



China – U.S. relations and domestic politics on the road to Copenhagen 2: Convergence and Contingencies

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As December approaches, diplomats, scientists, and activists from around the globe are preparing to converge on Copenhagen for the COP 15, hoping to hammer out a global deal on climate change. The recent Bangkok round of negotiations left divisive issues separating developed and developing countries, with only the final major round of negotiations in Barcelona remaining to resolve outstanding issues before Copenhagen.

Most of the focus is now on the U.S. – increasingly seen as the largest remaining obstacle to negotiations moving forward. Bluntly speaking, a handful of Democrat swing-voters could play the role of Copenhagen deal breakers.

China is still playing a ‘watching’ game, though probably with less enthusiasm as there is disappointment with the lack of serious commitment from developed countries. This is compounded by perceived attempts to “fundamentally sabotage” the Kyoto protocol¹. In China’s view, developed countries have disappointed in meeting the core preconditions for developing countries to agree to a global climate deal.²

Several indicators suggest that a variety of critical factors is falling or being wrestled into place. The question is whether the convergence of global policy developments will coalesce in time for Copenhagen. On the key elements of a framework for agreement, while major sticking points remain, we anticipate acceleration in resolving bottom-line issues as we move to Copenhagen:

- budgetary agreement (both carbon and financial) on what is required to keep below the 2°C target;
- agreement on the necessity and form of participation by developed and rapidly developing countries;
- encouraging trends of mid-term targets by OECD countries as well as strong pledges for ‘voluntary’ intensity-based mitigation from major emerging economies; and
- progress in the U.S. climate legislative process.

The speed, timing and eventual converging point depends on several contingencies, and the outcomes in Copenhagen will be largely influenced by developments in China-U.S. relations, and their domestic politics. With both the U.S. and China being major players in climate negotiations, a continuing split between the two countries, and the domino effect this could trigger, would erode the likelihood of a strong deal in Copenhagen.

Following upon the earlier brief (*Making Virtue of Necessity*), this policy brief focuses on two key policy areas where developments must fall into place in order to make possible convergence at or before Copenhagen. These include deliberations on the climate bill in the U.S. Congress and the November U.S.-China Summit. Both are inextricably linked: passage of climate legislation in the U.S. Senate will provide the Obama Administration with much needed clarity in Copenhagen and could demonstrate the leadership on mid-term targets, finance and technology transfer that is needed to unlock Chinese reticence. Similarly, progress on the climate bill in the U.S. Senate is likely to be substantially influenced by whether President Obama’s November China trip can produce a meaningful announcement on U.S.-China cooperation. Such an agreement could dissipate domestic concerns that unilateral U.S. action on climate change will result in losing trade competitiveness to China.

Then there is the still ongoing dance between the U.S. and China – will positive developments finally break the ‘mutual suicide pact’ or will continued failure serve as an excuse for stalemate, pro-

1 Coordinated statements by China and 130 developing countries at the UN climate talks in Bangkok, Oct 5, 2009. The angry statements were triggered by a comment from Carol Browner, energy adviser to Barack Obama, that she did not expect the US Senate to vote on its crucial global warming bill before the Copenhagen talks. In the talks, the US has said that it wants a new approach which would move away from a legally binding world agreement to one where individual countries pledged cuts in their national emissions without binding timetable and target (the so-called “pledge and review” system).

2 Guo Xinyu, Developing countries pursue green economy in face of double whammy. Xinhua_English, Oct.24, 2009.

ducing in effect, an ‘alliance of denial’? Still, there are other contingencies that may have a major impact on the dynamics of the process as well as its outcomes. For example, will President Obama go to Copenhagen? If he does, what difference can it make? What would induce China to reveal the emissions target that everyone is awaiting? What will be the strategies, commitments and priorities of the U.S. and China on climate change after Copenhagen?

AMERICAN CONVERGENCE – CLIMATE LEGISLATION IN THE U.S. SENATE

After many years of internal struggle, the USA has at last politically embarked on a path that will eventually result in substantial emission reductions (albeit not yet nearly enough to place it on a 2°C pathway). In the Senate, climate legislation is now moving after having been bottled up since the summer. Elsewhere in the U.S. domestic landscape, the Environmental Protection Agency (EPA) is steadily making preparations to control CO₂ emissions through administrative regulation following a Supreme Court ruling. Horse trading with key Senators and interest blocks – particularly the agriculture, coal, and nuclear industry – is leading some headline businesses to support climate policy and weakening resistance from several Republicans. A positive U.S.-China Summit could loosen resistance both in the Senate domestically, and negotiations on climate change internationally.

