

CLIMATE CHANGE, A DEAD HORSE AND REALPOLITIK

BARRY CARIN

KEY POINTS

- The UN climate change negotiation process is broken.
- A new incremental approach, congruent with national self-interest, is needed.
- Each country should build its own package of “no regrets” investments and “smart” policies in other sectors that have emission reduction co-benefits.
- Any G20 effort should be formulated under a priority agenda item other than climate change.

The fast start finance is neither fast, nor has it started, nor is it finance.

— Jairam Ramesh, India’s environment minister¹

INTRODUCTION

The United Nations Framework Convention on Climate Change (UNFCCC) negotiation process on climate finance has become the dead horse that climate negotiators will not stop flogging. Twenty years of effort has brought very limited action. Developing countries stubbornly insist on being compensated by those responsible for causing the problem. Progress on climate finance has been slow to non-existent. The negotiation process appears to be broken. A negotiating focus on unattainable objectives — legally binding targets and financial transfers — means that nothing will be accomplished. The risks of failure and inaction are significant, with future generations paying a heavy price. The UNFCCC process is in need of a radical re-think. Substantive results on dealing with the climate



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¹ “Fast-start Finance Key to Cancun Talks: Ramesh.” *The Economic Times*. December 10. http://articles.economictimes.indiatimes.com/2010-12-05/news/27623313_1_fast-start-finance-international-consultation-and-analysis-basic-countries.

change problem could be achieved if the focus was on issues for which cooperation and collective action are possible.

CHRONIC UNDERPERFORMANCE

At the latest Conference of the Parties (COP), held in Warsaw in November 2013, as in the previous 18 annual events, there was no progress on the main issues of finance and regression on binding national targets. Developing countries continued to argue that their development should not be compromised by climate considerations and that the climate problem is the responsibility of the developed nations. They also insisted that they be compensated for climate change-related loss and damage. There is, however, no chance that the US Congress will appropriate money to be transferred to poor countries for low-carbon development or for adaptation to climate change in the foreseeable future. And developed countries refuse to be held responsible for the effects of natural disasters.

The COP approved a deal in Warsaw that requires all countries to present aspirational national targets by the first quarter of 2015. There was no movement on how to mobilize the US\$100 billion a year by 2020 “pledged” in Copenhagen in 2009 to help developing countries take action on climate change, which is still awaiting approval by US Congress. The conference established yet another entity — the “Warsaw international mechanism” — to deal with “loss and damage” from severe weather events. It is doomed to be impotent, providing opportunities for diplomats to endlessly debate operational modalities for another organization without resources. The Green Climate Fund, supposedly the major entity to fund climate finance, has not received any substantial contributions and is not likely to receive any. In Warsaw, the best the

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A view inside the conference hall at the closing of the 2013 UN Climate Change Conference in Warsaw, Poland, November 23, 2013.
UN Photo/UNFCCC Jan Golinski.

developing country supplicants could achieve was agreement to continuing deliberation on scaling up long-term finance and a request to developed countries to provide submissions on their approaches for increasing climate finance.

REAL POLITICAL CONSTRAINTS

Mathis Wackernagel, the president of Footprint Network, an international sustainability think tank, has characterized the problem as this: "Politicians are caught in a dilemma between political suicide and ecological suicide" (quoted in Global Footprint Network 2010). The richest, but fiscally constrained, countries are being asked to take painful action and transfer funds to the less-developed countries. Most industrialized countries

have enormous medium-term fiscal challenges that they have not yet addressed. It is difficult to mobilize political support for a problem that is seen as a future problem many years away. It should not be a surprise that developed countries speak about private funding and put the onus on developing countries to reform their own systems to facilitate private investment. It is inherently difficult to orchestrate international coordination when the most vulnerable, poorest and least responsible countries have the least power. The countries with the most power — China, the United States and Russia — have their own priorities: China is preoccupied with economic growth; the United States is stuck in congressional gridlock; and Russia will actually benefit from climate change with longer growing

seasons, a richer cut of timber and lower heating bills. Developing countries contend that developed countries have created the problem, but the reality is that by 2030, developing countries will be responsible for 50 percent of cumulative emissions.

THE FORMULA FOR SUCCESS

The technical solutions to decrease carbon emissions are relatively simple to grasp. The politics and costs of change are the problem. We are faced with a perplexing free rider problem, plagued by uncertainties,² where the danger is in the distant future, but the costs are immediate. Climate change and climate finance is a *realpolitik* problem, which requires that we understand and apply the criteria for a feasible outcome. Climate negotiators must accept reality and recognize that countries' disagreements are driven by national self-interest. Consequently, it is necessary to pursue incremental change and ultimate enforceability.

The following are the feasibility criteria for any progress to be made:

- **Accept reality—the world is not altruistic.** A global climate agreement will be impossible to achieve if developing countries insist on unconditional financial transfers from rich countries. They are suffering from delusion when they interpret the Copenhagen “commitment” as a firm pledge of public money. A rudimentary calculation of burden-sharing formulae to estimate individual country assessments demonstrates the Alice-in-Wonderland nature of the expectation.

² The following are not known with certainty: the determinants of the future demand or supply of energy; the technologies and their costs and emissions; the carbon uptake of the oceans; the sensitivity of the climate to atmospheric carbon concentrations; the impacts of temperature increases; or the future costs of adaptation.

