

Why the transatlantic climate change partnership matters more than ever

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The EU is now left wondering what its future role will be in the next round of talks on climate change, after having played a marginal role in Copenhagen, particularly at the close of negotiations. What happens now will condition much of the EU's position and leverage in the future. Among the more pressing tasks is the need to develop a strategy for co-operation with the US. This Commentary argues that the transatlantic partnership is more important now than ever and identifies an extensive agenda for EU-US co-operation.

1. Copenhagen from the EU perspective

Any analysis of the potential for a transatlantic relationship on climate change requires a sober assessment of the results of Copenhagen from an EU perspective. In fact, quite a number of areas in which there was progress in line with the EU position can be identified:

- Developed countries for the first time agreed on a figure for financial transfers, i.e. \$100 billion annually by 2020 from both public and private sources, in addition to a fund "approaching USD 30 billion for the period 2010-2012" for a kick-start, although not all developing countries may agree on this.
- There is progress towards anchoring the 2°C target as 'objective' in the new framework and the acceptance of economy-wide targets for developed countries.
- Adaptation is now firmly rooted in the architecture of the agreement, as well as finance.
- A review, potentially to strengthen the targets, is foreseen for 2015.
- Compliance is based on a mixture of domestic and international rules, a position that has been supported by the EU prior to Copenhagen, and a position that seems sensible and in line with political realities.

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- Carbon markets remain firmly anchored in the new framework without much prescription of what this means, both key objectives of the EU.
- Renewed impetus is provided for dealing with deforestation and forest degradation.
- Finally, there is a technology mechanism, although questions remain about whether this can be put into place without a binding COP decision.

Of course, one of the central planks of the EU position – legally binding reduction commitments by developed and developing countries alike – has not been achieved. However, in the course of 2009, it became clear that the US would not be able to sign up to legally binding commitments under international law, which the EU – albeit begrudgingly – accepted. The key areas in which the EU position is not represented are acceptance of ‘historical responsibility’ by developed nations; a policy for international aviation and shipping and, after all, a reasonable perspective for reduction commitments to achieve a 2°C trajectory. Although pledges by all countries are still to be submitted by the end of January, initial calculations show that the current most ambitious upper end of the pledges would bring the globe towards a 3.2°C increase by 2100 at best (Höhne et al., 2009). And, in the final version of the Copenhagen Accord, the reference to the need for the world to reduce 50% by 2050 compared to 1990, and the reference to developed countries’ commitment to reduce their emissions by at least 80% by 2050, has now disappeared.

True, the failure to achieve the over-arching objective – a move towards a 2°C trajectory temperature increase – is a major disappointment from the EU perspective. Nevertheless, the level of commitment reflects what the international community as a whole was able and willing to accept. Despite this hurdle, one should not underestimate the many ‘architectural’ achievements of the Copenhagen Accord, advanced by the EU especially and to some extent also the US.

The second source of real frustration for the EU must be that it was marginalised in the final round of negotiations. However, that the EU punches below its weight internationally has been recognised before and is precisely the reason for the debate on an EU constitution, which has now materialised with the entry into force of the Lisbon Treaty.

2. A reality check: does the EU really matter in climate change?

In a recent joint CSIS/CEPS paper on the transatlantic climate partnership (Egenhofer et al., 2009), the authors argued that an agreed joint transatlantic climate change agenda, if not partnership, is important to reaching and implementing a global agreement. Even if it were not sufficient to achieve an international agreement with the increasingly influential emerging economies, it remains an important incentive if any such agreement is going to be concluded under the most favourable conditions.

We will never know whether the outcome of Copenhagen would have been better for the EU and the world if the EU had played a more independent role. One can however make a reasonable case for saying that the EU has been the driving force behind other developed countries’ domestic climate policy formulation. In some cases, EU policy innovation has been able to pull, or has at least been helpful in pulling along other – often reluctant – developed countries, including in the US. A few examples illustrate this. The most obvious one is the EU Emissions Trading System (ETS). While the concept and practice of emissions trading stems largely from the US, it was the EU that implemented the first large-scale carbon trading scheme. Both the mistakes and successes of the ETS have provided valuable input for the development of similar schemes in other parts of the OECD. The EU ETS has at the same time remained the principal pillar for the global carbon market, including credits from the Clean Development Mechanism (CDM). It was also the EU that adopted unilateral absolute reduction commitments in 2007, which in the end triggered a series of so-called national ‘mid-term’ targets, hardly possible without the EU initiative. It developed a methodology for sharing the efforts between rich and poor EU member states, proving that effort-sharing is possible in practice, even if countries are at very different stages of their economic development.¹ In 1996, the EU had already adopted the