However, there remains a significant risk that the U.S. may also hedge its bets. Although domestically, the Obama Administration is keeping up the pressure for passage of a climate bill before Copenhagen, it has also worked to lower expectations for the COP15 outcomes. The U.S.’s international strategy could quickly shift to one of damage control.

As this brief goes to press, the Democratic leadership is pursuing passage in the Senate. However, no realistic scenario currently being discussed predicts final passage of Senate climate legislation, reconciliation of details of House and Senate versions, and signing into law by President Obama in time for Copenhagen. The passage of legislation through both House and Senate is still considered a near-minimum requirement to provide needed anchoring for U.S. negotiators in Copenhagen. The Waxman-Markey cap-and-trade bill that passed through the House by a narrow margin just before summer marks the first federal, economy wide cap-and-trade bill to pass either Chamber of Congress. It is now Senate passage of climate legislation that is lacking, and this is influenced by positive trends in the following areas.

Removing Roadblocks

As we have noted previously, passing health reform is an essential prerequisite for a successful climate bill, not only in freeing up the Senate agenda to consider the climate bill, but by allowing the Obama Administration to capitalise on a fresh success to push for an ambitious climate agenda domestically and internationally. Health care legislation, after critical delay, has now moved to the full Senate for consideration. Senate Majority Leader Harry Reid is believed to be within 2-3 votes of the 60 votes needed for passage and a Senate floor vote on health care in early November looks likely. Because health reform is considered a make or break issue both for the Obama Administration and for the Democratic Congress, it is highly likely that the Democrats will strike the necessary balance to get the required 60 votes.

But success on health care reform could still have mixed and unpredictable effects. An intense conservative mobilisation that has sought to make health reform Obama’s Waterloo will almost certainly be redirected against climate legislation. On the other hand, with conservative opposition to Obama directed against health reform, negotiations for developing a Senate climate bill have been able to proceed with less of the fear-mongering that has characterised health reform. But although climate legislation is considered important, it is not the same kind of make-or-break issue for Democrats as health care. It is still the case that support for health reform could make climate change a tougher vote

for some Democrats from conservative or fossil fuel states who might be accused of lacking independence and voting in lock-step with a 'liberal' Administration. Conversely, the Republican opposition to health reform could ease the way for key Senate Republicans to support a climate bill by providing them with 'political cover'. Senators' concerns are not related only to political pressure or political survival. Several Senate Democrats and Republicans have been generally supportive of climate legislation, but remain concerned that the cost of taking action will fall disproportionately on the constituents they represent.

Energy, Security...and Climate

The Environment and Public Works Committee began discussions on climate change legislation during the final week of September. On September 30, 2009, Senate Foreign Relations Committee Chair John Kerry and Senate Environment Committee Barbara Boxer introduced the *Clean Energy Jobs and American Power Act of 2009*. According to the EPA's analysis, the original language of the Kerry-Boxer Bill starts with the same cap level as Waxman-Markey for 2012, but returns to the target of 20 percent under 2005 emissions levels by 2020 – partly using the argument that reductions resulting from high fuel prices and the economic recession make those goals much easier to attain. Targets for the two bills are identical between 2030 and 2050 and differ cumulatively by only 1 percent over the time span ending in 2050.

Kerry's lead sponsorship strengthens the Democrats' ability to define climate change legislation in terms of its energy and national security benefits. This is likely a crucial move because while substantial partisan differences divide public opinion on climate change, polling data shows Democrats and Republicans to be quite close on jobs, energy security, and national security. Recent developments show particular promise. Conservative Republican Senator Lindsay Graham (South Carolina) joined Kerry in a recent New York Times editorial that argued for strong climate legislation on the basis of striving for energy security and restoring American competitiveness, and because the EPA is poised to act anyway if the Congress does not. Significant financial support for expanding nuclear power has been expressed as one of Graham's requirements for his support, which could improve prospects for bringing as many as 4-6 other Republicans on board. Another of those potential supporters is Republican Senator Lisa Murkowski of Alaska, who has also expressed a willingness to back climate legislation but indicated that opening for offshore oil drilling and expanding nuclear power are high priorities for her. Appealing to Republicans does present its own problems. Offshore drilling, expansion of "clean coal", and a revival of nuclear power each create concern and potential political problems for Democratic supporters who do not see these energy sources as acceptable or viable options.

