



The Post-Kyoto Bidding War: Bringing developing countries into the fold

*Alex Evans
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This briefing paper explores the difference between the EU and US-Australian positions on global climate policy in the wake of the 2007 Heiligendamm G8 summit and the UN High Level Event on climate change. It notes that although the two have very different analyses of the urgency of responding to climate change, they still concur on two of the most fundamental issues in post-Kyoto policy on climate change mitigation: neither side is arguing for a quantified ceiling on CO₂ levels in the atmosphere, and neither is arguing for developing countries to take on quantified targets.

The paper argues that this odd consensus is explained by the fact that although the EU ultimately believes developing country targets to be essential, it also judges that there is no political space for any discussion of them in the post-2012 commitment period. Instead, the EU argues for a sub-global approach which, the paper suggests, rests on a questionable analysis of the likelihood of developed countries taking on tougher targets in the absence of developing country targets, and an over-optimistic sense of how much emissions abatement can be achieved in developing countries through an expanded Clean Development Mechanism.

The paper argues that contrary to what EU states appear implicitly to believe, the political context for a discussion of developing country targets will actually become progressively more difficult the longer it is left unaddressed. As the paper explains, early participation in an equitable global framework can be profitable for developing countries; later participation, on the other hand, risks missing the boat on this opportunity.

In this regard, the paper welcomes the broad approach recently outlined by German Chancellor Angela Merkel, that national emission entitlements should gradually converge towards equal per capita levels. This principle, the paper argues, could potentially pave the way for a strong basis for early discussion of a comprehensive, full-term deal on stabilising greenhouse gas concentrations – by providing a transparent basis for incentives to developing countries to take on quantified entitlements within the global emissions budget that a formal stabilisation target would entail. The paper concludes with recommendations for how the EU should take Merkel's proposals forward.

Just before the 2007 Heiligendamm G8 summit, the US announced that it recognised the need for a global climate policy framework, and that it would 'convene the major emitters and energy consumers to advance and complete the new framework by the end of 2008'. With that, the starting gun was fired on a 'propositional bidding war' between US and Europe over what should follow Kyoto's expiry in 2012.

The EU's proposal is essentially another round of Kyoto: tougher targets for developed countries; no formal targets for developing countries, though there would be incentives for them to become more engaged through national plans or sectoral approaches; and a greatly expanded Clean Development Mechanism (CDM) to reduce emissions and transfer technology. (The CDM is a Kyoto feature that ostensibly allows developing countries to benefit from emissions trading despite having no targets, by defining emissions reduction 'projects' and then comparing them with a hypothetical scenario of what the emissions *would* have been had the project not been undertaken.)

The US, on the other hand, favours an approach known in the jargon as 'pledge and review', centred around the informal 'AP6' group of Asian economies, with Australia another leading light. This approach is based not on targets and timetables, but instead on technology partnerships and national targets with no formal international status. Implicitly unchanged in the background is the long-held US position that it will not take on formal targets unless developing countries do too.

This basic difference of approach between the US and EU itself reflects an underlying divergence about how urgent climate change is. Europe thinks time is short, and that it is cheaper to act now than later. The US believes the opposite. In the middle, meanwhile, are the 'floating voters': developing countries, especially key emitters such as China, India, Brazil and Mexico.

The political calculus of countries' positions

For the current US Administration, the political calculus is straightforward. Action is not urgent; so mandatory targets now would be too expensive. But at the same time, it needs political cover for this position – and hence for developing countries not to take on targets. If it can engage them in a voluntary framework, the US can claim to be 're-engaging' on climate change, while still avoiding mandatory targets.

The EU's position is more difficult. The EU *does* think action is urgent, and that developing country targets are ultimately essential. But it also judges that on balance – for reasons discussed more fully below – trying to open up a serious discussion of mandatory targets for developing countries at this stage would be too difficult.

