

# Getting from Here to There:

## A likely Architecture for International Cooperation on Climate Change

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# The Good News and the Bad News

- **Good News** - President Putin has tipped the balance and the Kyoto Protocol has entered into force. In the words of Kofi Annan, “This is a historic step forward in the world’s efforts to combat a truly global threat.”
- **Bad News** - The Current and future largest GHG emitters, the U.S., China, India, and the rest of the developing world, are still in the starting blocks.
- **Really Bad News** - Kyoto provides no incentives for these countries to move an inch.

# Recognizing the Obvious

## Difficulties with Legally Binding Targets and the Severity of the Target

- Arguably the U.S. gave false signals regarding the domestic political acceptance of stringent and legally binding emission targets
- False signals decreased the credibility of the US and diminished any international leadership the U.S. might have had.
- Beginning in 1997 and extending through COP6 were growing concerns Kyoto targets would disadvantage the economic competitiveness of the U.S. vis-à-vis the EU and more importantly – China.
- New Republican Administration rejected Kyoto – but likely a Gore Administration would have distanced it self as well.

# Recognizing the Obvious

## Lack of Common Interests and Priorities

- The legally binding targets are just the obvious obstacle
- The greatest obstacle is the lack of common goals and priorities
  - Kyoto parties may place a priority on greenhouse gas mitigation at the expense of economic growth and development, but the US and most developing countries have different priorities.
- To an economist, differing interests and priorities are a good thing -- they make markets and lead to “gains from trade.”
  - The problem with the UNFCCC is the set of things that can be traded in the “market” too small.

# Recognizing the Obvious

## Inflexible “Flexibility” Mechanisms

- The protocol is now causing real heartburn for its signatories.
  - The important “flexibility mechanisms” designed to lower the cost of abatement to Annex 1 countries are anything but flexible.
  - The two countries (Canada and Japan) hoping to take advantage of the Clean Development Mechanism (CDM) to meet their Kyoto obligations find the process of developing CDM projects acceptable to the CDM Board to be almost intractable.

# Recognizing the Obvious

## Credibility of 2<sup>nd</sup> Commitment Period Targets

- Given the long-term concentration goals articulated by the EU of 550 PPM for all GHGs, one would expect the EU to advocate for significantly greater reductions in 2<sup>nd</sup> commitment period targets.
- But with the EU's big trading partners (US and China) not accepting any targets, will the EU really disadvantage its global trade position with very stringent and expensive GHG reductions?
- If the EU backs away from commitments consistent with the its own 550 goal, the credibility and usefulness of the protocol even among its strongest supporters is seems weakened.

# Recognizing the Obvious

## Intractable UN Process

- Burdensome 160-nation bureaucracy of the UN process.
- Over half of all 2020 CO2 emissions will be accounted for by just four political entities, the U.S., China, the Former Soviet Union and India.
- Even if each member of the EU is counted separately, almost 80% of global 2020 CO2 emissions are accounted for by 20 countries.
- These are the 20 countries that need to reach a climate agreement

# What Might Happen Next: 2005-2008

## US and China Remain on the Sidelines

- The UNFCCC process and Kyoto continue to move forward, but without the US, China and the remainder of the developing world.
  - Suggestions for alterations to the protocol to entice the U.S. to reconsider its position will be made and will be rejected.
  - Similarly, attempts to engage the developing countries will continue, but will remain unsuccessful.
  - This lack of success is due in large measure to the misalignment of priorities embodied in the UNFCCC and the protocol.

# What Might Happen Next: 2005-2008

## Attempts to Breathe Life into the CDM Continue

- Countries in need of CDM credits to meet their obligations will work to rationalize the rules so that projects can be undertaken and credits generated.
  - Those who believe that a deep and broad CDM market will lower compliance cost and entice the developing countries to take on targets **versus**
  - those whose first concerns are “additionality” and the “gold standard” for a CDM credit.
- Unless international political power swings decidedly toward the former, CDM activity will remain almost invisible.

# What Might Happen Next: 2005-2008

## Negotiating 2<sup>nd</sup> Commitment Period Targets Becomes Very Problematic

- EU adopts 550 PPM concentration stabilization target for all GHG
- EU revises target to 450 PPM
- IPCC documents suggest global emissions must peak by the end of the Kyoto first commitment period (2012) to hit 450
- Given the U.S. and developing country emissions will continue to rise over this period, the world can remain on the EU endorsed 450 ppm path only if the signatories to Kyoto make draconian emission cuts in the 2<sup>nd</sup> commitment period.

