

# A new phase of the climate poker game

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## Contents

- [Money, money, money](#)
- [Europe and America](#)
- [“Good news for the companies](#)
- [And now?](#)

Thanks to the Russian government’s decision to ratify it, the Kyoto Protocol will come into force in 2005. With the USA having withdrawn in 2001, ratification by Moscow was necessary in order that the agreement, signed in Japan in 1997, should be effective.

This is a victory for the European Union (EU) in its struggle in competition with the US, and a very small - and very unsatisfactory - step forward in the struggle against climate change. [1] A new phase of climate negotiations is opening, during which neoliberal pressure will redouble in intensity.

Drawn up in the wake of the United Nations Framework Convention On Climate Change (UNFCCC, Rio 1992), Kyoto committed the industrialized countries (including the eastern European countries “in transition”) to reduce their greenhouse gas emissions [2] by 5.2% in the course of a first “commitment period”, 2008-2012.

The year of reference chosen is in general 1990. The global commitment is modulated according to country (the EU, for example, is supposed to reduce its emissions by 8%). The drawing up of the Protocol as well as the negotiations on its modalities and follow up - which continue through the Conferences of the Parties to the Framework Convention - are subject to intense pressures from capitalist lobbies.

Thus the objective of 5.2% has been softened by three mechanisms of so-called “flexibility”: the clean development mechanism, joint implementation and emission trading. To understand the issues around Russian ratification, it is necessary to understand in particular the system of emission trading.

## Money, money, money

The principle is simple. Given that CO<sub>2</sub> emitted anywhere on the globe circulates very rapidly and thus contributes to global warming, the negotiators at Kyoto estimated that the place of reduction of emissions had little importance, the essential thing being that the “more” and the “less” of the countries in relation to their quota compensate each other, so that the objective is reached globally. [3]

In application of this principle, a country which surpasses its emission reduction target (that is which falls below its quota) disposes of an equivalent amount in “emission rights”. These rights can be capitalized to lighten subsequent reduction targets (because the effort of Kyoto will be pursued through a second commitment period from 2012-2016). They can also be sold to other signatory

countries, which do not succeed in meeting their objective by national measures. Kyoto implies thus the creation of a world market in carbon. [4]

As we have already said, the year of reference for calculating the reduction of emissions is 1990. After 1990, the economies of the former Soviet bloc collapsed - the GNP falling by as much as 50% in some cases. Thanks to the signature of the treaty, these countries suddenly found themselves owners of huge quantities of potential emission rights.

Obviously, these rights can only be sold if the Protocol enters into force. From this viewpoint, Russians and Ukrainians had a keen interest in ratification. But on the other hand, the oppositions were very real. They are not all explicit and are situated at very different levels of problematic. Some argue that Kyoto, by limiting emissions, would mortgage economic development. [5]

Others are enthusiastic, like GAZPROM, because the acceleration of the conversion of coal or of fuel into natural gas as the energy source of electricity production will improve its market shares. [6] Some cynics argue that global warming will have positive implications for Russia, notably from the viewpoint of agricultural production. Others point to the fact that in order to sell its rights Moscow will have to invest significant sums in systems of measurement and control.

Finally, it is obvious that geostrategic considerations have played a major role. In the context of the EU-USA polarization on the climate question, to ratify the Protocol means privileging one camp rather than the other. All these elements have weighed in different ways on the Kremlin, to the extent that it would require the personal intervention of Putin to settle it. The manner in which he has done it seems coherent with the general course of Russian diplomacy since September 11.

But the Russian hesitations are also explained by another, more down to earth reason. It is not enough to offer an abundant commodity like emission rights, it is also necessary that the price of this commodity is supported by demand. And here is the rub. The big potential buyer of carbon is the USA. In 2000, their emissions were nearly 20% above the Kyoto objective.