The major emitting developing countries themselves are nominally aligned with the EU position – but not deeply. While they do support tougher targets for developed countries (as per "developed countries taking the lead"), this is not their absolute top priority. Avoiding burdensome targets, and gaining financial assistance on technology transfer, adaptation and capacity building, are.

To sum up so far, then, the current state of play on post-2012 mandatory targets is as follows:

	<i>Targets for developed countries?</i>	<i>Targets for developing countries?</i>
The US wants	No	No
The EU wants	Yes	[Publicly]: No [Privately]: Yes
Developing countries want	[Yes]	No

While there is considerable variation between the three camps' positions, on one central point all are agreed. Mandatory targets for developing countries are off the table for the next Commitment Period. By extension, there is also minimal discussion of what a safe ceiling for greenhouse gas concentrations in the atmosphere might be – as this cannot be discussed without developing country targets being implicit. So by tacit mutual agreement, the objective of climate policy enshrined in the UNFCCC – stabilisation of greenhouse gas concentrations at a safe level – is currently in the long grass.

Why should the EU be willing to accept this situation, given that – unlike the US – it believes stabilisation to be urgent? True, the politics of a discussion about developing country targets would be anything but easy. But are they really likely to get easier by dint of being left for a future commitment period and a future generation of policymakers?

The EU's answer to this question is that yes, the politics of developing country participation *will* become easier if left out of the commitment period due to start in 2012. This position rests on four key assumptions, listed below. But as the sections following them argue, each of these assumptions is open to question.

The EU's risky assumptions

1. Developed countries will take on tougher targets even if developing countries don't.

It is true that US views on climate change are evolving, especially in some states (notably California). But even with a new Democrat Administration in 2009, there are scant reasons to expect a dramatic sea-change in the US's posture on global climate policy. The centre ground in DC still prefers voluntary to mandatory targets, and 'cap and trade' schemes only if there are 'safety valves' to limit costs. Moreover, Hillary Clinton and Barack Obama are co-sponsoring a bill for punitive duties on Chinese exports; it is hard to see a Democrat Administration accepting a mandatory target unless China does too.

And if the US avoids mandatory targets, other developed countries – notably Canada, Russia and Japan – would probably do the same. While Europe's own stance – pledging a 20 per cent emissions cut by 2020, rising to 30 per cent if other developed countries make comparable pledges and key developing countries become more engaged – is laudable, it remains an open question whether Europe would really follow up on even the 20 per cent if other developed countries failed to follow suit, not least in view of Europe's decidedly patch track record on its Kyoto targets.

2. An expanded Clean Development Mechanism will move developing countries onto low carbon paths.

The Clean Development Mechanism has been already been bedevilled by teething problems, including slow approval for projects, limited reach outside of China, India and Mexico and – in particular – questions over its environmental integrity and whether CDM emissions reductions really are additional to what would have happened anyway. But while these problems are slowly being addressed, a more fundamental issue still remains.

For the dramatic post-2012 expansion of the CDM that the EU is relying on will only take place if there is a correspondingly dramatic increase in *demand* for the emissions trading permits it generates – which in turn depends on much more ambitious developed country targets, since it's developed countries that will buy the CDM permits as a way of meeting their targets. In other words, the EU's second assumption rests directly on its first assumption – which as we have just seen, is itself shaky.

3. There is enough time to defer developing country targets without missing the chance to limit warming to 2 degrees Celsius.

Apart from whether developed countries will take on targets without developing countries, and the dubious prospects for an expanded CDM, there are two further reasons why the EU's stated goal of limiting warming to 2 degrees Celsius risks slipping out of reach on present course.

