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BLUEPRINT FOR A TRANSATLANTIC CLIMATE PARTNERSHIP

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STRENGTHENING TRANSATLANTIC COOPERATION

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1 INTRODUCTION

The United States and Europe are finally finding common ground on climate change. In sharp contrast to years past, the transatlantic partners now agree—including at this year’s Group of Eight (G8) Summit in Italy on July 8—on the severity of the climate threat, the urgency of solutions, the necessity of action by all major emitters, the responsibility of developed nations to take the lead, the responsibility developed nations have to assist developing nations, and the importance of negotiating new global climate agreements.

Yet, there is also reason for concern. With only months remaining before the international community hopes to outline the successor to the Kyoto Protocol (expires in 2012), many key nations are only just starting to define their climate change negotiating positions, or signal where they would be willing to make compromises. Unfortunately, a wide gulf remains globally on three big issues: (1) emissions mitigation actions by the world’s major economies, (2) financial support provided

by developed nations to developing nations, and (3) international institutions needed to make the new system work.¹ As the negotiations heat up, new signs of transatlantic friction are visible, with European leaders pressing President Barack Obama and the U.S. Congress to do more than even the greenest American politicians are contemplating. For their part, U.S. policymakers worry that Europe will be weak kneed when it comes to pressing China, India, and other emerging economies to take action as well. Past experience shows that forging a durable global consensus will prove difficult, perhaps impossible, if the United States and Europe cannot overcome their differences. In this paper, I attempt to draw a blueprint for a new transatlantic climate change partnership—one that could serve as the basis for a joint approach to China, India, and other emerging economies. A strong transatlantic partnership would simplify international negotiations and sharpen the focus on what is really needed to reach a strong global agreement quickly.

Past experience shows that forging a durable global consensus on a new climate agreement will prove difficult, perhaps impossible, if the United States and Europe cannot overcome their differences.

¹ Opening remarks: Executive Secretary Yvo de Boer, the United Nations Framework Convention on Climate Change, at the Bonn Climate Change Talks in Bonn, Germany, March 29, 2009. Retrieved at: http://unfccc.int/files/press/news_room/statements/application/pdf/090329_speech_awg_open.pdf

2 THE GLOBAL DEAL

Whether Europe and the United States like it or not, the only global deal developing nations are prepared to consider right now must include commitments from developed nations to immediate emissions mitigation, more financial assistance, and to giving developing nations greater control of global climate institutions.

Climate talks are not occurring in a vacuum. Rather, the current round of negotiations builds on 20 years of climate diplomacy and is following a “roadmap” approved by the international community in December 2007. While the transatlantic partners have the power to shape a new climate agreement in significant ways, developing nations have made it abundantly clear that they will only accept international responsibility for additional climate action if developed nations satisfy three conditions. First, developed nations must substantially reduce their own emissions, especially through strong action before 2020. Second, developed nations must finance the incremental cost for developing nations of both adapting to climate change and abating their growth in emissions. Developing nations account for approximately half of global emissions today, but are projected to contribute 90–97 percent of the growth in global energy-related CO₂ emissions through 2030.² Third, developed nations must agree to share with developing nations the management and control of new financial resources mobilized for climate action in the developing world. The call for control over financial resources mimics traditional struggles over foreign aid between donors and developing nations, but it also reflects a strong sense of entitlement developing nations have to “compensation” for the damages caused by emissions from developed nations.

All this makes a climate deal different from the reciprocal exchange of similar commitments that policymakers in the United States and Europe are accustomed to negotiating. In many areas of international cooperation, including arms control or trade, for example, nations agree to do X and refrain from Y if other nations also agree to do X

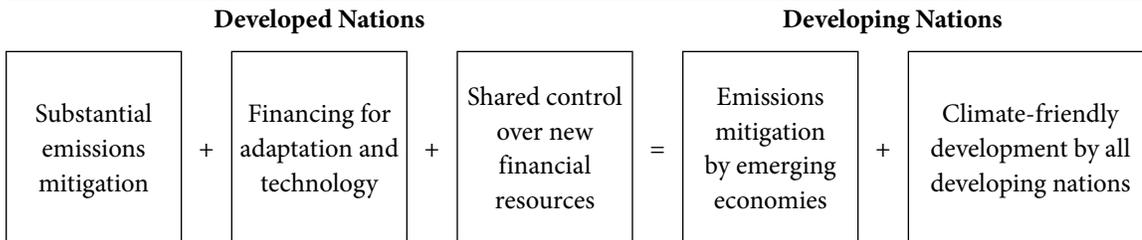
² United States Energy Information Administration (2009). *International Energy Outlook 2009*, p. 119. Retrieved at: <http://www.eia.doe.gov/oiaf/ieo/> International Energy Agency (2008). *2008 World Energy Outlook*.

and refrain from Y. In contrast, emissions reduction commitments alone by the developed world are *not* enough to secure emissions abatement by developing nations. This is not because these nations are determined to pursue irresponsible development. On the contrary, many emerging economies (including China) have already adopted serious national climate action plans.³ But emerging economies will refuse to commit themselves internationally to these plans, let alone make their emissions mitigation plans more ambitious, absent new international commitments by developed nations. More specifically, developed nations will need to commit to immediate emissions mitigation, more financial assistance, and to giving developing nations greater control of global climate institutions.

