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Transcript

CHINA IN THE WORLD PODCAST

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Episode 56: The Paris Talks and China's
Approach to Climate Change

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From the Carnegie–Tsinghua Center in Beijing, China, this is the China in the World Podcast hosted by Paul Haenle.

Haenle: Today, we're delighted to be joined by Dr. Wang Tao, one of the Carnegie–Tsinghua Center's resident scholars. Wang Tao runs the Energy and Climate Program based here at the Carnegie–Tsinghua Center. Wang Tao, thank you very much for joining us today.

Wang: Thank you. It's my pleasure, Paul.

Haenle: In September, just recently, President Xi visited the United States on a state visit. During the visit, President Obama and President Xi issued a joint statement on climate change. This statement follows the statement that was made last year by the two presidents in Beijing, on the margins of APEC during their summit in November, that the U.S. would cut its emissions 26 per – 28 percent below 2005 levels by 2025, and that China would peak its carbon pollution by the year 2030. The September joint statement builds on the previous statement, but it includes, of course, new areas of action.

Can you begin, Wang Tao, by telling us the most significant aspects of the announcement that was made in September in terms of the impact on China's emissions and the upcoming UN Paris meeting?

Wang: Sure, Paul. The significance of this meeting, and also of the announcement, is enormous, especially because the announcement was made just before the Paris COP in December. That gives a lot of momentum into the negotiations and also laid the foundation for mutual trust that people can build on in the negotiation process. There are a lot of outcomes coming out of these announcements, including for example the fact that the two countries reaffirmed their commitment to tackle climate change and maintain our temperature rise below the 2-degree threshold from the pre-industrial level, which has been regarded as a critical level by scientists to keep the Earth safe in the future. Specifically, there's also the promise from China that they plan to give a carbon trade scheme – nationwide carbon trade scheme – starting by 2017, including some of the key sectors such as chemicals, power sector, iron ore, building materials, etc. So, that will be quite a fundamental step forward for China to curb emissions. There has also been a promise and an agreement between the two nations to cooperate on certain issues, such as the heavy duty emission standards. U.S. and China also made significant announcements—this time in terms of financial support to developing countries, helping them to mitigate climate change. China for the first time promised to donate 20 billion RMB (about 3.1 billion USD) in the China-set up, South-South cooperation fund to help developing countries. Meanwhile, the U.S. pledged 3 billion USD in the Green Climate Fund to support developing countries. So, this is also quite a fundamental promise from those countries. Along with that, there is also for example the “Green Power Dispatch” Scheme in China. It was launched in our country with the aim of promoting renewable energy and highly-efficient fossil fuel power generation. So, there are quite a lot of outcomes coming out of these two leaders' summit.

Haenle: So, you mentioned a few things, and I want to drill down on a couple of those. I think the first thing you said about the political importance of the two countries coming together and

making a joint announcement—again, following on the one from last year—just to reiterate what you said, which I think is that is extremely important. And I’ve said before, you know, this is an issue where previously the United States and China are perceived to be on the opposite end of the tables, working at odds with one another. Since last year, the two sides have done a good job to come together and align their efforts, which I think does give momentum to the international climate talks. So, I would agree with you on that. I want to ask you, though—specifically—you mentioned the carbon emissions cap-and-trade system that the Chinese side announced has been significant, and it will help to curb Chinese emissions—will it be able to do so meaningfully, and what do you see as the challenges of implementing the scheme? Many people talk about how difficult this will be to implement, and in fact, the Chinese side after the state visit did not talk a lot about the national cap-and-trade system in terms of its media readouts to the Chinese public, which indicates there may be some resistance to this potentially, and also it may be difficult to implement. What are your views on that?

Wang: I think that the promise to build a nationalized emission trading system (ETS) is a big step forward for China. Probably, we didn’t hear that much in terms of the public media about this, but it was welcomed as quite exciting news within the low-carbon advocate community. People doing research and doing business... Many people are very happy about that, and it’s a step that has been long awaited.

