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Discussion Following the Remarks of Mr. Charnovitz, Mr. Sargent and Mr. Cleland

Discussion

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DISCUSSION FOLLOWING THE REMARKS OF MR.
CHARNOVITZ, MR. SARGENT AND MR. CLELAND

COMMENT, MR. RUNNALS: Mike, thank you very much. I think, in a way, that technological glitch was fortunate, because your presentation provided an excellent summary of much of the energy discussion we have had over the last couple days. Questions? Henry.

QUESTION, MR. KING: I noticed in Steve's presentation that nothing was done on the 1909 Declaration¹ by Canada, the United States and Mexico until the 1990s. I also noted the statement that we require greater institutionalizing to develop more permanent policy objectives. At the same time, I noticed that Mike Cleland's presentation suggested that we ought to avoid short-term changes in long-term policies, because policies concerning energy and the environment are long-term propositions. However, you also have elections. What framework could be used that might institutionalize good policies for the protection of the environment and to ensure us an adequate supply of energy for the long term? In Europe, they have the European Community institutions, but it seems to me that something has to be done to avoid the vicissitudes of elections, so that we keep our eyes on the stars and accomplish our long-term objectives. Is that too tough of a question?

ANSWER, MR. CLELAND: I will just say a couple things on that and then I will hand it over to Steve, because I thought some of his points were germane. The vicissitudes of elections are difficult to avoid in a democratic society and, to one degree or another, I think we are stuck with it. That is probably for the good. There are some things I think we can do to dampen the swings, and some of those things include treaties or intergovernmental agreements, or federal-provincial agreements in Canada, because then, to some degree, we take those policies out of the election cycle. They make it difficult for any one government to swing all over the place.

Another thing I think we can do is to establish institutions that throw light on what is going on and provide, again, some longer-term stability. Steve talked about things like the Commission for Environmental Cooperation. The International Joint Commission might be another very good example. I think we need more of these.

ANSWER, MR. SARGENT: There is one interesting difference between trade and the environmental policy, at least in the U.S. In Canada, we tend to

¹ That is, the Declaration of Principles, created by the delegates at the North American Conservation Conference of 1909. See CHARLES RICHARD VAN HISE, *THE CONSERVATION OF NATURAL RESOURCE IN THE UNITED STATES* 381-384 (1910).

think about elections as steering politicians toward greener policies, whereas, in trade, elections tend to generate more protectionist policies. You hear in the United States during an election year, "we cannot pass trade promotion authority or other trade-liberalizing things."² We certainly hear in Europe that election years are bad for trade liberalization.³ It is interesting that election dynamics seems to push for better environmental policy but worse trade policy. I do not quite know why.

The only other point, I would say in a North American context, the idea of trying to time elections to be at the same time in all three countries is not going to be practical, but it would be interesting to try to do more in the way of bringing the parliamentarians of the three countries together on lots of issues, and I would say the environmental ones would be a good start.

QUESTION, MR. DAVIS ROBINSON: I found yesterday's presentations rather alarming, and said to myself, we really need some real high-level political input and debate; it would be a good thing if the politicians were involved in a very big way.

This morning's presentations I find rather reassuring, and they tend to indicate it is better *not* to have the politicians involved. In other words, maybe we can achieve some progress by just not having the decibel on the boob tube as high. How do we react to that? Do you think at the moment we need more visibility of these issues, or are we making progress by having some peace and quiet?

ANSWER, MR. SARGENT: I will start it off. It is delusional, I think, to think that we can leave politicians out and solve our problems through technocrats; although the technocrats sometimes see it that way (I was a technocrat for a while), that is simply not going to work in our countries.

On the other hand, the politicians are often totally uninformed and jingoistic, and I think the only way to try to improve that is through institutions that help expose politicians to informed business community environmentalist viewpoints, like the sort of presentations we heard this morning about energy cycles and perturbations of policy. In my experience at least, American members of Congress, when they are exposed to academic groups, tend to learn a lot, and I think it does improve their policy viewpoints.

