

## **BIEE 2013 SEMINARS ON ENERGY AND CLIMATE POLICY ISSUES**

### ***Seminar 2 - Global Agreements National Policies***

**24 April 2013**

### **Meeting Report**

#### **Venue**

The Royal Society, London

#### **Chair.**

Dr John Rhys, Oxford Institute for Energy Studies.

#### **Speakers**

Joan MacNaughton CB, President of the Energy Institute, Member, High Level Panel for the CDM Policy Dialogue.

Peter Vis, Chef de Cabinet, European Commission. Office for Climate Action

#### **Discussants**

Lavan Mahadeva, Oxford Institute for Energy Studies.

Anupama Sen, Oxford Institute for Energy Studies.

Michael Parker, Sussex University and former Chief Economist, National Coal Board.

### **Prospects for a Global Agreement on Climate Change**

#### **Joan MacNaughton**

Joan stressed the important influence of the history on the efforts to get agreement. History was important because it brought its own baggage. She outlined the events starting with the adoption of the UNFCCC in 1992, leading in to the Kyoto protocol in 1997. The Kyoto protocol established the Annex 1 “ developed world “ countries, which would in principle be committed to binding reduction targets and also allowed for offsetting through the instrument of the Clean Development Mechanism (CDM).

The Copenhagen summit (COP 15) raised high hopes of real progress, but the achievements were distinctly limited. On the positive side there was agreement to the 2<sup>o</sup> goal, and significant promises of voluntary action by non-Annex 1

countries, with a number of major countries in this category pledging reductions. The negative aspect was the failure to secure agreement on binding targets, the absence of progress towards the development of international carbon markets, and the failure to clarify links back to Kyoto.

The next three meetings at Cancun, Durban (where the EU had played a very positive role) and Doha, made some progress in relation to formal adoption of the 2° goal and the Green Climate Fund (Cancun), agreement to establishing a roadmap and a second round of Kyoto (Durban), and some incremental progress on emissions commitments (Doha). Doha also introduced a new process to consider compensating developing countries for loss or damage resulting from climate change.

Turning to prospects for global agreement, she took the view that

- negotiations for a global agreement will continue to be extremely difficult
- the 'loss and damage' issue adds to tensions
- emission reduction pledges are far short of what is needed for the 2° C goal
- **but** many more countries now have mitigation plans,
- **and** many countries are looking at carbon pricing (including Korea, California and Kazakhstan, and seven pilot schemes in China,)

It would be quite wrong though to dismiss efforts to date as ineffective. The Clean Development Mechanism had resulted in estimated saving of 1 billion tonnes of CO<sub>2</sub> emissions and \$ 215 billion of investment, but there was a clear need for reforms in a number of areas including governance and accountability. The level of ambition would be critical for the future. The CDM had also, in her view, been a major influence on the development of climate policy in China. On the overall prospects for global agreement, there were a number of serious issues and a real risk of the 2° goal becoming unattainable. If it happened at all, then December 2015 in Paris (COP 21) would be a critical event. Prospects were not strong, at least in the absence of either a cataclysmic event or strong political leadership.

Particular concerns were:

- whether a worthwhile CDM would survive?
- private sector appetite for investment, especially in the absence of policy certainty
- WTO concerns over disputes arising from protectionism in support of clean technologies

- Default to prescriptive regulatory approaches and loss of the benefits of markets in promoting efficiency and innovation

## **EU Aspirations and Policies on Climate Change**

**Peter Vis**

Peter Vis began by talking about some of the current concerns in Brussels. Three important topics under discussion in Brussels were the implementation of the single market, infrastructure and energy prices. An underlying concern was competitiveness within the EU.

In spite of some of the very positive contributions of the EU towards action on climate issues, one had to recognise that the EU was now only 11% of global emissions and a falling share. However the second round under Kyoto was evidence that the EU was continuing to take its obligations very seriously, although “leadership” was not necessarily the most appropriate term in this context.

Widely regarded as the centrepiece of EU policy, the carbon trading arrangements had been established as a sound mechanism. The well known problems with the excess of allowances, and the resulting very low prices, were a consequence of the system being misprogrammed. Efforts were under way to correct these problems.

He reminded the seminar that EU policies were not confined to the EU ETS. Other significant instruments included CO<sub>2</sub> standards for cars, the phasing out of HCHCs, and the regulation of bio-liquids according to sustainability criteria.

## **Respective Capabilities**

**Lavan Mahadeva**

Lavan Mahadeva’s presentation covered an important but particular aspect of the search for global agreement, namely the question of burden sharing. He began by discussing some of the criteria that should be considered necessary to develop acceptable methods of estimating ability to pay (respective capabilities in UNFCCC language), including objectivity, simplicity, fairness on at least some measure, and reliance on available data. His conclusion was that the design of any international climate finance scheme should take into account GDP, GDP per head and poverty. His slides illustrate these points with supporting information and some carefully argued comparisons with analogous but more fully established concepts such as income tax.

## **Perspectives on India**

### **Anupama Sen**

Anupama Sen drew some lessons from the presentation of EU issues, and proceeded to describe some important features of the approach to the climate change debate in India. The Indian narrative could be described in three parts: the recognition of the facts and the need for a national action plan, the parallel concerns with energy security, which related to growth objectives but had also led to some contrarian and unsustainable policies, and the poverty alleviation and distributional objectives. Anupama explored these different narratives and commented on two points in particular.

First, poverty alleviation and distributional objectives are regarded as the core of the debate and are often seen as presenting the biggest problems. But they could present opportunities as well, notably with respect to the adoption of small scale distributed generation systems based on renewable sources. This has been trialled in some parts of India.

