China, the European Union and the Restructuring of Global Governance
Brussels, May 6-7, 2010

Remarks on Energy
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I will start with some observations on global governance before turning to my assigned topic of international cooperation on energy. We live in a world in which states are the key decision-makers both domestically and, taken together, at the global level. That is likely to remain the case for the next twenty years. Europe has been experimenting with genuinely supra-national decision-making since 1950, with notable successes, but it has been a painfully slow process.

I believe strongly in "subsidiarity," i.e. do not push decisions to higher governmental levels without a compelling reason to do so, usually involving effectiveness, efficiency (cost), or to overcome a harmful deadlock at lower levels. That is, leave issues to states unless a strong affirmative case can be made for the need for international cooperation. Where such a case can be made, each problem should be addressed on its merits, which typically will involve far fewer countries than the entire international community of over 200 states. And the appropriate collection of relevant states will undoubtedly vary from issue to issue.

I do not understand the desire expressed by Chinese representatives at this conference to "democratize" the world system. Of course a precise definition would have to be given to that expression, but in one respect the formal UN system is democratic at the state level in all issues except security: each state has a single vote, and most resolutions of the UN General Assembly and its various subsidiaries are passed by simple majority of those voting. With the arguable exception of the Law of the Sea treaty, this system has ensured deadlock on issues of practical importance.

I conclude from this experience that at the global level we should be driven to find practical solutions to practical problems, not engage in conceptual or abstract discussions of "governance."

Under the heading of energy, I see two problems requiring global solutions, or at least widespread international cooperation. The first concerns energy security, which really involves oil (and, for Europe and in future China, gas); the second concerns climate change, for which coal is the most important but not the only issue.

On projections by the US Energy Information Administration to the year 2030, which assume a benign world and continued economic growth, world dependence on oil from the Persian Gulf region – which contains most of the world's known oil reserves – continues to rise, the extent of the rise of course depending on the oil prices assumed to prevail over the next 20 years. (Higher prices result in less dependence, because less oil is consumed, and more oil is produced in other regions.) This projection raises two questions: 1) will "Saudi Arabia" make the required investments in additional oil production to satisfy the higher world demand, beyond the 2+ million barrels a day increase in output which Saudi Arabia now plans? 2) Will the world be comfortable with growing dependence on that region? I put "Saudi Arabia" in quotes to signify all the countries bordering the Persian Gulf (or Arabian Gulf, as the Arabs prefer to call it), although Saudi Arabia is likely to remain the most important single source of oil.

If the answer to either question is "no," (and the answer in Washington and Beijing to the second question is "no"), what do we do about it?

The problem is this: incremental oil from "Saudi Arabia" is far cheaper than oil from elsewhere, so Persian Gulf countries could undercut prices required for profitability, as Saudi Arabia did in 1985 and in 1998, thus discouraging investment in alternatives, including non-oil alternatives. We need an international agreement on a floor price for oil. It does not have to be a global agreement, but it needs to cover all the major exporters of energy-intensive manufactured goods, including the European Union, China, the USA, Japan, Korea, etc. If the world price of oil drops below the agreed threshold, these countries would impose a tax on all users of oil. Of course, it would not be easy to agree on the threshold price, but I do not believe that it would be impossible.

We would need a forum to discuss these issues, and it would be problematic to include major exporters of oil in that forum. The G20 includes Saudi Arabia, Russia, Indonesia (not a major exporter for long), and Brazil (which may soon become a major exporter), and these countries should certainly not have veto power over an agreement to assure oil security.

The second issue is climate change, for which coal is central. I put forward a simple syllogism: we cannot seriously mitigate climate change without "China" (and of course the United States); "China" cannot accept a meaningful quantitative ceiling on its level of greenhouse gas emissions; therefore we need to change the conceptual framework from an international agreement based on targets to an international agreement based on actions. (I put "China" in quotation marks to signify all rapidly growing developing countries, of which China is quantitatively far the most important.)

I have a concrete, action-based proposal which I believe should be considered seriously. It is for a harmonized charge on greenhouse gas emissions imposed by every country, or at least by all the countries that either now or in the coming years will make a quantitatively important contribution to GHG emissions, each country to keep the revenue it collects. It should appeal to finance ministers everywhere, who would welcome a new, internationally sanctioned, trade-neutral source of revenue.

The key issue, however, is not my particular proposal, but a shift in the negotiating framework from targets to actions. (Digression: senior Commission officials visited Harvard in the fall of 2008 to outline the EU approach to the upcoming Copenhagen negotiations, then more than a year away. I argued that the EU approach would fail – not on procedural grounds, but on substantive grounds, and asked about the EU's Plan B. I was told, persuasively, that there was no Plan B. Here is an example of the EU so tied up in its internal decision-making that it was not paying attention to the priorities, constraints, and limitations in the rest of the world.)

Again, where to negotiate an agreement on climate change? The UNFCCC Conference of the Parties demonstrated at Copenhagen that it is incapable of reaching agreement on this important topic. Developing countries are stuck on the proposition that only developed countries should take on commitments to reduce emissions and they should be free to pursue their own objectives. But this is not tenable if mitigation of climate change is to be taken seriously. Today's developed countries could reduce their CO_2 emissions to zero by 2020 – something that is surely not going to occur – and on plausible projections world CO2 emissions from developing countries alone would be above the worldwide level of 1990, the base year for the Kyoto Protocol, and on a steeper trajectory. In short, without active participation by key developing countries, soon, climate change will not be seriously abated. That is the unpleasant reality.

China and the United States – the two largest GHG emitters, whose participation is essential to any workable agreement – need to agree on the boundaries of an agreement that is acceptable to both of them. I am not suggesting a generalized G2, which I oppose, but on this particular issue bilateral discussions would be internationally helpful – indeed, may be necessary. After the United States and China agree on the acceptable boundaries, negotiations could take place in a larger group, such as the G20, although European representation there needs to be drastically reduced, at least for this issue. After the negotiation has been completed, it can be presented to the Conference of Parties for their endorsement or at least acquiescence.

The international trading system is seriously at risk if countries take a piecemeal, uncoordinated approach to mitigation of climate change. I do not know what the United States will do, but I forecast if it does something alone it will include trade measures against countries that have not taken "comparable measures," and the EU will follow soon thereafter. This will provide a field day for protectionists on both sides of the Atlantic. It will not be in the interests of China or of other emerging markets.

Let me close with a very practical suggestion for EU-China cooperation. Even with vigorous measures to develop hydro-, wind-, nuclear-, and solar-power, China's demand for coal to generate electricity will continue to rise, implying on one projection that by 2030 China will account for over half the coal consumption in the world. The world's dependence on coal will continue for at least another two decades, perhaps longer. If we want seriously to mitigate climate change, we will have to master carbon capture and storage. Europe has carbon capture technology; China continues to build coal-fired power plants at a rapid pace. Carbon capture has not been proven yet on a commercial scale; we do not know which is the most workable, and least costly, of several possible approaches. The proposal is that the EU should offer to provide the technology for carbon capture and to pay the incremental costs in some of China's new coal-fired plants, as a large-scale experiment to find out how best to do it on a commercial scale. This project could start almost at once. We need to get on with it.