ANSWER, MR. CHARNOVITZ: In the U.S., concerning the evolution of these market-based instruments, there was an interesting interaction between the regulatory administrative structure and the U.S. Congress as we

² See, e.g., Neil King Jr. & Shailagh Murray, *Fast-Track Trade Bills Face Hurdles*, WALL ST. J., June 5, 2002, at A4, available at 2002 WL-WSJ 3396756 (noting the demise of a Democratic congressman who voted for NAFTA during an election year).

³ E.g., George Graham, *Finance Ministers Appeal for Swift Trade Liberalisation Deal*, FIN. TIMES, Apr. 29, 1992, at P4.

moved to successive stages, and Congress was at the heart of striking some final compromises that got those policies through.

ANSWER, MR. CLELAND: I agree with Steve's point. You cannot possibly leave the politicians out of it; they *will not* stay out of it. I think the point is that what the politicians do can take on a different character. Part of that is --I do not want to trivialize it, but there is a certain amount of theatre here --if the public sees their political actors to be in charge, looking after things, even though they may not be doing very much, you can avoid doing long-term damage.

I will give you an example. In August of 1990, before the Gulf War actually started, the International Energy Agency turned its attention to the issue of what are we going to do about the oil supply disruption. Over the course of the next several months, when a lot of us were trooping back and forth to Paris (aside from the decision for the Strategic Petroleum Reserve Release that occurred just before the bombing), we did not do anything, and it worked. What we wanted to do was to avoid interfering with price pass-through or rationing energy or any of the other dumb things we could have done that would have created a crisis, but the politicians needed to be in a position to tell the public that they were acting and that they had the situation under control. I think there are ways of doing it that will make it effective in a democratic context but perhaps less perturbing.

COMMENT, MR. RUNNALS: A wonderful story I was told once: during Teddy Roosevelt's administration, there was a national coal strike that became an event of epic proportions.⁴ Roosevelt went off on summer vacation, presumably to shoot something, and got a letter from Henry Cabot Lodge, who was then the leader in the Senate: "Dear Mr. President, I know there is nothing we can do about this coal strike, but is there not something we can *appear* to be doing?"⁵

COMMENT, DR. HICKEY: I have just two comments: One, I did not hear any discussion in energy policy about ethics, about who is burdened or benefited by internalizing externalities and deciding who pays and what the consequences of that will be, or whether, in your view, that has an element in energy policy.

The second thing is that I do agree with everything that everybody said, but there are some that come with a different view that I do not agree with, but I would like to get your reaction. It is the notion that the way to deal with the environmental consequences of energy in the future is to start from the

⁴ For more information, see Jonathan Grossman, *The Coal Strike of 1902: Turning Point In U.S. Policy*, MONTHLY LAB. REV., Oct. 1975, available at <http://www.dol.gov/asp/programs/history/coalstrike.htm>.

⁵ But perhaps more telling is Roosevelt's response: "There is literally nothing . . . the national government has any power to do. . . I am at wit's end how to proceed." See *id.*

premise that wealthier means healthier. As countries get rich, then they can turn their attention to environmental quality and become concerned with it. So, one way to deal with the problem of environmental quality and the use of energy by developing countries is to make them wealthier as quick as possible, and that may mean to leave the environmental externalities for them aside, and when they get wealthier, they will become concerned about the environment, and that is the best, long-term approach. I would like to get your reaction to that.

COMMENT, MR. SARGENT: There was a lot of that idea being circulated ten years ago in the trade-and-environment debate as well as the international environmental context. I think the World Bank now says that is not true, that economic growth itself is not going to be sufficient to lead to better policy. The evidence just does not support that proposition, because there are a number of bad environmental policies that produce irremediable environmental harm that just becomes too expensive to fix, so governments in less-developed countries are well-advised not to take the track of "let-us-get-rich-first" and then raising their environmental standards later.

