

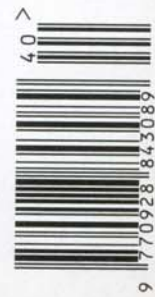
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Forward Trading

A proposal to end the standoff between the U.S. and China on climate change

BY GRACIELA CHICHILNISKY

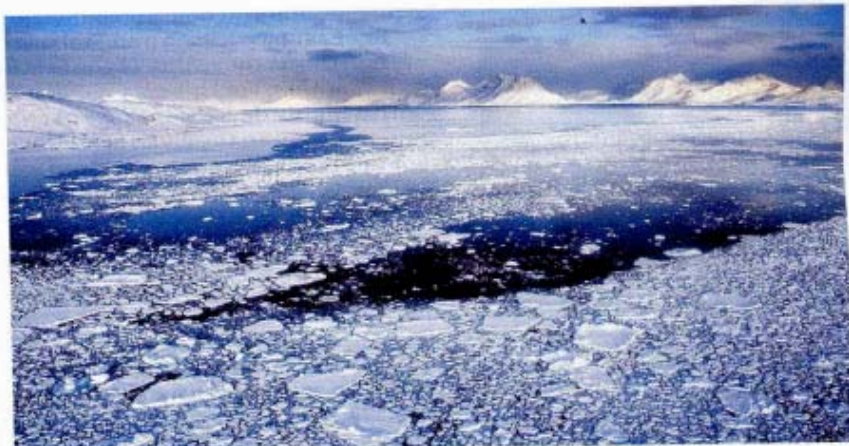
THIS DECEMBER, REPRESENTATIVES FROM SOME 200 nations will meet in Copenhagen to tackle the problem of global warming. Their focus will be on limiting the emissions of greenhouse gases that come mostly from wealthy nations. The talks will build on the framework set by the Kyoto Protocol in 1997. This time around, the pieces are in place for a major confrontation between the U.S. and China. In the last century, the U.S. and the Soviet Union faced off in a Cold War that saw a massive buildup of nuclear weapons. Today, a new Cold War could develop—and it's all about warming.

The fundamental challenge the Kyoto Protocol has failed to overcome is the divide between rich and poor nations. At present, 60% of all carbon emissions come from rich industrial nations that house only 20% of the world's population but use most of the world's resources. Developing nations, home to 80% of the world's population, are responsible for just 40% of all emissions.

These facts are not in dispute; much else is. Poorer nations such as China and India argue that a cap on emissions, and therefore energy use, will hurt economic growth and their ability to eradicate poverty. This is immoral, they say, especially because the West had a couple centuries of growth unhindered by emission caps. Western capitals point out that growth will be irrelevant if global warming continues. During the Bush Administration, Washington also argued that there was no point to the U.S. and other rich nations reducing their emissions unless China and India agreed to limits. Developing nations contribute a minority of emissions now, but in a few years they will become the biggest emitters and their actions will decide the fate of our planet.

In 2007 the U.S. finally agreed to engage in the U.N.-led climate negotiations, but attempts at a deal that works for both Washington and China have met with repeated failures. The problem is clear: before it commits to reductions, the U.S. wants China to agree to limits—but the Chinese, who said this week they were ready to reduce the rate of growth of emissions by a "notable margin," rightly point out that Kyoto spares China and all developing nations from binding emissions-cuts targets unless they are compensated.

A way forward requires more than a split-the-difference compromise. The focus needs to shift. Fortunately, such a shift is possible through a more accurate interpretation of the existing agreement. First, it's important to understand that today's framework does not state that China and other developing nations should have no emissions limits ever. It says that such countries should be compensated if they set limits. This is quite different, and opens up the way for a novel



Meltdown If the two biggest emitters remain deadlocked, progress is unlikely

agreement that would allow both Washington and Beijing to move simultaneously to break the diplomatic logjam over emissions reductions and to save face with their domestic constituencies.

In the agreement—think of it as a financial trade—the U.S. would buy an option to require China to lower its emissions below a certain agreed level. At the same time, Beijing would take out what amounts to an insurance policy to establish a minimum amount that Washington would pay Beijing if or when the U.S. exercised its option. The cost of Beijing's insurance policy and the cost to the U.S. of exercising its option on China's emissions levels would be set at roughly the same price.

In financial terms the trade would leave neither country better off. But it would allow China, which is fast coming to terms with the fact that it has to do something about its pollution and emission levels, to truthfully tell its domestic audience that it is cutting them but that the U.S. is compensating it to do so. It would allow the U.S. to argue, also truthfully, that the cost of paying China to cut its emissions is minimal. This solution allows both sides to get what they want while ensuring cuts.

There are plenty of details to sort out. But working on details is a good problem to have. If both sides agree in principle, the serious negotiation can happen in Copenhagen and beyond. Without such a breakthrough, the new Cold War is sure to heat up. ■

Chichilnisky, a professor of economics and statistics at Columbia University, helped design the Kyoto Protocol's international carbon market. She is the co-author of Saving Kyoto