Breaking the Climate Impasse with China: A Global Solution

by Kelly Sims Gallagher

Overview

International climate negotiations are at an impasse because the world's two largest greenhouse gas (GHG) emitters, the United States and China, are unwilling to accept binding emission-reduction commitments. At the same time, each blames the other for its inaction. This paper proposes a global "deal" for breaking the deadlock in a way that reconciles both countries' economic concerns with the imperative of reducing emissions. The deal has two core elements: (1) All major emitting countries agree to reduce GHG emissions by implementing significant, mutually agreeable, domestic policies and (2) The largest industrialized-country emitters agree to establish a global Carbon Mitigation Fund that would finance the incremental cost of adopting low-carbon technologies in developing countries.

Discussion

The United States and China account for nearly half of annual global carbon dioxide emissions. Without their participation, it will not be possible to stabilize GHG concentrations in the atmosphere at a level that would avoid the worst consequences of global climate change or to reach agreement on a workable international climate policy regime.

Both countries' current refusal to adopt binding GHG commitments is rooted in economic concerns, but these concerns manifest themselves somewhat differently. In the United States, objections center on the competitive disadvantage to American industry—and the attendant potential for lost jobs and carbon "leakage" if domestic firms face GHG regulations while their competitors in China and elsewhere do not. The Chinese, by contrast, are concerned about the cost of GHG mitigation and its direct impact on their ability to industrialize and continue growing their economy. China and other developing countries also argue that it is fundamentally unfair to expect them to adopt similar mitigation commitments at this time given their far lower per-capita emissions, far poorer populations, and far smaller historic contribution to current GHG concentrations.

Transforming this shared concern about economic impacts into a shared interest in reducing the cost of low-carbon technology holds the key to resolving the current deadlock. The approach proposed in this paper combines mitigation commitments for all large emitters with increased cooperation on clean energy research and development, efforts to align incentives and reduce barriers to technology transfer, and assistance from rich countries to help finance the deployment of climate-friendly technologies in developing countries.

Key Findings & Recommendations

➢ *All countries with significant GHG emissions, including major industrialized countries like the United States and major developing countries like China, must adopt concrete, enforceable domestic GHG-reduction policies.* This is essential to address concerns about competitiveness and carbon leakage and to create market incentives for the deployment of clean energy technologies.

➢ *To support the deployment of low-carbon technologies in developing countries and to give these countries an incentive to participate in global mitigation efforts, rich countries should provide financial assistance through a new Carbon Mitigation Fund.* The Fund should: (1) finance the incremental cost of low-carbon technologies; (2) disburse funds on a first-come, first-served, technology-neutral basis; (3) leverage the private market and act like a commercial bank; (4) require applicants to utilize competitive procurement processes; (5) restrict direct financing to projects in countries with enforceable domestic GHG

policies; (6) require new technologies to reduce GHG emissions at least a certain percentage below a pre-defined, country-specific baseline, and (7) encourage reasonable reductions in barriers to trade and investment in low-GHG technologies. Numerous other structural and operational details would, of course, still need to be worked out.

➢ *It is not clear how large the new fund will need to be—estimates of the incremental cost of deploying low-carbon technologies in developing countries range from tens to hundreds of billions of dollars per year—but contributions from major industrialized countries should reflect those countries' historic contribution to past emissions.* Specifically, contributions should be proportionate to each country's cumulative per-capita emissions going back to a certain date with an adjustment for the size of its economy.

➢ *Countries should commit to greater international cooperation on energy-technology research, development, and demonstration and to reforming existing energy subsidies to remove supports for carbon-intensive fuels.* No country has a stronger incentive to invest in clean-energy technology innovation than either the United States or China, and both countries could benefit from greater cooperation to reduce costs, share risk, and accelerate the development and deployment of improved technologies.

CONCLUSION

The principal advantage of the proposed deal is that it offers a way for the United States and China to step forward together in adopting a new international climate agreement sooner rather than later. This package addresses the competitiveness and leakage concerns of the United States by requiring China and other major developing country emitters to adopt enforceable domestic emission-reduction policies. At the same time, it expands global markets for low-GHG goods and services, thus creating a potential source of export growth and job creation for U.S. industries. For China and other developing countries, this package promises to greatly reduce or eliminate the incremental costs of low-GHG technologies, facilitate "technology transfer," and help achieve more sustainable development. It also satisfies their equity concerns by requiring the countries that are most responsible for historic emissions to make the largest financial contribution toward finding global solutions.

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The goal of the Harvard Project on International Climate Agreements is to help identify and advance scientifically sound, economically rational, and politically pragmatic public policy options for addressing global climate change. Drawing upon leading thinkers in Australia, China, Europe, India, Japan, and the United States, the Project conducts research on policy architecture and key design elements of a post-2012 international climate policy regime. The Harvard Project also provides insight and advice regarding countries' domestic climate policies, especially as these policies relate to the prospects for meaningful international action. The Project is directed by Robert N. Stavins, Albert Pratt Professor of Business and Government, John F. Kennedy School of Government, Harvard University. Major funding for the Harvard Project on International Climate Agreements is provided by a generous grant from the Climate Change Initiative of the Doris Duke Charitable Foundation.

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