The Changing Politics of Global Climate Policy

At the October, 2008 meeting of the European Council, the Prime Minister of Italy, Silvio Berlusconi, observed of the EU Commission's climate policy 'package' that this was no time to be tilting at windmills like Don Quixote. What Berlusconi comments were perhaps not so surprising. What was surprising was when German Prome Minister Angela Merkel announced that Germany would stand with Italy in opposition to key provisions of the EU climate policy package then being discussed, due to concerns about its effects on economic growth. Burdening the economy was what also concerned Mr Berlusconi. The Kyoto method of attempting to reduce human-created emissions that are thought to have an actual or future potential to increase global warming, uses manufactured carbon markets, targets and regulation. These all increase costs which cannot be entertained at such a time of old-fashioned political and economic stress, circumstances that have gotten even worse in the subsequent year. The concerns expressed about climate policy by Prime Ministers Berlusconi and Merkel foreshadowed a deeper crisis in global climate policy that is only now unfolding.

Recent scientific analysis of the levels of human-created CO2 emission shows that, in the first phase of operation of the Kyoto Protocol measures, the amount of carbon per unit of GDP emitted worldwide has been increasing at a *much faster rate* than it was in the preceding decade. More narrowly, here is no evidence of any discernible effect whatsoever on the rate of decarbonization of the EU economy from the Kyoto climate policy regime. Without a rapid rate of decarbonization of the economy, to achieve the targets that have been established by the EU (the so-called 20-20-20 target: 20% reduction in emissions and 20% increase in so-called 'renewable' energy by 2020) – or the even more ambitious target of 80% cut in CO2 by 2050 established by law in the world's first legislated target (the British Climate Act that was approved by the House of Commons in November 2008) – the annual impact on GDP would necessarily be considerably more than that being produced by the present recession. Analysis by Dr Keigo Akimoto of the leading Japanese research institute, the Research Institute for Innovative Technology of the Earth (RITE), suggests that simply to stabilize emissions at the 2005 level by 2050 -absent other changes in energy use and production - requires a reduction in GDP by 49% from Business As Usual (BAU) levels. To achieve a goal of halving the 2005 emissions by 2050 would require a global reduction of GDP by 74% from BAU[1]. Plainly, this is socially and politically intolerable.

Similarly, to achieve the targets which are now enshrined in British law, it would be necessary for the United Kingdom to achieve the energy efficiency and carbon intensity of France today within *seven* years from now. France today is the major economy with the lowest carbon footprint because of its 80% utilization of nuclear power to produce electricity. Simply to get on track with existing legislation by 2016, Britain would need a level of effort equivalent to the construction and putting into operation about 30 nuclear power stations between now and then. And having done this, it would then need to maintain an annual rate of decarbonization (that is to say reduction in the carbon intensity of each unit of energy employed to produce a standardized unit of GDP) of at least 4 to 5%. There is no record of any industrial society anywhere having ever achieved anything like the rates of decarbonisation stipulated by the targets.[2] So, plainly, this is completely unrealistic as well. Therefore, it appears that the world- leading British Climate Act has failed even before it comes into effect and that it will either have to

[1] Keigo Akimoto, 'Global warming mitigation analyses based on sectoral approach'. Presentation at Japanese Ministry for Economy, Technology and Industry, January 2009.

[2] Roger Pielke, 'The British Climate Change Act: a critical evaluation and proposed alternative approach', 27 January 2009 at http//:sciencepolicy.colorado.edu

be revisited by Parliament or will simply be ignored by policymakers.

Evidence from the implementation of climate policies suggests Mr Berlusconi was correct in his literary allusion. Playing gesture politics about climate change which involve extra costs in the economy may be something that politicians can do when the times are good and when there is spare cash; but they certainly are not options now that the world in in the midst of its greatest economic crisis since the Great Depression of the 1930s. This realization has brought to view dramatic changes in the alignment of key countries on climate policy during December 2008.

In Europe, these changes became apparent at the European Council meeting on 11-12 December. Keen to achieve approval of the EU climate 'package' during its presidency, France sidelined critical discussion of the Commission's plan which had been taking place in the European Parliament and then cut deals with countries which had been threatening to veto the entire European 'package'. One group of such countries was led by Poland. These were the eastern Europeans who depend to a very heavy degree (more than 90% in the case of Poland) on coal to generate their power. Prime Minister Donald Tusk had already observed at the October Council that 'we don't say to the French that they have to close their down their nuclear power industry and build windmills. Nobody can tell us the equivalent.' In fact, the Poles and other central and eastern European members of the EU made it brutally clear that not merely would they not give up the geopolitical energy security which came from having coal under their own sovereign territory and burning it, but that even if someone offered to pay for Russian gas to be used instead they would not accept it for those reasons. Justification of those reasons became even plainer when Prime Minister Vladimir Putin decided, to the horror and astonishment of many western European officials, to turn off the gas taps to Europe during his now traditional annual torture of the Ukrainians and thereby to jeopardize Russia's status as a reliable supplier of gas to the EU. The Poles and East Europeans were only prevented from vetoing the European 'package' by effectively carving them out of the application of the carbon trading regime which is supposed to involve the sale of permits by auction.

