

THURSDAY 23 APRIL 2009

Present

Anderson of Swansea, L
Chidgey, L
Crickhowell, L
Hamilton of Epsom, L
Jones, L
Selkirk of Douglas, L
Swinfen, L
Teverson, L (Chairman)

Witness: **Mr John Ashton**, Foreign Secretary's Special Representative on Climate Change, Foreign and Commonwealth Office, examined.

Q216 Chairman: Mr Ashton, may I welcome you to the Committee and thank you for attending. If I could just go through the House warnings. First of all, this meeting is clearly being recorded and on the web as well. You will be sent a copy of the transcript and if there is anything that you think has been recorded wrongly then clearly you have an opportunity to put that right. I would expect to finish this part of the session before 12 o'clock so hopefully that gives us plenty of time for the questions. I understand that you would like to make a short statement to begin with and then we will go into the questions which I think you have seen, if you would like to do that?

Mr Ashton: That is very kind of you and thank you very much for the opportunity to contribute to your inquiry. My role as the Foreign Secretary's Special Representative for Climate Change is to support David Miliband, his team at the Foreign Office and his colleagues across the Government in establishing the political conditions internationally for a successful response to climate change, including of course for a strong and ambitious agreement at Copenhagen at the end of the year. In other words, how in all the major economies do we not only do as much as we can within the current limits but how, even more

importantly, do we expand the limits of the possible so that we can get the much faster progress we need towards a low carbon global economy? That is the core focus of my work. The European Union, the world's largest single market, and China, still the world's fastest growing large economy, are absolutely critical to this, as is the engagement between them. China is at a crossroads. It is finding a new sense of identity and purpose as a shaping force in an inter-dependent global economy. Inevitably Europe will need to deal with a China whose influence over the lives of Europeans continues to grow. Over the next few years the choices that China makes will determine whether this will be a China that is pursuing its goals primarily through co-operation with other powers or through competition. Will China define itself more through the interests that it holds in common with the rest of the world or through those that make it different: through universalism or exceptionalism, if you like, albeit with Chinese characteristics? The overwhelming British and European interest in this is that China is successful and stable - I will not be able to look forward to a reliable pension if it is not - but also that China understands that in an inter-dependent and resource-limited globalised economy only an open global system based on agreed rules, shared interests and what Henry Kissinger has called "compatibility of purpose" can provide a reliable basis for its own prosperity and stability. We need a China that is continuing to benefit from the globalisation of opportunity but is at the same time contributing to, and comfortable about, contributing to the globalisation of responsibility. At present, both tendencies are visible in the choices that China is making, but the fulcrum on which the balance will tip one way or the other is the question of resource security in its four tightly inter-related aspects of food security, water security, energy security and climate security. It is here, in the face of stresses that are already very serious for China, that the temptation to adopt a competitive approach and a scramble for resources will be strongest but so will the benefits from co-operation. There is a deep alignment between China's interests here and Europe's. For example on energy, we are

both consumer economies worried about our growing dependence on imported oil and gas. We both have strong programmes to use energy more efficiently to expand the application of renewable energy and so on. We are both coming to understand that the consequences of climate change, which probably contributed significantly to last year's food price spike, pose a real and present strategic danger to our prosperity and security. The obvious strategic question is how can we harness together our two economies to make it easier for each of us to achieve these common objectives, to build an economic recovery that gives us low carbon, energy secure economies and, in doing so, helps drive a low carbon recovery globally. A quick final point: this is not about Europe's climate diplomacy or even Europe's diplomacy more generally. It is about Europe's sense of its own vocation because if we want to engage major partners like China in the kind of transformational way that will accelerate real change in the real Chinese economy at the rate that we need it to happen, then we need to have a much firmer political foundation in Europe from which to do it. That is what I think is only partially constructed, to put it as optimistically as possible. At the moment that is the core of the challenge. This may sound idealistic and perhaps even unrealistic in the midst of our current difficulties, but if we want to get out of those difficulties it is what we will have to do. A powerful lesson of the last few months is that in a crisis the limits of the possible can change very quickly. There is no longer any such thing as "business as usual". We have to build the new "usual" if we want it to be something that we like.

Q217 Chairman: Thank you, Mr Ashton. What has been useful particularly is the stress on the EU, which is clearly the focus of this inquiry. Following on very well from your statement, what are the strategic interests of the UK, and particularly of the EU, in co-operating with China on climate change? To what extent - and I think this is one of the things that we want to look at particularly as a Committee, has there been effectiveness of this so far

and could you maybe even give us any lessons that we can learn over the short track record so far for the future?

Mr Ashton: The strategic interest is that China sees it as essential for its own security and prosperity to move much faster than it has been doing so far in the direction of building a very low carbon, very resource efficient economy. They are moving in that direction, as I have said, they have already got some ambitious targets, but if we want a successful global response to climate change then it will be essential for China to move faster than it is. Incidentally, the same applies to Europe and we need to make that a mutually reinforcing dynamic. There has been rapidly growing engagement and over the last few years both at the European level and at Member State level. At Member State level the UK has been very much one of the leading players. There has been more engagement with China on the question of climate change than on any other area, possibly with the exception of trade, and it has been a very valuable engagement in building a shared understanding of key issues, in building networks of trust between people and institutions, but it has been useful at the margin, it has not been transformational. That is partly because we have not yet invested sufficient effort at the European level and partly because the effort that we have invested has not always been as coherent as it would need to be to have a more transformational impact.

Q218 Chairman: You put a very optimistic take on it in terms of the Chinese Government but if I asked you where climate change was on a list of priorities in terms of China's internal policies, what would you put in front of it and where would it be? Is it one of these ones where it is on wish list number one but practical list number 49?

Mr Ashton: I think that is true to some extent, but I think there is another dimension of the problem which is actually the key to it. I have been very struck in the last few years by the way in which Chinese leaders have come to understand intellectually that they need a successful global response to climate change. China's sense of its vulnerability to climate

change is much higher now than it was even a year or two ago. However, what is harder from a Chinese perspective is to see what is the pathway for them and how can they construct the contribution they would need to make to a successful global response without adding to what feel to them like quite significant risks that already exist to their own stability and prosperity, to jobs and growth. Can they combine high growth and low carbon, because if you cannot combine them, and this is the same problem that we all face but it is just more intense in some ways in China because the pace has been faster, then the political choices are much harder to make because how do you say we are going to put up energy prices, and we are going to risk even higher unemployment at a time when people are losing their jobs?

