

## Disagreement deferred at Durban

16 December 2011

### Summary

- This week's Durban climate change summit got good reviews. Optimists highlighted the fact that any agreement at all was actually secured. By the unusually low standards of modern multilateral diplomacy, they have a point.
- There is a commitment to further negotiations and a timetable for them. China and India have accepted for the first time the principle of binding cuts for themselves as well as the developed world. In Kyoto terms, this is progress.
- In reality, India and China have committed to little that they are not already doing and tougher cuts will be pushing against declining political tolerance. Without a dramatic shift in political leadership, Durban may actually be the high point of multilateral agreement on climate change for this decade. There is still a long way to go before it is certain that it will deliver more than simply disagreement deferred to another day.

The outcome of two weeks of negotiations among the nations at the Durban United Nations climate change conference was an agreement to hold further negotiations on a successor to the Kyoto Protocol that, unlike Kyoto, would place obligations on both the developed and developing economies. The aim is to reach an agreement by 2015 and for it come into force by 2020. Negotiators also agreed that the aim is to "raise levels of ambition" in reducing greenhouse gas admissions. In this Global Counsel Insight note, we look at what Durban tells us about international political economy of climate change, and what it is likely to mean for national climate change policies.

The world's progress on tackling climate change and reducing greenhouse gas emissions has to date been faltering at best. Global emissions jumped by more than 5 per cent in 2010 as global consumption of coal, natural gas and cement production rose. As the Durban communiqué itself noted, the world is not yet on a trajectory for reducing emissions to the level that will avoid

global temperatures rising by more than 2 degrees. The target is a series of staging posts to total emissions of less than 20bn tonnes in 2050 compared to the current 48bn tonnes.

Optimists highlighted the fact that any agreement at all was actually secured in Durban. By the unusually low standards of modern multilateral diplomacy, they have a point. The conference was not a repeat of the Copenhagen Summit of 2010 that ended in deadlock. There were tense words between the Indian and Chinese and the EU negotiators, but no repeat of the aggressive Chinese stonewalling of Copenhagen. There is a commitment to further negotiations and a timetable for them. The goal is an agreement for all the major emitters to be covered by legally binding commitments, and all sides have signed up to this. In Kyoto terms, this is progress.

### If you will, we might

At the centre of the Durban agreement is a deal between the EU and China and India. The

European states have agreed to undertake a second round of emissions reductions under the current Kyoto framework, which will be extended beyond its anticipated expiry at the end of 2012. In return, India and China accepted the prospect of legally binding commitments after 2020. The US withdrew from the Kyoto Protocol in 2002, and Canada announced its withdrawal directly after the Durban conference, although both in principle have signed up to joining a new framework after 2020.

The other major pillar of the Durban agreement is the expansion of the formal creation and expansion of the Green Climate Fund created in Copenhagen, which is now expected to channel \$100bn annually to climate change adaptation and mitigation support from the rich to the poor world. Where this funding will come from remains unclear - plans mooted in Durban to fund it with an emissions tax on international shipping were so robustly resisted that they were not even mentioned in the final text.

The explicit acceptance by China and India in particular that they will take on internationally agreed commitments is significant and the most important shift achieved in Durban. In theory, it removes an anachronism and a key political weakness in the Kyoto protocol, one that North American politicians in particular have been willing to use as a pretext for non-participation. The US explicitly welcomed the deal as providing the “symmetry” that they have been looking for. As they did in Geneva in 2008 during the WTO Doha negotiations, the emerging economies found themselves under pressure to deal from both a comparatively pushy EU and poorer developing countries. The latter increasingly see large carbon emitters such as China both as part of their pollution problem and a potentially stubborn obstacle to unlocking large amounts of adaptation and mitigation funding from the rich world.

However, the language finally agreed at Durban is opaque. It commits the signatories to “a process to develop a protocol, another legal instrument or an outcome with legal force under the Convention”. The meaning of the phrase “outcome with legal force”, in particular, is very far from

clear. Indian media commentary post Durban reflects what is probably the government’s own view: that India has not agreed to mandatory targets. Moreover, the concept of legal force in itself guarantees nothing in terms of the ambition of the reductions that may or may not be agreed between now and 2015. Nor does it tell us much about what will actually be enforceable. The Kyoto Protocol is legally binding, but it contains no mechanism for enforcement.