- First, the EU's calculation of what limiting warming to 2 degrees C of warming would involve is dubious. It has failed to update its 1998 assessment that 2 degrees C would equate to a concentration limit of 550 parts per million of carbon dioxide equivalent (CO₂e), despite the fact that the IPCC Fourth Assessment Report (4AR) states that to limit warming to between 2.0 and 2.4 degrees C, the stabilisation ceiling would be between 445 and 490 ppm. And while EU leaders acknowledge the need for global emissions to fall to 50 per cent of 2000 levels by 2050, this is in fact the absolute best case scenario, according to the Fourth Assessment Report, which finds that the 2000-2050 emissions cut needed for 2.0-2.4 degrees would be between 50 and 85 per cent.
- Second, the EU's strategy makes no allowance for the risk of 'positive feedback' effects: cause-and-effect loops where the effects of global warming (e.g. rising ocean temperatures) feed back to cause even more warming (e.g. warmer seas have less ability to absorb CO₂). There are signs that such effects are already happening: CO₂ levels have risen faster in the last few years than can be explained solely by emissions growth, suggesting that the absorptive capacity of carbon sinks is weakening.

What these two factors add up to is that the implied global emissions budget needed to keep global warming to 2 degrees C is considerably smaller than the EU has so far been willing to admit. In other words, climate change is not only more urgent than the US admits; it's more urgent than Europe admits, too. So if the EU is serious about limiting warming to 2 degrees C, then it is unclear how it can deliver on this while also delaying discussion of bringing developing countries into the fold.

Faced with these arguments, EU negotiators reply that they are well aware of all of the above risks, but that they have no alternative. Developing countries are simply not willing to countenance targets, they argue, so the EU has no option to wait until damages increase, when developing countries will accept the EU position on urgency and recognise the need for a comprehensive solution with targets for all. This leads on to the EU's fourth and most fundamental assumption:

4. Discussion of targets for developing countries becomes easier if left to the next commitment period.

When the time comes to discuss developing country targets, developing countries themselves will demand an equitable emissions allocation methodology – most likely one under which a global emissions budget is shared out in proportion to population, rather than wealth. In reality, of course, developed countries could not possibly adjust their economies fast enough to agree to such a deal, even after emissions trading is taken into account. So some compromise would be needed to bridge the gap between current emission levels – which reflect current global wealth inequalities – and a per capita distribution.

The most straightforward and widely discussed way of building such a bridge would be for countries to negotiate a delayed 'convergence period', of anything from one to a hundred years, during which time national entitlements would move to equal per capita rights, but *gradually*. But whatever the allocation mechanism that country negotiators ultimately agree in order to bridge this gap, the key point is this: assuming that the means of sharing out the global emissions budget is equitable – and it is impossible to envisage developing countries signing up to any framework that is not – *participation is more profitable for developing countries the earlier that they join such a framework.*

What the EU's proposal of delaying developing country targets would do, by contrast, is the direct opposite: *delay* their participation. The risk with this approach is that discussion of how to share out a

global emissions budget would be initiated only after developed countries had used up so much of the implied emissions budget that there was no longer space for developing countries to profit from selling unused emission permits from their allowances, even under a scenario of *immediate* convergence to equal per capita emission rights.

This is not to suggest that EU member states are cynically attempting to gull developing countries into a disadvantageous deal. Their reluctance to countenance early developing country participation in targets directly reflects the current developing countries' own refusal to consider targets – which, in turn, results from an acute fear that showing any willingness to discuss targets will lead to being railroaded into an unfair deal that keeps them poor.

What is arguably needed, in effect, is agreement first on the *principles* of a future climate deal, so that *numbers* can then be discussed 'safely', with a degree of predictability and assurance for all sides. So what might those principles be – and how could they be agreed?

Principles for a comprehensive deal

The principles themselves can be derived directly from the 1992 UN Framework Convention on Climate Change. As mentioned earlier, the UNFCCC defined the objective of global climate policy as stabilising greenhouse gas concentrations at a safe level, and the key principle for how to achieve this as common but differentiated responsibilities. So in practice, countries might agree to the following operational principles:

1. Global climate policy should to be founded on a quantified ceiling for atmospheric GHG concentrations, negotiated between UN member states. The ceiling should be revisable in the light of emerging science findings.
2. From this ceiling, a safe global emissions budget must be calculated and then shared out according to a standard allocation methodology. (Countries or regions would be free to agree their own subsidiary sharing arrangements if they wish, as the EU did at Kyoto, but these would be bilateral and negotiated separately.)
3. Realistically, the most feasible allocation methodology is likely to involve a managed process of convergence to equal per capita emission rights. Countries' emission entitlements would be tradable at all points in the process.

