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## **The 2015 International Climate Change Agreement: Shaping international climate policy beyond 2020**

### **Consultative Communication**

Question 1:

**How can the 2015 Agreement be designed to ensure that countries can pursue sustainable economic development while encouraging them to do their equitable and fair share in reducing global GHG emissions so that global emissions are put on a pathway that allows us to meet the below 2°C objective? How can we avoid a repeat of the current situation where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C?**

Balancing 1.) sustainable economic development and 2.) GHG emissions' reductions, remains the toughest challenge, since it is exactly the opposition of those two that lies at the bottom of the current, unsatisfactory state of affairs "where there is a gap between voluntary pledges and the reductions that are required to keep global temperature increase below 2° C." In fact, global emissions of carbon dioxide increased by 3% in 2011, reaching an all-time high of 34 billion tonnes in 2011 – all during the period of a slower economic growth and actual reductions of emissions in the EU, US and Japan. According to PBS Netherlands Environmental Assessment Agency's research, the past decade saw an average annual increase of 2.7%. The top 5 emitters are China (share 29%), the United States (16%), the European Union (EU27) (11%), India (6%) and the Russian Federation (5%), followed by Japan (4%).<sup>1</sup> The size of Chinese contribution alone makes this country a top priority, with India an ever-important second. The sheer pace of their industrial growth and their demographics make them leaders of "polluters party" and without their consent, the objective of keeping the global temperature increase below 2° may prove illusionary. However, those countries underline that the climate change is a long-term effect of unrestricted emissions by developed countries in their process of industrialization. In other words, they are not willing to pay the price for late bloomers, and need an insurance that means that are to be adopted will somehow adjust for their under-development relative to the Western countries. "Equitable and fair" question will remain the focal point

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<sup>1</sup> <http://edgar.jrc.ec.europa.eu/CO2REPORT2012.pdf>, p. 6.

of negotiations, and they will have better chance to succeed if:

- China and India will be given a leadership role in the system that is going to emerge – thus making them not only promoters of new measures, but also, to some extent, a policing force within their zones of influence
- The cost of sacrificing cheap, carbon-fueled growth will be set off in a balanced, mutually beneficial way (i.e. further liberalization of world trade, including agricultural products and raw materials; transfer of carbon-efficient technologies)
- There will be a clear reward for keeping the emissions within pledged limits, rather than sanctions for not keeping them, e.g. there will be a promise of sharing future developments of alternative sources of energy within the community of carbon-clean countries.

Question 2:

**How can the 2015 Agreement best ensure the contribution of all major economies and sectors and minimise the potential risk of carbon leakage between highly competitive economies?**

The potential risk of carbon leakage has been stressed by the Commission, which issued a list of sectors deemed at risk. Between 2013 and 2020, those sectors will receive preferential treatment in allocating free emissions. The Commission acknowledged that there are sectors and sub-sectors that are exposed to competition in third countries that do not put limits on emissions – and, in result, either domestic industry relocates abroad, or the demand for domestic energy-intensive goods declines and the trade balance deteriorates (or both occur). Carbon leakage, if occurs, means that the domestic climate mitigation policy is less effective and more costly in containing emission levels.

The Commission list includes nearly all major industries, including: mining and agglomeration of hard coal; manufacture of synthetic rubber in primary forms; manufacture of basic iron and steel and of ferro-alloys; aluminium production; copper production; lead, zinc and tin production; manufacture of cement; extraction of crude petroleum and natural gas; manufacture of footwear, and many more.

However, there is a growing opposition to the present scheme, overcompensating some industries, like cement and steel – which will have local demand notwithstanding the cost of carbon, according to CE Delft.<sup>2</sup> Moreover, Intergovernmental Panel on Climate Change estimates that carbon leakage is not a significant factor: “As far as existing mitigation actions, such as the EU ETS, are concerned, the empirical evidence seems to indicate that competitive losses are not significant.”<sup>3</sup> For example, statistical analysis of 1999-2006

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<sup>2</sup> <http://www.euractiv.com/specialreport-industrial-policy/report-eu-carbon-leakage-list-to-news-518994>

<sup>3</sup> [http://www.ipcc.ch/publications\\_and\\_data/ar4/wg3/en/ch11s11-es.html](http://www.ipcc.ch/publications_and_data/ar4/wg3/en/ch11s11-es.html)

trade data does not confirm that CO2 prices affected EU primary aluminium trade flows.<sup>4</sup>

2015 Agreement must address the issue by providing a framework for fair competition and transparency. There will be no effective system if parties feel that it affects their chances on a global market in a disproportionate way. Attribution of public aid must be limited – not enhanced – under new regime, and must only be applicable in relation to carbon leakage to countries that are outside of the Agreement.