Q219 Chairman: Do you think in their own mind they can combine them or is that already lost in terms of the need for growth and pulling up the rural economy?

Mr Ashton: I believe they can be combined, including in China, but that at the moment from the point of view of Chinese leaders and Chinese policymakers, the way to do that is not clear across the board. There are one or two examples which I think are worth studying because they have a wider significance. For example, in the Chinese automotive industry there is certainly a growing sense that consumers in America, Europe and Japan will want to be buying very low carbon cars, not high emission vehicles. They believe that if China gets its act together then they can be the ones who put affordable, attractive, low-emission vehicles into our forecourts before anybody else does. That is a very encouraging sign because what you really want to do is to strengthen the forces of high ambition in China, the people who see this as an opportunity, or as more of an opportunity than as a threat and, again, that is what we need to do everywhere.

Q220 Lord Jones: Ambassador, a brief question: is it realistic for the European Union to have one position in relation to China with regards to climate change?

Mr Ashton: If I may say so, it is the core question, is it not? Maybe it is one engagement rather than one position. There will always be a network of conversations. There will be the conversations at European level and the conversations that Member States have, but it is whether you can make them coherent and you can give them a kind of strategic and transformational impulse. I would say that it is not happening at the moment. If one made a judgment simply on the basis of what we have achieved so far, one would be bound to be fairly pessimistic but actually we have to do better than that otherwise we will not secure our own strategic interests. Our security and our prosperity depend on building a more transformational engagement with China. It is interesting as we address that to look at other examples. One of the most significant developments on this front, and it is covered in another of your questions I think, is the way in which the new administration in the United States has said very clearly, “We are going to build a really strong transformational strategic relationship with China on energy and climate,” so they think yes, we can; we also have to think the same.

Q221 Lord Anderson of Swansea: You said that it is not happening so far. Since you mentioned the bilateral relationship, to what extent is the possibility of a coherent EU response drowned out by individual countries seeking in terms of commercial rivalry to sell their clean technologies to China?

Mr Ashton: I think to quite a high extent and not just in relation to selling clean technologies but in relation to jockeying for short-term commercial advantage one against the other more generally. That has been a very characteristic feature of engagement ever since I have been involved in dealing with China over the last 25 to 30 years. To take another example, it was characteristic when in a previous role I was working for your colleague Lord Patten, who was then Governor of Hong Kong, and there was a common European interest in strengthening the foundations of the rule of law in Hong Kong. The European record in engaging China in ways that would support that was very heavily drowned out by a race against each other for

short term, I would say, rather illusory commercial advantage. It is a theme, it has been a theme; and we need to overcome it because our real strategic economic interest is to operate in a way which is coherent one among the others rather than in a way where we are competing with each other.

Q222 Lord Anderson of Swansea: We will perhaps come on to this in a later question. Certainly it is claimed by a number of commentators that the Chinese take the EU seriously on the commercial level but not on the political level, and therefore, presumably, if the commercial aspects are likely to be paramount, it is there where the EU countries are in competition one with another?

Mr Ashton: I think the question of Chinese perceptions of the European Union is critical in its own right. At times in recent years there have been moments when it has been very tangible, certainly in Beijing, that there has been more confidence and belief in the European project than there has perhaps been in Europe itself. That may have been amplified by a sense that a strong Europe might be quite a good thing to have around if you have a strong US as well. Nevertheless, I think the famous Henry Kissinger question, “Who do I call if I want to talk to Europe?” has been a frustration on the Chinese side, and I think the Chinese authorities spotted a long time ago that there was often scope for playing one European government off against another.

Q223 Lord Anderson of Swansea: Have you been reading the same article as I have in the *FT* this morning, Tony Barber’s one from Brussels?

Mr Ashton: It has been a constant theme for 25 years ever since China’s opening began. It is a challenge to us and we need to get better at it. May I give a very practical personal example. I had to buy a new refrigerator not long ago. I had never actually bought a refrigerator before funnily enough. I went to my local branch of a well-known electrical

appliance wholesaler and I discovered something very interesting, that there were more fridges there made in China than there were fridges made by other manufacturers. I had no idea, I did not know what to expect, even though I knew that actually the world's largest fridge manufacturer is a Chinese company. What kind of fridges were they? They tended to be the cheaper fridges but they were also the least energy efficient fridges, so a really interesting question is why don't we see at a European level, which is responsible for our economic and trade and investment relationship, whether we can build a framework that will, if China is going to sell fridges to Europe, incentivise them to sell energy efficient fridges to us rather than energy inefficient ones?

Q224 Lord Anderson of Swansea: By definition those would be more expensive.

Mr Ashton: If you talk to people in that industry they say that if you can grow the market quickly then you will get economies of scale that will drive the price down. I am perhaps over-using the word transformational but if you can do that at sufficient pace and scale then that will have a transformational impact because it would make energy efficient appliances cheaper both in Europe and in China.

Chairman: Perhaps we can move on to the very important subject of Copenhagen. Lord Chidgey?

Q225 Lord Chidgey: Mr Ashton, there is planned a UN climate change conference in Copenhagen in December of this year. Can you give us your views on what the prospects are of China committing to ambitious and binding targets for reductions in its greenhouse gas emissions at that UN conference? Could you also tell us what you think about the opportunities for the European Union having a strategy to persuade China to support an ambitious global deal in that forum?

