

The prospects for global collaboration on climate change  
**(Following the tenth meeting of parties to the UN Framework Convention on  
Climate Change)**

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Alan Oxley attended the tenth conference of parties to the UN Framework Convention on Climate Change in Buenos Aries in December 2004 in his capacity as a host of the Asia Pacific page of [www.techcentralstation.com](http://www.techcentralstation.com)

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## **Executive Summary**

### *A paradigm shift*

Although the Kyoto Protocol to contain greenhouse gases is shortly to come into effect, parties to the UN Framework Convention on Climate Change nullified Kyoto as the basis for a long term global strategy at their meeting in Buenos Aires in December.

This reflects a paradigm shift in international thinking about long term strategies on global warming. The shift is away from regulated reductions of emissions (and emissions trading), as proposed in Kyoto, to collaboration on development and adoption of technologies to reduce emissions of carbon dioxide.

There will now not be any important, international pressure on Australia to take new action to reduce emissions of carbon dioxide or to introduce emissions trading, although the rising clamor from the Green movement evidently is designed to leave the impression that there is such pressure.

Green groups still call for Australia to ratify Kyoto, still propose introduction of emissions trading and have started to propose even tougher targets to cut emissions than those which stalled the Kyoto Protocol. At the same time, new doubts are being raised about key scientific claims about global warming which were used to justify the Kyoto Protocol.

In Buenos Aires, the United States, China, India and the developing countries decided that the Protocol was not to be the basis for long term strategies to address climate change. This left the EU isolated.

### *The EU isolated*

The commitments in the Kyoto Protocol to reduce emissions of carbon dioxide apply only between 2008 and 2012. Well aware that this would have negligible impact on global emission of carbon dioxide, the EU wanted the Kyoto regime of regulated cuts in emissions and global emissions trading extended after 2012. It was rebuffed.

Divisions are also emerging among EU member states. At Buenos Aires, Italy openly sided with the US and China. It saw no point trying to extend the Kyoto. Pressure is also mounting inside other EU members as officials in economic and energy ministries start to grapple with the economic impacts of the cuts in emissions and introduction of emissions trading to which the European Union is committed.

The Environment Directorate of the European Commission claimed the cost of Kyoto to member states would only 0.5 percent of GDP. However recent economic modeling costs the impact of Kyoto for individual EU members at between 1.5 and 4.5 percent of GDP.

### *Practical strategy for Australia*

Somewhat surprisingly, Australia's new environment minister missed the paradigm shift at Kyoto. Whereas the US strategy of focusing on developing technology is now the only basis for effective international collaboration (consistent with the strategy adopted by the Howard Government), he sought immediately after the Buenos Aires meeting to distance Australia from the position of the US (and China and other developing economies in the Asian Pacific region).

Calls for Australia to join Kyoto and adopt emissions trading are now outdated. Emissions trading can only be effective if national controls are imposed on emissions. Controls would increase power costs and diminish competitiveness. There is no point in Australia's allying with the EU alone to support a global warming strategy that cannot work and which reduces global competitiveness. Joining the US and other countries in strategies to foster new technologies and lower emissions is the only effective strategy available to Australia.

### **The politics of the tenth conference of the UNFCCC**

Environment officials for some time have been preoccupied about what to do when the period set in the Kyoto Protocol for cutting emissions back finishes in 2012. The cutbacks are obligatory only for countries listed in Annex 1 (the industrialized economies and Russia). The industrialized parties that have ratified the Protocol are the EU, Japan, New Zealand, Norway, Switzerland and Canada.

No one disagrees that Kyoto is dysfunctional. How could commitments to cut back by only half of the world's emitters of carbon dioxide work, especially when economies which were the fastest growing emitters (China and the other high growth East Asian economies and India) refused to reduce emissions? There is also no dispute that the rate of cut proposed in Kyoto would have had a negligible impact on levels of carbon dioxide in the atmosphere. That is why there are now new calls for cut backs in emissions by 50 percent by 2050.

