



Congressional Testimony

U.S.-CHINA CLIMATE COOPERATION

William Chandler
Director, Energy and Climate Program
President, Transition Energy

Statement for the Record
Committee on Foreign Relations
U.S. Senate
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The United States has a historic opportunity to forge a climate partnership with China as a result of the convergence of new climate leadership in the United States, China’s recognition of the serious threat that climate change represents for its future, and the hard work of specialists and leaders in both countries to make climate change cooperation a reality.

Together, China and the United States produce 40 percent of global greenhouse gas emissions. Their actions to curb or expand energy consumption will determine whether efforts to stop climate change succeed or fail. If these two nations act to curb emissions, the rest of the world can more easily coalesce on a global plan. If either fails to act, mitigation or adaptation strategies adopted by the rest of the world will fall far short of averting disaster on large parts of the Earth.

These two nations, until recently, have been locked in what energy analyst Joe Rohm aptly called “a mutual suicide pact.” Neither China nor the United States has made binding commitments to reduce emissions. American leaders point to emissions growth in China and demand that Chinese leaders take responsibility for climate change. Chinese leaders counter that American greenhouse gas emissions are five times their own on a per capita basis and say, “You created this problem, you do something about it.” Mainstream Americans fear that China is gobbling up oil and driving up the price of gasoline. Chinese fear that the Americans control Middle East oil and shipping lanes to China.

U.S.–China cooperation on climate change can help both countries play a role in global change befitting global leaders. Leadership can stem from central governments, states, provinces, business, and scientific institutions. Effective leadership, however, requires understanding both Chinese and American energy realities, and grasping the need for immediate action to reduce carbon emissions. This approach will be intrinsically valuable to each country, and can help facilitate a post-Kyoto global climate treaty.

Failure to act will expose these two nations to sanctions from a global community increasingly alarmed by the speed of climate change. That the European Union recently considered sanctions on trading partners lacking greenhouse gas emissions policies spotlights the geoeconomic risk.

For the past two years, the Carnegie Endowment for International Peace has sponsored a U.S.–China Climate Track II Dialogue to provide leaders from each country the opportunity to speak frankly and discuss the types of collaboration likely to produce results. Over the course of this dialogue, it became clear that Chinese experts believe that China could cut its

current emissions growth rate by half through 2020, and from that level reduce absolute emissions by one-third by 2050. This scenario would put within reach a global goal of stabilizing atmospheric concentration of carbon dioxide below 500 ppm. Such a commitment would represent a profound shift in China's position, and could be pivotal in reducing the worst risks of climate change.

Given China's new recognition of the threat posed by climate change and of the opportunities to avert that threat, participants in the dialogue identified two key outcomes for bilateral cooperation:

1. Consensus on realistic carbon emissions reduction targets and timetables for each country; and
2. Mutual understanding of the strategies for implementing those targets and timetables that are most likely to overcome political hurdles in China and the United States.

With these goals in mind, participants also identified three priorities for action:

1. Building human capacity to accelerate market deployment of technologies, including evaluating policies such as the creation of low carbon economic development zones and creating incentives for clean energy investments;
2. Assessing priorities for joint U.S.–China research and development cooperation, as well as considering a framework for cooperation; and
3. Discussing elements of a global climate deal in which both the United States and China may participate.

Dialogue participants also agreed that successful cooperation will require contributions from many types of U.S. and Chinese institutions. These include:

1. State and provincial leaders;
2. Nongovernmental environmental and business associations; and
3. Scientific and technical experts.

The Carnegie Endowment and the leading Chinese environmental nongovernmental organization, the Global Environmental Institute, are working together to support these objectives, which we hope are now becoming mainstream thinking in both countries. Our initial analyses have focused on developing a technology deployment protocol that will eliminate specific policies favoring energy consumption over energy efficiency; support the development of market-based tax and regulatory policies; and facilitate finance for energy efficiency. We are currently concentrating on Guangdong Province, a major energy-consumer and home to 110 million people, by providing organizational, planning, and financial expertise to train leaders in a learning-by-doing model.

Further, we aim to accelerate market-based deployment of cost-effective, proven energy-efficiency technologies. The central government in China requires provincial leaders to cut “energy intensity” by an average of 20 percent by 2010, relative to 2004. To achieve this goal, China would have to be more successful in energy efficiency policy than any nation in history.

Yet the priorities of local leaders often diverge sharply from those of national leaders. National leaders are more concerned with security, stability, macroeconomic balances, and equity than local leaders. Local leaders are far more concerned with growth, meeting demand for services, and generating revenues to pay the cost of operating their agencies. While clean energy development generates national benefits that cannot be fully captured by a city or province, the time and cost of promoting efficiency falls on local leaders. This mismatch of expectation and benefit is a fundamental flaw in Chinese sustainable energy policy, and undermines the effectiveness of otherwise admirable policies.

Local authorities have the responsibility, but not the authority, to implement energy efficiency policy. Moreover, responsibility for action is dissipated across agencies and bureaus. The local economic and trade bureaus and the local development and reform commissions jointly regulate energy-intensive industry. These agencies are often uncoordinated and implement conflicting policies. Approval authority for projects and regulations is split between the economic and trade bureau and the local development and reform commission. For example, the economic agency may seek to shut down old energy-intensive industry and replace it with more modern and efficient firms. The development and reform commissions, however, are intent on not giving business licenses to new energy-using firms.

The expertise provincial leaders need to acquire is a combination of specialized legal, economic, technical, and financial skills. These skills are used elsewhere—in American regions like the Northeast and Northwest or the state of California, for example—to choose priority technical measures and design behavioral incentives necessary to achieve energy efficiency goals. To further the goals of the dialogue, we are facilitating peer-to-peer cooperation at the state and provincial levels. We are encouraging cooperation on:

- Rationalizing and coordinating regulation of industrial energy use.
- Providing value added tax (VAT) and income tax holidays or exemptions for clean energy companies and services.
- Making it worthwhile for banks to do risk-based clean energy lending.
- Replicating the successful experience of the International Finance Corporation (IFC) in providing loan guarantees for energy-efficiency projects in China.
- Reducing the paperwork necessary to make clean energy investments in China.

Strikingly, given the urgency of climate action, resources are meager within both China and the United States for energy efficiency and power sector decarbonization. Technology deployment gets little support within either nation. Official funding for clean energy cooperation between the countries amounts to only about one million U.S. dollars per year. The private U.S. Energy Foundation provides 20 times more grant money than this, but even this level of funding is far below the need.

U.S.–China collaboration should not be envisaged as a threat to the climate leadership of any nation or to global cooperation. It should not challenge existing or planned emissions cap-and-trade systems. Rather, it would be, and should be, considered an act of mutual self-preservation, helping both the United States and China to avert climate disaster and the eventual sanctions of other countries if they do not act, and laying the basis for successful global action.

Addendum:

