



## Climate Change: Towards a New Transatlantic Consensus?

**F**or almost a decade, the transatlantic allies have been deeply divided on the topic of global warming. Europe has been a strong proponent of coordinated cuts in greenhouse gas emissions and one of the leading players behind the Kyoto Protocol. The EU has pioneered an emissions trading scheme, has accepted binding targets for emission cuts and has committed itself to collectively reduce greenhouse gas emissions by 20% below 1990 levels in 2020. Under George W. Bush, the US has contested scientific evidence that carbon emission leads to global warming, has refused to become a party to the Kyoto Protocol and has relied on voluntary measures to achieve emission reductions. US failure to find a common position effectively stalled global progress on climate change.

With the election of Barack Obama, there is a chance that a new transatlantic consensus might emerge. Obama, like no other US President, has emphasized the need to shift to a more sustainable way to produce and consume energy. He has appointed proponents of emission cuts to high-ranking positions in the new US administration and has promised large investments in renewable energies. As the transatlantic allies gear up to negotiate a new international treaty on climate change to replace the existing Kyoto Treaty in Copenhagen in December 2009, chances for a new transatlantic consensus seem propitious. This brief explores whether we can expect a convergence of American and European views on climate change and whether – as some have suggested – the US under Obama will assume a leading role on climate change at the global level.

### Global Climate Change: Towards a Post-Kyoto Framework

The international community has been committed to take actions to reduce global warming by cutting greenhouse gases (GHG) emissions since 1992. At the Earth Summit in Rio de Janeiro, the assembled UN countries signed the United Nations Framework Convention on Climate Change (UNFCCC), which has been the main forum for climate change negotiations ever since. However, it was not until 1997 in Kyoto that UN countries committed themselves to binding emissions cuts and agreed on a number of “flexible” mechanisms in order to achieve their emission targets. Under the Kyoto Protocol, industrialized countries (Annex I countries) agreed to reduce their collective GHG emissions by 5.2% below 1990 levels by 2012. National targets vary considerably, ranging from larger reductions for the EU and Japan to permitted increases for Australia and Iceland. While many developing countries (non Annex I countries) became members of the Kyoto Protocol and adopted emission targets, these targets are not binding.

By late 2008, some 183 countries had ratified the Kyoto Protocol, including all major industrialized countries with the exception of the United States. The Kyoto Protocol has

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been widely criticized for its failure to establish binding targets for the larger developing countries, such as India and China that contribute significantly to GHG emissions. Many countries have also been critical about using the UNFCCC as a forum for establishing emission targets and negotiating global climate change treaties. With the first “commitment period” of the Kyoto Protocol about to expire in 2012, negotiations have been ongoing to establish a new framework in order to address international climate change. In 2007 UNFCCC countries met in Indonesia to adopt the Bali Roadmap, which establishes a two-year process for negotiating a new binding agreement on GHG emissions. The final talks on the agreement are scheduled to take place in Copenhagen in December 2009. Much of the future of the global climate change regime will depend on the outcome of these talks and a consensus between the United States and Europe.

### **The United States and Climate Change: The Dawn of a Green Era?**

Expectations are high that the Obama administration will fundamentally change the way the United States produces and uses energy and will take a leading role to address global warming. Indeed, upon clinching the US Presidential nomination, Barack Obama confidently announced that “this was the moment when the rise of the oceans began to slow and our planet began to heal.” For some, this might have smacked of hubris. But for most, this was a welcome sign that the US was willing to play a constructive role in international climate change negotiations.

Much seems to indicate that the US has indeed turned a page when it comes to renewable energies and climate change. With Steven Chu as US Secretary of Energy and Carol Browner as Special Assistant to the President for Energy and Climate Change, Obama has nominated two ardent proponents of emission cuts to the top energy jobs in Washington. Moreover, Obama has made some efforts to use his economic stimulus package in order to initiate a “greening” of American energy consumption. Thus, as part of the economic stimulus, the new US administration has earmarked \$33 billion to green the country’s electricity supply, \$27 billion to promote energy efficiency and \$19 billion to help develop cleaner forms of transportation. The administration’s first budget has also promised \$150 billion over the next decade for the development of green technologies.

It is hoped that these substantial investments will lead to the development of low carbon technologies, overhaul America’s badly outdated energy networks and create thousands of “green” jobs. However, Obama did not stop at that. His administration also introduced a flurry of legislation that seeks to boost the renewables sector and cut greenhouse gas emissions. Thus, in a bid to lower America’s carbon footprint and increase its energy security, the administration promised to double the share of renewable energies in the US energy mix from currently 7% to 14% by 2012.

