

Renewing Transatlantic Climate Change Cooperation

Nigel Purvis, The Brookings Institution and
Friedemann Mueller, German Institute for International and Security Affairs

The ideas presented below were developed during a high level dialogue among like-minded politicians, business leaders, energy experts and climate change negotiators from both sides of the Atlantic. The dialogue was organized by The Brookings Institution and the German Institute for International and Security Affairs (SWP), with the support of the German Marshall Fund of the United States and the Robert Bosch Foundation. The views expressed in this document are solely those of the chairmen and do not represent a consensus of the dialogue participants or its supporters.

While the United States and Europe continue to disagree on many aspects of climate change policy, the gap among policy makers on both sides of the Atlantic is narrowing. More and more American policy makers, including state and local officials and some members of Congress, agree that climate change is a serious problem that warrants the adoption of economically and environmentally sensible regulation. Increasingly, Europeans are concerned about the economic cost and competitiveness consequences of climate policy, even as they renew their commitments to reducing their greenhouse gas emissions. So while significant differences remain, including over the 1997 Kyoto Protocol, important avenues exist for renewing transatlantic cooperation in 2005 and beyond.

Outlined below are (1) proposed pillars for future transatlantic cooperation, (2) summaries of issues on which transatlantic disagreement continues and (3) several concrete policy recommendations for governments in the United States and Europe. These recommendations are intended to be implemented simultaneously and comprehensively.

1. Decision Making

Pillar: Base Decisions on Science and Precaution

Although uncertainties remain on climate science, much is known. The risk of dangerous human interference with the Earth's climate system is real and growing, and addressing it will require the United States and Europe to reduce substantially their greenhouse gas emissions over the next few decades. Pending scientific agreement on what level of temperature change must be averted to safeguard the climate system, the transatlantic parties must act with precaution to avoid outcomes that could prove dangerous in the future.

Disagreement: Long-term Climate Objectives

Numerous policy makers and experts from both sides of the Atlantic believe that the absence of a concrete long-term climate objective, such as limiting global surface temperature increases to 2

degrees centigrade, complicates the transatlantic policy making process. However, American and European experts disagree on whether governments should attempt to establish a uniform long-term objective at this stage. While many decision makers believe this can and should be done, an equal number are convinced that such an effort would detract from efforts to spur action now. Importantly, this disagreement does not follow geographic lines, with Americans and Europeans lining up on both sides of the question.

Policy Recommendation: Develop Common Emission Reduction Scenarios

In the absence of a single long-term climate change objective and even consensus about the desirability of developing one, the transatlantic parties should take less contentious concrete steps to aid science-based, precautionary decision making. *Specifically, the United States and Europe should develop (bilaterally, through the G-8 or in the OECD) by the end of 2006 a set of joint emission reduction scenarios for the century.* These scenarios should map out the economically optimal 'emission pathways' needed to achieve a variety of scientifically plausible long-term climate change objectives, such as limiting surface temperature changes or stabilizing atmospheric greenhouse gas concentrations at particular levels. Once developed, these 'emission pathways' should inform public and official discussions about the adequacy of climate policies and the level of effort required to achieve particular environmental goals. The pathways also would facilitate future consideration of the advisability of establishing a transparent long-term climate change objectives.

2. Domestic Action

Pillar: Domestic Action is the Key to Progress

While international cooperation is critical in the long run, the most important contribution the United States and Europe could make to the global fight against climate change now would be to enact strong domestic policies at home, including mandatory national emission abatement goals.

Disagreement: Economy Wide or Sector Approaches

Americans and Europeans continue to disagree about whether domestic policies should be tailored to specific sectors (transport, electricity) or whether a single policy mechanism, such as an economy-wide emissions cap, would prove more effective. In general, Americans tend to favor emissions trading across the entire economy while Europeans view emissions trading as merely a compliment to a broader set of policies such as carbon or fuel taxes, and sector specific emissions allocations or goals.

Policy Recommendation: Give Priority to Mandatory Domestic Action and the Creation of a Long Term, Market-Based Regulatory Architecture

Within the transatlantic community, nations that have not adopted domestic, legally binding national emission goals should do so immediately. Ensuring that the initial burden on the economy is entirely manageable is essential to making this happen. While ambitious action is needed in the medium term, governments should focus initially on creating the programmatic

and regulatory architecture needed to spur effective action over time. This domestic action is also necessary to create the political and regulatory environment that will contribute to more effective and widely accepted international cooperation, which is absolutely essential to solving the long run problem. By leading, the United States and Europe can demonstrate to other nations that when done right addressing climate change is consistent with continued economic prosperity and growth.

3. Technology

Pillar: Stronger Technology Development and Diffusion Policies are Necessary

Because addressing climate change will require fundamental changes in how societies make and use energy the United States and Europe must work substantially harder to drive the development and deployment of a new generation of clean energy and energy conservation technologies.

Disagreement: Technology Initiatives Possibly Expensive Distractions

While there is widespread agreement in Europe and the United States that meeting the climate challenge depends on new clean energy technologies, policy makers do not agree on the extent to which large scale government-lead technology R&D programs are desirable. Many politicians and experts on both sides of the Atlantic believe that these programs are not cost effective, or might distract from the enactment of more essential government policies, such as carbon regulation. Yet, an equally large group of climate decision-makers in Europe and the United States view R&D funding as an essential component of a sound climate policy because the magnitude of the climate challenge requires a comprehensive government strategy.

