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CLIMATE PROTECTION IN TIMES OF THE ECONOMIC CRISIS – ON THE ROAD TO COPENHAGEN

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- CHECK AGAINST DELIVERY -

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Dear *Stavros*,

Dear President,

Dear Professor *Kloepfer*,

Ladies and Gentlemen,

Introduction

The Humboldt University is an ideal venue to speak about the way in which the impossible can become possible. Just as *Alexander von Humboldt*, after whom the university was named, redefined the geographical coordinates in his time, international climate protection today means no less than rewriting the global rules of the game in the 21st century.

We have to bring fundamental changes about in the way we live, produce, consume and organise our mobility if we want to ward off a dangerous change in climate. And this can only be achieved if all states join forces and meet their responsibility for the future conditions of life on our planet. There is another reason why the Humboldt University is an ideal venue to speak about the road to Copenhagen. It is one of the leading universities in Germany and Europe. People from all over the world come here to study and teach. So it makes perfect sense to choose this venue to develop a visionary concept of how a well-developed sense of togetherness among peoples can contribute to preserving our natural foundations of life in the interest of our future and future generations.

Copenhagen will have to be a magical place. A miracle needs to take place there before Christmas: the international community has to agree on a sound climate protection agreement. Understandably, expectations are high – after all, a lot is at stake. If we continue to do business as usual, the world will be thrown out of joint. If the temperature continues to rise by more than 2 degrees Celsius, Africa will be particularly affected and hundreds of millions of people there will become climate refugees in their quest for water and pastures. This would destabilise the whole continent. Low-lying coastal regions and mega-cities will be threatened with flooding. But climate change would also make itself felt here, on our very doorstep, with higher temperatures affecting in particular those who are most vulnerable, the poor and the ill. Agriculture will have to be transformed. Large parts of Southern Europe will suffer desertification.

However, this will also lead to vested interests, motivating important countries to join in and take action – and this also applies to key countries such as China and India. If climate change continues uninterrupted the glaciers of the Himalaya will melt, endangering the drinking water supply of more than a billion people.

The Copenhagen objective

Clear targets give guidance when the course is difficult. In view of the magnitude of the challenge we are facing, it is all the more important to define a clear negotiating target for Copenhagen. Due to the fact that climate change and climate protection follow the laws of physics it is possible to take one step at a time and derive and define objectives one after the other.

1. The first imperative is to curb medium- and long-term greenhouse gas emissions to an extent that does not allow the global temperature to rise above 2 degrees Celsius. This is necessary to prevent a dangerous change in climate.
2. To achieve this target, global greenhouse gas emissions, i.e. emissions from industrialised and developing countries taken together, have to be cut by more than 50% by 2050 compared with 1990 levels.
3. In plain terms this means that industrialised countries will have to cut their emissions drastically by 2050 – by a rate of 80-95%. The required fundamental structural change in the economy can only be realistically achieved if we launch this change now and underpin the path towards reduction with ambitious medium-term targets. This would imply that the industrialised countries together need to cut their emissions by 25-40% by 2020 compared with 1990 levels. This is very likely to be the most difficult obstacle to overcome. The EU has tabled a proposal with the intention of breaking free from the game of "whoever moves first loses". We spell it out clearly – within the framework of a global and comprehensive agreement we are prepared to reduce our emissions by 30%, not least because we are convinced that this makes economic sense.
4. Developing countries must achieve a 15-30% reduction rate measured against their current development path.
5. If we want to realise these ambitious targets and finance the required structural change, we need a well-functioning carbon market along the lines of the one in place in Europe and now also planned in the United States.
6. Moreover, the industrialised countries have to make long-term predictable funds available from their budgets to finance adaptation to climate change in particular in the developing countries, and also to fund technology transfer.

These six elements form the core of the order book for Copenhagen.

Fundamental structural change in the economy – a third industrial revolution

The drastic reduction targets for greenhouse gas emissions called for by science can be daunting, but can also be a source of motivation. The required structural change in the economy can at best be compared to the industrial revolution at the end of the 19th century. Not even the introduction of information technologies in the second half of the 20th century had comparable impacts on industry and society. What we need is a quantum leap, a third industrial revolution, if we want to reduce greenhouse gas emissions to a fraction while the world population continues to grow.

