

CEPS COMMENTARY



Thinking ahead for Europe

The US-China Joint Announcement on Climate Change: Can the G2 make a difference?

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Summary

- The joint US-China announcement detailing their respective post-2020 climate change ambitions can be expected to impact the dynamics of negotiations leading to a new global climate change agreement in 2015 in Paris.
- The declaration can serve as a benchmark for the pledges of both developed countries (e.g. Japan, Australia, Canada) as well as developing countries, especially the members of the BASIC group (India, Brazil, South Africa).
- It sends a strong political signal, but environmentally it is seen only as a floor and a start, which does not yet meet the requirements outlined in the most recent IPCC report. This is partially due to the lack of details, especially on China's side.
- Implementation will be challenging – in political terms for the US; for China, in view of the practical investments that need to be undertaken.
- This announcement represents the desire of the US to assert leadership and a challenge to the EU's claim of leadership in combating climate change.
- It could be seen as providing impetus and justification to those who would like to see a more aggressive EU approach, both internationally, as well as in relation to the 2030 framework for climate and energy policies, currently being considered, including the Market Stability Reserve.

On the occasion of the Asia-Pacific Economic Cooperation (APEC) Summit in Beijing on November 12th, the US and China (the 'G2') issued a joint announcement on climate change and clean energy cooperation, detailing their post-2020 climate change ambitions. According to the announcement, the US intends to achieve economy-wide emissions reductions of 26%-28% by 2025, compared to 2005 levels. It will make a best effort to reach 28% reductions by then. China intends to let its CO₂ emissions peak by 'around 2030'. It will make a best effort to 'peak early' and also intends to achieve a share of 20% non-fossil fuel use in primary energy consumptions by 2030.

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To achieve these targets, the US and China will intensify their cooperation on clean energy R&D, carbon capture and storage (CCS), and 'eco-innovation' in general. A number of structures and agreements were also put in place to ensure that work can be done, including a joint US-China Climate Change Working Group and an agreement to work together towards phasing out hydrofluorocarbons (HFC), etc.

This announcement was followed by another one from the US stating that it would provide \$3 billion to the Green Climate Fund (GCF), which represents about 30% of the total \$9.3 billion that has been pledged to date, including those made at the pledging meeting in Berlin on 20 November 2014.

So, what is going on here? Many see this as an attempt by the US to assume leadership on the issue of climate change, especially in the run-up to Paris in 2015. But the announcement can only be seen as positive by those who feel that addressing climate change is a matter of urgency and as a great example of cooperation between two major powers, which in many other areas remain competitors.

The agreement has been called historic, but does it actually measure up to such a claim? While rightfully received with great enthusiasm by many, the announcement nevertheless begs a number of important questions:

- What does it really mean for the two countries? How much effort is really needed?
- What would be the environmental impact at the global level of this announcement?
- How does it impact multilateral efforts to reach a new global climate change agreement in Paris in 2015, and does it have any geopolitical impact in general?
- How does it affect the EU's stance on climate change, domestically and internationally?

For the US, the effort required is fairly clear, but for China much remains to be clarified. The US will need to double its annual growth in reducing emissions from 1.2% to 2.4%, with the majority of the effort to be undertaken in the years 2020 to 2025. Many environmental groups see this as a 'floor' and not a 'ceiling' for the US effort to contribute to targets that scientists suggest are needed to limit the temperature rise to 2°C through a 40% reduction by 2020. From an EU perspective, the EU commitments for 2030 are reductions of 43% for the sectors covered by the EU ETS, and 30% for non-ETS sectors.

To reach these targets, the US will, at least for the foreseeable future, have to rely on the regulatory powers of the executive branch. The Republican opposition, bolstered by its recent success in the mid-term congressional elections, have disputed this announcement in both Houses of Congress. The usual and expected references to the 'war on coal' have been heard, which is matched by their control of the purse through appropriations for any implementation, including the budget of the Environmental Protection Agency.

While President Obama seems willing to use his executive powers to the full in the last two years of his administration on a range of issues to ensure his legacy, the issue of climate change is somewhat special because it requires a major leap of faith from many in industry.