Mr Ashton: That conference will be one of the most significant multilateral events that has ever taken place. We will not have another opportunity to build a robust, ambitious framework for collective action on climate going beyond 2012. It is clear already that China is considering taking on commitments that go significantly beyond the commitments that they have already made internationally. There were some press reports last week that quoted a senior Chinese official thinking aloud about whether China might take on commitments about its carbon intensity, in effect, the carbon efficiency of its economy, as part of its contribution to Copenhagen, so I am reasonably confident that China will offer significant commitments. The question is how significant? Will they be commitments that, in effect, reflect a pace of change in the Chinese economy which is commensurate with the pace of change that we need? A hard reality of this problem is that because China has been deploying capital and building infrastructure faster than any society ever has, in a sense, China needs to make a bigger and faster shift in its economic direction than any other economy does if we want to have a successful global response. I do not think that you need a complete blueprint for that at Copenhagen. Copenhagen will offer a partial window on that, but it will have to convey the sense that China is now changing direction and it is embarking on a much faster progress towards a low carbon economy. As for Europe's strategy, Copenhagen is eight months away and on that timescale the forces that determine what China will offer will be primarily domestic forces. They will be based on an assessment about how strong the political foundation domestically is for this, what does it mean for jobs, for growth, for competitiveness. But that is not to say that Europe is impotent in that regard. I think the single most important thing that we can do - and this may sound like a slightly paradoxical response to the question and I am happy to come back to it - is we need to show over the next eight months that we really believe in the destiny that we have chosen for our economy. We have established legally binding targets in Europe which if we meet them will trigger a very

dramatic and rapid transformation to a low carbon economy. If we are doing that, if we are saying to China that we actually have the confidence to do ourselves what we are asking you to do, that will be powerful and that will be even more powerful if that is what China also sees when it looks at the United States, and that is what they are beginning to see, I think.

Q226 Lord Chidzey: I just want to pick up on one point. As you rightly say, we talk in terms of the vital, hugely important climate change conference in Copenhagen being this great chance and we talk in terms of a global deal. My point really is that from what I understand of China's approach to international affairs it cuts across all particular issues and boundaries. Issues with Taiwan and the Dalai Lama cut across. There is no compartmentalisation of those issues on their own. We talk in terms of a global deal. My question is what will China expect as their reward for striking a deal? We talk in terms of signing up for agreements, recognising their global responsibilities, but it seems to me that the Chinese psyche is that they will want something back from the international community for signing up to this major commitment. Do you have any views on that?

Mr Ashton: I do but they rather reinforce the direction in which I was going. I think if we conceive of this as a zero sum diplomatic negotiation where we all give each other things and reach a compromise, and that is the dominant dynamic, then I think we will fail if we see it primarily in those terms. Of course the whole Copenhagen conversation is constructed in those terms so there is a dimension to it where that is important and questions arise, for example, over the extent to which Europe and other developed economies will be willing to mobilise finance of one kind or another to catalyse faster progress in China. That will be the kind of thing where they will be looking for, as you put it, us to give them something, but actually I do not myself believe that they will be willing to make commitments that are ambitious enough to support an agreement on a scale that we need unless they have decided that this is in their domestic interest, that their own competitiveness, their own economic

interests and ultimately security interests depend on much faster progress from high carbon to low carbon. That is a much more powerful driver. There is an example in the region in the case of South Korea, which over the last year or two seems to have concluded that whatever happens in Copenhagen and whatever happens in the other international conversations, it is in South Korea's interests to be a very early mover in the low carbon transition. I was in Seoul a few weeks ago and a legislator there said to me, "America is going to build a smart electricity grid and do you know what, we are going to make the smart appliances that will communicate with the smart grid. That is where our jobs and our growth are going to come from." I think that is the driver that will really determine whether China does or does not do what we need, even though within that there will be embedded a more classical zero sum negotiation.

Q227 Lord Crickhowell: My son, Rupert Edwards, is a Director of Climate Change Capital and he has advised committees of both Houses and is in fact advising the heart of government on these issues. He is a very frequent visitor to China and I have some notes that he has given me. He observes that there is a gap of expectations between the EU and China about the extent of financial and technological support versus autonomous actions by the developing countries themselves. These are not mere negotiating positions. China is focused on economic development and GDP per capita emissions and the historic responsibility for atmospheric greenhouse gas concentrations; the EU view the fact that domestic emissions reduction is pointless without other countries also making appropriate efforts. Then moving on he picks out as the areas where the EU and China could co-operate. "Two particularly stand out: first the form of and financing of the international carbon market; and, secondly, carbon capture and storage." We can come back to carbon capture and storage later, but the central issue at Copenhagen is going to be about the Clean Development Mechanism and the first steps towards the development of a carbon market. Do you have any comment on my son's observations on the subject?

Mr Ashton: Perhaps I should confess at the beginning that I am very much an admirer of Climate Change Capital and I was on the advisory board that it established when it was founded, so although I do not have current formal links I had formal links at that time. It is very interesting that they and other companies like them who are looking to use the new carbon finance opportunities to create jobs and wealth have been very active and very much welcomed in China. It is a sign of China's interest in the carbon market that companies like Climate Change Capital are able to do business and able to go through so many doors in China. I completely agree with your son's observations. I think that China is still considering in a fairly preliminary way how it wants to engage with carbon markets. It has been an avid participant in the Clean Development Mechanism. No other country has signed up to such a high volume of Clean Development Mechanism projects, but at the same time their volume has not been significant in terms of the entire Chinese energy economy. They have said publicly that they want a Copenhagen agreement to include a mechanism which in a sense is scaled up from the current Clean Development Mechanism. They want to encourage external carbon finance to come in and incentivise low carbon technology and infrastructure choices in China, and part of the challenge we have at Copenhagen is to construct that in a way that will build on the good aspects of the Clean Development Mechanism but perhaps avoid some of the pitfalls that we have learned from. Not all of the projects have been genuinely offering real carbon savings so far.

Q228 Chairman: We also have a question later on on the Clean Development Mechanism and we can expand those thoughts then as well maybe.

Mr Ashton: Just to finish the answer, I think that one of the critical issues at Copenhagen will be the volume of external carbon finance flows that can be mobilised in an attempt to make the difference between high carbon investment and low carbon investment in China and also in other developing economies, but particularly the large emerging economies. That will

be part of that subset of the problem that we were talking about before, but, at the same time, I think in terms of the real economy, it will be a secondary part. If China really does make this transition quickly that will be financed more by Chinese domestic capital than it will by external carbon finance. China's own estimate (or at least it was recently) of the investment that they expected to be made in their energy infrastructure over the next 11 or 12 years was something like \$2 trillion. I find it hard to see international carbon finance making the major impact on the direction of flow of that investment. We need that river of capital to be flowing towards low carbon rather than high carbon. It can make a useful impact but perhaps not the critical impact that would come from China's own choices about its economic direction. I do not know whether that fully answers the question.