On that topic, the turn of the year also brought news. Facing an uncertain future, the price of carbon in the European Trading Scheme sank and settled at around 12 euros/tonne: well below the level needed to make a credible market signal. But of greater significance, the price de-coupled from oil and the minority of holders of EU permits who are not financial institutions but "real economy" players, began to dump them. They saw that they would meet their targets because of the recession and they sought to rebuild their balance sheets. With EU carbon permits being traded like securitised debt or derivatives, carbon trading looks potentially like the next sub-prime market.

A second country also changed its position and made irresistible demands. In the Köhl administration, Mrs Angela Merkel had been the Environment Minister; but now that she was Chancellor, and having been put under pressure by German export industries, she demanded that there should also be a carve-out for such industries which are exposed to the risk of so-called 'carbon leakage', meaning that they might simply move outside the application of the EU climate regime rather than compete on an unlevel playing field with manufacturers not touched by this. So, Germany, despite its powerful Red-Green opposition alliance, also changed sides. Mr Berlusconi had already made clear that whatever was proposed must be subjected to a searching and comprehensive review after the Copenhagen summit of the UN Framework Convention on Climate Change (UNFCCC) in September 2009. He too made plain that Italian industry was not going to be sacrificed on this particular altar.

So, as this essay goes to press, the situation is that in the area of climate policy, as in commercial and banking responses to the recession, the EU institutions are increasingly left high and dry and the individual nation-states of Europe are pursuing their own self-interest with increasing and sometimes grim vigour. Nor are these new alignments occurring only in Europe, although it is perhaps more visible there because of the EU's former claim to be a world leader offering a blueprint for the rest to follow.

Since December 2008 that claim has been less stridently heard when EU countries agreed to a climate policy package. But a close look at the package suggests that it is an agreement on little more than business as usual. So to achieve the goal Europe actually needs a further reduction of about 12% from 1990 levels. The plan call for a 20% reduction in emissions from 1990 levels. Because Europe is already 8% below 1990 levels this then is actually a 12% reduction. The plan allows European countries to offset 3% or 4% of their emissions reductions via paying for emissions reductions in developing countries. This means that the emissions reductions will not occur in Europe, if anywhere, given the dubious track record of offsets. So this reduces to the goal to about 9%. The agreement also allows countries to exceed their annual emissions targets by 5% annually. So this extra headroom reduces the total emissions reduction goal to about a 4% reduction. A 4% reduction is not so far from business as usual under some projections for EU economic growth and decarbonization, which of course is why the package passed. And this analysis does not explore any of the other loopholes in the plan, such as for Lithuanian nuclear plants, the Polish, German, Italian, etc. economies, or unusually cold or warm weather.

During the American presidential election, it became plain that whoever won there would have to take on climate policy as a priority. Once the Obama Administration came to power, it became even clearer that there was little appetite to move to early legislation for targets and regulation on the EU 'package' or British Climate Act model. The Obama Administration has handed off to the Congress responsibility for developing legislation on climate change. Such action seems unlikely in 2009, and whenever it is fully considered will be a bruising political battle.

President Obama has shown his interests by including the proposed cap and trade program as a source of revenue for the federal budget, which is in significant deficit status due to the recent economic stimulus package. By presenting cap and trade as a source of revenue the Administration has given its critics a large target to attack in the form of a new tax on the economy. But once locked into the budget as source of revenue that would seem to also portend passage of a cap and trade bill by the Congress , irrespective of its commitment and ability to actually reduce emissions. Indeed, the Obama Administration has sought to scale back expectations, especially those of Europe, about what can be accomplished in the United States. Todd Stern, Obama's chief climate negotiator, recently explained upon rejecting the EU call for aggressive US mid-term targets for emissions reductions, "we cannot forget that we are engaged in a political process and that politics, in the classic formulation, is the art of the possible." For the United States, the art of the possible may ultimately result in following Europe down the path of business as usual couched as climate policy.

