

Climate Change Post-Copenhagen: The Need for Transatlantic Cooperation

Christian Egenhofer

»» Throughout much of the past decade, the United States and the European Union had differing views on energy and climate change. However, with the advent of the Obama administration, US policy has shifted dramatically, allowing the two parties to find much more common ground. A major positive development in 2009 was the considerable narrowing of the transatlantic gap compared to previous years; to such an extent that a joint EU-US platform on many key elements has developed.

Several key differences remain, however. The political economies and therefore the industrial and political considerations of the two regions vary considerably. The EU is much further along in building consensus among its member states than the United States is with individual states and their representatives in congress. The EU policy position is much better established; the US approach to climate change is still very uncertain, hotly debated and possibly far from resolution.

Nevertheless, prior to the Copenhagen negotiations, there were convictions that

- The transatlantic partnership will be essential in reaching a global agreement;
- There will be a US cap-and-trade programme in early 2010; and that
- A global legally binding agreement setting out carbon emissions limitations is possible, at least in theory.

These convictions played a considerable part in holding together the transatlantic climate change partnership.

HEINRICH
BÖLL
STIFTUNG
NORTH
AMERICA



This policy brief is part of a joint project by FRIDE, CEPS and the Heinrich Böll Foundation.

»»»»» **THE EU HAS ACHIEVED SOME OF ITS OBJECTIVES**

Despite the general gloom surrounding the Copenhagen Accord, considerable progress has been made concerning climate change. In advance of the negotiations, four objectives were seen as realistic: industrialised countries setting absolute emissions reduction targets; developing countries agreeing on measures to reduce emissions; agreeing on figures for the amount of financial transfers from industrialised to developing countries; and a timetable for reaching a legally binding agreement. Advances have been made in the first three areas although with a number of caveats; most importantly that 'pledged' reduction commitments will likely be far from sufficient to achieve a 2°C target. Other caveats include that the Accord has not been adopted legally by the Conference of the Parties (COP) and that there is no guarantee that funds will materialise. Finally, there is uncertainty concerning whether a legally binding agreement can be struck any time soon, filling the gap that the Kyoto Protocol leaves after some of its provisions expire. On the other hand, one must remember that the Copenhagen Accord unites for the first time all major economies – representing some 80 per cent of the emissions – under one framework designed to reduce global emissions.

Considering this from an EU perspective, one should not overlook the number of areas in which progress was made in line with the EU position. These include:

- Developed countries for the first time agreed on a figure for financial transfers: \$100 billion annually by 2020 from both public and private sources and a fund 'approaching \$30 billion for the period 2010–2012' for a kick-start (not all developing countries may agree on this).
- There is progress towards securing the 2°C target as an '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 supported by the EU prior to Copenhagen and one that seems sensible and in line with political realities.
- There is a renewed impetus to deal with deforestation and forest degradation.
- A weak reference to carbon markets – one of the EU's objectives – was made, largely reflecting developing countries' suspicions regarding market-based mechanisms. On the other hand, there is not much prescription for them.
- Finally, there is a technology mechanism, although questions remain as to whether this can be implemented without a binding COP decision.

One of the key elements of the EU position – legally binding reduction commitments by both developed and developing countries – has not been achieved. However, in 2009 it became clear that the US would be unable to sign up to legally binding commitments under international law, which the EU accepted.

The failure to achieve the over-arching objective – a move towards a 2°C trajectory temperature increase – is a major disappointment for the EU. Nevertheless, the level of commitment reflects what the international community as a whole was able and willing to accept.

EU OPTIONS ARE LIMITED

Even if the EU were to consider a more proactive and independent leadership role on climate change issues, it is destined to become a secondary player in this area. No lasting agreement can be made without the US, China and other emerging economies. The EU's options are therefore limited.

One option would be for the EU to move towards a 30 per cent reduction target, continuing its leadership by example. This would require an EU consensus that the benefits of such a move in terms of accelerating a global agreement and potential 'first mover' advantages regarding new technologies outweigh the costs. While a cost-benefit analysis must

be made by the European Commission following the Copenhagen summit, such a move is reasonably likely to materialise after the analysis has been carried out and burden-sharing has been agreed upon by member states and sectors.

Such a move would raise the issue of the usefulness of imposing border measures. Assuming that the EU adopts a 30 per cent (or greater) reduction target, auctions 100 per cent of the allowances under the EU ETS and implements a national or an EU CO₂ tax for the non-trading sector, 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 is possible. Such a move is fiercely opposed by developing countries; there

would be potential implications for India and China, for the world trade regime and international relations and also for European businesses operating internationally. From a purely economic perspective however, this would be a straight-forward means of

moving towards a global 'shadow' carbon price. It 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 significant domestic measures. 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. It is currently unclear whether the EU is prepared for such a move.

THE TRANSATLANTIC CLIMATE CHANGE AGENDA

The EU was disappointed with the outcome of Copenhagen, but the US has not forsaken the EU on the matter of climate change. President Obama faced a choice between a total breakdown of talks or

a deal that at least marks some progress. A breakdown almost certainly would have stalled the US legislative process. The same would have happened if Obama had not 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 bloc – Brazil, South Africa, India and China – and some other developing countries. In fairness, there was neither a role for, nor a representative who could speak for Europe. Therefore, the 'disconnect' between the US and the EU towards the end 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. Transatlantic cooperation is important, or even essential, in the following areas:

What forum for international negotiations? The key question is whether or not both the EU and the US continue to place as much value on the UN process after Copenhagen. The EU was marginalised in the final discussions but to some extent the US was too – on more than one occasion it had difficulties finding interlocutors. The overwhelming number of developing countries that make up the UN dominated the discussions, sometimes making real negotiations difficult. It is likely that the US will want to avoid such a process in future, meaning that new – and potentially more suitable – fora must be sought.