Lord Crickhowell: I do not want to spend more time on this. The whole question of the development of a full price for carbon is crucial and the development of a market, which I have a fairly detailed and complex paper about in front of me, is a difficult and complex one, and I think what was interesting was your observation that at the moment the funding in China is going to come substantially from China rather than from outside.

Chairman: If we could then move on to the last part of this question and to Lord Hamilton.

Lord Hamilton of Epsom: Can I return to Copenhagen; is there not a risk that this is going to be another grandstanding exercise like we had at Kyoto and there will be a whole lot of unobtainable targets being set by everybody which nobody reaches. We are now moving into a period of extremely low growth in the world economy, not just over the next 12 months, as the Chancellor has suggested, but probably over the next ten years. Is it really likely that anybody is going to involve themselves in the massive expense that is involved in cleaning up electricity generation and so forth when the real world is something entirely different?

Q229 Chairman: It you could make it less than half an hour for that particular reply!

Mr Ashton: I would like to answer the question but without necessarily accepting all the premises on which it is based. My very short answer is two points: one is it is becoming very clear that the cost of doing this will be substantially less than the cost of not doing it. Look at the costs that the spike in food prices imposed on most of the economies around the world last year. There was much debate at the time about what caused that food price spike, but it is pretty clear that a significant factor was climatic disruption to harvests that looked very much like the kind of disruption you would expect from climate change. By the way, that is something that the Chinese leadership noticed explicitly. Secondly, it is also becoming clear that the costs are affordable if you have the right policies that allow you to move efficiently. That applies in China and it applies in Europe. I do not think the Koreans would be moving in the direction that they have chosen to go in if they had not made the same calculation.

Q230 Lord Hamilton of Epsom: What about the Kyoto targets, we have not achieved them?

Mr Ashton: Again, I am not sure I accept the premise. I think that Kyoto had a bigger political impact, particularly in the European Union. We would not be embarked on the path that we are now embarked on had it not been for Kyoto, so it has had a bigger political impact than perhaps it will have an arithmetical impact on the immediate emissions of the major signatories of Kyoto. Again, in the EU we will meet our Kyoto targets and the UK will outperform its Kyoto targets, and I think the fact of Kyoto's existence has helped create the political foundation to allow that to happen. By a rather more indirect route, the existence of Kyoto and the position that the previous US administration took towards Kyoto had a very significant impact on the debate about climate change in the United States and contributed to the arrival of a new administration with a much more ambitious prospectus on climate change and to the emergence of initiatives, for example in California, the world's tenth or 11th largest economy in its own right, which were certainly very much consistent with the Kyoto level of ambition.

Q231 Lord Anderson of Swansea: Would you agree that one of the many temptations of the European Union is the delusion that we are bigger hitters in a field like climate change in respect of China than in fact we are? What I would value from you is some realistic appraisal of our weight in respect of China and climate change compared, for example, with that of the United States. Yes, there is a new administration with a more positive policy on climate change. Yes, the new administration is committed to multi-lateralism, but would not China see the G2, the relationship with the US, as infinitely more important than any role which the European Union could play?

Mr Ashton: If this were going to be decided simply by conversations between diplomats I think that might well be true, but I think, as I have tried to express, it will be decided more by what happens in each of our real economies. Looked at from that direction, in a sense we have a tendency in the European Union both to exaggerate and to under-estimate our impact. We exaggerate it because we do not always walk our talk in the most coherent way and we have these competitive tendencies one between the other. At the same time we under-estimate it by under-estimating the potency that arises simply from being the world's largest single market. China has been going through a very intensive period of legislating technology standards and in many cases what China has chosen to do is not to invent its own technology standards from scratch but to ask its people in Brussels to find out what Europe has done and to copy those standards, or at least adapt them to fit Chinese needs. China's standards for emissions from vehicles for example are based on European standards. It is an influence that we have without even trying. There has been no strategic effort by Europe to encourage others to adopt our technology standards and yet if they do it creates an alignment of interest and to some extent an integration between our markets. I think that gives you enormous influence, and even more if we focus on and ask ourselves how we can use it to greatest effect. I would say that it is the real economy that matters most and if we can define our own

strategy about our own real economy in a way that engages China in a transformational way then I think we can overcome the delusion that you have quite rightly warned about.

Q232 Lord Crickhowell: On the suggestion that the arrival of America as a positive rather than a negative force might cause China to say that is the centre of their interest, surely the reverse is true? It is of crucial importance for any future realistic co-operation, going back to those different perspectives that I referred to earlier, that the Obama administration does come in this will make it much easier for the Europe-China linkage because the Chinese will realise that we are moving forward to some kind of global activity and not just a one-off in two parts of the world. It seems to me that the arrival of the Obama administration as a positive force is hugely beneficial in the relationship that Europe is likely to have on these issues in China. Would you agree with that?

Mr Ashton: I totally agree with that. I would perhaps put it even more strongly. If China looks at America and looks at Europe and sees that we are both getting ahead of them in the race to build a low carbon economy, that will have a more powerful influence on their choices than anything else, whatever happens in the engagements that we build, but, at the same time, if we build the right pattern of engagements the three of us can operate in a mutually reinforcing manner. It is worth pausing actually and noting that although the US intent has clearly changed dramatically, they are starting from a much lower point than the one that we have reached already. Despite the criticisms that I have made, there are some areas in which Europe has done some quite significant things with China. We have the first partnership with China to construct a commercial-scale carbon capture and storage demonstration plant, the so-called near-zero emissions coal plant. We are working very closely with China on the concept of low carbon economic development zones which potentially could have a transformational impact. They have just established one in one of their major cities, Jilin City. What is interesting is that representatives of the US administration are now starting to

ask us to share our experience with them, which is welcome and something we are delighted to do

Q233 Chairman: In terms of the United States and Europe, clearly China, and indeed what we have called in the past under Kyoto the developing countries have always seen Europe and the United States as the people who put up all the carbons in the atmosphere and now through carbon leakage get China to do most of the dirty manufacturing for Western consumers. Is that psychology still very much in the mind of China? Is that history going to stay there and are they going to demand a very high price for moving ahead, apart from self-interest? Will that history always remain in their minds or is that something now that we can get around and we can just move forward?