Senate committee discussions of the climate bill will extend well into November. At least five committees, including the Senate Finance and Agriculture Committees also have plans to discuss and suggest amendments to the language of the bill. While this slows the process and may well weaken the legislation's targets, it also provides opportunities to build Democratic consensus in preparation for a Senate floor vote. Still, there are many ways in which progress with Senate climate legislation might easily be delayed or derailed. As one example, Senate Commerce Committee Chair Jay Rockefeller indicated just before the weekend that he did not expect his committee to deal with climate legislation before next year. Rockefeller will be part of the conference committee that will deal with the differences between House and Senate versions of health reform. But his statements about delay may well be an effort to get attention; he has indicated that climate legislation must include funding for "clean coal" and Carbon Capture to protect West Virginia's coal economy. One other example is in Boxer's Environment Committee. Boxer has announced her intention to begin what is known as "markup" (committee preparation and modification of the legislative document) on the climate bill on Tuesday. However, the seven Republican members of the committee have threatened to boycott the hearing, claiming that they need more time to prepare and examine the legislation. At least two Republican committee members must be present for the process to move forward.

Notwithstanding these and other obstacles, the Senate leadership envisions having climate legislation out of the Committees and up for Senate floor debate in late November. The precise language, including targets and financial assistance for developing countries, is difficult to predict at this point other than to indicate that the early Senate draft restored target levels and has also envisioned a strengthened EPA.

Plan A? – EPA

On a parallel track, the EPA is rapidly preparing to regulate CO₂ following a 2007 Supreme Court decision ruling that the EPA must take steps to regulate CO₂ as a pollutant under the Clean Air Act. In September 2009, the EPA issued a draft rule containing thresholds that would regulate nearly 70 percent of GHG emission sources, including an estimated 14,000 large industrial emitters, while exempting emitters under 25000 tons per year. EPA officials project that the agency regulation of CO₂ emissions could be in place early in 2010.

EPA regulation represents a path to CO₂ regulation independent of Congressional action based on already settled law. Because it is generally viewed as a rather blunt instrument, many prefer comprehensive federal climate legislation, boosting the incentive for Congressional action. However, the EPA not only offers a fall-back in the event the legislative process breaks down; it provides important leverage to bring to the table Senators who want their concerns taken into account. In any event, the time required for comment periods and other legal obligations pushes the earliest possible EPA action into early 2010.

The China card

The ‘China card’ remains crucial in the climate legislation process. Two aspects on China are important for the Obama Administration to persuade the Senate: China’s ambitious targets for slowing its carbon emission growth, and China’s progressive and increasingly leading position on the clean technology market. While the Administration is making little headway on the former issue, it is responding to domestic concerns about trade competitiveness.

In the U.S., China’s drive to rein in its carbon emission has promoted some people to switch from worrying about the ‘China threat’ to the global climate to worrying about the threat of China soon seizing the lead in clean energy technology. Many people cite this new threat in order to spur U.S. climate efforts as well as bilateral cooperation³. The tactic of the Obama Administration has been to counter these concerns with the fear that the U.S. could lose out on jobs and trade if it does not invest in a low-carbon future. Speaking recently at MIT, President Obama warned of the gloomy prospect faced by federal officials and business leaders alike as they confront the twin challenges of combating climate change and trying to keep the U.S. competitive in the multitrillion-dollar race to develop and sell new energy systems. U.S. Energy Secretary Steve Chu offered warnings along similar lines, noting that China spends almost three times as much as the U.S. on clean technology.

Several European government representatives, researchers, advocacies and think-tanks have been involved in attempts to inform the Senate about the fact (presented further below) that China is already taking on very ambitious policies and targets for 2020. But allegedly there is a strong feeling in the U.S. that China cannot be trusted whatever numbers they come up with. Therefore the requirement for verification of Chinese emissions figures weighs heavily on the U.S list of demands on China.