According to viable projections, the US surplus in 2010 will be from 300 to 500 million tonnes per year, virtually the amount of emission rights that the Russians could put on sale at that time. With the US, the market in CO<sub>2</sub> would be in relative equilibrium (see graphic); without it, supply will greatly exceed demand. In the first case, Kyoto could yield up to 170 billion dollars in five years to Moscow; in the second, the Russians would have to content themselves with 20 billion dollars, indeed less. [7] This is not really the goose that laid the golden eggs.

Nonetheless, Putin will have estimated that he had nothing better to hope for, and that he risked missing an opportunity. It can't be said that he was wrong: John Kerry, like Bush, was opposed to Kyoto, so there was nothing to expect from his side; on the other hand, a defeat of the Protocol would have allowed the US to regain the initiative in the climate negotiation and, undoubtedly, reduce still further the price of carbon.

## **Europe and America**

But we see things more clearly from the viewpoint of the relations between the great powers. Unlike the EU and Japan, the US, at the federal level, has hardly begun the turn towards renewable energy sources (RES). (...) Fifty percent of US electric power stations are fuelled by coal. Four fifths of the capacity of electrical production which the US will need in 2010 has been installed recently. Moreover, everyone knows the weight of the oil lobby in the US in general, and in the Bush administration in particular.

The situation is certainly different at the level of some states which make up the Union. "Renewables" account for more than 10% of electricity production in California, and nine northeastern states are coordinating their CO<sub>2</sub> emission reduction targets among themselves and with neighbouring Canada. [8] Moreover, numerous big companies, particularly multinationals (Kodak, DuPont, Alcoa among them), are taking voluntary initiatives, either because they anticipate regulatory measures which they believe to be ultimately inevitable, or because they fear seeing markets escape them, or for a combination of these reasons. But these initiatives remain limited and frustrated by the orientation of the central power.

On the other side of the Atlantic, for a series of reasons which are above all strategic (US domination of oil resources and markets, increased dependence on imports from the Middle East), the EU has for several years adopted a markedly different energy policy, based on the diversification of sources and suppliers, as well as on the growth of energy efficiency.

This policy has enjoyed a certain success, in particular in some countries [9]. And the EU is now considerably in advance of its big ally and rival across the Atlantic in RES. The share of RES in energy consumed is only 2% in the US [10], while it is 6% in the EU and the objective of 12% has been adopted for 2010.

The obstinate and increasingly irrational refusal of a good part of the US ruling class to see the climate threat facing us is certainly linked to these strategic issues in the energy sector. This is undoubtedly a good example of self-intoxication of consciousness by the logic of profit. In any case, it is piquant to note that this self-intoxication could work out to the detriment of US capitalism.

While the protocol becomes effective, and while a faithful ally like Tony Blair considers climate change as a major issue for the G-8, Washington is little by little seeing the realization of the warning issued some years ago by a manager for international and industry affairs at the US multinational "Economies will have to adjust to that. It would be a mistake if the U.S. economy is insulated from these pressures. When the reality comes, the U.S. will have a bigger game of catch-up - and our competitors will be ahead of us [in developing and using climate-friendly technologies]". [11]

### **— "Good news for the companies... and for the environment?"**

The climatic game of poker that has just finished presented itself then in the following fashion. Russia wanted to raise the bid. The USA wanted to torpedo the Protocol so as to recommence the negotiation on new bases, notably in including the big developing countries (China, India, Brazil) in the first commitment period and in fixing a price ceiling for a tonne of carbon. They failed.

The EU won, with one eye on public opinion and the other on the green industry, also throwing in the balance its support for Russian membership of the WTO. And with the support of big capital, attracted by the juicy perspectives on the market in clean technologies [12].

Hence the enthusiasm of Digby Jones, director-general of the Confederation of British Industry: "Russia's decision is good news for companies and for the environment". [13] The news is certainly good for companies in general, which aspire to a stable, clear and global legislative framework, inside of which to plan their medium and long-term investments. It is good news in particular for European companies. Thanks to the US's backwardness on the issue, London has every chance of becoming the world capital of the regulation of the carbon market.