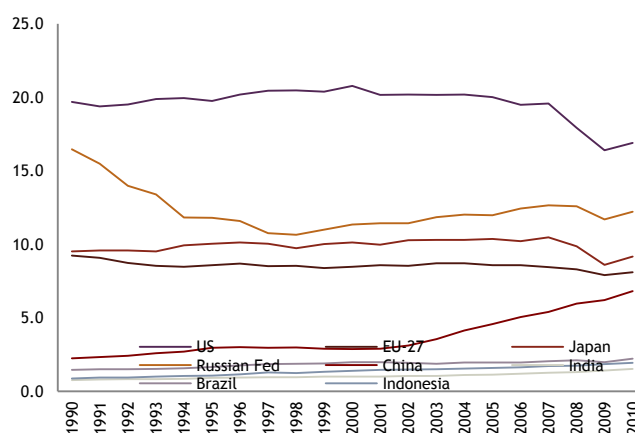


Chart 1: China’s converging emissions profile, per capita/metric tonne;

Source: IEA 2011

## The globalization of emissions

In terms of emissions themselves, the Durban outcome looks like a minimal concession to reality. The major trend of the recent past has been the ‘globalisation’ of emissions in a way that has transformed the picture on which the original Kyoto Protocol was based. Although industrialised countries as a whole are set to meet their own targets under the Kyoto protocol, these are universally regarded as being both insufficient in themselves and an increasingly small part of the wider emissions picture.

Rapid economic growth in India, China and elsewhere has seen their share of total global emissions rise significantly. The result is that industrialised countries’ share of total emissions has dropped from two thirds to less than a half in the twenty years since 1990. Over the last few

years alone, China's emissions have doubled and India's have grown sixty per cent.

In terms of the politics of the Kyoto process, the growth in Chinese emissions is by far the most significant change. China's greenhouse gas emissions have grown rapidly both in total and, importantly, per head of population - the measure which the emerging economies have typically invoked as the basic differentiator between the emissions profiles of the developed and emerging worlds. China now generates close to a quarter of the world's emissions with a fifth of the world's population. Since 1990, CO<sup>2</sup> emissions per capita have increased in China from 2.2 to 6.8 tonnes per person and decreased in the EU27 from 9.2 to 8.1 tonnes per capita and from 19.7 to 16.9 tonnes per capita in the US (Chart 1).

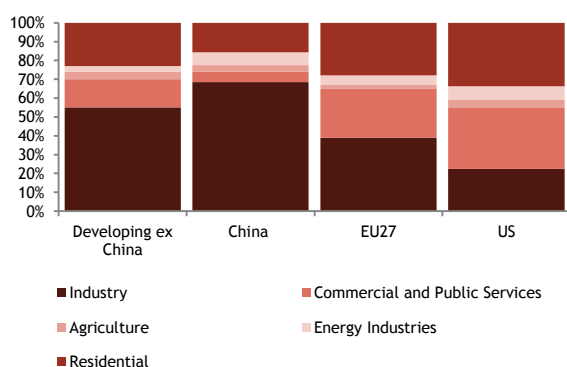


Chart 2: Structure of energy usage by sector, China and comparators.

Source: European Commission JRC 2011

Indeed, CO<sup>2</sup> emissions per person in China are now at the level of some EU member states. International Energy Agency figures put China per capita emissions higher than those in Hungary, Sweden, Portugal and Romania. To be sure, the structure of energy usage in these markets is quite different (Chart 2), and China argues with some justification that the development of energy intensive manufacturing for export in China in particular means that measured in terms of the carbon embedded in consumption (rather than emitted in production) the developed world's emissions are higher than they appear. Reductions

since 1990 reflect changing value chain structures as much as increasing carbon efficiency. Nevertheless, both China's absolute and per capita emissions now put it firmly in the first rank of polluters in territorial terms.

### Durban won't move the market. National policies still could.

What not clear is the extent to which Durban in itself can or will drive national policy on emissions reductions in the short and medium term. Both the market valuations of energy intensive industrials - usually based on their proven reserves, which if actually consumed would imply a massive failure to meet anything like the IPCC targets - and the price of traded carbon emissions (which actually fell after Durban) suggest a market that sees little relationship between the international process of agreeing emissions targets and the reality of carbon costs on the ground.

That judgment at this point looks sound enough. Unless 2015 produces a genuine surprise in the form of deep constraining and universally accepted global reductions, the key driver of changes in the cost of carbon are likely to be driven from the bottom up by political preferences and national policy, rather than multilateral agreement. In turn, these are likely to be highly vulnerable to the immediate problem of growth and job creation - likely to be key national political preoccupations over the next three to five years.

This partly explains why China was relatively sanguine about the idea of binding commitments after 2020. China acknowledges the challenge of climate change as well as the impact of emissions on its air quality. The current twelfth Five Year Plan contains targets for both cutting emissions and reducing the carbon intensity of Chinese growth. Chinese industrial policy also has a decided tilt on low carbon technologies, especially alternative energy.