Reaching these targets will be done through domestic action, and will require significant investment from business. The risks are also significant for first-movers, and are bound to require higher returns, given the example in Australia where the climate change policy was reversed due to the change in government.

In the domestic context, this announcement, which was given a very high profile by the US administration, is also seen by some as a way of forestalling criticism that the US was proceeding on its own on climate change, without extracting equivalent measures from its main global economic competitors. One has to go back to the Resolution of 1997, passed

unanimously by the United States Senate (95–0 on 25 July 1997) and sponsored by Senators Chuck Hagel (R-NE) and Robert Byrd (D-WV) that stated that the US should not

mandate new commitments to limit or reduce greenhouse gas emissions for the Annex I Parties, unless the protocol or other agreement also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for Developing Country Parties within the same compliance period.

In China the announcement was given rather less prominence, while of course being acknowledged as an important step. One has to question whether this was for domestic reasons, where local pollution is seen as a more urgent matter, and/or for reasons of global positioning. China, as a member of the BASIC Group (Brazil, South Africa, India and China) as well as a leader of the G77+China negotiating group, needs to plot its positions in a very delicate and deliberate manner, which we discuss further below.

The Chinese side of the announcement will require significant effort if it is to be implemented. The announcement refers to 800-1,000 gigawatts of non-fossil generation by 2030, which is more than all the coal fired-generation that exists in China today. This would require not only significant investment, even on a Chinese scale, but also the buy-in of all the power structures, outside the central decision-making apparatus. Since there are no details relating to the level of peak emissions, much more needs to be known before the full impact of the effort required from China becomes clear. However, it must be remembered that China has made a pledge, as part of the Copenhagen voluntary commitments in 2009, to reduce its carbon intensity by 40% to 45% by 2020, as compared to 2005.

From an environmental point of view, the assessment of the Intergovernmental Panel on Climate Change (IPCC), through the statement of its Chair, Dr. Pachauri, seems to indicate that while it is a good start, it falls short of a roadmap towards zero emissions by 2100 that the IPCC report on November 2nd indicated was needed to avert the worst scenarios. The same reaction was heard from others, including environmental activists, who may have different agendas: a good start, but much more is expected from the US, as a developed country.

Internationally, this announcement is squarely aimed at encouraging a new climate change agreement in Paris, the international conference that will take place in December 2015. Both Parties are “committed to reaching an ambitious 2015 agreement that reflects the principle of common but differentiated responsibilities and respective capabilities”.

The announced US target will be the US submission as the INDC (Intended Nationally Determined Contributions) due in the first quarter of 2015 to the UNFCCC (United Nations Framework Convention on Climate Change), as agreed at the last UNFCCC Conference of the Parties in November 2014 in Warsaw. It is unclear what the Chinese submission will be, but the elements announced are bound to be the ‘floor’ of any Chinese contribution.

The Chinese position of not committing to peaking or capping its emissions had become somewhat untenable given the change in its overall and per capita emissions, as well as projections. This is especially true when compared to some of the other BASIC countries, especially India. China’s 8.2 million kt (kilotonnes) in CO₂ emissions are more than four times India’s total CO₂ emissions per capita and emissions in China are 6.2 Mt CO₂ per capita, compared to 1.7 for India (see Tables 1 and 2).

It must be remembered that UNFCCC negotiations, while portrayed as an environmental agreement, can be seen as essentially a trade agreement, with significant implications for competitiveness. For China, as an economic superpower, to be seen as refusing to take any clear commitments was, and continues to be, an increasingly untenable position.