Mr Ashton: It is a very significant issue. It is one from which we have to move forward. It is sometimes a fallacy in diplomacy to treat countries as if they were a single brain, a single coherent set of impulses. Of course, the reality is that that is never true and in a country as large and complex as China going through such a dynamic transition, it is particularly untrue. What you really see is a very dynamic contention between a lot of different tendencies, some of which are looking more to the past and some of which are looking to the future, the question then is which will win out. It is what I was trying to convey in my opening statement. This is a very fluid period in China's sense of its own identity.

Q234 Chairman: What is your view on that, yes or no?

Mr Ashton: My view is it depends on how we engage them. It is not something over which we have no influence at all but it needs smart, coherent, strategic engagement.

Q235 Lord Selkirk of Douglas: I think you have in part answered the question which I wished ask but I will still ask it in case there is anything you wish to add. What is your

assessment of the progress made so far under the EU-China Partnership on Climate Change, agreed in 2005? What progress has been made in the EU-China “Near-Zero Emissions Coal Initiative”? What are the main challenges that it faces and how can the EU address these? May I just mention that we have in former evidence had a good deal of information to the effect that the Chinese engage in very long-term planning. Could you give your assessment of progress past, present and future?

Mr Ashton: On the first part of that, as you say I have covered the Climate Change Partnership in broad terms. There has been valuable progress but it is not yet transformational. What it has helped us to do is to identify the next stage if we want to make it transformational. In a sense that is not about the Climate Partnership per se, it is about the broader economic partnership. On the second question, before the economic slowdown in China, China was building this famously quoted figure of two new coal-fired power stations a week, and the reality is that you do not have a global solution to the climate problem unless you have a solution to the global coal problem, but particularly the Chinese coal problem, and the only solution is to accelerate the bringing forward of carbon capture and storage, so the EU-China partnership on that particular demonstration plant is of enormous significance. It is a transformational project. Having updated myself the other day, I think projects of this kind are complex and they need to go through stages, from feasibility to planning to implementation. We have done the feasibility. We are well into the planning, the so-called phase two of the project, but where the rubber will hit the road will be implementation because it will be the implementation that costs money. If you build a carbon capture and storage plant at commercial scale, you are talking about an additional cost at this current demonstration phase of the order of hundreds of millions of euros, and the question is where is that additional cost going to come from? China will say, appealing very much to the argument that you put, that actually we have had the benefit of unabated coal firing our

economies for all this time, so why should they pay the additional costs of doing this demonstration that we want them to do? There will be a question that we need to address quite soon about the extent to which European taxpayers in the end will be willing to pay. It is part of building the political foundation for this more ambitious engagement that I was talking about. We have not answered that question yet. If you were to ask me how the implementation stage will be paid for, I do not have an answer to it. It is a question that is bothering me a lot.

Q236 Lord Hamilton of Epsom: Do you think they are still building one coal-fired power station every four days? If they are, they will be putting more Chinese coal into them. They were initially importing much cleaner Australian coal; the Chinese coal comes out full of sulphur and is disgusting. What is the timescale for carbon capture? We are at very early stages. It is a gleam in the scientists' eyes at the moment. When are we actually going to have carbon capture power stations being built? In my opinion, this is way out into the future and in the meantime we are going to still have very large numbers of new power stations being built in China pumping out sulphurous fumes into the world, and where do all these targets stand against that background?

Mr Ashton: Carbon capture and storage is actually a combination of technologies: to capture the carbon emissions from the combustion; to then move them from the point of combustion to where they are going to be disposed of in pipelines; and then to bury them safely in the storage part. Each of those technologies is well-known and well-understood and commercialised in different contexts. What is not proven is the combination together and that is why there has been so much emphasis on a demonstration phase of carbon capture and storage. When the European Union sat down to work out the rate at which it should be trying to deploy carbon capture and storage in Europe, it brought together a consortium of commercial interests that had the technologies and the expertise on the various parts of CCS

and underwent a three-year exercise to work out what was the fastest feasible (not unfeasible) timetable in which they could participate without having their boards thrown out by their shareholders. The result that they came up with was that before 2020 we could envisage a future in Europe where all new coal and gas was built with full carbon capture and storage. So I would take issue with the notion that this is a gleam in scientists' eyes. We will only get there if we are willing to move ourselves down the cost curve and learning curve as quickly as possible, and that is why we need to do these demonstrations. That will give us cost discovery for doing it at scale. It is true that this is one of the areas where at the moment the cost is significant alongside the opportunity. It is always going to cost more to get electricity by burning coal or gas and doing carbon capture and storage than it is by not doing it, but there is no evidence that it is going to cost unacceptably more, provided we use the right policy instruments to spread the cost. I think that one can be reasonably ambitious about CCS in China. I do not think they will be at the front of the first wave. I think the first wave will be in Europe, in America, in Canada and in Australia, but there are already signs of intensifying commercial interest in China. Some of the Chinese utilities seem to be reaching the conclusion themselves that this is going to be a globally strategic technology and they want to have some of the intellectual property arising from it and profit from it globally. That is another example of a positive force to be encouraged rather like that in the Chinese automotive sector. There is a strong pressure on governments to decide how quickly we want to make this happen and how much we are willing to spend in order to make it happen. Those are difficult political questions.

Q237 Chairman: Just to come back to Lord Hamilton's question. In terms of the momentum for coal-fired power stations, presumably even with a slightly reduced growth rate that is going to happen and we are not going to get practical implementation of CCS for 15 years or something like that?

Mr Ashton: I think we will see a phase of commercial scale demonstrations at double figures within the next five, six or seven years and I think that we could, if we wanted to, go to universalisation by around 2020 in all the major coal-burning economies, if we choose to do the heavy lifting to do it. It is true, just on the question, that under any scenario the Chinese, as I have said, are investing massively in other forms of energy. They are investing in renewable energy and they have the world's most ambitious nuclear energy programme. They are trying to reduce their own dependence on coal to diversify their energy system. Yet coal will still be by far the largest part of their energy portfolio well into the future to 2020, 2030 and probably beyond. The question is a very key question, how quickly can you get it in and can you retrofit some of the existing plants so that they have carbon capture and storage sooner rather than later as well. It is a strategic global question.

