



## Progress in Copenhagen, But Who Will Pay?

*William R. Cline notes that recent changes in approach by the United States, China and India have improved the prospects for a climate change agreement in principle at Copenhagen.*

*Edited transcript, recorded December 11, 2009. © Peterson Institute for International Economics.*

- Steve Weisman: The climate change conference in Copenhagen has begun and the European Union will contribute about \$3 billion starting next year to help poorer countries deal with climate change. This is Steve Weisman at the Peterson Institute for International Economics welcoming William Cline, senior fellow at the Institute, to discuss the Copenhagen conference and how climate change will be paid for. Thanks for joining us, Bill.
- William Cline: My pleasure.
- Steve Weisman: What is the significance of the European Union's announcement and pledge?
- William Cline: It's part of the overall package whereby the industrial countries take a commitment to reduce their emissions, and the middle-income countries take a commitment to slow down the growth of their emissions. For the poorer countries—who really don't account for much of the emissions at all—there is, nonetheless, an international effort to provide some aid to deal with the inevitable damages that are going to come from the warming that's already in the pipeline.
- Steve Weisman: Did you find it encouraging that the Europeans put up some money today, and what does it mean for the United States?
- William Cline: I think it means that there will be some money, some assistance. The United States, I think, is prepared to go along with a reasonable sized amount of assistance that's probably commensurate with what the Europeans have done. I do think that there would be voices out there who'll say, "Well, this is petty change. We need \$100 billion or \$150 billion a year to deal with this problem." And so some will say, "Well, the developing countries should storm out of these meetings and pound the table." I think one of the problems is that you can get estimates of how much extra it's going to cost the developing countries by 2030 per year in terms of their additional costs that are in that order of magnitude. The World Development Report has something like a \$150 billion a year of extra cost for developing countries.
- There are lots of ambiguities about that. One is, that's 2030—what about right now? But I think the most fundamental ambiguity is that again, the big developing country emitters—China, even India, Brazil—are all sitting on tons of foreign reserves. China has \$2 trillion of foreign reserves. So, it doesn't make a lot of sense to think in terms of giving China additional money to deal with this problem. What makes the most sense for these countries is joint research projects that are going to

produce new technologies such as carbon capture and sequestration. And when you get to the poorer countries, who are traditionally eligible for concessional assistance, you get these numbers that are considerably smaller that are consistent with the kinds of numbers that the European Union has put on the table.

Steve Weisman: Just to clarify, when you mentioned the \$100 billion and \$150 billion range for the developing countries, did that include China and the other sort of upper-income developing countries?

William Cline: Yes, it did.

Steve Weisman: So what would China's receptivity be to using some of its reserves to help mitigate this problem and to help countries adapt to the problem of global warming?

William Cline: There are two parts to that question. China is going to have considerable investment of its own. I think the point is that they have resources to make that investment of their own. They have made a commitment that they're going to reduce the carbon dioxide intensity of their domestic product—how much carbon dioxide is emitted relative to their real annual production—by 40 percent by 2020. And that will be a welcome change, because although they have been improving their energy efficiency in recent years, they've actually been using somewhat more carbon dioxide per unit of energy. So that's an important step, and I think it's sort of a precondition, really, for success at Copenhagen—the fact that China and now India have made a similar pledge about carbon intensity. So that's going to be the most important thing—what they're doing domestically—and that's going to take some resources.

Now, will they additionally put some money into an international fund to help Sub-Saharan Africa deal with drought? I can see them doing that on almost a political basis. You know, \$3 billion a year, it's sort of the statistical error on the rate of return on \$2 trillion of reserves, so why not? And especially considering that China has been in the forefront of going out and buying up land and getting the locals to work on it in order to have agricultural supply in the future—sort of a cross-border or a direct investment in agriculture. So it wouldn't be out of the question at all, to my mind.

Steve Weisman: The demand by the poorest countries took the form of so-called reparations, which came up at Copenhagen this week. And that was dismissed pretty much out of hand by the United States. Do you think the poor countries will make any headway on that?

