

Climate: Does the World Need a China-US Deal?

by Richard Stewart & Benedict Kingsbury

The Copenhagen process is multilateral, focused on reaching global agreements. But to get to a strong and truly effective global climate regime, bold bilateral initiatives may be needed. The conditions are propitious for a deal between China and the US, the world's largest and second largest emitters, but that will call for imaginative and committed leadership on both sides as well as much political groundwork. Beijing and Washington could strike a deal under which each would undertake to limit emissions and the US would grant offset credits for reductions in China that could be used by US firms to comply with US domestic cap and trade regulation. The credit offset mechanism would deliver private financing and technology to China through carbon markets, probably through sector-based programs, and could be supplemented by measures for technology cooperation. This deal would bring the world's two major emitters into an international emissions limitations agreement — something the Copenhagen process on its own may to achieve — and set the stage for a series of similar bilateral deals involving the EU and other developed countries as well as the US on one side, and China, India, Brazil and other major developing countries on the other. Such a web of bilateral deals could provide the foundation for negotiation of a more substantial and effective global climate agreement than Copenhagen or immediately following rounds of UN-global negotiations can now realistically achieve.

A China-US deal makes sense for both sides. China has already embarked on an ambitious energy efficiency drive, which forms the basis for its recent undertaking to reduce emissions intensity by 45%. China has economic, political and environmental reasons for its actions. China has much to gain from nationwide energy efficiency, and for some technologies (e.g. renewable energy and power stations) a large domestic market will also provide a springboard for exporting this technology. A deal with the US could bring in welcome infusion of additional capital and know how as well as markets for many Chinese technologies. Politically, China can benefit from showing leadership on a major global issue, and from maintaining access to markets in countries with emissions controls; and the Chinese government is alert to adverse impacts of climate change in China and the accompanying threat of social unrest and political destabilization. Environmentalism too has rising affirmative salience in Chinese public and governmental thinking.

From the US perspective, bringing China into an international limitations agreement would reduce leakage of investment and jobs as well as securing climate benefits and meeting the domestic US political demand for action by China as a condition for the US to undertake strong regulatory limitations on greenhouse gas emissions.

A China-US deal could overcome a major impasse in the Copenhagen process concerning measuring, review, and verification (MRV) of emissions reductions. China has argued strongly that MRV requirements apply to developed (Annex I) countries but should not apply to China or to any developing countries. But assuming Congress manages to pass legislation adopting a cap and trade greenhouse gas regulatory system, this will likely authorize the US Environmental Protection Agency (EPA) to implement a credit offset program under which some emissions reductions in developing countries generate credits that can be sold into the US market. This is politically plausible because offsets generated by emissions reductions in China would reduce

compliance costs to US emitters while at the same time creating business opportunities for US firms. Some equivalent of MRV will be part of any such system administered by the US EPA. So China may see benefits in accepting, at least bilaterally, some kind of MRV to gain access to that market, all the more so if the EU and other emissions trading systems take a similar approach. If such a US system is established, President Obama may well be able to make a deal with China to award credits for its reduction by executive agreement, avoiding the political hazards of a treaty requiring Senate ratification.

Another critical element in climate deals for China will be border carbon adjustments, which the US (or the EU and others) may seek to impose on imports from countries without comparable emissions controls, in order to level the competitive playing field for industry and avoid leakage (migration of production to areas with weak emissions controls) or the undermining of climate objectives. China has sought to get agreement in the Copenhagen process to prohibit such measures. But US Congressional climate legislation is likely to include border carbon measures aimed at imports from major developing countries without emissions limitations, which will provide a further incentive for China to agree at least bilaterally on limitations (the trade measures in the Montreal Protocol seem to have influenced China to limit its production and use of ozone depleting chemicals.)

Bilateralism can be damaging, and those committed solely to achieving a global UN deal will bristle at this prospect. But a global-multilateral approach may not on its own produce enough. And while bilateral negotiations may be seen as a Western ploy to break up the G77+China negotiating group, it is not so clear that this group can necessarily serve the very divergent interests of its members on some key issues, as strains during the Copenhagen negotiations have demonstrated. Vulnerable island and low-lying states have understandably demanded that large emitters among developing as well as developed countries must accept much tougher emissions curbs. African delegates are right to protest that (with the partial exception of REDD for forests) too little is on the table at Copenhagen to address the interests of their peoples, who were and remain low emitters, bear high costs from reducing emissions (e.g. banning charcoal as fuel), have few resources to meet the costs of adapting to drought or other consequences of climate change, often lack electricity or other modern energy sources, and are unjustly beset by poverty and short life expectancies. A bilateral China-U.S. deal would do nothing to address these latter problems, but it might conceivably help open the way for a much stronger global deal with substantial emissions curbs and large financial flows in which adaptation, low-carbon development and even some basic climate justice receive more fundamental attention with rising stakes and more on the table.

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