The (new) nature of the transatlantic partnership: Until Copenhagen, the transatlantic climate change partnership was seen as essential to reaching a global agreement, but this view may now change. Because of the economic crisis and the global response, the centre of political gravity has shifted towards a wider and more globally balanced set-up. One example of this is the G20, which includes China, India and other emerging economies. In addition, the power balance within G20 and BASIC is rapidly shifting. In such circumstances, the transatlantic partnership becomes 'defensive' and essentially a tool for the EU and the US to get the best deal from negotiations. Other OECD countries, such as Japan, might be included in such a partnership.

4

»»»»» *Distinguishing the transatlantic interest (strategic) from what is required to reach a global agreement (tactical):* Much of the confusion surrounding 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 one, because it is based on cumulative emissions, a narrow legal definition will make it virtually 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 aligned.

The EU still matters and is essential to accelerate action in developed countries: A joint transatlantic priority must be to ensure that the US political system understands that the EU is still an important player, continuously able to entice 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 will be necessary to uphold the credibility of the threat to impose border measures; a major bargaining tool of developed countries.

The EU needs to get its house in order after Lisbon: A priority for the EU should be to ensure effective representation in climate change negotiations, not only in the UN but also in fora such as the Major Economies Forum or the G20. A more streamlined EU would certainly strengthen the case of developed countries and would also allow the EU to project its own positions more effectively. The implementation of the Lisbon Treaty is a perfect opportunity to begin work on this.

Apply more resources to India: Although emerging economies were perceived as a homogenous bloc in Copenhagen, this is far from true. The remaining

global carbon budget will be used up increasingly by emerging economies such as China, Brazil, Mexico, Korea and 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 multilingual and multicultural market-based liberal democracies. At the same time, liberal democracies are increasingly facing pressure from more authoritarian states.

HOW THE EU AND US CAN WORK TOGETHER

The EU and US should concentrate on working together on a series of specific issues. Prior to Copenhagen, CSIS and CEPS outlined transatlantic priorities including the development of carbon markets, linking, off-sets, forestry, monitoring, reporting and verification (MRV) and competitiveness issues. Cooperation on all of these issues is still possible and indeed necessary. If anything, Copenhagen has added more topics to the agenda. Neither the EU nor US should avoid the difficult issues where major differences exist, such as 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 active pursuit of linking the EU ETS with the US cap-and-trade scheme – when and if it exists – and a common policy on off-sets including forestry. Joint transatlantic standards in a ‘linked carbon market’ would have a major chance of becoming globally accepted.
- *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 and transatlantic cooperation on this issue could be intensified. For example, transatlantic discussions could involve the business community and the political profile of the issue could be raised. Such efforts could eventually lay the foundations of a mutually agreeable global compliance scheme.

- *Competitiveness, border measures and sectoral agreements:* Governments on both sides of the Atlantic face intense domestic pressure and debate on 'competitiveness' and 'carbon leakage'. 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. There is currently an intense 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 US and the EU could explore alternative options, such as the role of global sectoral agreements. Neither party can reach any of these alternative policy options without the participation of other major developed and developing countries, but a common position will certainly increase the chance of reaching an eventual agreement with the international community.
- *New markets and new economic opportunities:* While in the EU the climate debate has also concerned the technological and economic opportunities offered by the transition to a low-carbon economy, the US appears divided over whether the advantages will outweigh the costs. In order to maintain momentum towards the transition, the US and the EU must provide evidence of the positive aspects and continue to insist on available opportunities that outweigh competitive disadvantage.
- The Copenhagen Accord has given impetus to the *development of new global frameworks* on finance, technology, adaptation and avoiding deforestation and forest degradation. The development of effective and efficient structures will require considerable effort from all countries. The contribution of the US and the EU as the biggest economic blocs will remain crucial, or even decisive.

- *Transatlantic partners should not shy away from dealing with controversial issues* such as international aviation and maritime transport, forestry projects or 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. Lecturing the Senate has proved to be counterproductive and will continue to be so. Instead, EU stakeholders should aim to prove why a strong domestic climate change policy is in US interests, for example for reasons of energy security by reducing dependence on other, potentially unreliable countries, or green recovery/ the 'greening' of the economy, which is getting underway in China and other emerging economies.

Following the Copenhagen negotiations, the agenda for transatlantic cooperation has grown. Seven key issues have been identified above and many more will undoubtedly be added. Most of these issues can be advanced, even if disagreements between the US and the EU on major areas persist. The transatlantic agenda could even be pursued in parallel the EU's aforementioned 'independent options', i.e. border measures. The case for a transatlantic partnership is already strong, but there is an additional important element. Most people assume that the US Senate will soon adopt a cap-and-trade programme, but this is far from certain. If introduced, such a programme may fail, undermining US credibility in international negotiations. This would mean that the EU will be responsible for advancing the common transatlantic agenda internationally.

Christian Egenhofer is Senior Fellow and head of the Energy and Climate programme at CEPS.

**e-mail: fride@fride.org
www: www.fride.org**