¹ It is often overlooked that GDP per capita differences (in ppp) between EU member states are significant. In 2006 differences ranged from below 40% to more than 250% of EU27, with a per capita average of around € 25,000 (even if one disregards the richest member state, Luxembourg; as an outlier with a per capita GDP of €70,440, it is more than twice as high as the other rich member states).

(political) objective of limiting warming to 2°C on average – until very recently a highly contentious issue. It was the EU that was the first to accept the need for major international financial transfers, pushing as it did for an agreement on a headline figure and burden-sharing.

This, however, must not be confused with ‘transferring’ or ‘imposing’ its approach on other countries. As we have (rather painfully) come to realise, among others in the US, Australia and Canada, domestic climate change policy moves at the domestic pace, and is largely shaped by national preferences and circumstances. As a result, influence on the US debate was limited, although, it could be argued, not entirely absent.

More importantly, EU influence at the international level has also been limited. This should come as no surprise, as the EU is a relatively minor player in terms of current and projected emissions up to 2030 and beyond. While today the EU is still the third biggest emitter, this is likely to change by 2030. By then, the EU’s annual energy-related CO₂ emissions might be in fourth place behind China, the US and India. According to some projections, (e.g. IEA, 2009) emissions from China in 2030 could be close to the combined emissions from the US, India and the EU. If one includes emissions from land-use changes including forestry, which currently make up around one sixth of global CO₂ emissions, Brazil or Indonesia are much more significant players. Therefore, numerically, it is the US, China and other emerging economies that really matter in any lasting climate solution. There is nothing the EU can do about this. It is even partly the result of its own reduction policies.

3. EU options (independent of other countries) are limited

Although a more pro-active and independent leadership role on climate change issues by the EU would be welcome, the fact is that in this domain, the EU is destined to become a secondary player. No lasting agreement can be made without the participation of the US, China and the other emerging economies. The EU therefore has a rather limited set of options at hand.

1. *The EU moves towards a 30% reduction target, continuing its leadership by example.* This option would require an EU consensus that the benefits of such a move in terms of accelerating a global agreement, ‘first mover’ advantages regarding new technologies or less adaptation outweigh the costs imposed on the economy. While such a cost-benefit analysis will need to be done by the European Commission following the Copenhagen summit, to date such a move is difficult to envisage. The EU has made its 30% reduction commitment conditional on other countries – developed and developing – taking ‘comparable’ measures.
2. *Imposing border measures* would therefore be the next and most obvious option for the EU. Assuming that the EU adopts a 30% reduction target or more, auctions 100% of the allowances under the EU ETS and implements a national or an EU carbon tax CO₂ tax for the non-trading sector – a possible scenario – it makes sense for the EU to impose an import tax on the CO₂ content of all goods imported into the EU from countries that do not have their own cap-and-trade system or equivalent measures. Such a move is fiercely opposed by developing countries; there would be potential implications for India and China, not only for the world trade regime and international relations but also for European businesses operating internationally. From a purely economic perspective, this would be a straightforward means of moving towards a global ‘shadow’ carbon price, even in the rest of the world. This would improve global welfare because, at least partially, it transfers carbon pricing via trade flows – even to those parts of the world where governments have so far refrained from imposing domestic measures of any magnitude. It thereby creates a mechanism that enforces the pass-through of carbon costs across the globe, thus making domestic consumers pay the full cost of carbon, as we show in a new CEPS study by Gros and Egenhofer (2009). So far it is unclear whether the EU is prepared for such a move.

Beyond this, no other credible options present themselves.

