

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

Implications and Challenges of the US-China Joint Announcement on Climate Change Cooperation

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We welcome the recent announcement of the US-China bilateral agreement on climate change. This landmark event signals a trend toward ecological civilization, a transition to low-carbon development, and greater cooperation between the US and China. It is a victory for the principle of common but differentiated responsibility, a triumph of the rational and pragmatic, and a win for the interests of both the Chinese and American peoples, as well as the whole human race. We congratulate the governments and politicians from both countries whose wisdom has brought new, concrete substance to the major power relations between China and the US, opening up a broad new arena for cooperation and potentially injecting tremendous positive energy into global climate governance.

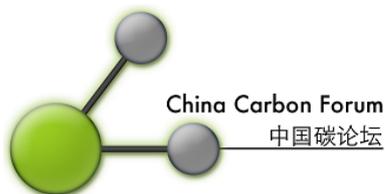
I. Major Implications of the US-China Joint Announcement

- 1) A consensus at the highest level of decision-making galvanizes action on climate change and sustainable development.** The nature and direction of this joint action is far more significant than the specific numbers or timelines attached to it. Once a ship's course has been properly set, there will always be opportunities to accelerate progress and hasten arrival at the intended destination. The joint approach is positive, yet realistic in its assessment of the feasibilities and constraints that must be faced, thereby minimizing the risk of failure from over-ambitious expectations. The decision made was not technical in nature, but rather political and strategic—setting the ship's course by political decision facilitates consensus among all parties, and allows each side to set sail sooner.
- 2) A new model is set for cooperation and common but differentiated responsibility in global governance.** The US-China agreement adds positive momentum to the UN climate talks as they seek to reach a new accord in Paris in 2015. The agreement will inspire all countries to have greater trust in one another and larger confidence in the ability of multilateral mechanisms to effectively address climate change. As the world's largest economies and emitters of carbon in the developed and developing worlds respectively, cooperation and consensus between the US and China is absolutely critical to the low-carbon transition of the global economy at large. In a highly integrated world economy, coordination between nations at different stages of development and on different segments of the global chain of production is a difficult but necessary precondition to realizing a true low-carbon transition.

The Joint Announcement reaffirms the principles of common but differentiated responsibility (CBDR) and of respective capability, as well as the Decision on the Durban Platform to address climate change "under the Convention." This recommitment is significant in ensuring the healthy development of global climate governance. The difference in the goals, benchmarks, and timelines set by the US and China reflects a political compromise and mutual understanding over the long-controversial principle of CBDR. Both sides have agreed to make contributions and bear responsibility for climate change action, but those commitments will be differentiated based on the differing levels/stages of development, capacity, and circumstances of each country. The US-China Joint Announcement sends an encouraging signal that such compromise is achievable.

- 3) A basis of common interest and cooperation is found for building a new type of major power relations between China and the US.** Relative to other areas in which they may have more differences, climate change action has emerged as an area in which China and the US share a greater consensus, have a greater likelihood for successful collaboration, and have greater incentives in terms of their partnership's implications for the broader bilateral

¹ The authors are responsible for the views expressed in this paper in their individual capacity, and do not necessarily represent the views of their organization and/or Chinese government.



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relationship. The two countries—and humanity at large—are faced with the challenge of climate change as well as the immense task of economic rebalancing, low-carbon transition, post-crisis recovery, and the search for new growth points to power future development. Climate change represents an environmental challenge, but also challenges us to promote sustainable development, emerge from recession, and work toward a new global prosperity. The US and China have a bilateral trade volume of over 500 billion dollars, and their combined emissions account for over 40% of the global total. Without cooperation between these two countries, there can be little hope for the future of the global environment, for the world economy, and indeed for the human race.

