



China Carbon Forum | 中国碳论坛

An independent platform to foster trust and cooperation among China's stakeholders for climate action

Interview with Mr. Tim Yeo, 7th July, 2015

China Carbon Forum recently met up with Mr. Tim Yeo, Former Chair of the UK Parliaments' Energy and Climate Change Committee. In a wide ranging interview centred on China, we discuss many things such as carbon markets, the Paris COP, shale gas and IP protection. We start by asking Tim about his support for a global carbon market.

I'm a great enthusiast for the long-term goal of a global carbon market. It is a long way off obviously, but if you think about it, if you had an effectively implemented global carbon trade system, perhaps with using as the cap the [guidance in the] IPCC 5th assessment report, you won't have any problems at all, if it is effectively enforced. It is a market instrument that should ensure efficient allocation of capital.

Have you spoken about this in China before?

Not quite so, I'm going to say this tomorrow morning. Not quite so directly as that. People I have talked to probably know that's my view. Sr. David King who was the Chief Scientific Advisor [to the UK Government], he is a supporter of that concept, I'm sure there are people in the emissions trading business who would say that's a good long-term goal as well. But I think that we have already been through the danger period of emissions trading. About five years ago, it looked as though this concept might get completely discredited. It isn't working terribly well, but the EU ETS has survived, and I think now has pulled out of this bad phase. You have got China taking it really seriously with the pilots and we believe there will be an announcement in the 5 year plan about the national system. Once you got a quarter of the world's population and, over a third of the world's GDP saying emissions trading is part of the answer for climate change, it becomes hard for the rest of the world to ignore. And then you have California, the most advanced state in the US.

And several other parts of North America as well...

Exactly! I've been an enthusiast for over twenty years, when I first understood the concept I thought this has got to be part of the answer. Other people are still against it, and in the meantime we may need carbon taxes as well and lots of other measures, but ultimately we could rely on this.

Tomorrow's forum's headline is "Linkages". As an Australian, we were going down that track... Do you see some other linkages on the horizon?

I think they're not immediately up on the horizon. The EU has already said that it would not link with a sub-national system, but I suspect that could be changed. Look at places like California, like Guangdong province - they're bigger than most EU member states. Guangdong's population is bigger than any of the EU member states. California is the 3rd or 4th largest. So I think that could change. Secondly, of course in China we don't yet have systems that are subject to an absolute cap, so you couldn't have a complete trading platform, it wouldn't work. It's about keeping that long-term aim in mind so that as you design new features of the system you do it in a way that would be compatible in the long-term future. Australia's thing was more due to a change of heart rather than defects in the system. That was my impression from the outside.

That was my impression as well. I guess one feature of working in China is that the policy direction is more one way than the other, so we don't face quite the same issues.

That's the interesting thing about China, and the EU. The EU is a convoy that moves at the speed of the slowest of 28 ships, which in this issue is pretty slow, but in China it is not quite the same and they can move very quickly if they choose, which is an advantage in a sense. It does have some downsides, but I think it is an advantage. Given the torturous progress that the EU and ETS have made this far, you can't expect this to happen very quickly. But keep it in mind, because even if we deviate an inch this way or that way we make forward progress, however slowly, in the right direction. What I am keen to do is to try and get that into people's minds a bit for Paris, at least from the COP nothing happens.

I heard Robert Stavins from Harvard making this point quite well in New York last year, saying we don't expect this year's main headline to be "the world's going on a global cap and trade" but it would at least be nice if nothing came out of it which would make this goal even harder to achieve.

I'm slightly nervous about the Pope's intervention actually. I think that you can get some negative stuff said about carbon trading as an instrument, and what it would do to poorer countries. Actually, it could do a lot for poorer countries if the application system was fair. They can make money from it, and almost any form of carbon tax has a regressive impact on poor people and poor countries. A properly designed cap and trade system can have a progressive and transformative impact on those countries.

Do you have any thoughts about the Paris COP? What would you like to see? What do you think is realistic, your sense from UK government, the objectives there and the hopes?

I think firstly, the background is much better than before Copenhagen in 2009, it is more realistic, the whole approach which has a bottom-up as well as a top-down dimension to it is absolutely right, we have seen countries saying things that they would have not before, so philosophically it is right this time. The expectations are more realistic, the world has moved on and the business community is much more committed. That statement by the oil companies in Europe last month, that wouldn't have happened in 2009. Your guess is probably better than mine here, but the UK government has changed, if I had this conversation with you nine weeks ago I would have said that we are expecting another coalition, that's what the polls were pointing towards, even the prime minister was surprised because suddenly, you have six weeks of opinion polls saying the exact same thing, even if your instincts tell you "surely we are going to win", and suddenly there it is, a conservative government. That doesn't necessarily mean they will change their approach to the COP, but it might. They haven't said much on the record since the election about what they were going to do. There was quite a good statement before the election by the three UK party leaders who all signed up to a sort of manifesto that one of the NGOs put together, stating that they were all attaching top priority to climate change. Hopefully, there'll be a very constructive engagement, but of course the UK acts through the EU in these issues anyway. Given that the UK was one of the EU member states, which argued very strongly for the 40% emissions reduction target for 2030, that is a good sign. We were arguing for a more challenging target, so I think they will be in there trying to do the same thing. I won't hold my breath for any kind of breakthrough, because I think when you have nearly 200 countries involved, it's very hard. I've been to three COPs, and I found them a bit depressing, it distracts from the main event.