Thanks to the European system of exchange of emission rights, which enters into force at the beginning of 2005, 5,000 big EU companies and many civil servants will gain precious experience of

management, control and posting of emission rights, and this set-up has every chance of serving as model for the future world system. Finally, thanks to the unblocking of the protocol, industry and services will receive a significant boost. European companies are well placed to profit from it.

Wind farms, biomass combined heat and power plants, equipment for biomethanation of waste or production of biofuels, reinforcement of coastal infrastructures, production of photovoltaic electricity in remote regions, expertise and consultation missions: orders will come pouring in. As "The Economist" concludes, in embracing Kyoto, the EU may simply have given its companies an advantage in the race towards clean energy. "The Economist", October 9, 2004.

But is it also good news for the environment? That's another question altogether. It seems that some sectors of the dominant class are becoming conscious of the gravity of the situation and above all the costs which could result from it. The evolution is spectacular in Britain. The UK fixed itself the objective of reducing its emissions by 60% between now and 2050 and a whole series of adaptations to climate change have been embarked upon, notably in order to meet the growing flood risk. Two million households and five million people in Britain are threatened by the growing risk of flooding resulting from climate change, according to a report by the Office of Science and Technology (OST, 2004, [www.foresight.gov.uk/fcd.html](http://www.foresight.gov.uk/fcd.html)) [14]

In this respect, we should stress the paradox that the EU's victory was won through adapting to Washington's main recipes. The carbon market, the clean development mechanism (CDM), the joint implementation (JI), the taking into account of absorptions of carbon by "sinks": all these neoliberal adaptations have been dreamed up by the US negotiators to reduce the impact of reduction of emissions and externalize it towards the Third World or the countries in transition.

All have been initially rejected by the EU, which has then taken them up and implemented them. All of them reduce, relent and pervert the "small step forward" represented by Kyoto. To such an extent that the Protocol - if it is respected in full! - would only have the effect of reducing the increase in temperature between now and the end of the century by 0.1°C. There is no real reason to "break out the champagne" as European commissioner Margot Wallström has urged. [15].

## **And now?**

All other things being equal, it seems that this neoliberal grip on the negotiations will increase again in the course of the new climatic poker game. [16] Isolated and beaten, the USA will probably have to rejoin the Kyoto process. Too weak and incoherent to alone provide a world leadership, the EU will favour a rapprochement.

This will not happen for the first commitment period, but it could be concretized for the second. In this framework, the neoliberal offensive will redouble in intensity to drive back the positive aspects of the treaty (reduction targets, timetables, some limitations to "sinks") in favour of an even more systematic market logic. One of the main arguments invoked will be the necessity - on which the EU and USA increasingly agree - of involving the big emergent countries in the second commitment period, but "without compromising their economic and social development".

In the name of this "politically correct" objective, we will see for example growing pressure in favour of an untrammelled expansion of the "Clean Development Mechanism" which is above all a new cover for the domination of the Third World and the appropriation of its resources. Moreover, the nuclear lobby will also attempt to profit from the situation to reassert its grip on the market. This growing neoliberal pressure will then sharpen and complicate the race between climate change and the means of fighting against it, or adaptation to its effects.