Second, markets for renewable and associated trading mechanisms in India have helped to overcome some of the common political and institutional hurdles that fossil fuels have faced in India. This appears to contrast quite strongly with the debate in the developed world around whether markets have a role in delivering renewables.

She concluded with some general comments on political factors, the movement from a centrally planned to more market based economy, and the value of regional cooperation. Anupama's slides illustrate some of these points in more depth.

### **Mike Parker**

The whole question of global agreements on climate change must be considered in the context that most serious commentators now believe that the 2° C target is unattainable, given the current momentum of increase in cumulative CO<sub>2</sub> emissions, with attendant "lock-in".

This situation should signal an increased determination to prevent accelerating divergence from the 2° C pathway by minimising from now on additions to the global stock of cumulative emissions. This is the fundamental task.

We should have no illusions about the difficulty of doing this. To make progress we have to address two major gaps in general perceptions and understanding of the problem. These are in understanding:

- The full implications of the cumulative nature of emissions in impacting climate, and the very long time lags
- How the increasing risks arising from global warming will become manifest , notwithstanding the complexities of the global climate and weather systems.

## **General Discussion**

The discussion recognised the realities of the growing importance of countries not included in the original Annex 1, and in particular of China. China clearly recognised the seriousness of its environmental and climate issues, and was actively pursuing policies that addressed these, the development of several carbon market pilot schemes being a clear manifestation of these. As one very clear illustration of the changing balance, one speaker noted that even if developed countries ceased all emissions today, current trends in the rest of the world would still result in cumulative emissions exceeding the limits considered necessary to mitigate the risks of dangerous climate change.

This meant that, to a significant degree, leadership was now inevitably moving to the BRICS. Although the UK and EU could take some pride in what they had achieved, to frame the debate in terms of EU leadership was no longer relevant and could be counter-productive.

The big problems reflect the global/ collective character and politically and institutionally intractable nature of the problems, noted in the first seminar and spelled out in the introduction to the series. These manifested themselves in particularly unhelpful aspects of the governance and processes of the various institutions attempting to attain global agreements. At the global level in particular, the ability of individual countries or small interest groups to veto agreement had substantially impeded progress, as delegates arrived with agendas that insisted not merely on protecting national self-interest, but on opportunistically “getting something for themselves” out of whatever could be agreed. The implication was that something would have to change in this aspect of global governance if substantial progress was to be made.

Discussion touched on the competitiveness issue. It was observed that the impact of energy prices on competitiveness was frequently overstated by political leaders, since factors such as the exchange rate and real wages were of much greater significance to most sectors of industry. Within the EU the economy widely regarded as the most “competitive” was Germany, which had consistently had among the highest energy prices. Similar observations could have been applied to Japan at the height of its “competitiveness” in the 1980s.

A serious casualty of failure at the international level was that it limited the possibilities for the linking of markets, especially carbon markets. In the global

context, the value of markets in seeking out efficient alternatives was particularly important. A likely consequence of the failure of negotiations was that regulation could become the default position in local and national policy making.

There was a significant discussion around the respective merits of a carbon tax versus cap and trade and carbon markets. One person felt this distinction could be overplayed. Both should be viewed as “market” approaches in that they relied on the price mechanism to limit emissions which could be considered as a “scarce resource”. It was also argued that the issue was simply that a market based intervention could fix price or fix quantity but not both at the same time. Given that either taxes or caps could be adjusted to give a desired outcome, the choice was to some extent a pragmatic one. It was also clear that the political context was extremely significant. There had been occasions, in the EU and globally, when the tax concept, whatever its economic similarities to cap and trade, had been an anathema. Overall the discussion implied that one should not necessarily be too exercised by this debate. The context, and political and pragmatic considerations, were likely to be paramount. Globally it was argued that these pointed to cap and trade.

“Price stability is all” in infrastructure investment. Once again this simple observation came up in discussion, and was not contradicted. Markets had not been stable.

One comment picked up on the notion of “loss and damage” and its entry into the global negotiation. The potential tensions this engendered were clear, but so too was the value of anything that increased the incentive for early emissions reduction, since, given the cumulative nature of the problem, these had higher economic benefit than later ones. The implicit threat of taking into account cumulative emissions since (say) 1990 might just be a useful discipline.

One speaker argued strongly that, notwithstanding the inadequacy in outcomes achieved to date, there should be no doubt that “action was coming” and that countries and businesses that did not prepare for that would be seriously disadvantaged. One element in that was the growing number of carbon market schemes being put in place, and the seriousness with which climate issues were being taken among major parties, most obviously China. Although carbon leakage is often cited as a concern, many countries were equally concerned about “Green leakage”, the possible migration of jobs and business in the new industries.

Border adjustment taxes were mentioned in the general context of future actions, but it was noted that consideration of their practicality and efficacy might be better postponed to the next seminar which would deal with policy instruments in

general. In the context of trade the potential conflicts between national climate policies and trade agreements under the WTO could also become a major issue. Indeed some serious trade concerns and actual or potential disputes were already in play.

A final question neatly concluded the afternoon. It was clear from all the presentations that the problems, whether expressed in global or national terms, largely came down to political will. What was most lacking, it seemed, was a sense of urgency that corresponded to the reality of need for action. What events or developments might or would translate into a sense of urgency and increase the incentives for effective action? It was noted that the French experience of 2003 had come very close to even more serious consequences than those actually experienced.

John Rhys April 2013