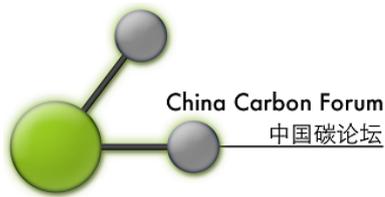
- 4) **A broadening of the arena and outlook for tangible collaboration.** The bilateral announcement opens a broad new space for cooperation on climate change and low-carbon development; this in turn will spur collaboration across a number of closely related—indeed, inseparable—fields, from economic and energy restructuring to technology, R&D, investment, and trade. The announcement injects new momentum and substance into existing mechanisms for bilateral cooperation (such as the joint working groups and the Strategic & Economic Dialogue), and creates new opportunities for trade and investment between the world's two largest economies. For example, one might envision a strategic approach to correcting the “imbalances” that exist between the two countries: could climate cooperation be used to create a new chain of trade, investment, and finance that supplements—and perhaps replaces—the existing chain? That is, China could deploy its foreign currency reserves toward acquiring American clean energy assets, e.g. importing natural gas or oil as less carbon intensive fuel from US for replacing a portion of coal use; investing in climate-friendly technologies, services, and skills; and helping to update and even rebuild American infrastructure. These investments would reduce the bilateral trade gap, create jobs and ease the budget deficit in the United States, and further open China's market for high-tech and clean energy products while improving environmental quality and economic efficiency. Greater ODI would effectively leverage China's foreign currency reserves and create new channels for Chinese businesses to invest and expand overseas. Green, low-carbon development has the potential to become a new theme and conceptual highlight of the US-China economic relationship.

II. Challenges in Implementing the US-China Joint Announcement.

Of course, this sort of a political decision—a statement of strategic intent—is not necessarily easy to implement in real terms. China and the US face the following essential challenges:

- 1) **Both countries face a long and arduous path toward meeting their respective targets.** The goals set by the US and China demand a sharp transition toward low-carbon development. If the US wants to achieve its 2025 target of cutting 26-28% of emissions based on 2005 levels, it will have to double its current pace of deceleration, reducing its average annual greenhouse gas emissions by 2.3-2.8% from 2020 to 2025, compared to the average 1.2% annual reductions from 2005 to 2020. If China is to achieve its goal of reaching peak CO₂ emissions and a 20% non-fossil energy mix by 2030, it will have to reduce carbon intensity (i.e. CO₂ emissions per unit of GDP) at a greater rate than GDP growth itself, while increasing the share of non-fossil energy sources at an average annual rate of 6%. The 800-1000 gigawatts of new installed capacity required from nuclear, solar, wind, and other renewable sources would rival the total installed capacity of all coal-fired power generation in China today.

Add to that the uncertainty of the American political situation, which calls into question the depth, speed, and sustained will that a national system would need in order to adapt to global trends of low-carbon transition. The Republican Party—which took majorities in both the House and the Senate in recent midterm elections—will almost certainly oppose the Obama administration's agreement with China and its domestic agenda on climate action, citing the cost of emissions reductions and the impact on American competitiveness and carbon-sector employment. This can be understood as a purely political opposition, with no real relation to the actual costs of or technical capacity for greenhouse gas emission reductions. In addition, there is still a foreign policy mindset in the United States that views China essentially as a competitor and rival, and there are some that will claim Obama did not put enough pressure on China in terms of climate action, and will reject the Joint Announcement as an unwarranted concession.



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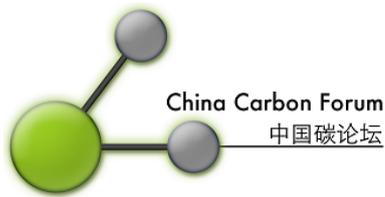
However, even with the Republican Party in control of both houses of Congress and at loggerheads with Obama, we should not indulge in simplifications of the Republicans as a “Carbon Party”; after all, the Clean Air Act and other policies and regulations do offer support and public funding for low-carbon initiatives and set standards for power plants and other emissions sources. Even if the next presidential election sees the Republicans win the White House, they will likely take a more practical approach to public funding for low-carbon R&D and climate cooperation with China—indications of such were seen in the George W. Bush administration.

We should also not ignore the force of the American private sector and its achievements in research and development, as well as the positive experience of climate action at the state level, namely the joint emissions trading mechanism shared by California, Quebec, and the nine northeastern states that make up the Regional Greenhouse Gas Initiative (RGGI). There are a diversity of forces at play in the US, and the role of policy in driving action—particularly at the federal level—should not be overestimated; rather, we should seek to assess the range of strengths, weaknesses, and constraints that the US faces in the course of low-carbon transition and avoid the pitfall of either over- or under-estimating their capacity.