4. A re-invigorated transatlantic partnership holds more promise

Despite EU disappointment with the outcome of Copenhagen, it is not true to say that the US has forsaken the EU in this matter. US President Obama faced a choice between a total breakdown of talks – and coming home empty-handed – or a deal that at least marks some progress. Total breakdown almost certainly would have stalled the US legislative process. The same would have been true if

President Obama could not have brought China, India and other emerging economies into the framework. The endgame was about the US ‘against’ China, supported by other emerging economies, i.e. the BASIC bloc² and some other developing countries. To be fair, there was neither a role for, nor a representative who could speak for Europe. Therefore, this ‘disconnect’ between the US and the EU during the late hours of the negotiations does not automatically mean that there is no future role for a transatlantic climate change partnership. A re-invigorated partnership, founded on the lessons of Copenhagen, will be important to get to grips with some of the key challenges facing both the EU and the US. We have identified the following seven areas in which EU-US cooperation is important, if not essential.

- 1) *What forum for international negotiations?* The key question – certainly arising in the US, yet increasingly in the EU – is whether or not both blocs continue to place as much value on the UN process after the Copenhagen ‘mode of negotiation’. The EU was marginalised in the final discussions but to some extent this was true for the US as well, which on more than one occasion found it hard to find interlocutors. The overwhelming number of developing countries that make up the UN were able to dominate the discussions, making real negotiations difficult at times. Most likely, the US will want to avoid going through that kind of process again. This opens the door for identifying different and potentially more suitable fora.
- 2) *The (new) nature of the transatlantic partnership:* In the past, the transatlantic climate change partnership has been seen as essential to reaching a global agreement. After Copenhagen, there is a question about whether this view still holds true. With the economic crisis and its global response, the centre of political gravity has shifted towards a wider and globally balanced set-up such as the G20, with China, India and other emerging economies. In addition, the balance among G20 or BASIC is itself rapidly shifting. In such a perspective, the transatlantic partnership becomes ‘defensive’ and essentially a tool for the EU and the US to get the best deal out of negotiations. Other OECD countries, such as Japan, might be included in such a partnership.
- 3) *Distinguishing the transatlantic interest (strategic) from what is required to reach a global agreement (tactical):* Much of the confusion on transatlantic differences stems from a misunderstanding between national interests and what each bloc thought was required to secure an international agreement. For example, a massive scaling up of forestry credits in the short term would jeopardise the EU ETS. Yet, in the longer term, this might be required to clinch a deal. The US, on the other hand, rejected the notion of ‘historical responsibility’ for fear of retrospective retribution or payment for past emissions. While the concept of ‘historical responsibility’ is justified by the fact that the climate problem is a stock problem, because it is based on cumulative³ emissions, a narrow legal definition will make it next to impossible for the US to accept such a notion. Finally, the US and the EU use different 2°C trajectories, which at some stage will need to be brought into line with each other.
- 4) *The EU still matters and is essential to accelerate actions in developed countries:* A joint transatlantic priority must be to ensure that the US political system understands that the EU is still an important and constructive player, continuously able to pull other developed countries towards more ambitious domestic legislation. An intact transatlantic partnership will be important in maintaining pressure on other developed countries to keep pace with reform. A close relationship between the US and the EU, the world’s two biggest economic blocs, will be needed to uphold the credibility of the threat to impose border measures; a major bargaining chip of developed countries.
- 5) *The EU needs to get its house in order after Lisbon:* A priority for the EU should be to get its house in order in terms of its representation in climate change negotiations, not only in the UN but also in other fora such as the Major Economies Forum or the G20. A more streamlined EU would certainly strengthen the case of developed countries but also allow the EU to project its own

² The BASIC country bloc consists of Brazil, South Africa, India and China, grouping the most important emerging economies on the different continents.

³ Climate change is caused by GHG concentrations as emissions stay in the atmosphere for up to 100 years. Hence, historical cumulative emissions, i.e. the stock, matter.

positions more effectively. This cannot be done over time but the implementation of the Lisbon Treaty offers an opportunity to start.

