



THE MICROCOSM OF CLIMATE CHANGE NEGOTIATIONS: WHAT CAN THE WORLD LEARN FROM THE EUROPEAN UNION?

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EXECUTIVE SUMMARY

The European Union (EU) has played a leading role in international efforts to combat climate change since the issue appeared on the agenda in the 1980s. The EU was the first party to commit to a stabilization target in 1990. It assumed the toughest target under the 1997 Kyoto Protocol, and it has made the most ambitious offer for Copenhagen with an autonomous target of 20 percent emission reductions by 2020 relative to the 1990 level, or 30 percent, provided that other developed countries commit themselves to comparable reductions and economically more advanced developing countries contribute adequately according to their responsibilities and respective capabilities. The EU has also indicated a willingness to contribute between € and €5 billion annually to support adaptation and mitigation actions in developing countries, although the exact number is yet to be fixed by the Council.

The EU has emerged as a leader on climate change despite many obstacles. None of the Member States are large enough to influence the global emission trajectory in any significant way, nor is the EU as a collective, since global emissions are growing faster than what the EU can offset alone. The leadership is especially interesting in

that Member States have veto power over key aspects of climate policy, including fiscal measures and energy policy. The EU cannot order Member States to phase out fossil fuels in favour of renewable energies, nor can the EU impose a carbon tax or cap-and-trade system without the agreement of all Member States.

This raises a number of questions that are of interest for climate negotiators and Non-governmental Organizations (NGOs). What formula did the EU use to get all Member States to reach a general consensus? How did the EU deal with concerns of international nation/state competition, carbon leakage and the distribution of burdens among the Member States? Can this internal formula be elevated to a global level?

The analysis of the internal climate change negotiations generates two interlinked lessons: firstly, it will not be easy for other parties in Copenhagen to squeeze out more concessions from the EU than what the Member States have agreed to beforehand. It would be a mistake to assume that the EU can be pushed to the 30 percent conditional target without significant commitments from other industrialized countries as well as economically more advanced developing countries. Even the 20 percent target was the result of a difficult negotiating process. In fact, if the negotiations break down in Copenhagen, it may be difficult to maintain the 20 percent target.

A breakdown will also increase the pressure from industry and some Member States to

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introduce a “carbon equalisation system” (border tax adjustment), an option that was included in the revised ETS Directive. The global climate stakes are thus very high in Copenhagen, as are the stakes for the global trading system. The EU may be a vital leader on climate change, but it cannot move much faster than “competing” nations.

Secondly, to the extent that the “microcosm” analogue is valid, the analysis may give some insights on what elements are needed to conclude a comprehensive international agreement. The internal negotiations suggest that four ingredients are necessary to make any progress:

- Strong leadership. In the EU, strong leadership is provided by the Commission and some climate-conscious Member States in Northern Europe. It is more difficult to see where this leadership will come from at the international level. The Secretariat of the UNFCCC does not have the executive powers of the European Commission, so the leadership must instead come from the parties themselves. Some developing countries could step forward in order to break the unfortunate “North-South” divide: progress can only be made by a multi-polar effort that can speak both for and to different constituents.
- An “equitable” burden/effort sharing formula. The sticking point of the internal EU negotiations on burden sharing was to find a formula that ensured some degree of “comparability of efforts”. A similar solution was used in the 2008 energy and climate package. The global burden sharing formula in Copenhagen would presumably have to be based on a similar equation, factoring in both per capita incomes and “comparability of efforts”.
- Financial support for the less developed

Member States to ease the transition to a low-carbon development path. The financing issue was solved in an ingenious way in the EU, through redistribution of auction rights under the EU Emission Trading System. One could, for instance, consider a share of the revenue from a future global carbon market be set aside for mitigation and adaptation actions in developing countries, as within the EU.

- Provisions that reduce competitiveness and climate leakage concerns. Competitiveness and carbon leakage concerns have been a restraining factor for the climate policy of the EU from the early days in the 1990s. The option of a “carbon equalisation system” could be a solution; forgone auction revenue would go a long way towards financing the EU’s contribution to international climate financing.

In the best of all possible worlds it is hoped that Copenhagen will be a success, with all parties making meaningful commitments in accordance with the principle of common but differentiated responsibilities. Auctions could then be phased in at a faster rate in the EU and other countries considering domestic cap-and-trade systems. The sharing of revenue could be used to finance mitigation and adaptive actions in developing countries, which would reduce the cost for developing countries to undertake ambitious commitments quickly. And there would be no need to reach for the bottom drawer (border tax adjustments), with all the tensions it would create for the global trading system.

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The full study is available online at
<http://ictsd.org/climate-change/leakage-competitiveness/>

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