If developed nations refuse to go along with the global deal developing nations propose, major emerging economies will likely continue for at least another decade on a high carbon development path, hiding behind alleged intransigence in the developed world. Emerging economies simply do not see the more straightforward deal—emissions mitigation by developed nations in exchange for emissions mitigation by emerging economies—as in their national interest. Eventually China, India, and other emerging economies may feel greater negative impacts from climate change, and as their emissions continue to grow they will face significantly more pressure for action from Africa and other extremely vulnerable parts of the world. Over time, therefore, their negotiating positions might change but this process would surely take time, just as it has taken the United States more

³ National Development and Reform Commission (2007). *People's Republic of China, National Climate Change Programme*. Retrieved at: www.ccchina.gov.cn/WebSite/CCChina/UpFile/File188.pdf Government of Brazil (2008). *National Plan on Climate Change*. Retrieved at: http://www.mma.gov.br/estruturas/imprensa/_arquivos/96_11122008040728.pdf Government of India (2008). *National Action Plan on Climate Change*. Retrieved at: <http://pmindia.nic.in/Pg01-52.pdf>

The Global Deal



Source: Nigel Purvis, Climate Advisers (2009)

than a decade since the 1997 Kyoto conference to respond to new scientific information and mounting international pressure. Thus, whether Europe and the United States like it or not, the only *global* deal developing nations are prepared to consider right now will include the preconditions mentioned above. The assumption behind this paper is that this deal, while not ideal for Europe and the United States, is very much in the interests of America, Europe, and the world, provided that their concerns on mitigation and financing are addressed too. The remainder of this paper describes exactly what that qualification means.

Emissions Mitigation by Major Economies

The scientific community has advised policymakers that global greenhouse gas emissions must be reduced at least 50 percent by 2050 to avoid unacceptable risks of catastrophic climate change.⁴ This goal is now embraced by Europe, the United States, and other major industrialized nations, and also enjoys support from major developing nations provided developed nations agree to reduce emissions at least 80 percent by 2050.⁵ With this long-term goal coming into view the world is

⁴ Intergovernmental Panel on Climate Change. *Climate Change 2007: Synthesis Report*, p. 45. Retrieved at: <http://www.ipcc.ch/ipccreports/ar4-syr.htm>

⁵ G8 Toyako Declaration on Energy and Climate Change (2008). Retrieved at: http://www.mofa.go.jp/policy/economy/summit/2008/doc/doc080714_en.html

focusing now primarily on what nations must do by approximately 2020 as a down payment toward the 2050 goal. The good news is that most parties, including the United States and Europe, agree on a number of important points regarding these mid-term actions:

- By 2020, developed nations must substantially reduce their emissions and emerging economies should slow the rate of growth of their emissions;
- Progress of all major emitters should be quantitatively measured;
- Developed nations should take on absolute, economy-wide emission reduction targets whereas emerging economies should pursue other actions, which might include sector-specific goals, concrete policy reforms, and emissions intensity objectives;
- Actions by emerging economies should be supported by external funding provided by developed nations; and
- Emerging economies should have access to capital from international carbon markets when they outperform internationally agreed upon benchmarks or other measures of success.

The bad news is that developed and emerging economies disagree on roughly a dozen other

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Many knowledgeable climate experts in Washington believe that Obama's proposed target—a 14% cut in U.S. emissions from 2005 levels by 2020—represents a realistic scenario for the United States—one that is both economically and politically achievable.

important issues with respect to emissions mitigation by major economies.⁶ Among these differences, two really big questions stand out—the level of ambition of the medium-term U.S. emissions target, and the legal and structural form of actions by emerging economies.

U.S. Mid-Term Target: Push but Accept

Except for a few developed nations, the international community is rallying around the principle that developed nations should reduce emissions by 25–40 percent below 1990 levels by 2020, on the way to the far steeper reductions envisioned by 2050. Europe, for example, has embraced the 25–40 percent reduction target as a shared obligation of developed nations and has proposed reducing its own emissions by 30 percent over the same timeframe provided other major emitters take equitable action as part of a new global climate agreement. Developing nations have deemed the proposed 25–40 percent reduction goal for the developed world an absolute minimum; indeed, many developing nations are asking for more.⁷ In contrast, the Obama administration and congressional leaders have described the goal as entirely impractical for the United States as a result of two decades of inaction, strong economic performance and significant population growth. Obama has pledged to reduce U.S. emissions by 14 percent from 2005 levels by 2020, which would merely return U.S. emissions to 1990 levels by 2020. If supplemental reductions from U.S. funded international activities are included, the climate change bill approved by the U.S. House of

Representatives recently (“Waxman-Markey” or “H.R. 2454”) would reduce economy-wide U.S. emissions 28 percent below 2005 levels by 2020, or 14 percent below 1990 levels.⁸ The U.S. Senate may well view this goal as unrealistic, which is why many knowledgeable climate experts in Washington believe that Obama’s proposed target represents a realistic scenario for the United States—one that is both economically and politically achievable. Most experts also agree that whatever numbers Congress approves will be final. The opportunity for the world to influence the U.S. target is *now*—in the context of domestic legislation—not later during international negotiations. For better or worse, international pressure is highly unlikely to convince the U.S. Congress to go beyond the numbers it eventually enacts into law. This situation invites several questions. Assuming the U.S. target will be near the one proposed by President Obama, would the U.S. target be sufficient? Would it be fair? And what would be the implications for global climate negotiations?

The adequacy and fairness of the likely U.S. target are in the eye of the beholder. As the Obama administration is quick to explain, based on many reasonable measures (total cost, total cost as a share of GDP, or percentage reduction from current emissions levels) the Obama target is fully comparable with the EU’s 30 percent target, as the table on page 7 demonstrates.

⁶ Nigel Purvis and Andrew Stevenson (2009). Previewing the Global Deal, Resources for the Future (forthcoming).