Q238 Lord Anderson of Swansea: The interim mentioned by Lord Hamilton is a fairly nightmare-ish scenario. What you said is that for us there will be the prospect of implementation if there is sufficient engagement and financial resources by 2020. You said that China will not be in the first phase so it will be some time after 2020 and in the meantime presumably they will be putting into operation up to two dirty coal stations a week?

Mr Ashton: Can I clarify? I did not quite say that. I think that the first phase will be the demonstrations that happen in the next few years and I think that we will see demonstrations emerging in Europe and America and Japan and Australia before we see more than a handful in China. That does not mean that by 2020 we will not see a step change in the application of carbon capture and storage in China. Incidentally, I would expect to see Chinese commercial interests involved in the demonstrations outside China as well. But there is a big problem of sunk high carbon capital in their power generation arising from all of the coal-fired power stations that are there now and which will be built without carbon capture and storage. That problem can only be addressed either by early retirement of that capital stock or by the fitting

of carbon capture and storage at a later date. Both of those will need to be addressed again as part of a global response to climate change. China will determine its own interests there. We have to find ways of encouraging them to determine an interest which is in favour of early application of carbon capture and storage.

Q239 Lord Swinfen: Mr Ashton, what is the EU doing to help China increase its energy efficiency both nationally, provincially and locally?

Mr Ashton: Energy efficiency covers a multitude of sectors of course but it is the area within which the most economically attractive and quickly accessible steps are available to go from high carbon to low carbon. China itself, as I said earlier, has the world's most ambitious targets on energy efficiency, and actually it is China's own determination to meet those targets more than the help it is getting from elsewhere that will primarily determine the pace that they go at. I think in that portfolio of project level co-operation that is taking place between the European Commission and China under the Climate Change Partnership, but also between Member States and China there is a great deal of activity on energy efficient buildings, energy efficient industrial production and energy efficient heating. I do not know what it would look like in terms of millions of euros but if you added it all together you would see a great deal of activity, but again I do not think it would be activity on a transformational level. I think that is an area where there already is a transformational impulse in China. That is not primarily because of China's worry about climate change. It has been driven historically by China's energy crunch, the difficulty that they have had in providing the power they need to run the economy and, in the liquid fuels area, the concern that they have about over-dependence on imported oil.

Q240 Lord Anderson of Swansea: And desertification presumably?

Mr Ashton: Well, that is a huge worry in its own right and what is interesting there is that I think that the connection now is being made much more strongly than it was until quite recently with climate change. Climate change is not good news for the desertification which has been happening for a long time in China, hitherto partly as a result of over-intensive use of water in water-scarce regions.

Q241 Lord Swinfen: Is China learning lessons that they will then be teaching to the EU and other parts of the world?

Mr Ashton: I think that is a very good question because it illustrates something I believe. I think we would be wrong to see this in a paternalistic way, that this is all about us helping China. I think if we are able to look back in 20 or 30 years on a mobilisation of effort in the face of climate change and say how did that happen, we will see that there has been as much flow of expertise and technology from China to Europe as there has been in the other direction. A very interesting reality about China is that it is now increasing its capacity to innovate at low cost faster than any other economy has. There has been a lot of publicity for the number of graduates in technology and engineering who are being produced by Chinese universities and that explains why a lot of companies, including European companies, have been moving their research and development efforts to China and forming joint ventures with Chinese partners to innovate in China, taking advantage of that low cost innovative capacity. I think that is a very important dynamic and again one which needs to be encouraged. This is about mutuality and not about a one-way flow.

Chairman: I have just had a copy of today's business in the House and apparently we have a statement entitled "Carbon Capture and Storage" by Lord Hunt, so maybe some of us will be able to ask some questions on a broader view.

Q242 Lord Crickhowell: It is rather interesting that you made the last comment because question seven, of which you have been given notice is: to what extent are China and the EU co-operating in the area of scientific research on energy efficiency and technologies to mitigate climate change? Should the EU facilitate the transfer of technology to China as a way of helping China mitigate climate change? You have just been telling us that it may not all be one way so I already know the answer to that last question therefore that clearly there should be. Indeed, you have identified areas where it is already taking place and I think you have already answered the suggestion that I made much earlier that probably this whole area of carbon capture and storage is the single area on which the EU and China can co-operate and co-operation will be a critical central area. There has been some suggestion, I think even in your answers, that it is much more going to be a commercial interest issue rather than real recognition of the dangers of climate change. I am not sure that is true. They have got half the world's glaciers and a large part of China, spreading out into Hong Kong, is now covered by an increasing pall of almost unbreathable smog, and I would have thought the pressure is on from within the country to do something about climate change for all sorts of own interests reasons that are going to be pretty powerful. Are there any other areas? I think we have covered the clean carbon area. Are there any other areas of technical co-operation that you think may be important between Europe and China or whether there will be opportunities for both?

Mr Ashton: The simple answer is I think that we should be facilitating the flows of low carbon technology in both directions and also with other partners as well of course. A lot of that will be determined by commercial interests. It is companies that own technology that know how to do deals with other companies about where that technology will be deployed. The considerations that shape the deals they make vary sector by sector. There are some areas where it is the proprietary technologies that companies have which are their main source of

value and they tend to be very protective about them where perhaps there is more of an opportunity for governments to say, “Is there more we can do to provide enabling conditions, for example to make sure that if there are going to be flows of carbon finance they flow in a way that encourages the sharing of those kinds of technology.” There are other areas where the best thing that governments can do is get out of the way because the companies know how to build the partnerships themselves. I totally agree that if you had to pick one single set of technologies as your only priority for co-operation with China, it would certainly be carbon capture and storage, in my view. On the very interesting next part of your question, the extent to which China’s sense of the threat that it is under will also drive this response, I think, yes, this is important and the sense has been becoming stronger over time. It is why I said at the beginning they know that they need a different kind of growth model. Even if climate change were not a problem, the social and local environmental impacts of the growth model they have has been creating enormous stress. They know that they cannot go on on the same path, and climate change will add to that. I think it is also true as a lesson of history, if you like, that if you want to drive a rapid process of political change, a politics of opportunity is more powerful than a politics of threat. But it is not that you should ignore the threat, it is very important too, I think another European interest here is to strengthen the dialogue between European scientists and Chinese scientists about what we think the precise consequences of climate change will be for different parts of China and different parts of the Chinese economy. I do not myself believe that there is yet a sense in the debate among Chinese elites of danger which is remotely commensurate with the problem. If you think that sea level experts nowadays are beginning to think that we might see more than a metre, maybe two metres, of sea level rise within the lifetime of people alive today, how much of China’s economy and productive capacity would be put in jeopardy by two metres of sea level rise? Quite a lot because so much of it is on low-lying land down the east coast, and in the big

deltas. That sense of danger is important, it has been a growing dynamic, and I think that should also be part of our Europe-China conversation.