I would like to present three core theses illustrating why it will nevertheless be possible to bring about the necessary fundamental structural change in the economy:

1. A strategy for ambitious climate protection is already available. With a drastic increase in energy efficiency and a massive expansion of renewable energy sources, Germany will reduce its greenhouse gas emissions by 40% by 2020 compared with 1990 levels. This is a globally unprecedented endeavour and the 35% reduction already achieved by current measures shows that the strategy is working.
2. Technologies required to take the quantum leap in terms of energy efficiency and renewable energies are already available. Naturally we are also promoting and investing in innovation. But as our Renewable Energy Sources Act clearly shows, it all boils down to setting a global economic and legal framework to trigger the actual use of these technologies.
3. Investments in efficiency and renewables will lead the way out of the economic crisis. This is where the lead markets of the future are. Those who follow this course will also have a head start in international competition.

Interests of industrialised countries – concern about distortions of competition

Despite the fact that climate protection offers economic opportunities, prior to Copenhagen it is useful to take a sober look at the respective interests of the parties. Discussions with the main industrialised and developing countries in the framework of the Major Economies Forum – a dialogue initiated by the US with the world's 17 largest economies – drastically show that there is an elephant in the negotiating room which nobody officially acknowledges, but which actually determines the agenda and the outcome of negotiations.

The industrialised countries – especially the US and Japan, but also others – fear that a leadership role of traditional industrialised countries, which are responsible for a large share of the greenhouse gases emitted up to now, will result in competitive advantages for major newly industrialising countries such as China or India. On the other hand, developing countries with low per-capita emissions, like India, are concerned that a cap on emissions could impede their economic development.

The way we shape international climate protection will determine future starting positions in global competition. In my view, this is at the core of the conflict of interests that we need to resolve in Copenhagen. This is the reason why Japan and Canada vehemently call for binding reduction commitments from large newly industrialising countries too. This is also the reason why border adjustments for products from countries that do not impose comparable requirements on their companies are being discussed in the framework of the new US climate bill as well as in France.

Countries like China and India, for their part, voice the justified concern that the traditional industrialised countries use climate change as an excuse to set up protectionist trade barriers and hamper them in their economic development. In view of this situation, we must face the elephant in the room that everybody has been afraid to acknowledge and openly address competition issues.

Solution to the conflict of interests between industrialised countries and developing countries

At an abstract and rhetorical level we share a basic understanding of elements of a solution to this conflict of interests. This common understanding comprises three principles:

- If we focus on the *total concentration of greenhouse gases in the atmosphere*, we find that far more than half of these gases have been emitted by industrialised countries. These countries therefore have a historical responsibility to take the lead in climate protection.
- However, if we focus on *current greenhouse gas emissions*, we find that the developing countries have already reached a share of about 60%, and that this share is set to increase to just below 70% by 2030. This is why climate protection can only be successful if these countries make a major contribution.
- A solution must be found in accordance with the principle of common but differentiated responsibilities laid down in the Framework Convention on Climate Change.

In order to meet concerns about both distortions of competition and obstacles to economic development, these three principles are important, but not sufficient. I believe that the only possible solution is to integrate newly industrialising countries into the carbon market in a step-by-step approach. Where they play a significant part in international competition in emission-intensive sectors, we need market mechanisms for these sectors to ensure that product prices reflect the CO_2 price. This would also create an economic incentive to improve energy efficiency in these sectors.

Of course newly industrialising countries cannot and will not accept such emission caps as those to be defined for industrialised countries. A concrete arrangement could look like this: major newly industrialising countries adopt targets for advanced emission-intensive sectors to limit their emissions compared to the projected trend. If their emissions remain below the target levels, they can sell emission credits on the global carbon market to finance their structural transition towards greater efficiency. This would also be a good way to discourage industrialised countries from pursuing a protectionist climate policy and imposing climate protection duties - an approach which has no place in the 21st century.