⁷ For example, China has recently stated they expect at least 40 percent reductions from developed nations as a group by 2020. National Development and Reform Commission (2009). “China’s Position on the Copenhagen Climate Change Conference.” Retrieved at: http://en.ndrc.gov.cn/newsrelease/t20090521_280382.htm

⁸ World Resources Institute (2009). Emission Reductions Under The American Clean Energy and Security Act, June 2009. Retrieved at: http://pdf.wri.org/usclimatetargets_2009-05-19.pdf

**Proposed 2020 Emissions Reduction Targets
(Compared to 2005 levels)**

U.S. Obama	-14% ⁹
U.S. H.R. 2454	-28% ¹⁰
Japan	TBD (at least -15% ¹¹)
European Union unilateral	-13% ¹²
European Union with international agreement	-23% ¹³

Source: Andrew Stevenson, Climate Advisers (2009)

However, based on one important metric—reductions from 1990 levels—the U.S. target is clearly less ambitious than Europe’s. Emissions in Europe from 1990 to 2005 were relatively flat whereas emissions in the United States rose dramatically. Discussions about fairness, therefore, really boil down to whether nations should be judged primarily based on performance since 1990 or by another metric, such as 2005. Those who favor the 1990 base year argue that all developed nations pledged in the United Nations Framework Convention on Climate Change to reduce emissions to 1990 levels by 2000, and that their failure to do so led to the Kyoto Protocol, which also measured progress against 1990 levels. Thus, they argue, 1990 is the internationally agreed upon reference point for measuring comparability of effort. Opponents

⁹ U.S. President Barack Obama (2009). Remarks to Bi-partisan Governor’s Climate Summit, November 2009. Retrieved at: http://change.gov/newsroom/entry/president_elect_barack_obama_to_deliver_taped_greeting_to_bi_partisan_gover/

¹⁰ World Resources Institute, 2009.

¹¹ Taro Aso (2009). Speech on the environment, June 2009. Japan’s target does not yet include emission reductions from domestic forestry and agriculture, nor does it include international activities Japan might finance above-and-beyond domestic reductions.

¹² European Commission (2009). “The EU’s Contribution to Shaping the Future Global Climate Change Regime.” Retrieved at: http://ec.europa.eu/environment/climat/future_action.htm. This figure is 20 percent below 1990 levels.

¹³ European Commission (2009). This figure is 30 percent below 1990 levels.

of the 1990 base year note that the year 2000 pledged in the Convention was non-binding, that the United States should not be bound by any Kyoto precedent because it is not party to that agreement, that Europe benefits unfairly from the 1990 baseline (because emissions growth declined in Europe during the 1990s for economic and political reasons largely unrelated to climate change), and that Obama cannot remedy former U.S. President George W. Bush’s refusal to limit U.S. emissions.

Ultimately, both sides of this debate miss a fundamental point. Just as developing nations will refuse to join any agreement that does not involve substantial new financial assistance, the United States is highly unlikely to join an agreement that goes beyond what the U.S. Congress has the political will to accept. Obama and the international community should continue to push Congress toward the most ambitious emissions reduction target possible, but in the end whatever target Congress approves will be akin to a “take it or leave it” offer. Europe and the rest of the world will be tempted to push Obama to reopen negotiations with Congress by pledging internationally to reduce emissions more than the amount approved by Congress in new climate legislation. Obama, however, is unlikely to do so because he and his climate advisers saw what happened in 1997 in Kyoto when an American president promised abroad more than he could deliver at home—the agreement was dead on arrival in Washington. Even if Obama did agree to press the U.S. Congress to revisit a previously enacted target, his prospects for success would be highly uncertain. In asking Obama to go beyond Congress’ number, therefore, Europe would be playing a high stakes game that might easily result in the United States remaining outside the main thrust of global climate cooperation for another decade.

Of course, allowing the United States to start reducing its emissions slowly from 1990 levels

Obama and the international community should continue to push Congress toward the most ambitious emissions reduction target possible, but in the end whatever target Congress approves will be akin to a “take it or leave it” offer.

The transatlantic parties are rightly focused on getting emerging economies committed to long-term climate-friendly economic strategies, sometimes called “low carbon growth plans.” The international superstructure that surrounds these, therefore, must by necessity be at the heart of international negotiations.

might convince other major emitting nations to lower their level of mitigation ambition as well. European business may press for Europe to back away from its 30 percent emissions reduction goal if America’s target is not seen as comparable. Other developed nations, such as Japan, Canada, and Australia are even more likely to follow America’s example. And, as will be discussed below, China, India, and other emerging economies will argue that little should be expected of them if the United States takes 20 years more than it promised previously to return emissions to 1990 levels.

European policymakers, therefore, face a real dilemma. They will have to decide whether to embrace the eventual U.S. target as equitable, or hold out for comparability based on a 1990 base year at the risk of leaving the United States behind, giving emerging economies an excuse for inaction, and undermining domestic support for action in many developed economies, including possibly Europe itself. For many European leaders the least bad answer will be to fully and enthusiastically embrace the U.S. number at the end of the day. U.S. participation is essential even if it is not at the preferred level of ambition. Indeed, European negotiators are already signaling their willingness to compromise on the U.S. mid-term target provided the United States commits to reducing emissions 80 percent below 1990 levels by mid-century.¹⁴ European politicians could then explain to European stakeholders that the United States will start slower but will have to do more than Europe between 2020 and 2050 to catch up. In short, Europe must push America now but be pragmatic at the end by accepting what Congress approves so long as it is not far from Obama’s proposal.

¹⁴ Alister Doyle. “France, Germany urge more flexible climate pact.” *Reuters*, May 25, 2009.

