities and exposure to member company best practices. The initiative has spurred greater awareness of climate issues in the business community and motivated many companies to develop policies and strategies for managing their emissions. More than 70 percent of Business Roundtable's membership has enrolled in Climate RESOLVE. A list of these companies is attached to my testimony.

Our members understand that the U.S. is moving toward a new policy framework on global warming and that Congress is considering bills that will demand substantial reductions in GHG emissions. Within our membership, there is a range of views and preferences on the policy tools that will best achieve that objective. Some members support cap-and-trade programs; others are partial to carbon taxes, technology initiatives or other approaches. Similarly, some members support mandatory approaches; others do not.

In an organization as diverse as Business Roundtable, it would be surprising to have unanimity on an issue this complex and far-reaching in its impact. Nevertheless, without recommending specific policies, our climate change statement outlines specific benchmarks that should be used to judge policy proposals by Congress or the Administration. These benchmarks are in large part focused on assuring that we can meet the challenge of global warming without harming our economy or U.S. competitiveness.

For example, our statement stresses the need to align emission reduction targets with the expected timelines for deploying advanced technologies and the ability of our economy to reduce its carbon footprint in an economically sustainable manner without increasing shortages of energy and raw materials, price spikes or other threats to economic growth. It also outlines key criteria for all policy proposals, including whether they are flexible and maximize the use of markets, minimize complexity and transaction costs, operate in a transparent manner, provide predictability and certainty to business, and foster innovation and business opportunities. Finally, our statement urges that our policy framework be flexible enough to make course correction as climate science evolves and we better understand the economic consequences of climate policies.

### **Business Roundtable's Energy Recommendations**

While the subject of today's hearing is climate change, I would be remiss if I did not underscore the important connections between energy and climate policy. Concerns about energy security are a top priority for our CEOs. In our latest economic survey, unveiled in early December 2007, 32 percent of CEOs said that energy costs were their greatest cost pressure, tied with healthcare

costs (also 32 percent). This is not a surprising finding in light of the recent spike in crude oil prices to nearly \$100 per barrel. In June of 2007, we released a comprehensive set of energy policy recommendations developed through a consensus-driven process led by CEOs from multiple sectors of the economy. Entitled *More Diverse, More Domestic More Efficient: A Vision for America's Energy Future*, this report calls for a more diversified and domestic-based energy supply mix, increased energy efficiency and a greater investment in new energy technologies. Our CEOs feel strongly that we cannot afford to ignore any pathway that will contribute to stable, clean and affordable energy supplies. This includes ethanol and other bio-fuels, nuclear power, greater access to conventional domestic oil and natural gas reserves, coal-to-liquids, coal gasification, and energy efficiency.

As we address climate change, we must devote equal attention to maintaining reliable and affordable world supplies of energy, which are essential to reduce poverty, improve public health and raise living standards around the globe.

### **The Bali Roadmap: What Was Accomplished and What Lies Ahead**

Climate change poses a daunting political and economic challenge to the world community. As our policy statement recognizes, climate change is global in both its causes and impacts and requires a global response. Focusing on the United States or all developed countries alone will not achieve sufficient reductions in worldwide GHG emissions to stabilize atmospheric concentrations at meaningful levels and therefore could cause the world's developed nations to incur large economic dislocation without any corresponding benefit.

The Kyoto Protocol imposes emission reduction obligations only on the developed (or Annex I) countries. As members of this Committee are well aware, the absence of commitments by developing nations was a major factor behind the Senate's 1997 Byrd-Hagel resolution overwhelmingly opposing the Protocol's ratification. Since then, the leading developing countries – notably China and India – have experienced surging economic growth, with a corresponding growth in their GHG emissions. China has now overtaken the U.S. as the world's largest GHG emitter, and developing nations will account for a growing percentage of total

worldwide emissions as their economic growth and energy consumption continue to outpace those of the developed world. Excluding major developing economies from an international climate change framework – which was unacceptable ten years ago – is even less of an option today.

Our climate policy statement unequivocally calls for a comprehensive international agreement: “An equitable and effective global framework for addressing climate change should be put in place, under which all major emitting countries (including China, Brazil and India) are committed to appropriate emission reduction goals.” We also emphasize that U.S. leadership in establishing this global framework is essential.

The 13<sup>th</sup> Conference of the Parties (COP) which occurred in Bali, Indonesia from December 3-15, 2007 represented a positive and constructive step toward a new global framework which BRT applauds. This conference was at times acrimonious and divisive but in the end resulted in agreement on a negotiating roadmap for achieving a new global climate agreement by the end of 2009 that would be in place by 2012. We are pleased that the U.S. supported this roadmap and will be actively engaged in the process going forward.