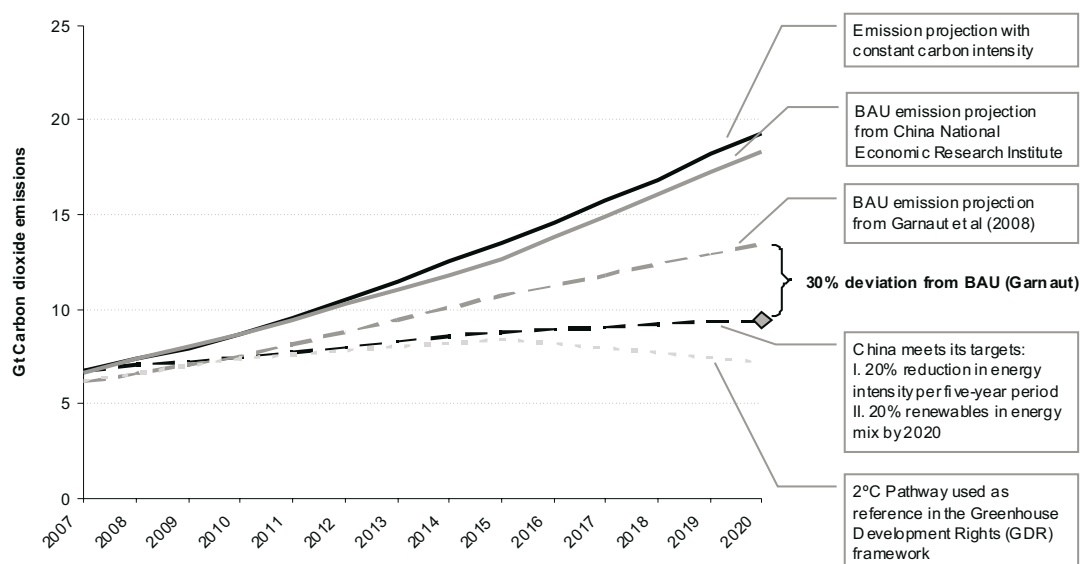
3 Steven Mufson, China steps up, slowly but surely. The Washington Post, October 24, 2009

CHINA KEEPING ITS POSITION – BUT WHAT IS THE NUMBER?

China keeps the position laid out in the earlier brief on U.S.-China climate relations (*Making Virtue of Necessity*) and it becomes increasingly obvious that China is reluctant to disclose its midterm target until the U.S. is ready to make commitments. The Chinese leaders are clear about the fact that an ambitious Chinese midterm target would likely make it easier for the Obama Administration to convince hesitant Senators to vote for a Senate climate bill. Still, this would add considerable risk for China to be prodded into a leadership position that the leaders do not think China is yet ready for and thus tries to avoid. The aversion to the risk of being singled out is also reflected by China's wish to keep its tight negotiation alliance with the G77.

China's midterm target

It is now clear that China has a number – a figure on carbon intensity as a mid-term target as announced by President Hu Jintao before the General Assembly a month ago. It is also likely that Hu Jintao was ready to present that, but that the sketchy presentation by Obama prompted a change in the Chinese plans. The numbers that are being suggested by China watchers are in the range of 22 to 28% CO₂ per five-year period to 2020. This would be in line with a 20% energy intensity target combined with fuel switching effects of the renewables and nuclear programmes.



Our calculations show that the combined effects of a continued energy intensity target of 20% per five-year period from 2011 to 2020, and a renewable target of 20% of primary energy by 2020 would add up to a carbon intensity target of about 25% per five-year period to 2020. The figure above charts a CO₂ emission trajectory based on the combined effects of energy intensity and renewables targets. The figure illustrates that a Chinese target in this range would be very ambitious and that it would comply to EU's communication that China by 2020 should deviate 30% below a BAU (indicated in the figure by the grey diamond). For reference we have included a constant energy intensity trajectory⁴ and two different BAU forecasts. The NERI forecast is in essence a constant energy intensity scenario, but

4 The energy intensity trajectory is based on economic growth estimates from IMF to 2014 and figures from Jiang Kejun from 2015 to 2020, which have been used for the energy scenarios developed by the Energy Research Institute. The growth estimates from Jiang Kejun are somewhat lower in the period up to 2014.

using lower economic growth estimates than our reference line. The Garnaut BAU scenario takes into account a number of factors such as technology improvements.[□]

What is more striking, however, is that given this level of ambition China would only be about 2 GtCO₂ from its 2°C pathway and actually very near to what has been calculated as China's responsibility by the Greenhouse Development Rights framework.

China's alliance with G77 and one negotiation track

China is cementing its alignment with the G77 and there seems to be little reason to believe that there would be a crack in the G77+China alliance before COP 15. Any country needs to build alliances to operate in the UN. In the case of climate negotiations even the Bush administration was very active in building its alliance of climate villains. China has a long tradition of acting together with the G77 in the UN and it would take a lot of diplomatic effort and a breach with foreign policy direction for China to find new allies. It is difficult to think also which countries that could possibly be – India, South Africa? China would be very vulnerable if it tried acting on its own.

It did not come as a surprise that the attempt from the EU in Bangkok to try for one track was not positively received by China and G77. This does not mean, however, that China could not consider this type of solution, as it could certainly imply advantages for China. The U.S. would like China to voluntarily pledge its national targets for 2020 and have that reviewed with no other commitments than blame and shame. This would provide China with a ten-year grace period which it would possibly be favourable to.