Actions by Emerging Economies: Insist on a Few Common Elements

The second major issue relating to emission mitigation involves the actions undertaken by developing nations, including the manner in which those actions should be reflected in an international agreement. In this case, form may prove more important than substance for two reasons. First, Europe and the United States both agree that many emerging economies, including China, have already adopted policies that are abating emissions considerably. China’s new automobile efficiency standard is comparable to the much-improved U.S. standard announced recently by Obama. In addition, China is meeting its growing electricity needs by building, in many cases, highly efficient coal-fired power plants with technology that rivals the investments being made in developed nations. Second, both the United States and Europe understand that per capita emissions in emerging economies remain low and by necessity will grow as these nations industrialize and help their people escape poverty. Emissions in emerging economies must peak and decline within the next several decades, but not immediately. As a consequence, the transatlantic parties are rightly focused on getting emerging economies committed to long-term climate-friendly economic strategies, sometimes called “low carbon growth plans,” rather than slightly more ambitious near-term mitigation actions. The international superstructure that surrounds these low carbon growth plans, therefore, must by necessity be at the heart of international negotiations with emerging economies.

So far, emerging economies have created an effective, united front in opposing efforts to give the international community influence over the mitigation ambition of these low carbon growth plans. This stance was evident during the July 9, 2009 Major Economies Forum (MEF), a gathering of leaders of the world’s major emitters, where

emerging economies blocked efforts by Europe, the United States and other developed nations to pledge collectively that emissions should peak and start declining in all major economies by a certain date. Progress depends, therefore, on the United States and Europe joining with other developed nations to convince developing nations that entering into a robust international dialogue about these plans is actually in their self interest. More specifically, the Atlantic alliance should resolve to convince the international community that the following six emission mitigation principles should apply to all major economies, including China and India.

1. **National Plans.** All major emitters must agree to develop and register with the international community ambitious low carbon growth plans that demonstrate what, how, and when emissions mitigation actions will occur across their entire economies through 2020. Comprehensive national plans are needed to help identify opportunities for progress, demonstrate equitable mitigation efforts, and in the case of developing nations, attract needed financial support from international donors.
2. **Measurement, Reporting, and Verification.** Emerging economies and developed nations must have comparable obligations to measure, report, and verify (MRV) their emissions and climate change actions. Absent strong MRV systems, countries will have little confidence that each nation is acting appropriately and that the sum of international efforts is sufficient to avoid dangerous climate change. Credible MRV systems, moreover, will allow developing nations that are mitigating emissions to demonstrate that they deserve considerable international financial support.
3. **International Legal Form.** All major economies must commit to implement their low carbon growth plans through

enumerated domestic policies and measures, and these supporting domestic actions should be registered with and reviewed by the international community. Importantly, the commitment to implement these policies and actions should be legally binding under international law because past experience demonstrates that non-binding political commitments are ineffective in reducing emissions. *Maintaining legal parity or symmetry is also politically essential*, particularly in the United States where the legal asymmetry of the Kyoto Protocol was a major factor in the U.S. refusal to approve the agreement. If the actions of emerging economies are still not legally binding internationally in the next agreement, Congress would be very unlikely to agree to legally binding commitments for the United States. Thus, the Obama administration should avoid any asymmetrical outcome, even if that means insisting that U.S. actions not create international legal obligations for the United States until China and India also agree to make their actions international legal obligations. However, this does not mean the United States would not pass a domestically enforceable cap-and-trade bill even without an international agreement. Indeed, Obama has made it clear that his strong support for domestic climate legislation is without precondition.

4. **International Review of Domestically Enforceable Plans.** All major economies should also have international obligations to ensure that, prior to the entry into force of a new climate agreement, each has in place domestically enforceable laws and programs to implement their low-carbon growth plans. Early adoption of domestically enforceable measures is essential to build global confidence and capitalize on opportunities for cost-effective emissions reductions. The

If the actions of emerging economies are not legally binding internationally in the next international climate agreement, Congress would be very unlikely to agree to legally binding commitments for the United States.

Access to global carbon markets should be limited to nations that have negotiated sector- or economy-wide emission reduction baselines with the international community.

absence of domestic enforcement could give rise to a situation where a nation promises internationally ambitious action but in fact does relatively little because it lacks a strong domestic legal foundation. This is what has happened in Canada—emissions have risen sharply because it has few emission control laws in place domestically even though Canada is legally obligated internationally under the Kyoto Protocol to reduce emissions. Domestic enforceability should be judged based on national circumstances because experience shows that while formal statutes are essential in the United States, in Japan voluntary agreements with industry achieve real results and China governs quite effectively through five-year plans.

5. **Access to Carbon Markets.** Access to global carbon markets should be limited to nations that have negotiated sector- or economy-wide emission reduction baselines or reference scenarios with the international community. Nations that improve these agreed upon reference cases should be eligible to sell verified emission reductions to the private sector. Only least developed nations should be eligible to participate in a reformed version of the Kyoto Protocol's Clean Development Mechanism (CDM), which allows for the sale of carbon securities based on projects rather than economy- or sector-wide programs. (Regardless, the CDM needs to be reformed to eliminate its project backlog, streamline its requirements, and reduce transaction costs.) Conditioning access to highly profitable carbon markets in this manner would create strong incentives for action while also making special accommodations for nations that may lack capacity to pursue sectoral or economy-wide strategies. Smaller sums available from official development assistance (ODA) and

revenues from auctioning emission permits should be used to encourage developing nations to take other types of action (such as strengthening efficiency standards for appliances and automobiles) but the larger sums available through private carbon transactions should be reserved for nations that set concrete emission mitigation targets. If developing nations do not agree to conditional access to carbon markets in this way in global talks, the United States and Europe should agree separately or bilaterally to place such limits on access to American and European carbon markets, which together may account for 80 percent of the global carbon market. This is one outcome Europe and the United States could achieve without a global consensus.