Concerning China's target for 2030:

I think there is a cultural point; if China announces a target they will do so when they are absolutely certain they will achieve it. I wouldn't be too depressed if the target doesn't seem as challenging as we would like it to be. The expectation is that they will comfortably exceed it. That would be my instinctive reaction. That's not a reason not to say we should do something more challenging. In 2009 they weren't talking about these kind of public targets at all, so they've also responded to what other countries have done.

Do you see the tide changing in terms of China's role on the international stage with regards to climate change? Can China become more of an influencer?

I do, I think that is already happening for several reasons. The level of engagement with the issue here has been transformed compared with ten years ago. I've been here quite a lot in the past 10 years; it doesn't bare any resemblance to it at all – how it looked 10 years ago. I think secondly it has been driven by the air quality here, which is very helpful in getting people to do the right thing. Thirdly, there is a paradox in what we were saying just now about how in China they wouldn't announce a target unless they were sure to achieve it. In Western democracies we announce targets all the time but you don't even believe them when you say them, they don't have re-election but in some sense they are more disciplined than we are, it's just cultural difference and I think it related to this point as well. The Chinese government does not have the comfort, or one might say the legitimacy of being elected, therefore they are much more responsive to public opinion than someone who has been elected. If you are the US president and were re-elected for your second term, you could do what you like in those four years, but here they are really nervous about that and worried about the air quality issue. Gradually, there's beginning to be an understanding for people outside of China about what they're doing here. The problem is hideous, and they've got to move much faster with their dependence on coal, but I think they've realised that. Until 4-5 years ago, people bought the George W. Bush idea of China not doing anything - so why should we, which is still believed by some Americans, but much less than before. There is recognition that they are doing something, and that's why people will pay attention to what they say. I also sense that China itself wants to play a bigger role here, which they did not want to six years ago. The flexing of muscles is taking place.

They very clearly identified some key industries which they want to plough resources into, which they see as engines to growth in this coming century, that's part of it.

Another issue I am interested in is nuclear power, where we have a very active debate in the EU about, at the moment, about half in favour and half against. One of the other jobs I am doing is chairman of a company looking to promoting the revival of nuclear power across the EU. The Chinese are very keen on getting into the UK market. They've got this deal with EDF, being a minority investor in the first nuclear plant they built in the UK which had run into severe technical issues with the manufacturing. The deal is if they put the money in to that, they get a majority stake in one of the other sites for nuclear, and can then use their own technology, and not just in the UK but across the EU. That's an industry where they can see themselves getting a global market position. And also they seem to believe the same thing about climate change, that nuclear is a low carbon technology.

You're very much a supporter of shale gas now.

For two reasons, I think gas is a transitional fuel source for the UK and for the world, there's no doubt in the next fifteen years the UK is going to consume a lot of gas and I think it will be better than importing it from the outside, for security reasons. Secondly, if we don't exploit it, one of the sources we will import is LNG from the Middle East and because of the process of liquefied and unliquified, the life cycle of carbon emissions or gas during the process that originates from LNG is actually higher than if you are producing it yourself. It is a small but significant reduction in emissions. All is postulated on the assumption that using our own shale gas will not weaken our determination to find lower carbon sources. Now, I accept that's a debatable point, there's a risk there. I simply say this is a practical matter, I don't see how we are getting to 2030 without the UK using a great deal of gas. But it is a transitional fuel, I also support the idea that electricity generation has to be almost completely decarbonised by 2030, and is a long-term solution. That's why I'm excited about solar, that's why I am disappointed that the UK government has stopped the support for onshore wind sooner than expected.

Given the urgency of the technological revolution that needs to happen, China potentially has a huge role to play here just because they have done impressive things with wind and solar energy in terms of bringing down the costs. Do you see enough ambition in pioneering the technologies that will provide serious power?

I think one of the difficulties is still the concern about IP [Intellectual Property] law. I chair a company that develops hydrogen fuel cells and we are going to deploy it in Korea, in Thailand, Dubai, America, but we don't want to bring it here [China], even though doing so might enable us to get costs down faster. They don't want to take that risk. I think the IP protection [here] is better than it used to be, but I suspect that some people who have got bright ideas are nervous to bring them here [China] to get them developed.

Do you see much potential in China in regards to shale gas and globally in regards to carbon capture and storage [CCS]?

I don't know about shale gas here, I'm sure if they can find it they'll use it, but I don't know enough about what their terrain is like. As for CCS – I'd love to think it's just around the corner, but I don't have the sense that it is. It's a technology that is transformational and we do still need it for gas as much as for coal, but I'm not holding my breath for a breakthrough and we can't make policy on the assumption that it will.