Haenle: Why was it not so much highlighted then to the general public, do you think?

Wang: I think this might be not so exciting in terms of how much this is going to directly deliver in terms of carbon emissions. This is more like a technical tool, if you like. This is a powerful tool that we are going to establish. Of course—I will address this later—there are also, inevitably, concerns and difficulties they have to overcome in order to have this system play out effectively. So, people have concerns—which are also reasonable—but many people believe this is the right step forward. Also, given the trend of our low-carbon policies and the willingness from the government, this certainly in the future will play a much bigger role. So, in general, I think people view this positively, even not neutrally like last time when we announced the peak year of the carbon emissions, which is great news. But this one is a very critical tool that will help China to maintain this momentum, and to be sure that there will be incentives for the districts to respond and to attribute the price to carbon. I think that is very important. Specifically speaking, there are also issues surrounding that. We have been running the pilot schemes for the carbon trading schemes in several pilot places in China for a few years.

Haenle: This is pilot schemes for a national carbon trade.

Wang: Exactly. They’re running in a few cities and provinces, such as Guangdong, Hubei, Beijing, Tianjin, Shanghai, Chongqing. They have achieved various levels of success so far, and there are also various problems that have emerged out of the issue of compliance. This has been a problem, and people think that there are places where the lack of capabilities to do reasonable monitoring, reporting, and registration of information, which is the foundation of all the schemes. So, this already exposed a lot of difficulties and challenges for a nationwide cap-and-trade system, and people need to make sure that we’re going to build up this capacity in the future, so that we’re going to be more effective once we have this national scheme in place. But I think it’s also quite

important for people not to have too high expectations from the very beginning because when these pilot schemes expand to cover nationwide, it will certainly run into problems. This is also why the initial idea for this national scheme is to only cover a few heavy industry sectors, such as iron ore and the power sector, building materials, non-ferrous metals, public transportation, etc. Those are the areas where we have large emitters, but not so large in terms of the numbers, so the burden for collecting data, verification, registration, and trading will be easier to manage as the first point. Then, we'll be able to expand from the initial stage to cover much more of the small and medium size polluters, and also expand to the public sector, transportation, and other maybe not-so-easily-measurable sectors. But this is going to be a learning and improving process for China. Inevitably, there will be problems. I think there are also issues people worry about. For example, in China, if you really want to have this carbon market to have effectiveness, you have to let the consumers respond to the price of carbon. Whereas, in today's situation, unless we carry out reform in key sectors—such as oil and gas and power sectors—the polluters will be faced with the regulated price, for example the electricity price, and the oil price. They are regulated, and the polluters will not be able to pass the costs to the consumers: They don't really have to respond to the pricing of carbon, and they can get subsidies or credits from the government because of this pressure taken from the regulations. So, the effectiveness of the carbon trade system will not be very promising if we don't carry out this reform. So this, again, will emphasize the importance of us to deepen the reforms in the oil, gas, and power sectors.

Haenle: So, you expect this to be challenging in the implementation, obviously. And there's a lot that needs to be worked out, going forward. But generally, this is a move in the right direction. You also mentioned the climate financing that was agreed in September. China announced it would commit 3.1 billion USD in climate finance for developing countries; the US reaffirmed its previous pledge of 3 billion USD to the Green Climate Fund. What do these announcements signal about the US and China's willingness to play a leadership role on the global stage to deal with climate change?

Wang: Exactly. I think this is a very good signal that China is sending to the world before the COP in Paris, that China is willing to take leadership. For quite a long time, China was originally quite reluctant to commit funds, financial support to developing countries. Certainly, this is because China views itself still is a developing country, and in climate change negotiations developing countries are the recipients—instead of the donors—for financial support. China may not itself need a lot of financial support; but, as a developing country, China is not supposed to give out funds. This was a firm stance of China's negotiations for quite a few years, and that's also one of the hot topics in the financing part of the negotiation. But this indicates a change of the mind in China, and also, China's willingness to take stronger leadership. If you see this in the bigger picture, in the context that China established the One Belt One Road strategy, looking forward to see how China's economic power to send leverage and share the spillover of economic prosperities to neighboring countries, you can see that this is the trend that the Chinese government wants to send to the world; that “even though we are among the developing countries, China now is more willing to take responsibilities in helping other developing countries to benefit.” And also it is very clear that China is not giving the money in the plan of the Green Climate Fund, which was designated from the very beginning as a platform for developed countries to help developing countries, but China established this South-South Cooperation Fund. So, as a more advanced developing country, China can provide support to other developing