Many of Obama’s appointees to senior positions in the Department of Energy and the Environmental Protection Authority (EPA) favor emission cuts and a switch to renewable energies. The economic stimulus plan promises substantial new investments into a new energy infrastructure and the creation of “green” jobs. Tougher legislation on emission

standards for motor vehicles is also on its way. Most importantly, the administration has announced its plans to introduce a nation-wide cap-and-trade system for greenhouse gas emissions by the end of the year.

A cap-and-trade system sets a limit (cap) on emissions from the sectors covered by the legislation. Companies are issued with a number of emission allowances or permits, representing the right to emit a specific amount of GHG. Those companies that exceed their allowances by polluting more must buy allowances (trade) from those companies that pollute less. The system therefore uses a market mechanism in order to put a price on carbon emissions. Cap-and-trade systems are already being used in Europe (EU Emissions Trading Scheme) and by some US states and Canadian provinces (Western Climate Initiative; Midwest Regional GHG Reduction Accord). Developing an efficient cap-and-trade system able to link up with other emission trading systems around the world will be important in order to achieve lasting emissions reductions.

In his address to the joint Houses of Congress on February 24, 2009, Obama has defined the overall goal for the US economy at reducing GHG emissions by 14% below 2005 levels by 2020, and approximately 83% below 2005 levels by 2050. While many have argued that the administrations' actions will lead to the dawn of a "green" era in US energy and enable the US to play a leading role on international climate change, others have chided the administration for doing too little too late. Indeed, the Intergovernmental Panel on Climate Change (IPCC) has consistently advised Annex I countries to reduce their GHG emissions by 25-40% below 1990 levels by 2020 and 80-95% by 2050 to keep global temperature rises below 2°C (compared to pre-industrial levels).<sup>1</sup> The IPCC has warned that a temperature increase of above 2°C will increase food and water shortages and severe weather events and significantly increase the threat to unique ecosystems.

To achieve a 25-40% reduction of GHG emissions below 1990 levels by 2020, the US would have to make much greater effort than it is currently planning to do. This is unlikely to happen given the current economic crisis. Indeed, voices are already being heard that criticize the economic costs of planned emission reductions. Thus, PointCarbon, a consultancy, has calculated that the administration's current plan would raise fuel prices by 6% and power prices by 7% on average in 2012. To limit the potential damage to US industry, some have already taken to call for protective tariffs. All this seems to indicate that the US will not have the stomach to make the necessary cuts in GHG emission. Moreover, Europe seems unable and unwilling to pick up the slack.

### **The European Union and Climate Change: Paragon or Pariah?**

The European Union has for long regarded itself as international leader when it comes to the issue of climate change and global warming. In 2007, the European Commission unveiled new plans to further step up its climate change efforts, setting itself some new and ambitious targets for 2020. In the main, these targets consisted of three elements. First, EU countries adopted a binding target to collectively reduce greenhouse gases by at least 20% below 1990 levels by 2020. In case other developed countries are willing to

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adopt similarly ambitious goals, the EU has promised that it will further step up its efforts in order to achieve a 30% cut by 2020. Second, the EU promised to increase the share of renewables (wind, solar, biomass) in its energy mix from currently 8.5% to 20% by 2020. Third, EU countries promised to cut overall energy consumption by 20% of projected 2020 levels by improving energy efficiency. The EU also set itself the target that at least 10% of transport fuels in each country should come from renewables by 2020.<sup>2</sup>

As a follow up to these commitments, the EU adopted in late 2008 a new climate change and energy package that included a host of new legislative proposals. A central part of this package is the strengthening and expansion of the European Union's Emissions Trading System (EU ETS), the EU's key tool for cutting emissions cost-effectively. Emissions from the sectors covered by the system (mainly power plants and energy-intensive industries) will be cut by 21% by 2020 compared with levels in 2005. A single EU-wide cap on ETS emissions will be set, and free allocation of emission allowances will be progressively replaced by auctioning of allowances by 2020. In addition, emissions from sectors that are currently not included in the EU ETS, including transport, housing, agriculture and waste, will be cut by 10% from their 2005 levels by 2020. National contributions will vary according to GDP.