Policy Recommendation: Clean Energy Technology Funding

The United States and Europe should increase by several billion dollars a year national level funding for clean energy technology research, development and diffusion. Funding for this activity could come from a portion of the revenues generated through national emissions trading regulation and should leverage substantial private resources. This effort would complement and augment the long-term international energy R&D projects already underway, such as research on renewable energy, fusion, hydrogen and physical sequestration of carbon. The goal of the new project should be to improve the carbon intensity and energy efficiency of the U.S. and European economies, explore energy production technologies for the future, and foster the sharing of best-practices and advanced technologies, including with developing countries. Efforts to drive technology through government spending should compliment, rather than substitute for, market-oriented regulatory solutions, such as emissions trading, as the latter ultimately will play a large role in fostering technological innovation.

4. Costs

Pillar: Use markets to control costs while avoiding artificial limitations

As climate change policies must be affordable, quantifiable, predictable and cost-effective, while also minimizing employment disruptions and shifts in competitiveness, the United States and Europe must make use of all cost-saving techniques and solutions. Decisions should be based on analysis that captures the full cost and benefits of both action and inaction.

Disagreement: Economic Safety-Valve

Policy makers disagree on whether domestic and international climate targets should be relaxed if costs rise beyond a predetermined level. This difference does not break down on transatlantic lines. While the idea originated in the United States, an increasing number of Americans and Europeans are prepared to consider the approach, but many others on both sides of the Atlantic consider the approach environmentally undesirable and politically problematic.

Policy Recommendation: Link US and EU Greenhouse Gas Markets

Once the United States and Europe have created their own emission trading systems *they should work bilaterally or in the OECD to create an efficient, international market in emission reduction opportunities.* Such cooperation could occur in parallel to a strengthening and deepening of the global climate regime, but progress on bilateral emissions trading should not wait for global consensus since a transatlantic market would lower costs, help ensure equitable action and address competitiveness concerns.

5. Developing Nations

Pillar: Climate Policy must be Good Development Policy

The United States and Europe should work together to help developing nations implement energy and climate change policies that promote economic growth, alleviate poverty and otherwise advance their sustainable development objectives.

Disagreement: Timing

In general, Americans believe that the United States and Europe should work together to secure equitable action from developing nations when the United States adopts domestic climate change regulation and rejoins international climate talks. Americans understand that developing nation actions may vary based on their national circumstances and for some time are unlikely to be identical to those of industrialized nations but U.S. policy makers believe that establishing a clear vision of how developing nations will participate in the global effort is essential to building political support in the United States for stronger domestic climate policies. Many Europeans continue to believe that industrialized countries should implement emissions reductions at home for a number of years before seeking to engage developing nations in discussions about strengthening their climate change commitments. .

Policy Recommendation: Bring Developing Countries into Emissions Trading via No-regrets Targets and Make International Energy Funding More Climate Friendly

Once the United States, Europe and other major industrialized nations adopt mandatory emission caps, developing countries should be given non-binding opportunities to participate in these markets. Developed countries should not ask developing nations for binding commitments but rather reward poor nations that perform well. Developing countries that better emission expectations should have opportunities to sell valuable emission credits to companies in industrialized nations. The United States and Europe should develop common standards for when developing nations would secure these opportunities and when they would be expected to graduate to legally binding emission targets. In addition, the United States and Europe should work in the World Bank, through their own international development and export promotion agencies, and elsewhere to make sure that funding for international energy projects promotes climate policy. This should be done by ensuring that internationally-backed energy projects better the climate standards of purely private ventures.

6. Other International Cooperation

Pillar: Keep an Open Mind

The transatlantic parties should continue to work together under the UN Framework Convention on Climate Change and in under other forums where progress is possible. Both sides should remain open to ideas for cooperation under the Convention beyond the Kyoto period, which ends in 2012. As they do so, they should remain open also to the possibility that direct cooperation or action in the G-8, OECD or elsewhere may prove more effective for the time being. They should not presume that post-Kyoto cooperation should proceed primarily under the Framework Convention.

Disagreement: The Kyoto Protocol Process

While both sides understand that the United States will not ratify the Kyoto Protocol, Europeans tend to view the on-going Kyoto negotiating process as the primary forum for future climate cooperation, including among the transatlantic parties. In contrast, many Americans believe that other avenues of cooperation outside of the United Nations system may prove more practical and worthwhile in the next few years.

Policy Recommendation: Pursue Parallel and Complementary Tracks

The United States and Europe should continue to advance the objectives of the UN Framework Convention on Climate Change, which should remain the umbrella for truly global action on climate change, but they should also pursue parallel forms of international cooperation, including bilaterally and in the G-8 and OECD. The Convention remains an accurate reflection of global views and interests on global warming, and therefore action taken under it is likely to attract the widest level of international support. At the same time other approaches with smaller groupings of like minded countries may prove effective. These approaches should move forward in parallel to efforts under the Convention. To the extent that progress outside of the convention proves most fruitful, the best work done to date under the Convention process (such as rules for emission trading) could be incorporated into these external processes.