China counts on lead markets: efficiency and renewables

Integrating the major newly industrialising countries into the carbon market in a step-by-step approach is imperative in view of economic and ecological realities. This year, China will probably overtake the US as the biggest emitter, if it has not already done so. A brief look at containers in the ports of Hamburg or Boston shows where the manufacturers of the products available on today's markets are based. It therefore makes both economic and ecological sense that China gradually takes on binding reduction targets and integrates its emission-intensive sectors into the global carbon market.

But the Chinese government is already steering a climate protection course. A National Climate Protection Programme and a white paper on climate protection were adopted last

year. China has set itself ambitious targets – such as a 20% reduction in energy intensity by 2010 and an increase in the share of renewables to 10% in the same period. Measures have already been introduced to reach these targets. Prime Minister *Wen Jiabao* himself is chairing the strategic group on the implementation of this policy. He has announced the goal of turning China into a low-carbon economy.

By focusing on efficiency and renewable energies China is in an excellent position to become active on the key markets of the future, where the country wants to play a leading role. When I visited China in June [2009], I was shown a marketable electric car which will also be presented in Europe this autumn. I can only stress that we in Germany and Europe will have to step up our efforts if we want to maintain our cutting edge on these lead markets.

Crucial: ambitious medium-term targets for industrialised countries

However, countries like China and India will only embark with us on the road towards Copenhagen and a binding climate agreement if the industrialised countries take resolute action today to bring about structural change, and if they adopt binding, ambitious and comparable targets for 2020 and 2030 to underpin their commitment. This is the only option for them to prove in a credible way that they have taken a reduction path which will help them emit 80 to 95% fewer emissions by 2050. What is decisive in terms of the climate effect is the level of accumulated emissions in 2050. Some countries claim that while annual reductions of 2% are not feasible in the next few years, they envisage a reduction of more than 5% per year after 2030; but such claims are just not convincing. Any postponement of decisions on painful structural changes by industrialised countries will destroy the spirit of mutual trust in climate policy and arouse suspicions among newly industrialising countries.

This is at the core of discussions with the United States. Under President *Obama* there has been an impressive about-face in US climate policy. In the midst of an economic crisis he is providing enormous financial resources. An economic and legal framework for climate protection is being constructed at breathtaking speed. However, the new Administration rightly points out that it cannot make up for everything the Bush Administration failed to accomplish in the past eight years.

The climate bill, which has been adopted by the House of Representatives and still awaits approval from the Senate, is a courageous step and a change of course. However, the Unites States' reduction commitment of 4% by 2020 compared with 1990 laid down in this bill is insufficient. It is still far from the 25 to 40% total reduction required from industrialised countries to limit global warming to 2 degrees Celsius and avoid climate change reaching dangerous levels. Perhaps most importantly, the US is setting the benchmark for countries like Japan and Canada. This is why we will have to engage in intensive discussions with the US and other industrialised countries prior to the Copenhagen meeting to agree on a credible reduction path that does not postpone the necessary structural change.

Pioneering role of EU and Germany - thanks to Commissioner *Dimas*

In view of the reluctance of the US and other major industrialised countries to launch large-scale change to economic structures or to adopt ambitious, medium-term reduction targets, the pioneering role of the European Union and Germany is hugely important. We prove that ambitious climate protection and successful economic development are two sides of the same coin. By investing in efficiency and renewables, Germany can guarantee a secure and economically viable energy supply without nuclear power. This enables us to save 20 billion euros per year in energy imports and will create up to 500,000 new jobs by 2020. The economic crisis shows that efficiency and renewables are the only boom sectors in Germany.

The European Union's leadership in international climate protection is spearheaded by one man, and he is here today – *Stavros Dimas*. He and the Commission have ensured that a well-functioning market instrument has evolved from the patchy European emissions trading scheme. I admit that we in Germany had difficult discussions with the Commission when it drastically lowered the cap for emissions in the framework of approving the second allocation plan.