Table 1. Total CO₂ emissions (kt)

	2000	2005	2006	2007	2008	2009	2010
Australia	329,604.6	362,684.6	371,214.1	377,235.3	387,634.9	395,093.6	373,080.6
Brazil	327,963.8	347,308.9	347,668.3	363,212.7	387,675.2	367,147.4	419,754.2
Canada	534,483.6	563,071.5	550,233.4	560,801.6	544,974.9	513,937.4	499,137.4
China	3,405,179.9	5,790,017.0	6,414,463.1	6,791,804.7	7,035,443.9	7,692,210.9	8,266,892.0
France	365,559.6	392,072.0	382,581.8	375,882.2	372,563.5	356,923.8	361,272.8
Germany	829,977.8	806,703.3	808,859.5	784,015.6	783,359.2	732,248.6	745,383.8
India	1,186,663.2	1,411,127.6	1,504,364.7	1,611,404.5	1,811,289.0	1,982,262.9	2,008,822.9
Japan	1,219,589.2	1,238,180.9	1,231,301.6	1,251,136.4	1,206,916.0	1,100,650.1	1,170,715.4
Poland	301,691.4	303,598.3	320,004.4	315,637.0	316,124.7	298,787.2	317,254.2
Russian Federation	1,558,112.0	1,615,687.5	1,669,618.1	1,667,597.6	1,715,639.0	1,574,367.8	1,740,776.2
United Kingdom	543,662.1	541,986.3	542,041.3	528,906.1	522,466.8	475,107.5	493,504.9
United States	5,713,560.0	5,826,393.6	5,737,615.6	5,828,696.5	5,656,838.9	5,311,840.2	5,433,056.5
European Union	3,914,056.8	4,047,099.2	4,058,767.6	4,009,945.2	3,926,143.2	3,629,050.2	3,709,764.6
OECD members	12,810,308.8	13,216,612.4	13,168,684.7	13,308,654.1	13,053,918.6	12,266,672.4	12,591,586.9
World	24,807,255.0	29,677,031.0	30,692,790.0	31,411,522.0	32,207,261.0	32,049,580.0	33,615,389.0

Source: World Development Indicators (adapted from World Bank database).

Table 2. CO₂ emissions, metric tonnes per capita

	2000	2005	2006	2007	2008	2009	2010
Australia	17.2	17.8	17.9	18.1	18.2	18.2	16.9
Brazil	1.9	1.9	1.8	1.9	2.0	1.9	2.2
Canada	17.4	17.4	16.9	17.1	16.4	15.3	14.7
China	2.7	4.4	4.9	5.2	5.3	5.8	6.2
France	6.0	6.2	6.0	5.9	5.8	5.5	5.6
Germany	10.1	9.8	9.8	9.5	9.5	8.9	9.1
India	1.1	1.3	1.3	1.4	1.5	1.7	1.7
Japan	9.6	9.7	9.6	9.8	9.5	8.6	9.2
Poland	7.9	8.0	8.4	8.3	8.3	7.8	8.3
Russian Federation	10.6	11.3	11.7	11.7	12.1	11.1	12.2
United Kingdom	9.2	9.0	8.9	8.6	8.5	7.6	7.9
United States	20.2	19.7	19.2	19.3	18.6	17.3	17.6
European Union	8.0	8.2	8.1	8.0	7.8	7.2	7.4
OECD members	11.1	11.0	10.9	11.0	10.7	10.0	10.2
World	4.1	4.6	4.7	4.7	4.8	4.7	4.9

Source: World Development Indicators (adapted from World Bank database).

We must remember that any climate change effort by any country should be able, as a necessary but not sufficient condition, to satisfy three conditions: does it make clear what the commitment of a country is and, as a second condition, does it provide clarity on how it will be meet that commitment? This is critical, especially when it comes to evaluating the competitive implications for enterprises in any jurisdiction that is open to global competition. A third condition is whether it is seen as a credible effort on the part of that country.

In this sense, China's announcement, which was received with some surprise by some of its BASIC partners, will undoubtedly create tensions within that group. This is especially true of India, which sees itself in totally different terms with respect to climate change, and whose reception of the agreement has been relatively cool, at least in public. While Brazil is likely to continue with its diplomatic objectives, such an announcement will also impact its positioning over the next 12 months. The dynamics within the BASIC Group, as well as China's stance at the upcoming UN climate change conference in Lima in December 2014, will be followed with great interest.

However, while it is a BASIC member, as well as a member of a more heterogeneous and harder-line developing country group called the “Like-Minded Group of Developing Countries (LMDC), China has been seen as sending more positive, yet, somewhat mixed signals for a while. The country has continued to insist on the classic interpretation of the Common But Differentiated Responsibility (CBDR) principle and the current Annex 1/non-Annex 1 divide – Annex 1 in the Kyoto Protocol (KP) are developed countries that needed to take absolute caps, non-Annex 1 are the rest, that do not need to take any action under the KP – while introducing a pilot phase of seven carbon markets in seven different regions of China.