countries, helping to mitigate climate change. Meanwhile, this also shows the responsibility from China that we know that we are the world's largest emitter today, and there are also few responsibilities to those developing countries that suffer from climate change by China's emissions today, yesterday, and also in the future. So, there is increasingly responsibilities and leadership that China wants to take, and this issue made for very good joint leadership between China and the US on this issue just before the COP. So, I would like to say this is a very good step forward on a very tricky and struggling topic that has turned many rounds of the climate change negotiations before, so this is very good.

Haenle: Yes, I think it was welcomed as well by the international community. While China considers itself as a developing country, it's also the second-largest economy in the world, and the largest greenhouse gas emitter. I think it found a way to contribute to climate financing, and I think that's something that should be welcomed. Besides the two bilateral agreements made by our presidents in September, last week in China, the Fifth Plenum concluded, and the Chinese government has promised to punish local officials for decisions that negatively impact the environment. The government has taken further steps to empower China's environmental protection agencies as well. It's clear that given China's economic slowdown, the energy intensity of China's growth will peak before the year 2030. In your view, will China's slowdown help or inhibit efforts to meet China's energy and climate targets? What progress has been made since last November?

Wang: Yes, people actually have doubts about that because of the slowdown of the economy, and it looks like China's carbon emission growth is much slower compared to before, and even some people are thinking that maybe we will see some carbon emission, in actual terms, reduced in the next few years—so, way before 2030. But we also could not forget that this is, if you like, a unique period of China's economic growth. We have seen a lot of changes in the structure, and the slowdown is not going to be sustained in China. At the moment, the industries are suffering a lot, and they have to find a way to rebound, otherwise the economy will suffer a long-term impact. At the moment they can still handle that, but I think that we also need to stress the importance that, from the Fifth Plenum, we have seen that the leadership facing the very severe economic difficulties in China has still put very high priorities to the protection of the environment. So, this is a very good change, ensuring that they are now putting environmental protection on the same level of priority as the economic growth in China, and this reflects the demand from the general public, from the industry people, from the international community, which is quite welcomed and should deserve some praise; but I think we also need to look into the data and read inside all these numbers we have prepared for the COP. In the first half of 2015, there has been some dramatic change in China's energy indicators. If you think this is a good indicator of what the macro-economy is doing, we have seen electricity consumption growth as low as 1.3 percent (the lowest in a decade), and also we have seen the oil consumption growth slow down to just about 3 percent, and even natural gas—the energy that has been promoted to tackle the air pollution, and that has been adopted by cities like Beijing at all costs, basically, with huge subsidies—only grew by 1.3 percent, 1.4 percent. This is quite a disappointment to many people, and if we look at the consumption data of coal, it will be even worse. We didn't have the official data of the consumption of coal, but the production data of coal was actually reduced by 7 or 8 percent, the imports reduced about 40 percent, so there will be quite a significant reduction for the first part of the coal consumption. This all reflects the difficulties in terms of the economic transition; the

leaderships have announced that we can transit to a “new normal”, but there’s no guarantee at the moment that the Chinese economy will successfully transit to a new normal. There are still a lot of challenges ahead, and we still have to find a good way to revive the economy, while at the same time protecting the environment. So, if you just look at these two years’ (2014-2015) data, and energy consumption data, I think that will be unreasonable and it will be also too easy to draw the conclusion that China’s carbon emissions and emission consumptions already reached their milestone. I think there is a large possibility that China will overshoot the peak of the carbon emissions by 2030, but we cannot just ignore the potential difficulties and also the risks of the dramatic slowdown from China’s economy. We would hope that they will be able to transit into a more sustainable economy growth, more driven by a service and consumption economy instead of going back investment and heavy industrialization. But at the moment, we have no guarantee of that. We have to hope that the Chinese leadership will find the right way to revive the economy, and make sure that we’re not going to again rely on the heavy industry. Otherwise, even though we have seen the reduction of carbon emissions, or slowdown of carbon emission growth for these two years, the old pattern will still come back if the economy is not performing so well, and we risk instabilities in China’s economy.