If Kyoto was never going to work, why was it pushed so hard? The strategy of European environmental officials was to regard Kyoto as a "first step" (clearly meaning therefore that much tougher restraints would have to be imposed in the future) and an exemplar. Actions by Annex 1 countries to reduce emissions would set examples and encourage developing countries to follow suit. At no stage did developing countries give any indication that they concurred in this understanding explicitly or implicitly. A related hope here was that if developing countries accepted commitments to cut back, then the United States (and Australia) would be isolated and obliged to join. The belief that the US might be cajoled in this way reflects the same naivety (or ignorance) of how countries behave in international affairs as the misjudgment that the developing countries might change their positions.

It was clear at the ninth meeting of UNFCCC parties in Milan in 2003 that the developing countries and the United States would not agree to adopt Kyoto restrictions in the future or to extend the period of the Protocol. More public attention focused on entry into force of Kyoto. Russia was sending signs it would accede. With a US Presidential election due at the end of 2004, European environment officials probably hoped a Democrat Administration would take a more forthcoming approach to the Kyoto Protocol. (While making friendlier noises, a Democrat Administration was unlikely to dramatically redraw US policy with the US Senate trenchantly opposed to ratification of Kyoto and, more importantly, the US's facing serious shortages in its national power grid.)

Russia's decision during 2004 to ratify then focused attention directly onto the post-Kyoto period. Parties arrived at Buenos Aires focused on this. The re-election of the Bush Administration gave US officials certainty and confidence about the direction in which they were moving. The US had an alternative strategy to Kyoto – focusing on technical collaboration to reduce emissions of greenhouses gases rather than working for enforceable global targets to reduce emissions - and had established a number of partnerships with other countries on such programs.

At Buenos Aires the US quickly found common ground with China, India, Saudi Arabia (the coordinator of the developing countries) and Italy. The European Commission came to Argentina with a strategy that a formal technical conference be convened in 2005 at which all issues would be discussed and themes would be identified to lay a foundation for developing a post-Kyoto approach to climate change.

The US and the developing countries said straight out they would not agree to a conference that aimed to lay out a new approach. The EU faced a choice of some activity with no commitment to a follow up, or no result at all. It acquiesced in the former.

In the sidelines of the conference, there were the usual efforts to keep the temper of global public opinion nervous about climate change. On the eve of the conference results of an international study of the Arctic environment were released purporting to show global warming was damaging the Arctic. These claims were made by Northern European participants in the study. There were the usual extreme extrapolations. Some NGOs claim the Arctic ice would melt and sea levels would rise. (The Arctic ice is floating. If it melted, sea levels would not rise). US scientists in the study pointed out that the Arctic environment was very diverse and complicated. The impacts European scientists found in some areas were not universal.

UNEP released the conclusions of a study prepared by Munich Re, the world's largest reinsurer and a greenhouse business partner of UNEP. The study showed that the incidence of extreme weather in recent years had intensified, as shown in particular in cyclones in the Caribbean; that this was the result of global warming; and that governments had to take action to replace Kyoto with a new set of commitments. Munich Re produced no data to support the report (it was to be released a few weeks later).

Bill O'Keefe, head of the US based science policy think tank, the Marshall foundation pointed out that in recent years, cyclones has been less powerful than normal and presumably what the report detected was a return to levels of power more in keeping with the norm. He repeated the contention of many scientists that there is no basis to claims that progressively rising temperatures automatically means there will be a significant increase in the incidence of turbulent weather. Even the UN Scientific Panel on Climate Change concluded that global warming had not impact on the pattern of hurricanes.

### **The end of the road for the Kyoto regime**

Kyoto has several elements. First there is a program of reductions of emissions of carbon dioxide, reducing levels around 10 percent below those in 1990. The cuts are to be made between 2008 and 2012. Second, a program of trading permits to emit carbon dioxide is to be established among parties. Third, a "Clean Development Mechanism" is to foster investment in commercially viable projects in developing countries that can generate credits for reducing emissions. Finally, technical assistance was to be made available to developing countries to reduce emissions.