While the ‘G2’ announcement may ruffle feathers in the BASIC group, at the same time it will strengthen China’s leadership in UNFCCC negotiations with other groups that may have been concerned by what was seen as Chinese intransigence in negotiations, especially the Alliance of Small Island States (AOSIS), the African Group and the Least Developed Countries Group.

The announcement is very likely to create an awkward situation for some developed countries, however, especially Canada and Australia. While Canada has been less visible in the news, the Conservative government is seen, by many observers, as aligning itself with its ideological partners in Australia on this issue. Canada’s recent announcement at the pledging conference in Berlin that it will contribute 300 million CAD (roughly 267 million USD) to the Green Climate Fund (GCF), while not necessarily a reaction to the US-China announcement, may help mitigate some of the pressure to match the US position.

Australia has been much more vocal with the reversal of the carbon-pricing mechanisms introduced by the last government and its public resistance to include climate change in the G20 summit that it recently hosted. This agreement put some pressure on the current government in terms of the INDC that it will provide in the first quarter of 2015, as well as in the domestic policies that it introduces, in replacing the carbon pricing mechanism that had been well regarded around the world.

The recent announcement has certainly overshadowed the outcome of the EU Council Conclusions. In the EU, the political reception has been very positive, while the environmental community has been more cautious. It is interesting to note that the effort at de-carbonisation in the US is increased from the current average rate of 1.2% per year up to 2020, to a new rate of between 2.3% and 2.8% between 2020 and 2025. This is very similar to the effort that the October EU Council agreed towards 2030, which increases the slope of decarbonisation from 1.74% to 2.2%, which was seen as emblematic of EU leadership.

From a competitive point of view, this is a welcome development for the EU, as it can show it as proof that it is no longer going it alone in tackling climate change. The EU has come under increasing pressure from industry, which already feels that carbon costs place it at yet another regulatory disadvantage vis-à-vis its global competitors.

For the EU, this announcement comes at a time when the European Commission’s proposal of January 2014 will start to be put into legislative proposals, following the EU Council Conclusions of October 2014. This includes the reference to “at least 40%” by 2030, and an increase in the reduction slope from 1.74% to 2.2%. The legislative proposal on the Market Stability Reserve is also making its way through the co-decision process.

All these elements of the 2030 energy and climate framework are under close scrutiny. The impetus given by the announcement is likely to embolden those who feel that the EU is not acting alone, and that there is scope to increase the EU’s level of ambition. This applies both domestically, as well as internationally, in the EU submission for its INDC due in the first quarter of 2015. International partners are likely to push the EU to do more.

Conclusions

The US-China joint declaration is undoubtedly an important announcement by the two global economic giants responsible for emitting over 30% of the world's GHG emissions. As such, it needs to be seen as important and relevant – a very positive development towards a new global climate change agreement in Paris. It is a challenge to those that have announced their pledges and are seen as capable of doing more, as well as to those that have not yet announced their intentions.

It shows the importance and success of the UN climate change conference in Warsaw last year, when the decision was made that all Parties should announce their commitments by the first quarter of 2015.

It also represents a total breakdown of the Kyoto Protocol-style separation in climate change negotiations between countries into Annex 1 and non-Annex 1, with China signalling that it is taking on the leadership role that comes with being a great economic power.

In broader terms, it shows that there is scope for cooperation between the two main economic actors, even in the face of competition in other spheres. It is also a challenge to the EU, which was a leader and needs to show that there is a benefit in maintaining its leadership.

Finally, agreements are deemed historic only by history. This one is important, and a potential game-changer, on the face of it. But it needs to live up to its promise. There is sufficient uncertainty for us to withhold final judgement and see if its promise materialises through implementation. But, as sober a judgement as we must make on such important matters, this announcement certainly gives us great hope that it is possible to do what needs to be done, and we must wholeheartedly welcome and applaud it.