Also, if you look at the recent report of the World Economic Forum Environmental Sustainability Index,⁶ where it looks at various countries around the world and ranks them in terms of their environmental sustainability, you do see some correlation between economic growth and good environmental policy. However, you also see (the study is interesting because it breaks down the various pre-conditions for sustainable environmental policies) that there are many factors in there that can be achieved in the absence of high economic growth, and the study is good because it points out the various macro approaches to achieving sustainability.

COMMENT, MR. CLELAND: Let me add to that. I think you are right on that, and I would argue, perhaps, somebody is mistaking correlation with causality. I think it is probably more important to have well-functioning markets and political institutions, and I would say you have to have those before you are going to get environmental improvement. Economic growth, I think, follows from those two characteristics.

In any event, if you look at the situation in urban areas, for that matter, or just about anything else in developing countries (for example, the urban air quality), it is, I think, silly to suggest that we should wait until they are as rich as we are before they deal with those issues, because they simply cannot afford to wait.

COMMENT, MR. RUNNALS: If I could just add, to me I think the interesting country to watch in this will be China. The Chinese are clearly

⁶ WORLD ECONOMIC FORUM, 2002 ENVIRONMENTAL SUSTAINABILITY INDEX (2002), available at http://www.ciesin.org/indicators/ESI/ESI2002_21MAR02tot.pdf.

aware of the depth of their environmental problems. They produce quite horrifying statistics which they now make available fairly readily, and I think there is an increasing consciousness amongst the Chinese leadership that you cannot go on with 8 percent economic growth without significantly renewed allocations to environmental protection. Whether they will act on their knowledge and whether they have enough economic “elbow room” to act on it is a different question, but I think the understanding is there.

ANSWER, MR. ROBBINS: I would say that, begging to differ with Mr. Cleland, that we have not been doing a good enough job. As you well know, total carbon dioxide emissions from North American have increased over the last ten years and will, with business as usual, increase about a similar amount (13 or 14 percent) in the next ten years. For those of us that are very alarmed about the potential for great social and environmental dislocations due to global climate change, business-as-usual is not working. I deeply respect your opinion that we have to make policy very deliberately and take into account many factors. I think a very critical point that has not come out, I think, is public domain.

My question is: do you think, or do not you think --I would like other people to comment -- that we need to have an all-encompassing type of approach, but we need to do this on a fast track, as opposed to a slow track; that we need institutions and markets to speed this up greatly, because it is not working? We have the problems of developing countries; there may be environmental or social shocks in the next ten years that are directly or indirectly related to climate change and energy issues, which will force the things. It would be better to have a crash program, as it were, if only for that reason.

The last thing I will just say quickly is that part of that program would clearly need to be a very strong counter to the almost universal public perception in North American that great environmental progress is bound to be economically costly. Certainly the Bush Administration has made a big point of this.⁷

COMMENT, MR. CLELAND: There are a bunch of places I can go with that. I agree with much of what you are saying. What I meant to say is that we have been making pretty good progress, and I think there is a difference. It is not good enough, and I would not suggest that “business-as-usual” is good enough, either. I think we need to press harder across the board on a number of these issues. I am arguing for steady progress on multiple issues.

I think we have more than climate change to deal with. I find that, in our business, no matter what we do, whether it is hydro, nuclear, wind or fossil

⁷ See Letter from President George W. Bush to Senators Charles Hagel, Jesse Helms, Larry Craig and Pat Roberts (Mar. 13, 2001), available at <http://www.whitehouse.gov/news/releases/2001/03/20010314.html>.

power generation, we seem to be hedged in by one real environmental issue or another that we have to attend to, at the same time that we have demand. What do we need to do? As far as moving on a fast track in the case of climate change is concerned, I think there is a reasoned argument that a steady push over the next two or three decades will get you to approximately the same place in 2050 as doing something very rapidly. I think there is another reasoned argument that a very rapid attempt to, for example, shift to gas and get out of coal could leave you actually digging yourself out of a hole ten to fifteen years from now. I think we need to have that debate and see where we should go. One thing we should not do is stand still. We need to move and we need to press on. We are not in the same place here on this, but I do not think we are as far apart as you might think.