In the final analysis, as many older coal-fired power plants come off-line, and assuming that natural gas remains price-competitive against coal-powered generation and that new developments in renewable energy are achieved, we can expect to see sustained and significant improvement in the US energy mix by 2025, as well as broader and stricter energy efficiency standards in sectors such as building and transportation. Looking at US emissions levels over the past five years, we see a path shift toward low-carbon development driven largely by the de-carbonization of the energy mix and an economy-wide increase in energy efficiency. The US certainly has the potential to accelerate this shift—and the goals it announced do allow for a margin of flexibility—but the question of whether or not the country can tap this potential to its fullest remains to be seen.

China, for its part, has committed to the strategic goal of reaching peak emissions around 2030, which amounts to a new strategic vision for China's own development based on a novel understanding of modern development history in industrialized economies and the future of the world economy. Inherent in this goal is an increase in productivity and resource efficiency, a transformation from input-driven to innovation-driven growth, and a restructuring and recasting of the national economy as a whole. The outlook implicit in this new norm suggests that reaching peak emissions and containing energy consumption by around 2030 may be a prevailing trend, but it certainly won't be easy—on the contrary, tremendous and often painful efforts will be necessary. The most difficult aspect from a design perspective will be devising a model of strategic management; the most difficult aspect from an implementation perspective will be the countless measures and policies needed to bring the initiative into force. China's energy mix, for example, will witness a marked deceleration of growth in the production and consumption of coal in the near-term, and will effect a full growth-stop—i.e. reach “peak coal”—and eventually decrease coal consumption over the medium- and long-term. The challenge lies not only in achieving a clean, low-carbon energy mix in a country that has historically had a greater reliance on coal than the global average, but also in ensuring a smooth transition of investment and employment out of the coal sector without stranding the fixed asset investments made over the past decade, and buffering the shock that such a transition may have on the financial system. These challenges require thoughtful top-level design as well as stable mechanisms for interim support. As industrialization and urbanization continue to drive a new wave of infrastructure investment, the threat of a new high-carbon lock-in effect remains one of the greatest challenges to China's climate initiative.

- 2) How to maximize the positive impact of US-China cooperation on the global climate agenda?** Improving global climate governance tests the wisdom and vision of those who innovate and develop the agenda. As the world's largest developed and developing economies and greenhouse gas emitters, there can be no doubt that cooperation between the US and China has an immense impact on the multilateral process. It would be a mistake, however, to view cooperation between major powers as dominating—rather than complementing—the multilateral process. In fact, the multilateral agenda and the role of major powers are mutually indivisible. After all, the United Nations—an archetype of multilateralism—was initially the creation of a few major national powers; only later was it gradually expanded into a more representative and participatory intergovernmental body.



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Climate change is a global issue, impacting the global public goods on the greatest possible scale of space and time—it therefore cannot be addressed outside of a global, multilateral framework. Both China and the US are signatories to the UNFCCC, making them stakeholders in a multilateral system and participants in a multilateral framework. Only by framing their cooperation in the terms and principles of that Convention can the US-China partnership have a positive impact on global climate governance. Only when cooperation between major powers contributes to the realization of the Convention's principles can it inspire broader support and effect real change in the right direction. A balance must be struck between the need for larger contributions by major powers and the need for global democratic governance with broader participation by smaller nations. Striking this balance requires a theoretical framework for understanding global climate governance, as well as practical mechanisms and policies for effective implementation of this governance.

As China builds its partnership with the United States, it must carefully evaluate its position as a developing country, its relations and credibility with other developing nations, and its ties with major economic partners such as the EU and Japan. The US-China Joint Announcement may cause some disappointment in the EU and may arouse suspicion among some developing nations. Environmental NGOs may also be dissatisfied with the targets announced in the Joint Announcement. Addressing these concerns requires ongoing communication, based on equal consideration of necessity for innovating development path for both developed and developing parties and political feasibility to achieve this. In the future, collaboration between the US and China—and the corresponding agenda to their policy dialogue—will encompass the development of a global climate governance structure that elicits leadership and contribution from major powers while ensuring that all countries—big and small, rich and poor—are afforded the respect and participation they deserve.

The Joint Announcement represents a new milestone not just in US-China climate cooperation, but also in the development of a new model of major power relations and of an improved structure for global climate governance. We now look forward to seeing both sides work together to strengthen this foundation and achieve tangible progress on the climate action agenda.