6. **Compliance.** All major economies must be subject to rigorous compliance and enforcement provisions. The compliance system should help parties that are at risk of non-compliance by engaging them to facilitate remedial actions as soon as difficulties emerge rather than waiting until a formal breach of an obligation. This engagement should take two forms. First, the international community should offer technical assistance to nations that are not meeting their obligations, including recommendations about new actions that would get them back on track. Second, nations that are falling short of their obligations should be required to participate in a high-profile political review process. While international naming and shaming may not be enough, experience shows that it can often be quite effective in changing state behavior. When technical and political assistance does not remedy non-compliance, nations should be obligated to more than make up their emission reduction shortfalls

in the future, as is the case under the Kyoto Protocol where nations face a supplemental emissions penalty. The transatlantic parties, in addition, should look seriously at whether trade measures may be warranted around 2020 in cases of serious non-compliance by parties or inaction by non-parties to the new climate agreement. To preserve options down the road, it is vital that a global climate agreement not preemptively disallow trade measures, provided they would be consistent with existing World Trade Organization (WTO) obligations and principles.

These six outcomes should be seen as essential for the transatlantic allies. Each element is both politically and environmentally critical to success, as well as easy to defend before domestic constituents and the international community. Nations that are concerned about climate change need to be prepared to drive a hard bargain—

actually saying “no” to an international agreement that does not contain these uniform mitigation requirements for all major emitters. That is because without these elements a new climate agreement would be unlikely to succeed. It would neither reduce emissions in the short term nor create a durable foundation for future climate cooperation. Fortunately, the United States and Europe have no insurmountable disagreements on any of these six points as signaled by their positions to date. The only thing that’s really in doubt is whether they are prepared to hold the line. They must. While such a strong negotiating stance by Europe, the United States, and other allies might risk some delay in completing a new global agreement, the principles outlined above ought not to lead to a total breakdown in negotiations. None of these ideas, when coupled with the right policies on financing and institutions (discussed immediately below), would threaten the economic growth of China, India, or other emerging economies.

Nations that are concerned about climate change need to be prepared to drive a hard bargain— actually saying “no” to an international agreement that does not contain uniform mitigation requirements for all major emitters. Without these elements a new climate agreement would be unlikely to succeed.

3 FINANCE AND INSTITUTIONS

While reaching agreement on common emissions mitigation requirements for major economies will prove difficult, allocating responsibility for financing those actions in developing nations will be at least as hard.

Fortunately, there is again a base of agreement from which allies can build. The United States, Europe, and other developed nations have already agreed to help finance climate action by developing nations. The United Nations Framework Convention on Climate Change—which is legally binding on all parties, including the United States and Europe—states that developed countries shall provide the “agreed full incremental costs” of emissions mitigation to developing nations.¹⁵ The Convention also obliges developed nations to assist developing countries in adapting to climate change.¹⁶ The internationally agreed upon “road map” for the current round of global climate negotiations emphasizes that the parties shall agree to “enhanced action on the provision of financial resources and investment” to support mitigation and adaptation by developing nations.¹⁷

This history leaves at least three important issues unresolved. First, how much assistance should developed nations provide at this time? Answering this question involves determining not only the “full incremental costs” of climate action in developing nations, but it also requires resolving a longstanding interpretive dispute about the meaning of the phrase “agreed full incremental costs” (emphasis added). Did developed nations

commit to covering all incremental costs or only those to which they subsequently agree? The second big issue relates to the balance that should be struck among different sources of funding, ranging from private sector carbon markets to official development assistance. The third major question involves the institutions, management structures, and control mechanisms associated with new climate funding. Which nations should be in charge of spending new climate resources? What institutions should manage new funds and under what rules? I describe a potential path forward on these matters after briefly summarizing the positions of the United States, Europe, and developing nations on these key issues.

Positions of Europe and the United States

Europe and the United States agree on a great deal when it comes to the resources and institutions needed to help developing nations pursue climate-friendly growth and adapt to climate change. Both agree that far more funding is required than developed nations have provided developing nations so far. Europe has estimated that \$150–200 billion a year in 2020 is needed for emissions mitigation and adaptation in developing countries alone.¹⁸ The United States has not announced its cost estimate. Just as interestingly, neither the United States nor Europe has said exactly what share of this global total each should provide. Past practice in other areas of international cooperation suggests that together Europe and the United States could account for approximately 50 percent of developed country contributions. Europe and the United States also agree that developing nations, particularly nations that are not least developed nations, should be responsible for funding some portion of their

¹⁵ United Nations Framework Convention on Climate Change, Article 4.3. Retrieved at: http://unfccc.int/essential_background/convention/background/items/1349.php

¹⁶ United Nations Framework Convention on Climate Change, Article 4.4. Retrieved at: http://unfccc.int/essential_background/convention/background/items/1349.php

¹⁷ Bali Action Plan, paragraph 1(e). Retrieved at: <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf#page=3>

¹⁸ European Commission (2009). *Towards a Comprehensive Climate Change Agreement in Copenhagen*, pp. 7-9. European Commission (2009). *Towards a Comprehensive Climate Change Agreement in Copenhagen*. Extensive background information and analysis, part 1, pp. 10-11

own actions but they have yet to explain how much or based on what specific criteria.

Both transatlantic partners believe that funding should come from a wide variety of sources—public and private, bilateral and multilateral—and be put to a variety of uses—from reducing emissions and building capacity for participating in carbon markets, to reducing climate vulnerability. Both the United States and Europe have strongly emphasized that over time private-sector investments should become the primary source of funding for developing nations, although both Atlantic parties have acknowledged the need for new government-to-government programs as well. Developing nations will need help getting started and government funding may be needed for quite some time to reach nations that are bypassed by private investors and carbon markets because the countries are too high risk. In addition, both Europe and the United States believe that global institutional arrangements should reflect what Europeans call the principle of subsidiarity and what Americans call federalism—a bias in favor of decentralized, local control by national and local governments rather than international institutions—with most funds managed by developed nations through bilateral and regional foreign aid programs. When fully coordinated global programs are essential, Europe and the United States favor existing multilateral financial institutions, such as the World Bank, where donor nations have greater influence than developing nations.