COMMENT, MR. SARGENT: I think the organizers did a good service by combining the focus on energy and environment because I think that is not often done enough. One of the speakers from which I learned the most was the one on energy policy, with Davis Robinson's very interesting introduction and David Jhirad's presentation.⁸ We need an energy policy, and it came out that we do not really have one. I think that until we undergird an energy policy with environmental policy, we are going to be ineffective.

QUESTION, AUDIENCE PARTICIPANT: First, a couple comments and a question that relates more to a cumulative impression of the last three days than it does to this particular panel. My first comment is that I am not sure that a policy of relying on energy markets, bolstered perhaps by regulation or programs to deal with areas where markets do not deliver, is a lack of policy. I just wanted to say that I am not sure that it is as interesting or exciting as some kind of national energy policy or program. I do not think it is a lack of policy, so a comment.

A second comment, a sentiment probably shared by a lot of people here, is that when you use this kind of microphone, you feel a little bit like a wedding singer.

COMMENT, MR. RUNNALS: We can provide karaoke music. You can stand up and sing what you want.

QUESTION, AUDIENCE PARTICIPANT: A third comment is: Over the last few days, some speakers have talked about a terrific abundance of natural resources; I think it opened a lot of eyes in terms of the scale of Canadian resources. A few other speakers have talked about flexibility among resources and how energy commodities were a bit fungible and people really wanted the services that energy provides. But the questions they got conveyed a certain skepticism, perhaps a kind of lingering "Club of

⁸ David Jhirad, *An Energy Policy for the 21st Century*, 28 CAN.-U.S. L.J. 315 (2002).

Rome” concern, that the issues around sustainable development or perhaps around security, but the issue is this: we are running out of stuff. Perhaps the person to tackle this concern would be you, David. The fundamental energy challenge of sustainable development: is it the extent of our resource base, is it the exorbitant capacity of the environment for the waste produced by producing consuming energy, is it something else, or a combination?

COMMENT, MR. RUNNALS: I think it is the absorptive capacity. I would give the same answer I gave 30 years ago to limits to growth. The real problem is not shortages, although there will be local shortages. The real problem with some natural resources may well be shortages (water, for example). We may find that this footrace between population growth, consumption and fresh water availability in South Asia and China may not be easily solved, but on the energy side, I do not think there is any question that physical shortages are the real problem.

I mentioned in my introduction that we are in or are entering a carbon-constrained world. The calculations that were done are that original Conference on the Changing Atmosphere in Toronto in 1988 show that Kyoto is a *very* tentative first step. We are talking about having to doing something about reducing CO₂ emissions over the next 50 years by 40 and 50 percent, not by five or six percent that Kyoto requires; that, in my view, is the principal problem.

There are many kinds of other environmental problems related to energy production and consumption: siting questions, high-level radioactive waste disposal from nuclear power, mercury emissions from coal-fired power plants, but those are not shortage problems. I grew up in the oil business, as my father was in it. I have watched the endless projections of shortages for years, and they always turn out to be wrong. When the price goes up, people look harder to find new sources. As I said, I think it much more a problem of the absorptive capacity --partly the absorptive capacity of the atmosphere, and partly the absorptive capacity of public institutions. Can we adjust quickly enough and maybe even painlessly enough to adjust to these new realities? Maybe someone else wants to have a go at that one. No? Chickens.

QUESTION, MS. KLAAMAS: My question is specifically to Mr. Cleland. This is with respect to the part of your presentation where you commented on consumers and their demand for energy and unwillingness to deal with any kind of taxation. Oregon has a Blue Skies program, and I believe Seattle Electric also has a similar program, that provides consumers with the option to choose green energy for a premium, and there large portions of the consumer base for those two areas that have chosen to do so. Is the association following this at all and the lessons that can be learned from that experience?