Haenle: Finally, Wang Tao, next month we have the UN international climate negotiations in Paris. I want to get a sneak preview from you. China and the U.S. are the world’s number one greenhouse gas emitters; they’re also the number one and number two economies in the world. Action by the U.S. and China on climate change helps to set the level of ambition of other countries, of course. So, both in terms of climate change action that they should take domestically—but also at the upcoming meeting in Paris—I wanted to get a sense from you what the September announcements at the State visit mean for the December meetings in Paris, and what can we expect to see... What’s your outlook for COP21?

Wang: Certainly, I think the success in COP21 in Paris is quite hopeful. Many people, many countries also are working very hard towards that goal. Given that the joint announcements between U.S. and China, and the willingness that has been showed by the leadership, we believe that they’ll try very hard to play a constructive role in these negotiations, and there will be a very large chance that we’re going to have a successful deal for the COP21. But I think we also need to be very realistic about what we can achieve there. There are also severe challenges among all the parties. We have talked about the difficulties in China’s economy, and the government has to strike the balance very carefully so that they’re not going to risk their stability because of the economic slows down too quickly. On the other hand, there is also, if you look at the U.S., President Obama is stepping down, and there are uncertainties in U.S. politics, there are also potential risks, and we have heard that the proposed power plans by President Obama are already being challenged, put into court for rejection by a few states; so there are risks to that effort too. In their view, their economy is just about to recover, and there are also problems for other countries. So, even though we have seen a lot of progress made by these major parties before the COP, there are still potential risks we need to be careful about. We’ve learned a lot from, and the world also has improved a lot since the Copenhagen meeting in 2009. People started to realize that we cannot put too much high expectations.

Haenle: This is 2009, the Copenhagen meeting?

Wang: Exactly, six years ago. The leaders of the world gathered all together, but they didn't come out with a concrete plan. This time, I think that again the leaders of the world have decided to gather all together in Paris, and they are determined to make the announcement to make sure this is going to be a success for a climate change deal.

Haenle: And how much of a difference does it make that the U.S. and China now have had two rounds of joint statements coming out on climate, that there's some momentum bilaterally between these two countries? How much of an impact does that have on the UN meetings in Paris?

Wang: This is a great impact that the two countries could have. I mean, if you think about the 2009 events, there one of the largest divisions among the parties was actually between China and the U.S., and, in the end, they had to make some compromises.

Haenle: It was pretty heated, apparently, as well.

Wang: Yes, exactly. So, today with the joint announcement, the two countries have a much stronger mutual trust and understanding, at least on energy and climate issues, we are not going to expect them to end up in a huge quarrel...

Haenle: So, no repeat of Copenhagen, I guess.

Wang: But there's also interesting phenomena that we need to wait and see how these will this play out. We know that in 2009, one of the reasons why the U.S. was not so willing to participate and to promise ambitious targets was because of the 2008 financial crisis, and the U.S. —together with the EU—was suffering. And China was actually very promising in terms of the economy. But today, the whole situation reversed: the US economy is recovering strongly, and China is slowing down and struggling with this. So how is this going to play out in the negotiations? That will be very interesting to watch out.

Haenle: So, uncertain, no specific predictions by Dr. Wang Tao; which means that after the Paris negotiations we need to bring you back to the podcast, so you can explain to us what happened.

Wang: More than happy to do that, thank you.

Haenle: Well, thank you very much for your time today, Dr. Wang Tao.