- 6) *Apply more resources to India:* Although emerging economies were perceived as a homogenous bloc in Copenhagen, this is far from true in reality. In a December Commentary (Egenhofer & Georgiev, 2009, pp. 3-4), it was shown that, based on initial calculations, the remaining global carbon budget will not only have been used up by developed countries, but increasingly so by emerging economies such as China, Brazil, Mexico, Korea or South Africa. This will inevitably curb the economic growth ambitions of the least-developed and other low-income countries (including India and Indonesia). The Copenhagen Accord may end up as a bad deal for India. The EU could be instrumental in re-balancing the relationship among the BASIC country bloc. There are a number of commonalities between the EU and India. Both are multi-lingual and multi-cultural market-based liberal democracies. At the same time, liberal democracies are increasingly facing pressure from more authoritarian states.
- 7) *Concentrate on working together on a series of specific issues, irrespective of whether agreement exists or not:* Prior to Copenhagen, CSIS and CEPS outlined transatlantic priorities including, notably, the development of carbon markets, linking, off-sets, forestry, monitoring, reporting and verification (MRV) and competitiveness issues (Egenhofer et al 2009). Co-operation on all of these issues is still possible and necessary. If anything Copenhagen has added more topics to the agenda as a result of both progress achieved and the lack of it. Neither partner should avoid the difficult issues where major differences exist, e.g. on international aviation and maritime transport, or the different 2°C trajectories used. An initial list of priorities would suggest the following key topics:
 - Issues of *carbon market* development including the i) active pursuit of the linking of the EU ETS with the US cap-and-trade scheme – when and if it exists – and ii) a common policy on off-sets including forestry. Joint transatlantic standards in a ‘linked carbon market’ would have a major chance of becoming a global standard.
 - *Improving standards for monitoring, reporting and verification (MRV):* Now that the Copenhagen Accord has settled for some kind of as yet unknown ‘combined national and international’ compliance regime, reliable and robust MRV provisions become even more crucial. The ability to assure compliance is the backbone of both an international climate change regime and the carbon market. The transatlantic co-operation on this could be intensified. For example, transatlantic discussions could involve the business community, and more generally the issue could use a higher political profile. Such efforts could eventually serve to lay the foundation of a mutually agreeable global compliance scheme or template.
 - *Competitiveness, border measures and sectoral agreements:* Governments on both sides of the Atlantic face intense domestic pressure and debate on ‘competitiveness’ and ‘carbon leakage’. To date, there is an inclination to use ‘free allocation’ and possibly some ‘direct compensation’ to protect domestic industries from the adverse effects of a potentially uneven playing field. Yet on both sides there is intensive debate on the right to impose border tariff adjustments over time if other countries have not taken comparable steps to impose a carbon price. Given the potentially negative effects on international trade, both the United States and the European Union could explore alternative options, such as the role of global sectoral agreements. Neither the United States nor the European Union can reach any of these alternative policy options without the participation of other major developed and developing countries, but a common position will certainly help strengthen the chance of reaching an eventual agreement with the broader international community.
 - *New markets and new economic opportunities:* While in the EU the climate debate has *also* been about the technological and economic opportunities offered by the transition to a low-carbon economy, the US appears to remain split over whether the opportunities will indeed outweigh the costs. In order to maintain momentum towards the transition to a new clean energy economy, it will be important that the US and the EU provide evidence of these new opportunities and continue to insist on available competitive opportunities that outweigh competitive disadvantage.

- In addition, the Copenhagen Accord has given fresh impetus to the *development of new global frameworks* on i) finance, ii) technology, iii) adaptation and on iv) avoided deforestation and forest degradation. The development of effective and efficient structures will require very significant efforts by all countries. The contribution of the US and the EU as the biggest economic blocs will remain, if not decisive, then at least crucial.
- *The transatlantic partners should not shy away from dealing with controversial issues* such as international aviation and maritime transport, forestry projects or views on the speed and direction of emissions reductions. Many of these issues are controversial in other countries too. Bringing them to the table and discussing them in an informal setting may actually help advance the case. Yet, lecturing the Senate has proved to be counterproductive and most likely will continue to be so. Instead, EU stakeholders should seek a dialogue that proves why a strong domestic climate change policy is in the interests of the US, for example for reasons of energy security by reducing dependence on other, potentially unreliable countries; green recovery or the greening of the economy, which is getting underway in China and other emerging economies.

Following the Copenhagen negotiations, the agenda for transatlantic co-operation has been growing. We have identified seven key issues. Over time many more will undoubtedly be added. Most of these issues can be advanced, even if agreements between the US and the EU on major areas persist. The transatlantic agenda could even be pursued in parallel to what we called the ‘EU’s independent options’, i.e. border measures. This already makes a major case for such a transatlantic partnership. But there is one more important additional element to this. While most people assume that the US Senate will soon adopt a cap-and-trade programme, this is far from certain. We may also see such a programme fail, making the US a lame duck again in international negotiations. This, by definition, will mean that it will be for the EU to advance the common transatlantic agenda internationally.

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