Positions of Developing Nations

Although there are some exceptions, developing nations have adopted a starkly different view. China and several other countries have proposed that developed nations should accept binding international obligations to provide 0.5–1 percent of GDP to developing nations for emissions mitigation and climate adaptation, which would

amount to \$200–400 billion globally from donor nations, including \$70–140 billion annually for both Europe and the United States.¹⁹ Developing nations are insisting that new funding should be raised through UN administered levies on some combination of carbon market transactions, emissions allowances or climate polluting activities, such as international aviation. They consider these top-down mechanisms essential to ensure funding is predictable from year-to-year and truly “new and additional” to existing financial flows. Most developing countries believe developed nations should finance 100 percent of the incremental costs of climate action. Among emerging economies, Mexico, South Africa, and Korea have been notable in proposing approaches that envision developing nations shouldering a share of the financial burden.²⁰ In addition, developing countries believe that carbon markets and other private sector financing mechanisms should play only a supplemental and complementary role to the more central North-South government-to-government income transfers. Developing nations also insist on management and control of new climate change funding by the United Nations, where they form a strong majority.

Bridging the Gap

While the challenges of finding a compromise on climate funding are enormous and may take longer than nations expect, there is a way forward. Europe and the United States should make a very generous offer to substantially increase financial assistance to developing nations, provided a small number of reasonable conditions are met. Before examining

¹⁹ World Bank, Gross Domestic Product 2007. Retrieved at: <http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

²⁰ United Nations Framework Convention on Climate Change (2009). Country submissions to the Ad Hoc Working Group on Long-term Cooperative Action Under the Convention, Sixth Session, June 1–12, 2009.

Europe and the United States should make a very generous offer to substantially increase financial assistance to developing nations, provided a small number of reasonable conditions are met.

To deal with climate change effectively the United States and Europe each need to come up with at least \$25 billion a year for international climate activities between now and 2020 from public and private sources. Politically, mobilizing this amount of funding would be a Herculean effort, particularly in the United States and likely even in Europe.

these conditions, let us first consider how much money Europe and the United States need to put on the negotiating table to meet genuine needs and get a workable global deal.

Substantively, Europe is not far off about the amount of funding needed to support clean development and climate resilience in developing nations—roughly \$100–150 billion a year in 2020 from all developed nations. This figure can be broken down as follows. Helping developing nations acquire clean energy technologies will cost \$75–100 billion annually by 2020. Helping them reduce emissions from tropical deforestation and other land-use change will cost an additional \$20–25 billion per year until 2020. Covering the incremental development costs of adapting to climate change is likely to cost \$10–30 billion a year until 2020. The cost of helping nations build the infrastructure necessary for them to measure, monitor and verify emission reductions, and thus participate in global carbon markets is likely to be several billion dollars a year through 2020. Over time larger sums may be needed, but even this suggested level would strain the capacity of developing nations to absorb and spend wisely over the next decade.²¹

Thus, to deal with climate change effectively the United States and Europe each need to come up with at least \$25 billion a year for international climate activities between now and 2020 from public and private sources. Politically, mobilizing this amount of funding would be a Herculean effort, particularly in the United States and likely even in Europe. For comparison, total U.S. development assistance was roughly \$33 billion in 2007, with about half of this sum going to a few strategic allies whose emissions are not

²¹ European Commission (2009). *Towards a Comprehensive Climate Change Agreement in Copenhagen*. Extensive background information and analysis, part 1, pp. 10–11. Project Catalyst (2009). “Towards a Global Climate Agreement Synthesis,” Briefing Paper, June 2009.

consequential.²² Despite this, the figures are not impossible to reach. The bill recently passed by the House of Representatives, for example, would allocate \$5 billion a year by 2020 for direct climate change assistance from the U.S. government to developing nations (\$740 million for technology, \$3.7 billion for tropical forest conservation, and \$740 million for adaptation).²³ In addition, the bill would mobilize an additional \$3.5–\$15 billion a year by 2020 from private companies for emissions mitigation in developing nations, depending on the cost and supply of international emission reductions compared to domestic action.²⁴ Combined, U.S. international investments in climate change under the House bill would range from \$8.5–20 billion a year in 2020—less than is probably required but certainly a significant start that might be augmented by the more internationally-minded U.S. Senate.