For the time being, it seems as if EU member states are on track to meet the targets they have set themselves under the Kyoto Protocol and have made some good progress towards their 2020 commitments. Under Kyoto, the 15 countries that were members of the EU at the time of the negotiations (EU-15) made a commitment to reduce their collective greenhouse gas emissions to 8% below 1990 levels over the period 2008-2012. This collective agreement has been translated into different national emission targets for the EU-15, which are binding under EU law. There is currently no collective target for the EU-27, but 10 of the 12 new member states that have joined the EU since 2004 have adopted their own emissions targets, ranging from emission cuts of 6-8%.<sup>3</sup>

According to the Commission's latest report, EU-15 GHG emissions in 2006 were 2.7% lower than in the base year 1990.<sup>4</sup> Given current projections, GHG emissions will fall to 3.6% below 1990 levels in 2010. Plans by the EU-15 to buy carbon credits from emission-saving projects allowed under the Kyoto Protocol are expected to bring a further emissions reduction of 3%. In addition, planting programs and reforestation activities are expected to reduce emissions by another 1.4%, to fulfill the EU's Kyoto commitment of 8%. Other policy measures currently under development are also expected to lead to an additional cut of 3.3% beyond the EU-15's current Kyoto commitments.

For the Copenhagen Conference in the fall, the EU has adopted a set of goals that seek to define the post-Kyoto international climate change framework.<sup>5</sup> These goals include:

- A commitment by all developed countries (including the US) to collectively reduce GHG emissions by 30% below 1990 levels by 2020.

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- A commitment by all developing countries, except for the poorest, to collectively limit the growth of GHG emissions to 15-30% below business as usual by 2020.
- A commitment by developing countries to halt forest cover loss by 2030 and to reduce tropical deforestation by 50% by 2020 compared to current levels.
- A new global agreement to address emissions from international aviation and the shipping sector, which have been the fastest in growing GHG emissions.
- The creation of an OECD-wide carbon market by 2015 that is based on linking the EU ETS with other comparable cap-and-trade systems in order to mitigate and to raise funds to fight climate change. This market should be expanded to include emerging economies by 2020.
- A reform of the Kyoto Protocol's Clean Development Mechanism to ask more from advanced developing countries and an increase in finance, technology and capacity building for less developed countries.

Member state	Kyoto Base Year (BY) emissions MtCO <sub>2</sub>	Kyoto targets % of BY	With existing policies and measures	Use of Kyoto mechanisms (by govt)	Use of carbon sinks	Additional policies and measures	With all measures, KM and carbon sinks	
			Projections for 2010	Effect in 2010	Effect in 2010	Effect in 2010	Projections for 2010	Gap between projections and target
			% of BY	% of BY	% of BY	% of BY	% of BY	% of BY
Austria	79.0	-13.0%	17.4%	-11.4%	-0.9%	-16.4%	-13.3%	-0.3%
Belgium	146.7	-7.5%	-3.7%	-4.8%		0.0%	-8.5%	-1.0%
Bulgaria	132.6	-8.0%	-29.6%			-5.2%	-34.9%	-26.9%
Cyprus	6.0	na	44.3%			-2.9%	41.4%	na
Czech Republic	194.2	-8.0%	-25.1%		-0.6%	-3.1%	-28.8%	-20.8%
Denmark	69.3	-21.0%	-2.2%	-6.1%	-3.3%	0.0%	-11.6%	9.4%
Estonia	42.6	-8.0%	-62.6%			-3.0%	-65.7%	-57.7%
Finland	71.0	0.0%	19.7%	-2.0%	-0.8%	-17.4%	-0.6%	-0.6%
France	563.9	0.0%	0.6%		-0.7%	-4.3%	-4.2%	-4.2%
Germany	1232.4	-21.0%	-22.5%		-0.4%	-3.3%	-26.2%	-5.2%
Greece	107.0	25.0%	23.9%		-1.1%	-2.0%	20.8%	-4.2%
Hungary	115.4	-6.0%	-24.9%			-0.5%	-25.4%	-19.4%
Ireland	56.6	13.0%	22.8%	-6.5%	-3.7%	-0.2%	12.4%	-0.6%
Italy	516.9	-6.5%	7.5%	-4.0%	-4.9%	-3.2%	-4.6%	1.9%
Latvia	25.9	-8.0%	-46.1%			0.0%	-46.1%	-38.1%
Lithuania	49.4	-8.0%	-30.4%			0.0%	-30.4%	-22.4%
Luxembourg	13.167	-28.0%	3.1%	-29.9%		-1.1%	-28.0%	0.0%
Malta	2.2	na	61.8%			0.0%	61.8%	na
Netherlands	213.0	-6.0%	-2.2%	-6.1%	-0.1%	0.0%	-8.4%	-2.4%
Poland	563.4	-6.0%	-28.4%		-0.5%	0.0%	-29.0%	-23.0%
Portugal	60.1	27.0%	44.2%	-9.6%	-7.7%	-4.0%	22.7%	-4.3%
Romania	278.2	-8.0%	-31.4%			-3.9%	-35.3%	-27.3%
Slovakia	72.1	-8.0%	-18.4%			-3.2%	-21.6%	-13.6%
Slovenia	20.4	-8.0%	6.7%	-2.9%	-8.3%	-8.7%	-13.2%	-5.2%
Spain	289.8	15.0%	52.0%	-19.9%	-2.0%	-9.6%	20.5%	5.5%
Sweden	72.2	4.0%	-2.7%		-3.0%	0.0%	-5.7%	-9.7%
United Kingdom	776.3	-12.5%	-19.4%		-0.5%	0.0%	-20.0%	-7.5%
EU-15	4265.5	-8.0%	-3.6%	-3.0%	-1.4%	-3.3%	-11.3%	-3.3%
EU 27	5768.0	na	-10.1%	-2.2%	-1.1%	-3.0%	-16.3%	na