US - CHINA SUMMIT – WILL IT CHANGE THE CLIMATE TUNE?

An early November time frame, combined with consensus building discussion at the Committee level, would position Democrats to set in place the next piece of the puzzle – a change of U.S.-China relations on climate and energy and technology at the 15-18 November bilateral summit between Presidents Obama and Hu.

Expectations of a major announcement may have been dealt a serious setback on 28 October when U.S. Climate Envoy Todd Stern indicated that there would be no bilateral U.S.-China climate arrangement. However, this may also have been a deliberate strategy by the Obama Administration to manage expectations. Stern's comments indicate that the focus with China would be on technology transfer, but there would not be American financial support for China's climate efforts, and that any climate agreement would be a global agreement struck in Copenhagen or afterwards. These points, however, do not reflect a further split in U.S.-China positions and, in fact, reaffirm China's negotiation position. For instance, China's interest for some time has been on enabling technology transfer rather than financial support. In this light, Stern's comments can be read as addressing domestic concerns about U.S. capital subsidising Chinese 'wealth'. Similarly, the absence of a bilateral climate deal signals U.S. commitment to the UNFCCC process, which China has voiced strong sentiments on after U.S. suggestions to renegotiate a new treaty.

A November announcement would not seek to supplant Copenhagen, but strengthens the groundwork by bringing the U.S. and China closer to one another – and by speaking concretely to enduring American concerns about being put at a competitive disadvantage vis-à-vis China. Any announcement is likely to link to technology transfers and collaboration. Agreements that can successfully link Chinese and American opportunities for economic growth will contribute to reducing the salience of arguments about developing countries gaining competitive advantage at American expense.

Another positive trend in bilateral relations is the agreement by legislators in China and the United States at the recent 'Globe Legislators Forum' calling for decisive domestic action on climate change, regardless of the status of international negotiations. More than a hundred legislators from 16 major

economies attended the event in Copenhagen, which is aimed at engaging parliamentarians on climate change. The legislators agreed key guiding principles to enact climate-change legislation in their respective countries. The agreement, set out by Chinese congressman Wang Guangtao and American congressman Edward Markey, outlined principles on building and appliance standards, vehicle fuel and efficiency standards, forest preservation, and renewable energy. The Forum also recommended that COP15 agree to medium-term emissions targets for developed countries; provide incentives for reducing deforestation; create a framework for protecting and sharing intellectual property rights; strengthen international systems for monitoring and verifying emissions reductions; and agree that \$100-billion in financial assistance would be needed to help developing countries adapt to climate change.

THE QUESTION OF RESPONSIBLE LEADERSHIP

Discussion of prospects for the COP15 in Copenhagen has included many calls for Obama to “show leadership” on the climate question. But what does “leadership” really mean in this complex context? The U.S. clearly has a crucial role to play in Copenhagen both due to its status as one of the world’s largest GHG emitter (together with China), and due to nearly a decade of what in the best case can be described as non-participation, and in the worst case as obstruction.

But as we learned from the Clinton Administration’s strategic decision in Kyoto to strike out ahead of even many Democratic leaders in the Congress, climate policy inextricably links domestic and international politics. For many international leaders there is relative clarity on the domestic level about the acceptable parameters for global negotiations: the European Union locked in their position of support for a strong agreement nearly a year ago. China, while it has yet to lay its cards on the table, also appears to have arrived at important decisions about how to bend its emissions curve well south of BAU. But all this remains a very open question in the American case.

“Leadership” on Obama’s part cannot follow Bill Clinton’s example from Kyoto – arguably a point in time and in the global discussion on climate with very different kinds of needs. If the most fundamental goal is setting in place the framework for reliably making global GHG reductions, Obama’s first priority must be to get in place the basic structure for emissions reductions in the U.S., then to participate in a global agreement that can be ratified by the U.S. Senate. This is for good reason a source of concern and irritation for international negotiators. It is no doubt a source of concern for Obama and U.S. climate negotiators as well.

THE CATCH 22

U.S.-China bilateral technology cooperation seems to be the only card Obama has to play to soften Chinese position during the U.S.-China Summit. He simply does not have any other cards to play as there is no climate act. What the U.S. wants from China is economy-wide target that is MRV-able. As China knows about this they are certainly contemplating it. But China would not yield anything unless Obama could come forth with a U.S. target, and with sufficient provisions for finance and tech transfer. At the same time Obama needs some positive signals from China to convince Democrat swing voters. Herein lies an important Catch 22 of the climate negotiations.

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