In my opinion, only strict rules limiting public aid may attract more parties to the Agreement, making it more effective overall. The occasional leakage should be set off if it benefits the country that remains outside the Agreement: either by the state aid for the impacted industry or, preferably, by common trade policy against the imports from the outside. If the leakage occurs within the parties to the Agreement, it is the cost of sustaining the system. And, as available data demonstrates, it is not a significant factor.

Question 3:

**How can the 2015 Agreement most effectively encourage the mainstreaming of climate change in all relevant policy areas? How can it encourage complementary processes and initiatives, including those carried out by non-state actors?**

Mainstreaming of climate change in areas such as energy, transport, industry, agriculture, forestry and other policy areas has become a synonym for avoiding the discussion about a real cost of implementing truly effective measures across the board. The latter requires more than has been done so far, as Kyoto, Copenhagen and Cancun measures proved insufficient: global emissions rose despite a concerted effort by the industrialized Western countries to limit them on their own.

At the same time, the Millennium Development Goals and ensuing Rio+20 Conference put a link between a greener economy and other goals, such as eradicating poverty and making growth sustainable. Bridging those goals with climate change policy may prove problematic, especially that shifts in global economy will give precedence to issues closer to the emerging countries' populaces: demographics, employment, social welfare.

Discussion about "mainstreaming", i.e. about finding the measures that can be effective and yet not painful to various sectors of economy, should be secondary to the discussion about priorities. Without setting the benchmark on acceptable cost of the entire effort to curb emissions, pretending that it can be all done at no cost is deceptive.

However, 2015 Agreement must set forth measures that will ensure a real and quick implementation of new regime throughout the economies of the participant States. At the same time, new rules must give each party-state a necessary discretion in organizing their own internal rules on emissions. In order to balance those two goals:

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<sup>4</sup> [http://www.iea.org/publications/freepublications/publication/Aluminium\\_EU\\_ETS.pdf](http://www.iea.org/publications/freepublications/publication/Aluminium_EU_ETS.pdf), p. 4.

- Agreement must establish strict general limits on emissions
- Agreement must give each party the liberty to regulate internal use of emissions with simultaneous harsh sanctions for exceeding general limit
- Agreement must establish a common and obligatory response to parties that exceed their quota, e.g. automatic raising of all tariffs by the same percentage.

In order to work, 2015 Agreement has to be lean. If there is to be a binding treaty (and not a declaration of intentions), it should provide a global goal of limiting emissions to 1000GtCO<sub>2</sub> over the next 30 years – and set national goals for each party-state. It should provide punishing measures that are automatic, otherwise they will never take effect.

At the same time, there is no way that the Agreement can prescribe exact outcomes for each economy or set incentives for private sector over the shoulders of respective governments. The market and the political process in each state will shape each party's internal balance between the interests of transport, agriculture, construction and forestry.

Question 4:

**What criteria and principles should guide the determination of an equitable distribution of mitigation commitments of Parties to the 2015 Agreement along a spectrum of commitments that reflect national circumstances, are widely perceived as equitable and fair and that are collectively sufficient avoiding any shortfall in ambition? How can the 2015 Agreement capture particular opportunities with respect to specific sectors?**

Distribution of mitigation commitments should be the main focus of the 2015 Agreement, and there is no doubt it will prove ineffective if parties feel that it is not “equitable”. How to achieve this goal, bearing in mind that BRIC countries and other developing economies feel that they are entitled to less punitive quantities than the developed countries? At the same time, the collective sum of commitments must not fall under the general goal of preventing 2° C raise of temperature.

The 2015 Agreement should aim at finding a clear formula (algorithm) that would set a regime according to a collection of parameters. It is clear that one side of that equation should be the scientifically established sum of emissions that will keep the Earth under 2° C raise of temperature.

Studies show that to reach this objective, cumulative emissions in the 2000–2050 period must not exceed 1,000 to 1,500 billion tonnes CO<sub>2</sub>, and since 2000, we're already at 420. This leaves us with the maximum of around 1,000 billion tonnes CO<sub>2</sub> to distribute over the next 3+ decades.<sup>5</sup>

The other side of the equation should include a formula for division of emissions, relative to the population. Subsequently, the parties should agree on a premium given to the developing countries, compensating for their distance from the average GDP per capita of

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<sup>5</sup> <http://edgar.jrc.ec.europa.eu/CO2REPORT2012.pdf>, page 7.

all the parties. For example, all countries under the average would receive additional emissions (relative to their net difference), while all countries above average would have to deduct the same amount from their quotas.

The changes in GDP/capita, updated periodically (3 years seem reasonable, to give room for economies to adapt; but annual update is also imaginable), would serve as an auto-updating mechanism. Countries that would keep developing would see their allowances decrease over time, and countries that are rich would see their “punition” lessen as other countries would shorten the distance in wealth. What is important, the shifts in the global economy would not change the sum of emissions allowed, unless a scientific consensus changes, and a different level of emissions is deemed climate-neutral.