According to the climatologists stabilization of the atmospheric concentration in CO<sub>2</sub> at a level which is non-dangerous for humanity involves reducing emissions by 60% between now and 2050, so as to remain below 550 ppmv ppmv stands for “parts per million by volume”. [17] of CO<sub>2</sub> in the atmosphere. Climate change is also increasing its pressure. The “New Scientist” warns us that “the capacity of the oceans and forests to absorb our CO<sub>2</sub> emissions could be reaching a point of saturation”. [18] US physicist Charles Keeling defends the thesis of saturation, arguing that the atmospheric concentration in CO<sub>2</sub> has sharply increased in recent years, without any proportional increase in emissions. The only possible explanation is that, starting from a certain point, the capacity of ecosystems to absorb CO<sub>2</sub> diminishes when the quantity of CO<sub>2</sub> in the air increases. In other words, climate change has begun to feed on itself. [19] Scientists had expected such a phenomenon, but in the medium term. The revelation that this “positive feedback” [20] has already begun would be very bad news. That would mean that the level of 450 ppmv would be reached in 2030, and that of 550 ppmv in 2060. So “dangerous disturbances” to the climate could intervene more quickly than envisaged. [21] Thus, while scientists display increasing alarm, the neoliberal logic is in the process of showing that it can turn the mobilization against global warming into a very profitable business. It has not yet shown that it is capable of leading this mobilization in an efficient, coordinated and rapid manner, avoiding major ecological and social catastrophes.

## NOTES

[1] To become effective, the Protocol must be ratified by at least 55 countries representing at least 55% of greenhouse gas emissions. As the US is the world’s biggest emitter of these gases and the second biggest - China - has no commitment within the framework of the Protocol, the signature of the fourth biggest emitter became indispensable. And this is Russia.

[2] Six gases are taken into account: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and three chlorinated or fluorinated gases. To simplify things, the emissions of the six gases are expressed in CO<sub>2</sub> equivalent

[3] For an overall presentation of these mechanisms, see IV 358, April 2004.

[4] It is not however permitted to make no effort in one’s own country - the signatories commit themselves to resort to the market only to “complement” national measures of reduction.

[5] This thesis, defended notably by Andréi Illarianov, Vladimir Putin’s economic advisor, does not take account of the fact that the Russian economy spends three to four times more on energy than Europe and ten times more than Japan to produce one unit of GDP (energy intensity). Russia could then both sell its surplus of CO<sub>2</sub> and revive its economy, providing the latter is modernized. (Nina Koulikova, RIA-Novosti, quoted in “Bulletin Chaulou”, October 2004).

[6] Coal is “the richest in carbon” of the fossil fuels, followed by petrol and then by natural gas.

[7] 10 billion euros according to “Point Carbon”.

[8] New Jersey, Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont have set up the Regional Greenhouse Gas Initiative, a kind of regional market emissions trading linked to objectives for reduction of emissions by electric power stations, fairly similar to the European system which enters in force in 2005 (“Point Carbon”, October 6, 2004). The rumour is circulating that California could join the Kyoto signatories (“The Economist”, October 9, 2004).

[9] Sweden, Austria, Finland.

[10] Including hydroelectric energy. Without the latter, the share of RES properly so-called is only 1%.

[11] "Business Week", April 9, 2001.

[12] The world market of the ecological industry is estimated at 550 billion euros, with anticipated rates of growth of 5-8% in the emergent countries.

[13] "Financial Times", October 1, 2004.

[14] Under the influence of its Consultative Council on Global Change (WGBU), Germany has also set itself an objective of 40% between now and 2020. But, at the same time, the grip of neoliberal diktats over climatic policy is growing.

[15] "Le Monde", October 1, 2004

[16] The negotiations for the 2012-2016 commitment period begin officially in 2005.

[17] 550 ppmv means that out of one million molecules of gas making up a given volume of air, 550 are molecules of CO<sub>2</sub>. Note that the German WGBU recommends the adoption of a ceiling of 450 ppmv.

[18] New Scientist, "Kyoto Protocol is just the Beginning", October 10, 2004.

[19] "The Independent", October 13, 2004

[20] "Positive feedback" is the name given to the type of mechanisms through which climate change accelerates climate change. The melting of the polar icecaps and the decrease in the absorption of CO<sub>2</sub> by plants beyond a certain rate of CO<sub>2</sub> in the air are two examples of positive feedback

[21] The UNFCCC fixes its goal as avoiding a "dangerous disturbance" of the climate, without further precision as to the "danger" in question

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## **P.S.**

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