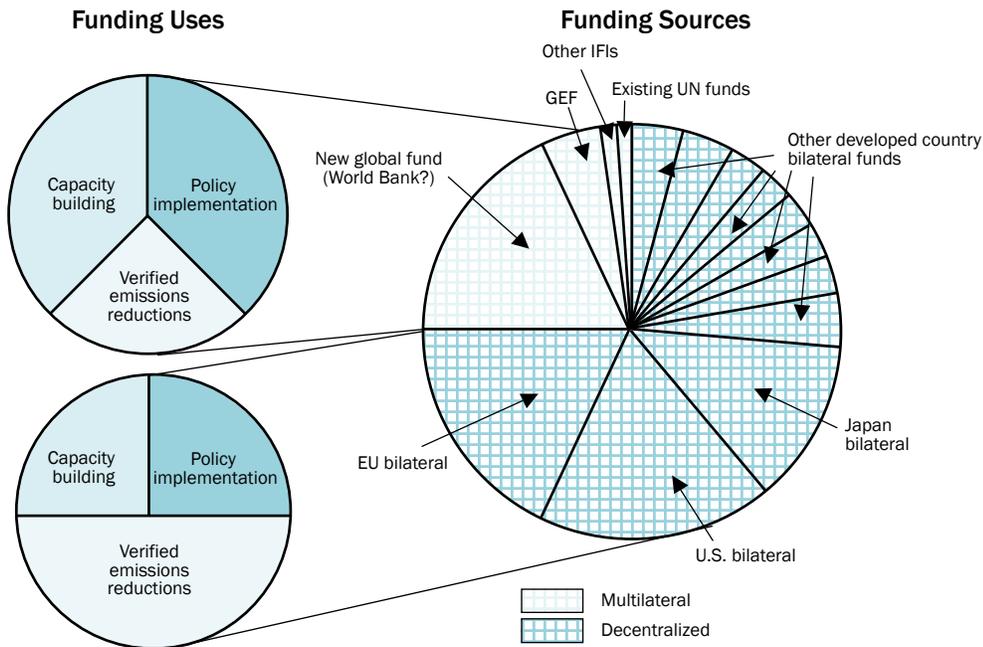
Success in directing these new funds to climate action in developing nations will depend in part on whether U.S. and European politicians can convince their publics that the new programs represent self-interested investments in climate protection and international security rather than additional charity, which few ordinary Americans and Europeans feel they can afford in the current economic crisis. For environmental, economic, and political reasons, therefore, these new resources must come with several reasonable conditions. First, the resources should be premised on emerging economies agreeing to abate their emissions in accordance with the previously

²² United States Agency for International Development (2007). U.S. Overseas Loans and Grants.

²³ Estimates of dollar values derived from EPA analysis of Waxman-Markey draft legislation, based on IGEM model projections of cap level and allowance value.

²⁴ Total amount varies based on cost and supply projections of offsets generated in potential U.S. carbon markets. These figures are based on Congressional Budget Office and EPA estimates.

Figure 1: Uses and Sources of Public Financing



Source: Nigel Purvis, Climate Advisers (2009)

Developing nations need to accept that a large and growing percentage of new climate change resources will come from the private sector, mainly through U.S. and European carbon markets.

discussed emissions mitigation principles. Second, middle income and emerging economies must co-finance a portion of their own mitigation and adaptation actions. This is likely to be a contentious point, but these developing nations should pay for two types of climate action. First, these developing nations should finance self-interested investments that have negative costs and will contribute to, rather than detract from, economic growth. These are investments developing nations should be making anyway. Second, middle income developing nations need to cover a small but growing portion of actual mitigation costs. The share of costs covered by each country should be negotiated internationally balancing national circumstances and global needs. Third, developing nations need to accept that a large and growing percentage of new climate change resources will come from the

private sector, mainly through U.S. and European carbon markets, as the figures for the House bill demonstrate. There is simply no support in Europe nor the United States for transferring close to \$100 billion in public revenue to developing nations.

Finally, the United States and Europe must insist that the preponderance of new climate funding is managed in a decentralized manner, primarily by using existing bilateral and multilateral institutions (see Figure 1). A more centralized approach—with UN imposed taxes or huge sums flowing to UN managed funds—would be a political non-starter in the United States and possibly also in Europe, and thus enough to stop a new climate agreement from entering into force and succeeding.

But decentralization need not preclude using multilateral mechanisms to complement nationally-

So deep is the suspicion of global government in America that mandatory contributions to new centralized climate finance institutions could threaten the prospects of U.S. participation in a new UN climate agreement.

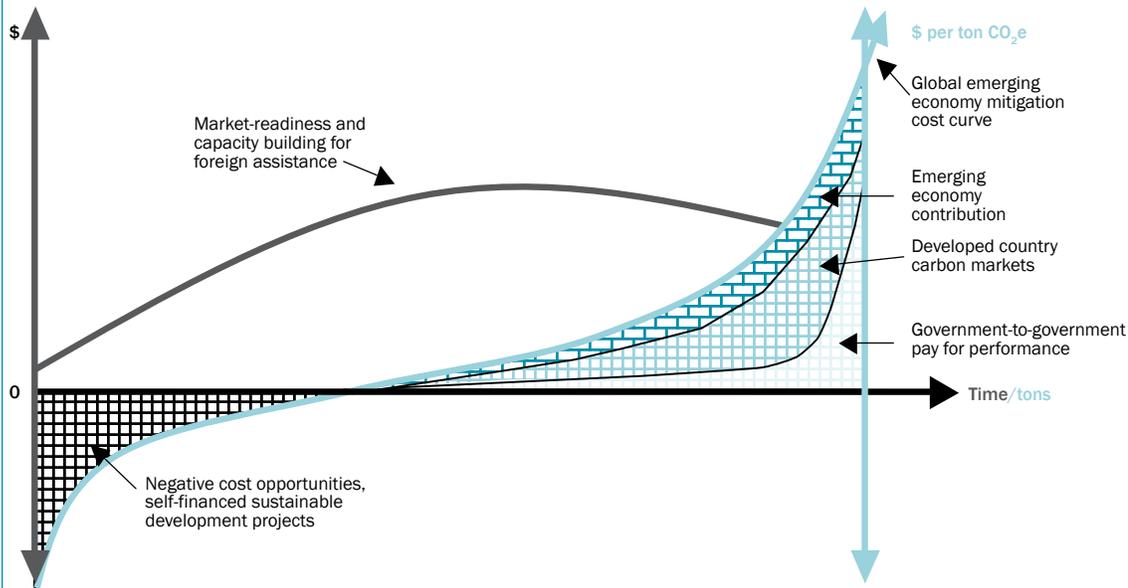
managed climate assistance programs. In the pie chart above, the right graph shows how bilateral arrangements could be the primary source of funding, overall accounting for about three quarters of the required total based on the historical split between bilateral and multilateral foreign assistance. Any new multilateral efforts could be funded through voluntary contributions and concentrated in a new fund administered by the World Bank or another appropriate international financial institution. These two pools of funding could have similar uses, divided among capacity building, policy implementation and verified emissions reductions in developing nations. Because of domestic politics in the United States and Europe relative to the preferences of the international community, a greater portion of bilateral funding would likely be used to purchase emission reductions compared to other activities.