Q243 Lord Crickhowell: A long time ago you referred to the deep alignment of interests and put at the head of your list energy. Europe is facing serious energy problems, quite apart from the ones that we have been debating, not least in its relationships with Russia, on which this Committee has made reports. Is this an area where perhaps Europe can find technological co-operation in energy efficiency or alternative energy?

Mr Ashton: Absolutely I think it is. I hope it does not seem like too long ago that I made that observation! That alignment is as much about energy security in a more traditional sense. It was very painful in China and in Europe to undergo the spike in oil prices that we all underwent. The structural forces that gave rise to that spike are still there. They arose from the rapid emergence of a billion new consumers into the global economy and their energy-consuming footprint, if you like. The Chief Economist of the International Energy Agency has recently been warning that we need to be very careful not to drive our recovery in such a way that one of the first things that happens is a new oil price spike that then derails the recovery. I think in that area, even without the climate factor, there is an enormous mutual interest in co-operation. Energy efficiency, particularly the efficiency within which we are using oil and gas, is part of it, and of course that is not one or two technologies; that is, in a sense, the whole economy because everything you make has an energy footprint of one kind or another on the production side and on the consumption side. In my view, that should be an area where we really are trying to build a strategic consumer-to-consumer dialogue alongside the consumer-to-producer dialogues that we have been having about oil in recent years.

Q244 Lord Crickhowell: If I may go on to question eight, which is the one about co-operation on carbon trading and emissions trading schemes and so on, again, we have just

touched on aspects of that and I think you pointed out that Climate Change Capital had been involved in part of the offsets, but there is a considerable recognition in Europe and elsewhere that we cannot rely simply on our efforts in this field by offsetting to the developing countries. Are there any other observations that you care to make about the experience of emissions trading and international co-operation? Is this early days on the way towards some kind of global emissions trading scheme?

Mr Ashton: One major observation if I may, which is I think one thing that we have learned is that important though it is to put a price on carbon, and we have chosen to do that in Europe through emissions trading and that will be part of the Copenhagen conversation, it is certainly not enough. On the whole, it is a marginal signal rather than a transformational signal and what we need is transformation, so we need to be looking much more intensively at other policy levers that we can put in place not instead of but alongside. There are not very many if you think about it. There is regulation of one kind or another and there is public investment of one kind or another, and the right combination will vary according to sector, but there is an important place for emissions trading and if we can come out of Copenhagen with the rudiments of a global system, or maybe a system of interlinked carbon markets, then that will be a good thing not a bad thing.

Lord Hamilton of Epsom: When I volunteered to read out this question I suddenly realised afterwards that I did not know what it meant! What is China's view of the Clean Development Mechanism? It obviously refers to carbon capture and we have discussed that at some length, but is there anything else that comes under the Clean Development Mechanism?

Q245 Chairman: Lord Hamilton, we would probably thank you for asking the question for any Members who have not owned up to not knowing what the question means!

Mr Ashton: I take it that does not give me licence to give an unintelligible answer! Should I have a stab at explaining it, would that be helpful?

Q246 Lord Hamilton of Epsom: Yes, please.

Mr Ashton: The Clean Development Mechanism is part of the Kyoto portfolio and essentially what it says is that if developing countries, and those countries that do not have binding emissions caps of their own, have a technology or industrial project in one of those countries, including China, where there is a choice between doing it in a high emissions way and a low emissions way, and if the low emissions way is more expensive, then you can use carbon credits generated under the emissions trading scheme in Europe under the Kyoto arrangements as a revenue stream or source of finance to cover that gap. In a sense, you get the carrots without the sticks of being part of an emissions trading world. China has been the most avid consumer (by a long way), very much to the benefit of Climate Change Capital and others, of Clean Development Mechanism opportunities. This has been a learning phase. I do not think anybody involved in the Clean Development Mechanism - and I have not been closely involved - would say that it is anywhere near perfection. We have got to do very rapid learning because there can be no room for the use of mechanisms like that of a kind that undermines rather than enhances confidence in the system. It seems to me that creating carbon credits is rather like creating a completely new kind of currency or financial instrument. We have had a lot of lessons recently about confidence in financial instruments and the importance of understanding the risk inherent in different kinds of financial instruments. We would do well to take those lessons into our conversations at Copenhagen. I am not sure if I have answered your question but I hope that is useful.

Lord Crickhowell: For those of us who sat on the Joint Committee on the Climate Change Bill this brings back vivid memories of endless analysis and discussion on the subject.

Chairman: Indeed and no doubt it will continue. Lord Chidgey?

Lord Chidgey: This is the last of the questions that we will put to you, Mr Ashton, and it is a sort of catch-all question, is there anything we have left out. Are there any other aspects of the EU's co-operation with China on climate, whether we understand them or not, that should be brought to the attention of the Committee?

Chairman: Could I intervene, if Lord Chidgey would not mind, just to say that there are three areas that it has struck me that perhaps we have not covered. Firstly, China is still nominally a Communist state so does it have a national plan on climate change? Is there a document that you can pull off Chinese Google and that is the plan for China? Secondly, we have not mentioned adaptation anywhere in this discussion and I wondered whether there was anything to say about adaptation. The other area really follows on from one of Lord Crickhowell's question about the problem of China's environment: what is the role of NGOs within China and is there a European dimension to that?

Q247 Lord Swinfen: Perhaps I should declare an interest because the energy trust that I run does some work in China but not on this side, on the medical side.