The heart of the regime is the program of emissions. Enforceable obligations to reduce emissions aim to increase the cost of power to encourage reduction of generation of power and thereby reduce emissions of carbon dioxide. Caps are also necessary if there is to be global trading. If countries do not cap emissions, they cannot create a demand for permits to emit. Global trading cannot be successful unless most countries participate. To be effective, trading needs to spread costs across the global economy.

A standard feature of any system of regulation is that when it is clear it is to be discarded, it is anticipated by business and regulators well before it occurs. There are signs that economic agencies and business in Europe will anticipate the demise of the Kyoto Protocol and act well before 2012. Italy has done so already. Its Environment Minister announced in Buenos Aries that it could see no point in trying to replace the Kyoto regime with something similar given the position of the United States and China. If Italian officials believe Kyoto will end in 2012, expect them to do little in 2010 and 2011 to meet their obligations to reduce emissions.

The former EU Environment Commissioner Margot Wallstrom complained several times during 2004 that member states were not on target to meet their Kyoto obligations and warned the European Commission would take punitive action. Given how casually member states in the Euro zone have breached the compulsory rules on keeping budget deficits within defined limits, and have not been penalized, this is not much of a threat.

More importantly, it is clear economic and energy ministries in Europe have started to calculate the cost (principally from higher power prices) of meeting the Kyoto targets to reduce emissions. The International Council of Capital Formation commissioned work which shows the cost to GDP of EU member states of the cuts range from 1.5 percent to 4.5 percent of GDP. (The estimate used by the Environment Directorate of the

Commission based on work it commissioned was that acceding to Kyoto would cost the GDP of the EU only 0.5 percent).

To date, environment ministries in Europe have driven policy on cutting emissions. They have effectively been running energy and even tax policy. As action is taken to implement these policies, energy and economic ministries in the EU member states will take charge. Pressure will mount to take action that will be less costly than cutting emissions. In the EU the record is that it is the northern States which implement EU environmental regulations. France, Spain, Italy and Greece have poor records of implementation. Pressure will mount to avoid enforceable regulations which raise costs (and evade the Kyoto obligations) and to adopt instead the less costly US approach of technical collaboration. Several can be expected to follow Italy's lead about post Kyoto approaches to managing climate change.

Environmentalists will protest that the technical collaboration approach will not be effective in reducing greenhouse gases. When governments want to justify a move to that path, they will point out that the Kyoto approach of enforceable reductions of emissions of carbon dioxide was not going to make a tangible impact on global levels of carbon dioxide anyway. Governments will always use available facts to support policy changes.

### **Prospects for trading in emission permits**

A feature of the Kyoto Protocol which has attracted intense interest in business and among economic analysts is emissions trading. The idea works. If the strategy is to restrict generation of gases, allowing those with surplus capacity to trade the right to emit with those whose rights to emit are exhausted is economically the most effective means is distributing the cost of constraining generation of gases.

Backers sometimes forget two cardinal points. First, a decision to create a system of trading is a decision to restrict production. It imposes a cost on production like a tax does. A system of trading emission permits has a similar economic impact as imposing a carbon tax. Second, if trading is to work properly, all production must be restrained. The value of permits will be severely undermined if there is no limit on the supply.

The effective decision at Buenos Aires not to extend the Kyoto regime beyond 2012 means that no effective global system of trading in permits to emit carbon dioxide will be established. With only half the world's emitters committing to cap emissions under Kyoto, no effective system of global trading will be established. There will be no incentive to investors to pay for credits because there will be no guarantee the value of the credit will be maintained.

Furthermore, now that it is clear no system will operate after 2012, investors will have already devalued any credits they hold in the knowledge there will not even be a limited market in seven years time.

This is already clear to investors. Whatever trading has occurred is within limited systems (trading among EU member states will be practicable, provided the system is implemented and enforced) or exists because Governments have artificially added value (the UK is subsidizing its internal trading scheme) or reflects corporate policy to show concern by companies about climate change, not commercial interests. (Companies will buy carbon rights in assets like forests, comfortable that the price of the right is underpinned by the value of the timber, not the carbon.)