Together the German government and the Commission ensured that the European Council adopted a solid energy and climate package in December 2008 that is now the basis of the European position for Copenhagen. The European Union declares its willingness to reduce its greenhouse gas emissions by 30% compared with 1990 levels if other industrialised countries undertake comparable efforts and major newly industrialising countries make appropriate contributions.

Unity in the EU on climate protection was and is the key to the success of international climate protection. This is why, *Stavros*, the Commission will once again have to make great efforts before Copenhagen to ensure that the Europeans speak there with one voice. As far as financing international climate protection and EU effort sharing are concerned, there are still difficult debates ahead with the eastern Member States, especially Poland. The Commission is called on to present a groundbreaking proposal which the Swedish presidency can build on to elaborate a common EU position by October [2009]. I know this will not be easy in the transitional period to the new Commission. But it could be the highlight at the end of the current Commission's term of office.

Financing international climate protection

As well as reductions to be achieved by industrialised and developing countries, financing climate protection in developing countries is one of the major stumbling blocks for negotiations in Copenhagen. After all, we are talking about annual sums of double-figure billions. Essentially, all countries should contribute, as Mexico's proposal suggests, in line with their economic capacities and the volume of their emissions. I do not think it is realistic to expect the lion's share of these funds to come from state budgets. It may be true that the economic crisis will be over when a new climate protection agreement enters into force in 2013. But if we want to create a solid, long-term basis for climate protection, the necessary funding must not be solely at the mercy of the finance ministers. This is why reduction measures in developing countries – where their own capacities do not suffice – also need to be financed via the carbon market. This is another reason why ambitious reduction targets for industrialised countries are important, since part of these reductions can be achieved in developing countries, thus financing structural change in these countries towards a less

emission-intensive economy. The more ambitious the industrialised countries' targets, the higher the financial contributions of the carbon market to mitigation strategies in developing countries.

The situation is different concerning adaptation to climate change. Many developing countries are already suffering the impacts of desertification, and the loss of livestock pastures and drinking water. A solid agreement on financing must be reached in Copenhagen.

Possible package for Copenhagen

This makes clear the form a possible package for Copenhagen could take:

1. Industrialised countries commit to reducing their emissions by between 80 and 95% by 2050 compared with 1990. This reduction path will be credibly underpinned by ambitious, medium-term targets.
2. Major newly industrialising countries agree to significantly reduce their total emissions on a scale of 15-30% by 2020 compared with their current development path. Their emission-intensive sectors will be gradually incorporated into the carbon market.
3. Industrialised countries, with the participation of major newly industrialising countries, secure long-term financing for adaptation and technology transfer in developing countries.

Milestones on the road to Copenhagen

The question now is how to plan the road to Copenhagen to enable a substantial outcome to be achieved that is in line with the magnitude of the challenge. In the framework of the G8 summit, a Major Economies Forum will be held in L'Aquila, Italy, in a few days time involving heads of state and government of major industrialised and newly industrialising countries. Preparations for Copenhagen are very high on the agenda.

I believe that we need to use the following points as orientation to guide us successfully on the road to Copenhagen:

1. As I said at the beginning, climate protection is applied physics. This is why the necessary measures can be clearly deduced from the targets being striven for. And this is why it is so important to acknowledge that global warming must not exceed 2 degrees Celsius. This 2°C target must be adopted at the G8 summit this week. This is ambitious, but with a reduction strategy that launches a restructuring process today, it is feasible.
2. The second step is a consequence of the first and should be defined at the summit in Italy. In order to meet the 2°C target, global greenhouse gas emissions must be at least halved by 2050 compared with the base year 1990, and industrialised countries must

achieve reductions of more than 80%. The G8 has already agreed on the 50% reduction. However, the base year, which is crucial for calculations, has not yet been determined.

3. Industrialised countries must commit to comparable medium-term reduction efforts. Of course it is too early to set reduction targets. But the principle must be clear. It cannot be that the European Union reduces its emissions by 30% compared with 1990 while other industrialised countries only achieve reductions on a scale of 5%.

Should agreement along these lines be possible in Italy it would be a good point of departure for the road to Copenhagen. Then we can still debate who does how much regarding emission reductions and financing.