Mr Ashton: Perhaps in answer to the first part of that, the European Union, in a sense, has a European plan without being Communist and China has lots of plans and in some ways is less Communist than many other ostensibly more liberal economies. They still have in China the five-year plans which try to set the strategic direction of the economy and then they also have national plans on specific things. They were one of the first developing countries to start publishing a national plan on climate change. There is one which at the moment is at a relatively low level of ambition, if I might put it like that, but there is also talk, and it was covered in some of the media speculation that I mentioned earlier quoting Chinese officials about the kind of commitments that they might put into the next five-year plan, which I think runs from 2011 to 2016, that they might also, as it were, register internationally as part of the Copenhagen agreement. Thus planning is a very important part of their governance culture

and it is something which seems to me quite helpful in relation to trying to agree an international framework. There is a place where you can put commitments domestically for which you can also seek international recognition. The question of adaptation links to the discussion earlier about the sense of danger, the sense of threat. I think in the expert conversations that take place in China there has been for some time a lot of interest in what kind of impacts can China expect from climate change and what can it do to make its economy more resilient against those impacts. For example, in food production what kind of crops do you grow in what places given that rainfall patterns and temperature patterns are likely to change. On the whole, the picture that emerges from that is that any short-term benefits will be heavily outweighed by much larger and longer costs of the impacts of climate change. I think that the three biggest ones are the consequences of the Himalayan glaciers melting because a lot of the agricultural water use depends on melt water from those glaciers; rising sea level, which we have mentioned; and possible changes in the monsoon pattern, which also has a very important impact on Chinese agriculture. There is expert level attention. The national panel on climate change has a lot in it about adaptation and there are policies to build resilience, but I suspect that the intensity and the urgency will increase not decrease in the next stage of this as the realisation grows that some of these impacts might be harsher and more immediate than was expected earlier.

Q248 Chairman: Can there be an EU dimension there or is that unlikely to be the case?

Mr Ashton: Very much so. Some of that conversation that takes place under the Partnership is about adaptation. There are two aspects of that. One is co-operation with China on the domestic adaptation dilemmas that it faces. The UK over the years has done a lot with China on the impacts of climate change on Chinese agriculture. I do not think any other country has as deep an engagement in that area as the UK has, very much as part of the European effort. The other part is adaptation in the context of Copenhagen. What is a Copenhagen agreement

going to do to help countries on the frontline of climate change (on the whole poor countries that have done the least to contribute to the problem in the first place) deal with the consequences? That partly is about money. It is partly about the governance of money. That is something where China will be a major player in reaching agreement, perhaps as a consumer of adaptation funds, although there are countries which are much poorer than China which, to my mind, should be first in the queue. Perhaps also, as the Mexican Government has suggested, the large emerging economies might have windows through which they can contribute to the international adaptation effort. You asked about the role of non-governmental organisations and civil society. I think one of the most striking features of China in recent years has been the growth of a civil society conversation specifically about the environment. It is in the area of the environment that civil society has grown more rapidly than in any other (perhaps public health as well, I am not sure) and somehow I think it has been treated as either less politically sensitive or more politically necessary. It is easier to run an NGO which is campaigning for a low carbon economy than one which is campaigning for democratic institutions, for example, in China. I have been part of it during the period that I spent outside government. There is a great deal of dialogue now between non-governmental independent organisations generally. I should perhaps declare an interest myself because I was a co-founder of an organisation called Third Generation Environmentalism, which is a cross between a think-tank and an NGO. We developed a conversation between a set of Chinese independent entities and a set of European counterparts exactly about that alignment of interest on energy and what we might do to build that kind of relationship. The concept of low carbon zones, which I mentioned earlier, came out of that conversation. It was proposed in China by Chinese NGOs and then implemented by government as a consequence of that civil society conversation. What I am trying to convey is that this is hugely important. This

cannot be just a conversation between government officials. It needs to be a much broader conversation.

Q249 Lord Anderson of Swansea: One interesting side effect of these pressures which does make China more internationally minded is the purchase of swathes of agricultural land in developing countries, which presumably is likely to develop apace given the pressures developing in China?

Mr Ashton: In my experience of China, there is no issue which is more sensitive, and which has such a deep and historical resonance, than the question of food security, going back over literally thousands of years. There is a strong correlation historically in China between food insecurity, and instability and political turbulence. I think that is a very pertinent issue and it perhaps leads back to the point that I tried to open within my statement. How China deals with this and how we deal with China on this as it affects the four resource pillars of security - food, water, energy and climate - will have, in my view, a decisive influence on the kind of China we have to deal with more broadly. Do we want a co-operative partner which is defining itself through mutuality or do we want a competitive partner engaging in a more exceptionalist scramble for resources? That, in turn, will have an enormous impact on the kind of global system that we have. Can we achieve Henry Kissinger's compatibility of purpose or not? That is the big diplomatic question and perhaps the only strategic diplomatic question for the next generation.

Q250 Lord Jones: From your expertise and insight into this mighty nation, is there anything in its characteristics nationally that would impel it to cross its own borders to take without agreement the water or the fuels that it needs?

Mr Ashton: Inter-dependence has put that question into a new context. I am going to answer the question but perhaps I will just remark first that inter-dependence has put that question

into a new context because it means that basic resources of that kind, in effect, can cross borders without those kinds of traditional solutions if you like. If Brazil is cutting down more forest in order to grow more soya in order to produce animal feed in order for a rapidly expanding Chinese middle-class to be able to eat more meat, then China's water stress is being exported by other means. I think that is a reality of inter-dependence and we need somehow to be embracing these questions in the kind of systemic way that they call for. I do not think that there is any threat that China will somehow launch itself using instruments of hard power across its borders to grow food or secure watersheds. I do not see any sign of that. Whenever Chinese leaders are quizzed on it they predictably say that nothing would be further from China's mind. I think the more serious point is to that extent there is a very deep understanding that we are now in a system where there is a high degree of mutuality, that in the end those kinds of measures, given the inter-dependence that we have, will always be counter-productive. That is a lesson of the 20th century, is it not?

Chairman: Mr Ashton, thank you very much indeed for your evidence today. Can I say that it is first time I have been at a meeting where Henry Kissinger, who is rather unfashionable these days, has been quoted so often.

Q251 Lord Anderson of Swansea: He is back from the dead!

Mr Ashton: That phrase about compatibility of purpose is terribly important.

Q252 Chairman: Indeed and obviously we will have noted that. Thank you for your views on the subject. It is certainly something that we will come back to in this inquiry.

Mr Ashton: Thank you. It has been a pleasure and I hope useful as well.