There is however also a strong commitment to maintaining a rapid rate of growth in China and the country has a very carbon-based energy system. So, irrespective of national targets, the

desire to preserve policy means it is hard to predict what kind of mandatory targets the Chinese will actually accept. The same is even more true for India, which was the most reluctant to sign up to the prospect of legally binding targets. With strong aspirations for growth, limited capacity to bear heavy mitigation costs and currently low per head emissions, India is unlikely to soften its highly skeptical, if not openly obstructive, position. The pushing back of the target for agreement to after the next Indian election (in 2014) may help, but only a little.

In theory, China's inclusion should address the US's objection to Kyoto - that it only places binding obligations on the developed economies and therefore potentially damages US competitiveness. However, there remains a significant question mark over how far in practice the US will be willing or able to go in the future negotiations. Among Republicans, support for action on climate change has dwindled. US voters and politicians may well regard sorting out the US economy as the priority and not have much appetite for action to tackle climate change.

For the EU, the prospect of participation by the US and Chinese in negotiations on mandatory emissions reductions is clearly a boost. The EU has put significant emphasis on climate change and adopted ambitious policies - sufficient to allow a second down-payment within the Kyoto Protocol as required by the Durban agreement, with policy space to spare.

That priority and those policies run the risk of losing all credibility in the eyes of European electors if the rest of the world does not look to be willing to be following Europe - a point underlined by EU negotiator Connie Hedegaard's inflexibility on the question of language on legal force. Even with stronger language on future commitments, Europe's politicians are likely to tread carefully in the next few years, avoiding making commitments that might be presented as

damaging to jobs and living standards.

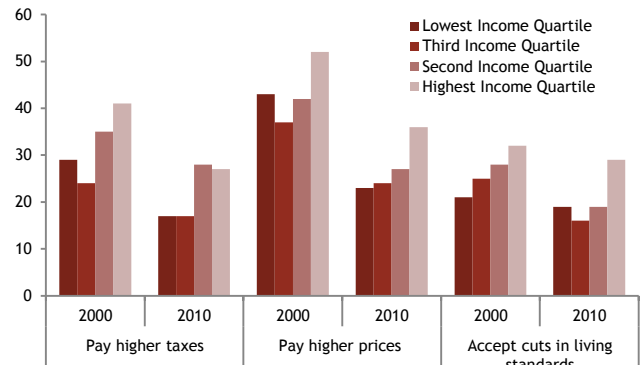


Chart 3: UK voter willingness to make economic sacrifices to address climate change. Willingness to,,

Source: British Social Attitudes Survey October 2011.

Recent polling in the UK (Chart 3) suggests that social tolerance of economic sacrifice in the name of climate change has fallen sharply: a trend that is likely to be reflected across Europe, with unpredictable consequences for national support for an aggressive collective international position.

What these national political variables underline is the fact that without a dramatic shift in political leadership, Durban may actually be the high point of multilateral agreement on climate change for this decade. The Durban conference avoided deadlock and secured agreement to keep talking, with the goal of a comprehensive agreement. There is still a long way to go before it is certain that it will deliver more than simply disagreement deferred to another day.

38 Wigmore Street  
London  
SW1U 2HA  
info@global-counsel.co.uk  
+44 (0)207 656 7600

© Global Counsel 2013

Although Global Counsel makes every attempt to obtain information from sources that we believe to be reliable; we do not guarantee its accuracy, completeness or fairness. Unless we have good reason not to do so, Global Counsel has assumed without independent verification, the accuracy of all information available from official public sources. No representation, warranty or undertaking, express or implied, is or will be given by Global Counsel or its members, employees and/or agents as to or in relation to the accuracy, completeness or reliability of the information contained herein (or otherwise provided by Global Counsel) or as to the reasonableness of any assumption contained herein. Forecasts contained herein (or otherwise provided by Global Counsel) are provisional and subject to change. Nothing contained herein (or otherwise provided by Global Counsel) is, or shall be relied upon as, a promise or representation as to the past or future. Any case studies and examples herein (or otherwise provided by Global Counsel) are intended for illustrative purposes only. This information discusses general industry or sector trends, general market activity and other broad economic, market or political conditions. It is not research or investment advice. This document has been prepared solely for informational purposes and is not to be construed as a solicitation, invitation or an offer by Global Counsel or any of its members, employees or agents to buy or sell any securities or related financial instruments. No investment, divestment or other financial decisions or actions should be based on the information contained herein (or otherwise provided by Global Counsel). Global Counsel is not liable for any action undertaken on the basis of the information contained herein. No part of this material may be reproduced without Global Counsel's consent.