# What Might Happen Next: 2005-2008

## U.S. Adopts Mandatory Domestic Mitigation Efforts – Maybe

- At some point the US will adopt domestic climate policies the world views as credible
- Very modest policies combining near-term mitigation with technology enhancement. Perhaps along the lines proposed by the National Commission on Energy Policy (NCEP)
  - Some sort of cap and trade program
  - Perhaps a safety Valve
  - Complementary technology “push” policies.
- When? The balance must tip

# Global Action: 2008 and Beyond

## A Parallel Track to Kyoto is Established

- Causal factors include:
  1. Inability of the UNFCCC process to attract the US, China and developing countries to legally binding targets
  2. Ineffectiveness of the CDM and other “flexibility” mechanisms to lower compliance costs to Kyoto signatories
  3. Lack of agreement among Kyoto parties on anything other than very mild 2<sup>nd</sup> commitment period targets

# Global Action: 2008 and Beyond

## *Approach of the Parallel Track*

- The key to international cooperation on climate change is cooperation on global trade, economic development, and environmental quality – the parallel track focuses on these issues.
  - Arguably, the U.S. and much of the developing world place a high priority on economic development
  - Wide-scale international participation in efforts to mitigate climate change will be facilitated if global climate agreements are discussed and negotiated as part of larger international packages that include trade, development, international finance, and technology transfer.
  - The larger the set of policies under discussion, the more degrees of freedom exist with which to craft compromises and satisfy competing political and economic needs.

# Global Action: 2008 and Beyond

## *An L20-like Negotiating Forum*

- The UNFCCC process is too cumbersome to effectively negotiate complex policy packages.
- A smaller number of nations is all that is needed and easier to manage
- A model might be the "Leaders 20 Summit" (L20) suggested by Canadian Prime Minister Paul Martin, expanding the G8 to include the major emitters and the major economic and political powers
- Explicit incorporation of trade, development and technology policy within the discussion of climate change, brings the issues of highest priority to China and developing countries to the negotiating table.

# Global Action: 2008 and Beyond

## *U.S. Participates in Global Negotiations*

- Silencing Byrd-Hagel requires abandonment of binding targets (at least in the near term) and mitigating competitiveness concerns
  - L-20 agreements will likely not involve Kyoto-like legally binding emission reductions, but rather, the adoption of domestic policies and measures that will lead to emission reductions.
  - As parties to the L-20 negotiation, the nature of ultimate deals will provide assurances to the U.S. and China that agreed to climate related commitments would not impinge upon economic growth or reduce global competitiveness
  - The attractiveness of L-20 negotiations to the U.S. will depend on the attractiveness of the negotiation to China. If China is willing to join, then many of the fears expressed Byrd-Hagel are mitigated.

# Global Action: 2008 and Beyond

## *The Stage is Set for Pledge and Review*

- Each country brings to the table its own set of interests, be they trade, finance, development, technology or climate.
- These interests are affected by the actions of other countries, enabling Pareto improvements through bargaining and negotiation
- Interdependent county welfare applies a “brake” on the actions of each country
  - For example, the EU is unlikely to pursue aggressive mitigation efforts if the U.S. and China do not follow suit.
- In such an economically interdependent world one can imagine “round” upon “round” of pledge and review negotiations

# Can we get the Parties to the Table

- Will an L-20 regime that accommodates trade, development and technology transfer policies in addition to climate policies be attractive to the important developing countries?
  - Yes if we avoid “bait and switch” and establish credibility quickly
- Will the US join?
  - Yes, if it has taken its own first domestic steps and China plays

# The EndGame

- Can an L-20 pledge and review actually yield GHG stabilization at levels protective of the global climate?
- That depends on:
  - How seriously each country believes the threat posed by climate change to be.
  - How quickly and how costly will it be to develop and deploy noncarbon technology

# It's All About Cost

- The greater the perceived threat the greater will be the priority countries place on climate protection
  - but we may never know the full nature of the threat (perhaps until it's too late)
- The issue then is cost
  - All else equal, GHG concentrations 100 years from now will depend on the speed of technology development and cost of deployment. The faster we can develop technologies and the less costly they are to deploy, the lower will be GHG concentrations.
  - Concentrations will have little to do with specific targets adopted today and everything to do with the effectiveness of policies begun today designed to bring forth the needed infrastructure at minimum cost