ANSWER, MR. CLELAND: Yes and no. We keep track of what goes on there, but I would not say we are following it in detail. I would be interested in anybody else's observations on how far that will get you. My sense of it is that some part of the consumer base --not a huge part --is willing to step up and pay a premium. How big a premium they may be willing to pay, I think, remains to be seen. It is probably not big enough on its own, for example, to make up the generation price gap between wind and conventional power generation unless there is something else in there as well. Clearly, some part of the consumer base (for the most part, reasonably affluent, middle class people who have the financial flexibility and read the right papers) will step up and do that. I do not think that, by itself, it will get you all that far. It helps, but at some point, you probably need something more directed, and that is when you get into the political problems.

COMMENT, MR. RUNNALS: Sandy, do you want to say something about this? You are a green-power customer, are not you? We talked about this yesterday. I do not want to put you on the spot but you are actually paying a green-power bill.

COMMENT, MR. GAINES: I think she was talking about the experience in Portland and Seattle. I actually tend to agree with Mr. Cleland. It makes a difference at the margin, and in Portland and Seattle, the whole cultural attitude about the environment is quite different from what it is in Houston, Texas, so what works in Portland will not necessarily work in Houston to any significant degree. Also, I have the financial luxury, since energy is a small part of my expense, of making that choice, but there are many people in Houston that do not have that kind of flexibility and will absolutely always, and probably out of necessity in many cases, go for the lowest cost.

QUESTION, MS. PULLEY: Just to the last comment, on a personal note I might add, choice is important.

The one thing I wanted to raise with all of our panelists is this idea of growth. As a company making what we call an "energy-embodied" product that is very interested in growing, whether that be in developed or developing countries, I am particularly interested in information about greenhouse gas emissions. Where do you see, besides in cap-and-trade models and other things, the opportunity for growth in industries like ours? It is a major step for us to capture life-cycle benefits. Rather than just looking at plants and those emissions, is there a way to capture life-cycle benefits so you get the total net value there?

ANSWER, MR. SARGENT: I will take a crack at, partly because it allows me to expand on my abbreviated comments in the main presentation, the notion of life-cycle benefits, in particular for aluminum. There are some CO₂ emissions that are associated with the production of aluminum, and to some extent it depends on the process used. But there are also some other greenhouse gases that are created in the processing which have very large

global warming potentials. The argument made by the industry (and I think it is a fair argument) is that that aluminum is a lighter metal that can be substituted for steel in cars or things that are more recyclable, and some other uses can save energy and emissions down the road, hence, over the product's life cycle. It can permit cars to operate with less fuel and fewer emissions, and to the extent that it lends itself more to recycling later on, there is also savings.

So, how can this be recognized as part of an efficient overall response to achieving environmental objectives or a given emissions target? At least in Canada, the industry's thinking has been targeted on trying to obtain rights or recognition for these later-in-the-life-cycle benefits. I think that is an understandable and fair response, given the stage where we are at in the development of an overall approach.

It is worth noting that at least, in principle, one of the advantages of an overall pricing approach would be that it would tend to give you those same incentives automatically through the price system. The downstream benefits, for example, on car fuel consumptions, would come out of the fact that consumers would find that the relative cost of fuel is higher, since there is carbon dioxide emissions associated with its use. Therefore, consumers would be willing to pay the premium for aluminum in a car structure.

So you have two different sorts of approaches to try to recognize life-cycle benefits. If you have a system which is partial, then you may find that you need to take specific action to give some recognition to life-cycle benefits. If you could have a pricing system that applied across the board, (but that is a pretty big *if*), but a world where some countries are not part of system, it will complicate the use of a pricing approach. However, if you could have that system, it might take you a long way in terms of full recognition of life-cycle and some other issues. But, as I say, that may well be still a long ways down the road.

One issue we have not really talked about much in this conference is the whole area of standards and corporate responsibility initiatives and sector initiatives, and I think that is a way in which, in addition to the market, activities to deal with life-cycle approaches tend to be incorporated into the norms of corporate practice.