William Cline: I think the thing to keep in mind about reparations is that until 1990, carbon dioxide emissions were not viewed as a bad. They were viewed as part of progress. And indeed, the coal state folks would tell you, "Look, we responded to the 1980s oil crisis by pushing up our coal production, and now you're telling us this is terrible." And I think you're going to get, in terms of moral obligations, you should probably start the clock at 1990. I could see an argument for saying, "Look, you know over the long term, the total annual emissions per capita should be two to three tons of carbon dioxide per person for now and forever, okay?" Well, the United States has been emitting 20 [tons] per person, so maybe you can do a little calculation where you take the difference between 20 and 3 and start the clock at 1990; you could come up with some numbers like that.

I think the reality is that the appeals to that kind of moral reparations don't always carry the day. It's not clear that they should carry the day. What matters is a realistic way forward. In the case of the United States, the most important thing is to confirm this new political direction that we're actually going to do something about this. This is a radical change from the previous administration, and the turnaround by the United States and by Australia from the previous decade on this issue is the key thing. I'm not sure you want to load that turnaround up with some baggage about, "you've got to pay for your previous sins."

Steve Weisman: The United States' change of policy, of course, came with the new administration. How do you assess the negotiations, even in the last month or two, which seemed to have improved the prospects for progress at Copenhagen?

William Cline: The key new element is the willingness of China to say something more specific than it has said before, by specifically mentioning the carbon intensity of its output. And then India, which had before taken a position simply that they would pledge that they would never have more carbon emissions per capita than the rich countries. That was kind of an easy pledge to make, because they started from a very, very low base and it's going to take a very long time for them to get up anywhere near the industrial countries. India followed China's suit and said, "Okay, we'll increase our efficiency of carbon relative to the GDP by 20 percent by 2020 as well. So that's a major change.

I basically think that the reason that China and now India are going this way is that they're increasingly recognizing that this is not a rich country's luxury. This is not turning your attention to beautiful forests and to clearer streams because you're rich and you're not at the edge of starvation. They realize that their own countries are severely in jeopardy. The agricultural calculations for India are that they would have among the very, very worst damages from global warming in agriculture. For China, they have conducted a lot of scientific work in recent years that I think has influenced the political leadership to come around to the view that, you know, this is going to be really bad for China.

The glaciers in the Himalayan plateau that feed their major rivers are likely to be severely jeopardized; that's going to affect the reliability of the water supply. They have coastal cities that could be very seriously affected by sea level rise. So from that standpoint, from a long-term strategic Chinese standpoint, in a sense, the name of the game becomes cooperating enough so that the international action takes place. Because if they don't cooperate enough for that to occur, then they wind up with serious damage. So that whole thing, I think, has changed sufficiently. Keep in mind that the Senate basically unanimously said at the time of Kyoto: "We're not going to do anything if the developing countries aren't going to do anything." And that is the dynamic that has changed.

Steve Weisman: How long is it going to take finally, after Copenhagen, before we actually get some concrete numbers, concrete agreements? And by the way, remind us—you're studying this—when is your own study of financing and costs coming out?

William Cline: Well, the date of my study finally appearing is more difficult to predict than the number of degrees Celsius at the end of the 21st century. But putting that question aside, what we're really looking at is the reality that the legislation in the United States is not in hand. Now, you can argue that that's the way you should go into a negotiation. I mean, if you have your climate legislation all locked in, then the reaction from your counterparties is going to be, "You guys have already made up your mind. There's no sense in us talking to you, because you didn't do enough." It's very ambiguous, what's the right way to have a negotiating position. I think there's a certain case for doing just what we got. We got this fairly meaningful Waxman-Markey bill that says we're going to cut our emissions by 17 percent by 2020 and we're going to cut them by 83 percent by 2050. You've got the president having mobilized the Environmental Protection Agency [EPA] to say this is a pollutant, and this is cluttering the closet, that if Congress doesn't pass the bill, EPA will do their work for them. And business does not want that to happen. They would rather have legislation than have an administrative regulation.

So the basic plan now is that there will be agreements in principle at Copenhagen, and that during the course of next year, and some say at the Mexico meeting, there would be a translation into a more concrete treaty document. And I think there've been a lot of signals from the top of the US administration [and] from the Danish host that this is not going to be locked up at Copenhagen, but that there will be sufficient agreement in principle to serve as a basis for more concrete agreement next year.

Steve Weisman: Bill, thanks very much for giving us your sense of it. We look forward to more conversations as the progress unfolds.

William Cline: Thank you.

