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Turmoil in International Climate Policy – Can Kyoto be Saved?

In late March, the declaration by US President Bush that the Kyoto Protocol was “dead” dropped like a bombshell into the climate policy community. Bush argued that the Protocol’s costs to the US economy would be too high and that it was unfair by not having set emissions targets for developing countries. While Bush had been known as an opponent of stringent climate policy measures, most observers had expected the USA to try to influence the ongoing negotiations in its favour as much as possible and then kill the Protocol much later in the domestic policy debate. The bluntness of Bush’s declaration had an unexpected effect as it rallied the supporters of the Kyoto Protocol throughout the world – even such close US allies as Japan and Canada. Only Australia supported the USA. Encouraged by this stance, the EU declared itself leader in a strategy of ratification without the USA. To get the necessary quorum for the Protocol to enter into force, the EU, Russia and Japan as well as the countries in transition have to ratify it. This is definitely possible given that Japan wants to keep alive the treaty bearing the name of its imperial city and that Russia as well as eastern Europe profits from the possibility of selling surplus emission permits. The main risk lies within the EU. Its outward façade of leadership risks being hollowed out by the opponents of climate policy from heavy industry and other emitters’ interests. A first open step in this direction is the declaration by newly elected Italian prime minister Berlusconi that he wishes to forge a “special relationship” with Bush and is prepared to sacrifice the Kyoto Protocol in exchange.

The background of the growing turmoil in climate policy is a repetition of the oil price shocks of the 1970s and early 1980s with several negative effects on the implementation of policy instruments. First, strategies to levy energy/emissions taxes lead to growing resistance on the part of consumers, especially concerning raises in petrol taxes as protests throughout Europe have shown. Second, natural gas prices have followed the oil price hike, making the formerly cheapest mode of electricity production rather expensive. This has led to calls for a revival of coal, the price of which remains low. Third, the incomplete deregulation in California and the ensuing electricity shortages have given the impression of an energy crisis. Of course, from a long-term viewpoint the high oil and gas prices give a welcome boost to the further development of renewable energy and energy efficiency. Fourth, even vigorous national climate policies have not been able to reduce emissions in a context of strong economic growth, as the Dutch example vividly shows. While the overall emissions of countries with emissions targets have not yet grown above the aggregated Kyoto target level for the period 2008-2012, there is a widening gap between the non-European OECD countries, which already lie 20% above their target, and Russia and the Ukraine, whose emissions are 40-50% below. The EU occupies a medium position with 8% above its target but inside the EU the gaps are growing.

Bush will not be able to implement a pure fossil-fuel energy supply growth strategy domestically. His attempts to increase oil and coal while slashing subsidies for renewables and energy efficiency have induced strong opposition, ranging from religious leaders through the Democrats to the environmental NGOs. Already the published version of the national energy plan includes much more on energy saving and renewables than had originally been planned. In the Senate, several laws are being proposed ranging from incentives for carbon sequestration to an increase in vehicle efficiency standards. Some states have implemented legislation demanding offsets for new fossil-fuel plants. This clearly shows that the USA is no “villain” of climate policy.

The international community that will be meeting for the climate summit in late July in Bonn now has two general avenues: either follow a “without America” strategy or try to develop alternative regimes. For both strategies huge parts of the work done until now could be retained, for example the idea of international flexibility, reporting and independent verification. The former strategy would mean compromising on the issues outstanding, which would be easier as the past US insistence on “gifts” such as additional categories of forestry or agricultural sinks would no longer have to be dealt with. However, the Kyoto Mechanisms allowing flexibility in the location of emission reduction should not be limited in order to allow a later accession by the USA and to get the support of Russia and the developing countries. Much better than a limitation would be stringent rules for the setting of reference cases and the verification of emission reductions.

The latter course will be necessary if the EU leadership falls apart. The Bush administration has announced that it will make a declaration on its preferred alternative to Kyoto in mid-summer. It is to be hoped that the Bonn negotiation round will not be negatively influenced by this Damocles’ sword. Historical precedents for dumping a negotiated agreement exist, such as the development of the world trade regime after the Second World War. Such an action might delay, but would not prevent, the development of an efficient international regime. Conceivable alternatives would be the setting of emissions intensity targets, a coordinated technology development strategy or a system of price caps for emission permits. Emissions intensity targets can only be quantified ex post and international flexibility is difficult to implement in their context. Moreover, in the context of developing countries, the calculation of GDP is subject to many uncertainties, e.g. the use of purchasing power parities vs. exchange rates. A technology strategy sounds good, but runs counter to the trend of reduced R&D subsidies, particularly in the USA. It is difficult to imagine that the USA would be willing to give several billion dollars to a UN technology agency. A system of price caps would reduce costs but is difficult to reconcile with international flexibility and in the end would be nothing but a harmonised greenhouse gas tax if the cap is binding. If it was non-binding it would be similar to the existing Kyoto regime.

It is well conceivable that we will see the development of regional climate agreements. The Americas would be a likely region and the EU could form a union with the ACP countries. It is likely that the EU would retain absolute emissions targets while the USA would probably opt for emission intensities. Both agreements would entail some kind of project-based cooperation with the respective developing countries.

The main risk of continued uncertainty about the future global climate regime is that the private sector, which had become increasingly proactive, decides that climate policy is not a strategic issue. In recent years many companies had started to set voluntary emissions targets, to introduce internal trading systems and invest in pilot projects in developing countries and countries in transition. Other companies have developed services such as certification, project development and brokerage. While associations of companies have formed that endorse the Kyoto Mechanisms and support climate policy in general, the emitters’ lobbies such as the “Global Climate Coalition” have dwindled.

Whatever happens, the latest report by the Intergovernmental Panel on Climate Change, the international assessment group of hundreds of researchers on climate change, clearly shows that the problem will not go away. Even if some policymakers prefer to stick their heads in the sand today their successors may be confronted with very unpleasant developments not far in the future. This problem of time-lags is one of the greatest challenges of an effective response strategy. Climate policy will continue to witness a roller-coaster ride – but it will remain with us for generations to come.

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“International Climate Policy”