Very little investment money has been put into rights to emit carbon. Even today, major investments in coal fired power plants and electricity systems based on that power carry virtually no premium or cost because of the putative value or cost of rights to emit carbon dioxide. This no more observable than in Australia.

Many of those who saw opportunities for arbitrage or advisory business in global emissions trading may have not yet conceded. The largest business group attending the Argentine conference was the Emissions Trading Association. Its delegation comprised representatives of over 150 companies worldwide. Law firms, advisory consultancies, and financial institutions have established businesses in anticipation of global emissions trading. Little or no profit has been made from these activities and that is unlikely to change.

Consultants advising on implementation of projects under the Clean Development Mechanism have been more realistic. Estimates in Buenos Aires of the number of projects implemented worldwide under this Kyoto mechanism ranged from between one and three. There were several seminars examining how the Mechanism might work. The consensus among experts was that the red tape created under Kyoto Protocol rules so increased the degree of government control over these investments that the level of political risk generated would deter investment.

Yet the idea is abroad that global emissions trading can be considered separately from the Kyoto Protocol, or even as an alternative to it. This reflects a profound misunderstanding of what makes emissions trading work.

### **The science debate rekindled**

The paradigm shift reflected by developments in Buenos Aires will also affect the debate about the science of greenhouse warming. Over the last eighteen months the appreciation among officials that Kyoto has a short life has broadened into the wider policy and business community. In parallel, debate about aspects of the science of global warming has been rekindled.

This debate has real substance. A principal indicator of this is the unwillingness of Green groups to engage. The general response from Green groups has been to say the science was settled years ago and that there is a comprehensive consensus among scientists that global warming is occurring and that human activity is the leading contributor. There has been orthodoxy rather than a consensus about the science.

The position of the developing countries at the Buenos Aires conference revealed something else. Developing countries are evidently not persuaded by the claims of calamity threatened by global warming or the science adduced to support it. If they believed the claims about the direction and impact of global warming, they would not be as casual as they have been about not accepting obligations to mitigate it. They may have observed that the scientific case for acting to mitigate global warming is weakening.

The UN Intergovernmental Panel on Climate Change (IPCC) is the basic body of research upon which the Kyoto Protocol is based. The leading conclusion in the report that human activity was the cause of global warming justified implementation of the Kyoto Protocol. One of the great misrepresentations of the IPCC report is that it found human activity was causing global warming and this was the consensus of hundreds of scientists.

That finding was not a consensus conclusion of the hundred scientists who contributed analysis to that report. It was inserted into the executive summary of the report which was prepared by environmental officials in the UN Secretariat. It reflected a consensus among environmental officials, particularly in Europe, not hundreds of scientists.

The greenhouse debate has intensified scientific research. More detailed temperature readings of the upper atmosphere have become available in recent years. They generally do not support the claim that temperatures are rising in the atmosphere.

Another key finding in the IPCC report was that the twentieth century is one of the hottest ever. That is now substantively disputed. The analysis in the report on which it has been based has been shown to be erroneous.

The upper estimate of global warming by 2100 of 5.8 degrees in the IPCC report is widely cited as the leading projection of warming. It was never was a projection. It was one of seven scenarios to which no probability was attached. That scenario has now been shown to be based on unrealistic assessments of the long term rates of growth of developing countries, and thereby the amount of carbon dioxide they will emit. The rate used would enable Turkey, Libya and North Korea to achieve higher per capita GDP than the US by 2050. This is not credible.

The science of how the world's climate works is very weak. The models used by the UN to predict changes have enormous gaps of knowledge. There is also very vigorous debate among scientists about whether or not levels of carbon dioxide cause global warming or are caused by it. In other words, we do not know if human generated carbon dioxide is significant or not. Many of us just want to think it is.

This debate will intensify. As Governments consider alternative approaches to climate change policy, they will have less need to defend the case for the Kyoto Protocol, its effectiveness (now no longer argued) and the science to justify it.