Nevertheless, some have criticized the EU for not doing enough and for being too rigid in its demands for a post-Kyoto framework. One argument that has frequently been made is

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that the EU could do more to push GHG reductions on its industry. Others have argued that Europe is not doing enough to push major developing countries – some of the largest polluters – to reduce GHG emissions. Finally, there are those that argue that instead of pushing the US to do more, Europe should extend a hand to the current US administration on climate change and accept current US policy as the best that can be achieved in a time of economic crisis.

### **Conclusion: Partners or Adversaries?**

There is no doubt that with the election of Barack Obama as US President, the transatlantic divide on climate change has narrowed. The new administration has clearly signaled that it is taking climate change more seriously and that it regards the switch to a “green” economy as much a challenge, as an opportunity. Nevertheless, as both partners are readying themselves for Copenhagen, real differences persist on two issues. One is the actual size of emission cuts required by the major developed countries and the time-horizon under which these cuts have to be achieved; the other concerns the extent to which developing countries should contribute to GHG emissions reductions.

When it comes to emission cuts amongst developing countries, the EU is adamant that all major polluters need to cut emissions by close to 30% by 2020. So far, the US has refused this target, underlining that when it comes to the 2020 mid-term target, the “comparability of effort” needs to be taken into consideration.<sup>6</sup> This would mean that factors such as emission intensity per GDP, past efforts, economic and population growth or specific national circumstance would have to be taken into account. Given that the US population has grown by 19% since 1990, while Europe’s has largely leveled, US policy-makers have argued that current US efforts should be seen as comparable to those of the EU. So far the EU has been unwilling to accept this reasoning.

Second, both partners continue to differ about the role that should be played by developing countries when it comes to emission reductions. As in the past, the US continues to argue that major developing countries such as China and India will have to be included into any post-Kyoto framework and should be expected to make a major contribution. Indeed, more recently, there has been talk in the US of trade tariffs to be slapped on products from “high-polluting” developing countries. For many Europeans, this seems hypocritical, given the US insistence on a “comparability of effort” when it comes to American reductions. Still, the EU slowly seems to come around to the US point of view that more needs to be asked of developing countries.

Overall, differences have therefore clearly narrowed, and unless there is a dramatic deepening of the world economic recession over the next few months, it seems possible that a new transatlantic consensus on climate change might emerge. However, the devil is in the details, and reaching an agreement under any conditions might not be enough. Still, for the first time in a decade, the transatlantic allies seem to be pulling in the same direction when it comes to climate change. In general, this is good news for the planet.

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<sup>1</sup> IPCC Fourth Assessment Report (AR4)

<sup>2</sup> Including biofuels, if they meet sustainability criteria, hydrogen and green electricity.

<sup>3</sup> Cyprus and Malta are the only EU countries that currently have no emission target.

<sup>4</sup> European Commission (2008), "Progress towards achieving the Kyoto objectives," Communication from the Commission.

<sup>5</sup> European Commission (2009), "Towards a comprehensive climate change agreement in Copenhagen," Communication from the Commission

<sup>6</sup> Both have endorsed similar goals for 2050.