- **Accept that nations have their own selfish interests.** People disagree because they have differing perspectives on what is a fair distribution of effort and who will bear the costs. Countries have very different national interests. The Group of Twenty (G20) may recommend phasing out fossil fuel subsidies, but implementation is problematic because China, Russia, India, Saudi Arabia and Indonesia are five of the top 10 countries with the largest subsidies. Critical domestic interest groups will also fight to maintain subsidies in Iran, Venezuela, the United Arab Emirates, Egypt and Iraq—the other countries in the top 10—which are not members of the G20. We must seek ingenious synergies, where initiatives satisfy other national priorities at the same time that they provide emission reductions as co-benefits.
- **Accept incremental change.** Substantive agreement is as unlikely in the G20 as it is in the UNFCCC. Pressure is on the G20 to regain its credibility by going back to basics and limiting its focus to international financial issues and dealing with the aftermath of the international financial crisis. Although inefficient, the way forward is bottom up—hopefully knitting together regional agreements or deals reached between the United States and China.
- **Be clever about compliance.** There are not very many international examples of treaties with successful enforcement mechanisms, the Montreal Protocol and the UN Security Council often used as good examples. Perhaps the best hope will be a China-US agreement on standards, exploiting World Trade Organization auspices to authorize border tax adjustments based on national treatment.

The UNFCCC should accept the feasibility criteria and take a new approach. Moving away from talk of coordinated international action, each country should instead build its own package, selecting from the long list of “no regrets” initiatives listed in countless reports from the International Energy Agency, the Organization of Eastern Caribbean States, the UN Environment Programme and others.

Addressing climate indirectly with other issues may provide a framework that is more amenable to solutions than attacking the issue straight on. The focus should be on policies that make sense in a particular sector, but have spillover benefits on reducing emissions. There are suggestions on cutting emissions through changes in buildings, transport and forestry practices and policies. “No regrets” initiatives include ambitious standards to increase vehicle fuel efficiency (for example, the Global Fuel Economy Initiative) and to open the transportation fuel markets to competition (for example, the Open Fuel Standard³). Policies in energy, industry and agriculture can be added to these suggestions. Health officials and city mayors should lead the charge on short-lived air pollutants (black carbon, methane and tropospheric ozone), which have dangerous impacts on human health and agriculture.⁴

There are other policies with co-benefits that reduce emissions—tax policies that replace universal subsidies with income-tested cash grants, education policies to increase female completion rates in secondary schools

and public health campaigns to reduce obesity (Edwards and Roberts 2009). Any tax reform that credibly replaces payroll taxes (taxes on employment) with pollution taxes will make sense in addressing labour market problems.

Any international attempts at climate finance should be formulated under a priority other than climate change. For example, the G20 initiative on domestic resource mobilization is essentially about tax policy. International aviation and maritime transport could be made liable for fuel excise taxes, value added tax on international aviation and the application of tonnage tax regimes rather than the normal corporate tax in the maritime sector. According to Keen, Parry and Strand (2013): “The gain from offsetting the pre-existing tax distortions may be as significant as those from reducing emissions. It shows, too, how compensation schemes can be designed to protect the poorest countries.” The problem of who gets the money could be resolved if countries could agree on a standard tax, reinforced by border tax adjustments, to avoid shopping for a better rate.

In 2010, India proposed the establishment of a system for developing countries to monitor, report and verify their emissions. This global monitoring system would be constructed “on the strict understanding that it is a facilitative process for transparency and accountability, and that it will not have any punitive implications of any sort” (Friedman 2010). Countries would do their own reporting to the United Nations, and a panel of experts chosen by a variety of countries would review the submissions. The Indian proposal to establish a research and development and technology transfer mechanism⁵ “with a network of climate innovation centres, perhaps

³ A technology neutral policy “requires that most light duty vehicles sold in the United States be capable of running on another fuel in addition to or instead of gasoline or diesel, whether liquid fuel, gaseous fuel, electricity, or some combination thereof, stipulating that flex fuel vehicles must be at the least gasoline-ethanol-methanol compatible” (United States Energy Security Council 2013).

⁴ See Climate and Clean Air Coalition, “Short-Lived Climate Pollutants.” www.unep.org/ccac/ShortLivedClimatePollutants/tabcid/101650/Default.aspx.

⁵ See www.eenews.net/assets/2010/12/01/document_cw_01.pdf.

along the lines of the CGIAR/IAVI model⁶ could also be taken up. The key would be to fund institutes in developed countries.

Under the G20 banners on growth, investment and development, a package of policies on “smart taxation and regulation” and provisions for innovative investment mechanisms to stimulate “no regrets” refits could be sold as contributors to sustainable growth and employment creation, which would also, coincidentally, reduce emissions. Infrastructure has been identified as a priority; international cooperation on signature cross-border liquefied natural gas projects could have a significant impact on replacing planned coal-fired power plants.

CONCLUSION

There will be no progress until we accept the real political constraints, understand the national self-interest of the major players and accept the incremental change that is ultimately enforceable. The alternative is more hot air and ineffective agreements and perpetual hollow conferences. The process should accept the feasibility criteria. There are promising approaches congruent with diverse national interests that finesse the obstacles. Negotiations should focus on best practices of “no regrets” initiatives, on policies in other sectors that have spillover benefits on reducing emissions and on an emissions monitoring and verification system. The G20 could nudge the UNFCCC towards a successful process by detailing the climate-friendly spillovers of its own priority initiatives.

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⁶ The Consultative Group on International Agricultural Research (CGIAR) is a global partnership of 15 non-profit research centres with the mission to generate and disseminate knowledge, technologies, and policies for agricultural development. See www.cgiar.org. The International Aids Vaccine Initiative (IAVI) was founded in 1996 as a non-profit, public-private, product development partnership. See www.iavi.org/Who-We-Are/Leaders/Our-History/Pages/default.aspx.

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