Developing nations would surely resist this approach to financial institutions and governance because it would provide them with only limited control and no new internationally administered funding mechanisms (such as a global tax). Yet, for better or worse, it is not politically realistic to believe that developed country leaders can convince their domestic constituents and parliaments to accept centralized United Nations management of multi-billion dollar climate funds. As a political matter, American and European leaders must use their limited political capital to convince legislators and the public to simply fund climate action in developing nations—itsself a tall order. Retaining control of new funding would allow politicians to build domestic support by highlighting how bilateral clean energy technology export programs create good “green jobs” at home while supporting key regional allies. The opposite approach—a new United Nations fund that manages revenue from a global levy or tax—would enable opponents of climate cooperation to demagogue the programs

as global socialism run amuck. The very limited funding efforts in the Kyoto Protocol have already been so described by mainstream conservatives in the United States. So deep is the suspicion of global government in America that mandatory contributions to new centralized climate finance institutions could threaten the prospects of U.S. participation in a new UN climate agreement.

Taken together, this approach to funding is summarized in the colorful graph on page 17 (Figure 2). The two axes on the graph represent total public funding against time (purple) and the cost per ton of emissions reductions (orange). The purple graph shows a relatively quick ramp-up in developed country public financing for developing nations. This government-to-government assistance would focus on building the capacity of developing nations to (1) create and begin to implement climate-friendly growth plans, (2) measure, monitor, and verify emission reductions, and (3) participate in carbon markets. The purple line shows the total flow of funds from the various decentralized funding mechanisms described in the pie chart above. Over time these government-to-government funds would decline, giving way to financing from international carbon markets. The orange graph shows the relative proportion of four different financing responsibilities at different cost-per-ton reduction levels. Emerging economies should be responsible for self-financing “negative cost opportunities.” Where the cost-per-ton of reductions is greater than zero, the burden should be shared among developing nations (small percentage), developed country carbon markets (largest percentage), and developed country public financing (small percentage, but greater for high marginal cost reductions, particularly in high risk nations that private sector investors will ignore). Special accommodations should be made for the least developed countries that do not have the capacity nor wealth to contribute in even this limited manner.

Figure 2: Financing Emissions Mitigation in Emerging Economies



Source: Nigel Purvis and Andrew Stevenson, Climate Advisers (2009)

Note: Some concepts were drawn from McKinsey and Company's global greenhouse gas abatement cost curve work.

Despite promises by European governments and the Obama administration to conclude a global climate agreement later this year, the odds of a major breakthrough in December at the Copenhagen climate conference appear to be shrinking. The official negotiating text for the envisioned Copenhagen agreement is hopelessly complex and riddled with brackets nations have inserted to express their objections to dozens of politically sensitive issues that professional negotiators—well trained in the art of saying “no”—are unlikely to resolve in six months. The best hope for a breakthrough prior to Copenhagen was the recently completed MEF in Italy. Yet, neither the MEF nor the recent G8 produced real breakthroughs on mitigation targets, funding levels, or institutional arrangements. The best that leaders of the world's major economies could do was “recognize” that

scientists advise them to hold global warming to 2 degrees Celsius and “resolve to spare no effort to reach agreement in Copenhagen.”

Politics had much to do with this. Obama tried hard not to get too far ahead of the Congress now that the latter is finally taking up climate legislation in a serious way. Germany holds a national election later in the year and a general election is also coming up in the United Kingdom. Both countries have been hit hard by the global economic downturn and have opposition parties that strive to out-green the ruling party. Understandably, their leaders are reluctant to appear soft on the United States when it comes to emissions mitigation and they are not particularly eager to make new financial commitments to developing nations. No doubt domestic politics also influenced the leaders of China, India, and other

emerging economies. But the primary reason for the stalemate at the MEF was that neither developed nor developing nations were prepared to be specific enough about compromises they would be willing to make on issues of concern to the other group to allow the other parties to move away from long-held positions. With U.S. mitigation goals still up in the air and the financing package offered by the developed world still more rhetorical than concrete and real, the elements of the global deal discussed at the outset of this paper were simply not in place yet.

4 UPCOMING CLIMATE DIPLOMACY

With the 2009 MEF behind us, the last, best hope for progress in Copenhagen may rest with the United States and Europe. Unless the United States and Europe find common ground on both emissions mitigation and financing for developing nations, China and other emerging economies are unlikely to make major compromises. By reaching agreement now on the blueprint for transatlantic climate cooperation, Europe and the United States could add new momentum to global climate talks. The blueprint for a strong transatlantic climate partnership, in short, needs these elements:

- European pressure on Congress to raise the United States' ambitions on climate change, coupled with pragmatic, eventual acceptance of the best emissions target America can deliver.
- A united effort to convince emerging economies to join developed nations in accepting verifiable international obligations to implement ambitious climate-friendly growth plans that include measurable, reportable and verifiable mitigation actions.
- A concrete and generous transatlantic offer of assistance to developing nations to help them pursue low-carbon growth and adapt to climate change, within the context of a decentralized system of bilateral agreements, existing multilateral institutions and private sector-oriented market mechanisms.

Unless the United States and Europe find common ground on both emissions mitigation and financing for developing nations, China and other emerging economies are unlikely to make major compromises.

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