There are many issues that were left unresolved at Bali but a number of aspects of the roadmap represent a promising point of departure for further negotiations:

1. For the first time, key developing nations committed to take “nationally appropriate mitigation actions . . . in a measurable, reportable and verifiable manner.” This commitment is non-specific and could encompass many different options, but it opens the door to meaningful developing nation participation in a climate change agreement. As our statement reflects, BRT believes that tangible emission reduction commitments by developing nations are essential for U.S. acceptance of a new climate agreement.
2. Equally important is the roadmap’s recognition of the importance of addressing deforestation in developing nations through “policy approaches and positive incentives”, including a framework for pilot initiatives, signaling that an effort to prevent deforestation will be part of the



post-2012 package. This is consistent with BRT's climate policy statement, which recommends that a new international framework should "address tropical deforestation, which contributes roughly 20 percent of total anthropogenic GHG emissions."

3. Also positive is the roadmap's recognition of the role of technology development and transfer in supporting emissions reduction progress in developing countries through the use of financial and other incentives. This focus is consistent with the recognition in BRT's statement that "expanding penetration of [new] technologies in developing economies where emissions are rapidly increasing is an urgent priority."

4. The roadmap does not prescribe a one-size-fits-all approach to reducing GHG emissions but recognizes the value of "various approaches, including opportunities for using markets to enhance the cost-effectiveness" of reduction measures. Given the interest of our members in a broad range of emission reduction tools which minimize costs, we were pleased by this recognition.

5. We were glad to see encouragement in the roadmap for "cooperative sectoral approaches and sector-specific actions." We believe there is promise in encouraging industries with global scale and reach (particularly those which are energy-intensive) to work together on common technology platforms, metrics and targets for reducing emissions. Initial steps in this direction have already been taken under the auspices of the Asia-Pacific Climate Initiative and bi-lateral exchanges between the U.S. and some of its trading partners. Sector-based approaches could play an important role in an international agreement in bridging the gap between developed and developing nations.

Although these areas represent important progress, we should be under no illusion that the upcoming negotiation process will be easy or free from conflict. The obstacles to reaching agreement remain large. In Bali, an impasse was reached between the U.S. and EU over whether common emission reduction targets should be set for developed countries and what level of reduction these targets should achieve. The final Bali roadmap attempts to place bounds on this debate without resolving it. The roadmap calls for the parties to consider:

Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives by developed country Parties, while ensuring the comparability of efforts among them, taking into account differences in their national circumstances.

This language encompasses a broad range of actions – including voluntary and differentiated individual country commitments at one end of spectrum to binding and uniform reduction targets at the other – and therefore leaves a broad field for negotiation between now and the end of 2009.

The debate at Bali over emission targets for developed nations mirrors in many ways the debate we are having domestically in Congress over whether to adopt a cap-and-trade system and at what levels and by what dates to reduce emissions under that system. Ultimately, a consensus here in the U.S. would go far to shape our international negotiating position. That consensus does not exist today – among our members, in the Congress or between the Administration and the Congress – but the U.S. political process over the next two years will move us towards greater clarity in one direction or another. There needs to be close and continuous coordination between the Executive Branch officials representing the U.S. in the international negotiations and the Congressional leadership so that evolving policies here in the U.S. are well-aligned with our negotiating positions. Business leaders, like our CEO members, should be an integral part of this process.

As the Bali roadmap is implemented, we should not lose sight of the complex web of economic relationships between the U.S. and China, which is key to the outcome of climate negotiations because of its role as the world's top emitter. China is both a competitor and economic partner. Our members both export products to China and rely on Chinese manufacturing operations. U.S. companies have major investments in Chinese enterprises while China is becoming an investor in U.S. financial institutions. China, like the U.S., is a large importer of petroleum products and natural gas and shares our interest in moderating increases in energy costs. U.S. consumers benefit from low-cost Chinese exports and these exports are an important source of jobs for

Chinese workers. There are obviously stresses in the U.S./Chinese relationship, but there are mutual benefits. We need to carefully weigh the full range of strategic issues between the U.S. and China as we examine what commitments each country should make to tackle GHG emissions under a new climate treaty.

The Bali roadmap sets in motion a negotiating process under the UN 1992 Framework Convention on Climate Change, with the goal of reaching an agreement under the Convention between all the signatories, including developing and developed countries. This process will of necessity be cumbersome and difficult to manage because of the large number of participating countries. We therefore believe it will remain very important for smaller groups of countries to meet outside of the formal UN process to develop areas of agreement and work through difficult issues. President Bush took an important step in this direction by convening the “major economies” in Washington, DC in September. We strongly support continuation of the major economies dialogue and note that it has been endorsed by the two major Democratic Presidential candidates. We support dialogue in other venues such as the upcoming G-8 meeting in Japan. Business leaders from the G-8 are planning a series of meetings in 2008 in parallel with the G-8 process and climate will be an important agenda item. BRT will take a leadership role in these meetings.

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Thank you again for the opportunity to testify here today and I look forward to your questions.

Attachments (3):

[Business Roundtable Climate Change Statement](#)

[Business Roundtable Energy Report: “More Diverse, More Domestic, More Efficient: A Vision for America’s Energy Future”](#)

[Climate RESOLVE Member List and Program Description](#)