Significantly, recent statements made by the German Chancellor Angela Merkel, who in her relatively short time so far in office has rapidly emerged to a position of prominence on climate leadership, have moved substantially closer to the principles set out above. At the September 2007 UN High Level Event on climate change, Merkel called for an approach based on "per-capita emissions increasingly converging worldwide at a level compatible with our shared climate protection goal", arguing that,

"Such a process of long-term convergence offers all countries scope to develop. It does not overburden any, yet ensures that the necessary action on the climate issue is taken. By this means the principle that countries have shared but differing responsibilities can be translated into political and economic reality."

Merkel's approach – based, according to *Der Spiegel*, on a proposal made by Indian Prime Minister Manmohan Singh at the G8 Heiligendamm summit – has the potential contribute significantly to breaking the current logjam over discussion of developing country targets, and to lead Europe towards a more strategically robust posture on international climate negotiations.

Admittedly, her proposal does not yet place the principle of convergence within the specific context of a global emissions budget derived from a binding, negotiated ceiling on CO₂ concentrations in the atmosphere, and nor does it explicitly make clear whether the proposed process of convergence would relate to *actual* emission levels or, alternatively, to tradable emission *entitlements*. (The latter would be strongly preferable, as it would offer both a more economically efficient outcome and a much more powerful incentive for developing countries to take on quantified targets.) Nonetheless, Merkel's proposal represents a welcome injection on fresh thinking and political imagination to a European strategy that looked both over-optimistic in its assumptions and hazy in its pathway towards climate stabilisation at a safe level.

Conclusion: what the EU needs to do now

- First, Angela Merkel should develop her position by emphasising that her convergence-based approach is *explicitly* designed as a means to the end of forging global agreement on a quantified, binding stabilisation target and the global emissions budget that this would entail. This would underscore that rather than being 'equitable for its own sake', her position is intended as a realpolitik-based way of overcoming the principal obstacle to stabilisation: developing countries' refusal to discuss targets.
- Second, progressive European member states need to rally behind Merkel. Especially important will be France, due to assume the EU Presidency in 2008; the UK; and Denmark, which will host the 2009 UN climate summit, the first to be held after the US Presidential election. The objective of these countries should be to work towards bringing a fully worked-up version of Merkel's proposal to the European Council as a formal position for the EU.
- At the same time, a major effort needs to be launched to support developing countries in undertaking the analysis needed to reach a global deal. Before any numbers can be agreed, developing countries need to know which convergence dates will be profitable for them under which stabilisation scenarios. Aid donors have a particularly important role to play in supporting developing countries as they undertake this analysis. They should also help to create space for discussion between developing countries, for instance in regional development banks and UN regional commissions.
- The EU should place particular emphasis on how the approach proposed here would accelerate the roll-out of climate safe technologies and transfer of clean technology to developing countries. The EU is prone to overlook technology or regard it simply as implicit in its emphasis on targets and timetables. This approach allows the US to 'claim' technology for part of its narrative; too often the EU / US dichotomy is presented as 'targets' versus 'technology', where one sounds dynamic and forward leaning while the other comes across as bureaucratic and dirigiste.
- Finally, and perhaps most importantly, the EU must be ready to be opportunistic, and to move immediately into political space created by future crises. It is already clear that climate damages are only going in one direction, and that more – and more severe – extreme weather events and other shocks can be expected. As Hurricane Katrina showed, major shocks can suddenly focus the world's attention on climate change; but only *briefly* before the media's attention drifts elsewhere. When a "climate 9/11" strikes – as it will – the EU needs to be ready instantly to roll out a co-ordinated campaign with the central message that *only* a formal stabilisation ceiling will stabilise the climate, and *only* an equitable allocation framework will allow agreement on it to be reached.