COMMENT, MR. RUNNALS: We have got three questioners left and about four minutes, so could you please make your questions brief and your responses brief.

QUESTION, DR. WADDELL: It comes back to the question Henry King raised at the start: his suggestion that intergovernmental agreements are a way of dealing with some of the problems created by politicians and short-term horizons. At least in Canada, intergovernmental agreements tend to be negotiated behind closed doors; they usually do not involve legislatures. They often involve preferential access to negotiators for some people as

opposed to others. Everyone is presented at the end with a *fait accompli*, which may be more efficient, but may also not build the political consensus you need to actually produce the change but, instead, reinforce the political volatility created, because it is an opportunity for politicians to take one side or the other.

If intergovernmental agreements are going to be important to move forward, do we have to change the way we create them?

ANSWER, MR. CLELAND: Probably, yes, Chris, but I think there is also a degree to which the only way you can ever get the agreement is, at some point, you have to be able to get behind closed doors and work out some of the things. I would argue that intergovernmental agreements do not replace the functions of legislators or elections, but rather that they compliment those other institutions, and together you move forward. Who leads, the public or the leaders or *vice versa*? One could spend a long time on that issue alone. However, I do think that you probably do need to adjust them and open them up somewhat, but if you open things entirely, the process will be paralyzed.

COMMENT, MR. RUNNALS: There is also a case to be made that the Canadian process is somewhat flawed as well. We can actually ratify the Kyoto agreement, for example, without it ever being debated in our parliament; it can be ratified by order from the cabinet. That makes it much more difficult to have a formal public legislative debate of these things.

QUESTION, AUDIENCE PARTICIPANT: Is not it fair to recognize that, although we could ratify, we could not do anything much to implement without the parliamentary approval process of the measures in question?

ANSWER, MR. RUNNALS: That is true, but that does not necessarily apply to a number of other international environmental agreements. For example, the Biological Diversity Convention⁹ required no implementing legislation, or at least not in the opinion of the Department of Justice Canada. We have no public debate of the Canadian ratification of these things as you would in the United States, where the Senate would have to give its advice and consent.¹⁰

QUESTION, MR. DE: My question regarding the prescriptions of let the developing countries get richer and wealthier and then let them take care of the environmental problems because we are relates that the wealthy can afford to spare. I have seen some of the so-called developing countries, and they have been trying to create the level of standard of living for over a half a century, and their priorities are still aimed at raising their standard of living

⁹ Convention on Biological Diversity, June 5, 1992, 31.L.M. 818 (1992).

¹⁰ U.S. CONST. art. II, § 2 (“[The President] shall have power, by and with the advice and consent of the Senate, to make treaties, provided two thirds of the Senators present concur . . .”)

and the general wealth of the country, and *not* toward preventing pollution or maintaining the environment. So I think that the prescription that is being made here is not going to work unless we have a policy to protect these countries by making sure we are not dumping waste on these countries, allow them to treat hazardous waste improperly, or to plan expansion with the environment in mind. It does not cost always a substantial amount to include pollution prevention in our agenda and to educate the public to do things right. So we have low-hanging fruits that can be picked up, and we can teach them.

COMMENT, MR. RUNNALS: I do not think anybody is going to disagree with that.

QUESTION, MR. DE: Are there any comments on that? Do you still propose to allow these developing countries to get richer and let the standard of living and wealth increase, and then and only then will they do the right things when it comes to the environment? They have been trying to do that on their own for many years.

ANSWER, MR. CLELAND: I thought that was Professor Hickey's question. To the extent that there was response to that, most people agreed that that was not a viable approach, so, no.

COMMENT, MR. RUNNALS: I think we need to draw this to a conclusion. We are a couple minutes over time on something that has been run to a very tight schedule. I apologize. I would like to ask you to join me in thanking Steve Charnovitz, John Sargent and Mike Cleland for an excellent concluding panel.