Similarly, the world's second largest, and its most energy efficient large economy over the last 50 years, namely Japan, had made it plain that it was not prepared to contemplate the extremely large marginal costs of trying to produce further efficiencies in already efficient basic industries. In any case, Japan's carbon footprint was becoming heavier as a result of the increasing consumption of energy-greedy goods in the domestic sector over the last 15 or so years, which dampened the effect of the continuing reductions in intensity in the industrial sectors, and a recent temporary increase in more carbon intensive energy due to earthquake damage at nuclear stations. And, neither China nor India – the world's demographic superpowers both engaged in rapid industrialization – is prepared to accept restraints that involve slowing their economic growth or additional costs to themselves.

Prof. Rajendra Pachauri, Chairman of the Intergovernmental Panel on Climate Change and an Indian scientist, observed in January 2009 that, in his view, there was no prospect of the developing nations accepting any such burdens, especially his home country of India; indeed, he thought that all constraints should be carried by the developed world and that, if anything, countries such as India and China should be provided with subsidy by the richer countries. This view is in direct contradiction to the well-established position of the United States, which even under its new president emphasizes the need for the inclusion of China or India. Prime Minister Harper of Canada observed in a speech in London on 28 May 2008 that there was absolutely no prospect of the United States ever approving legislation that was not universally applicable and that would harm it in the way that the Kyoto approach of binding targets and bureaucratic regimes would do. That assessment stands. These unbridgeable differences help explain why the Poznan meeting of the UNFCCC – also in December - ended in vagueness and without any agreed way forward towards the Copenhagen meeting that is supposed to put in place the post-Kyoto climate policy.

Furthermore, electoral signs were appearing. On 14th October, the Liberal Party in Canada which had advocated a milder form of European-style 'Cap and Trade' policies was punished in the General Election. Its leader resigned. Harper was strengthened, against expectation. On 8th November in New Zealand, the Labour Party which had fully advocated a European model, lost power and the Prime Minister, Helen Clark, her seat. Meanwhile the authoritative Lowy Institute poll in Australia shows that while Australians continue to be worried by climate matters (droughts, bush fires especially), the Rudd administration, which made "signing Kyoto" emblematic of its difference from the preceding Howard government, has failed to persuade the public that this is more than a gesture. The recession has stoked bitter reaction against Kyoto mechanisms in both industry and the Unions as the bill in competitiveness and in jobs becomes evident.

So does this mean that, with the sinking of the EU climate package, there is now no prospect of taking any action to mitigate the increase of carbon dioxide by human action? Paradoxically, the answer is that this crisis of the conventional wisdom and the fatally flawed approach which it has tried to prosecute for the last 15 years, opens for the first time a real prospect of walking a radically different road.

The essence of that approach is, first, to study those things which *actually* lead to reduction in the carbon intensity of human activity. There, the 100-year long-term record is that there has been a modest decarbonization per unit of gross domestic product and that there are direct efficiency gains to be seized which can translate into improvements in decarbonisation. To be consistent with both low stabilization targets (such as a 450 ppm concentration level) and a growing global economy the decarbonization per unit of gross domestic product must be accelerated over its long-term trend of decline,

Such an accelerated decline is unlikely to come as a result of any top-down climate policy focused on emissions reductions targets and timetables. It comes as consequential ancillary benefit from a policy with two different, direct aims. The first must to improve the efficiency and profitability of economic activities and especially the most energy intensive producing and using industries. Here the experience from and proposals of Japan are at the cutting edge. The second aim should be to stimulate the penetration of lower carbon energy supply into the power-generation mix. In a mix of policies, a low carbon tax may have a place. Facilitating both aims will be a substantial and sustained commitment to innovation in energy technology. Carbon sequestering technologies will also play a role. All this is practical where the Kyoto discussion of Cap &

Trade is theological. None is achievable by the arbitrarily chosen EU date of 2020 but real inroads could occur by 2050 if we got going.

So the fruitful course of action to follow is an indirect approach. That approach was exemplified by Lancelot 'Capability' Brown, a great 18th century British landscape gardener, whose motto for successful landscaping was that once one had spied one's objective one should then approach it obliquely. [3]

Such a strategy is clearly increasingly attractive to world leaders during a time of recession because the very things which they are striving to do to recover from the recession are the very things which will have this beneficial contingent effect. So these are so-called 'no regrets' strategies to address the problem of increasing human emissions of carbon: we would do them for their own sake, anyway. And it is precisely for that reason that they have a chance of working. As a first step, all the major economies could use sectoral benchmarks to reach best practice levels of efficiency in the most energy intensive sectors by speeding up the replacement cycle of major capital equipment. Steps to reduce energy costs improve the efficiency and hence profitability of companies. These are exactly the steps needed to make them strong in times of recession or worse.

2,891 words excluding notes

[3] 'Capability' Brown's philosophy applied to climate policy is explored and explained in G Prins & S Rayner, *The Wrong Trousers*: r*adically rethinking climate change,* 2007 at www.martininstitute.ox.ac.uk.