## **Trends for the future**

Coordinated international action to address problems is only successful if the nations which are most involved in the problem participate. This is true of economic and environmental issues.

It is not uncommon in international affairs for specialist line agencies to collaborate on a problem in an international forum and come up with a solution which has whole of government implications without acting on authority from whole of government. The agency is usually reined in when other agencies responsible for whole of government impacts, usually economic agencies, become involved. This process is occurring right now on greenhouse policy in the European Union.

While the passion of environmental officials is easy to understand, in the case of the Kyoto Protocol it seems they may have forgotten they were setting energy policy. The strategy in Kyoto to stop global warming is to set caps on the amount of carbon dioxide that can be burnt in order to reduce production of energy.

Energy officials would not try to set global policies on use of energy without the world's biggest producers and consumers of energy being part of the strategy. Yet this is what the promoters of the Kyoto Protocol did. They believed a global strategy was viable without the world's two biggest individual generators of carbon dioxide – the United States and China.

When the Kyoto Protocol was opened for signature, China was not the economic colossus it looks today. Several years of high growth quickly change the economics. It is unrealistic to consider any international regime to address climate change without China's involvement. It has made it clear, and it is supported by other high growth developing countries, that any solution must not impede its capacity to expand its economy.

Kyoto is impractical. Its cuts are so small the environmental impact will be negligible, but the cost not. The implementation of the cuts mandated in Kyoto by members of the EU is estimated to increase wholesale electricity prices in the EU by between 20 and 40 percent. The strangest twist in the greenhouse debate is the call now for cuts in emissions of 60 percent by 2050. In itself, this number demonstrates the ineffectiveness of the Kyoto regime. This sort of number has been acknowledged by scientists for some time as the order of cut necessary to reverse the steady increase in the level of carbon dioxide in the atmosphere and to start to reduce it. Since leading economies will not support the much more modest cuts in Kyoto, where then is the common sense in proposing a regime of more draconian cuts?

Another approach is needed. The United States has set out programs for technical collaboration with a number of countries to reduce greenhouse gases. Its general strategy is to eschew regulatory controls (like taxes, or caps on emissions). Several companies,

like Exxon have also set up extensive research programs to develop technologies to reduce emissions and to capture and store carbon.

There is scope for international collaboration on practical schemes which will produce tangible results, secure global consensus, and produce effective results.

It is time for international collaboration which works with the mainstream rather than tries to reshape it. As the Kyoto Protocol has demonstrated, that won't work. As much as its environmental officials might like to think otherwise, Europe does not drive the global economy. In other spheres Europe collaborates. It is time for European international environment policy to join the mainstream rather than try to drive it. Buenos Aires clearly showed the EU is no longer driving global climate change policy.

### **Practical Strategies for Australia**

Somewhat surprisingly, Australia's new environment minister missed the paradigm shift at Kyoto. Whereas the US strategy of focusing on developing technology is now the only basis for effective international collaboration (consistent with the strategy adopted by the Howard Government), he sought immediately after the Buenos Aires meeting to distance Australia from the position of the US (and China and other developing economies in the Asian Pacific region).

Calls for Australia to join Kyoto and adopt emissions trading are now outdated. Emissions trading can only be effective if national controls are imposed on emissions. Controls would increase power costs and diminish competitiveness. There is no point in Australia's allying with the EU alone to support a global warming strategy that cannot work and which reduces global competitiveness. Joining the US and other countries in strategies to foster new technologies and lower emissions is the only effective strategy available to Australia.

Some will ask how will it help if Australia follows the US strategy and that does not reduce emissions of carbon dioxide to the degree necessary to reverse the increase in emissions of carbon dioxide? The more pertinent question is how will it benefit Australians if Australia's joining the EU in a strategy to radically reduce emissions which cannot succeed while others refuse to join it and, in the process, economic growth in Australia is severely curtailed?

The real question to ask is how much difference will it make either way? The science used to justify the extreme claims of calamity is certainly dubious. There is time to assess this matter calmly and prudence would suggest that, in the interim, the technological route being followed by the US is the sensible one to take.