

Towards a Global Compact for Managing Climate Change

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for Developing Countries

Depressing Background on Climate Change Negotiations

1. Strenuous efforts for the last two years for a global compact on climate change:
 - a. Stern Review
 - b. Al Gore
 - c. IPCC
 - d. Bali Conference with follow-ups in Bangkok, Bonn, Accra, and Poznan

2. Yet very little progress towards a consensus:
 - a. Bali Declaration mostly a timetable for further discussion
 - b. Little progress in follow-up meetings
 - c. G8 vs G5 declarations in Hokkaido dramatic demonstration of basic differences.
 - i. G8 call for
 - achieving at least 50% reduction of global emissions by 2050, without specifying the base year
 - contributions from all major economies, a code word to include China and India
 - No commitment on resource transfer or technology.

Depressing Background on Climate Change Negotiations

ii. G5 call for

- Equitable burden sharing, historical responsibilities and respective capabilities
- Quantified targets for the developed countries for 2020 and 2050
- No commitment on mitigation by developing countries
- Call for commitments on resource and technology transfer by developed countries.

Gordon Brown's speech at Davos, 30 January, 2009

-call for low carbon recovery etc. yet no recognition of the concerns of developing countries

Clearly the developed and developing countries are not on the same page and on present indications, there is a risk of failure of Copenhagen conference to reach any global compact on post Kyoto Protocol.

That will be unfortunate. We must seek a solution.

Some "Inconvenient Truths" for both developed and developing countries

For a global compact, both the developed and developing countries need to face up to some more "inconvenient truths":

1. Historical responsibility of developed countries and carbon debt in trillions of dollars and debt servicing burden on carbon debt in hundreds on billions of dollars.
2. No apartheid in lifestyles. If the developed country lifestyle is not replicable for the world as a whole, both the developed and developing countries must change lifestyles. Drawing upon Gandhi, we can say the present day life style in the west is not only unsustainable but also unhealthy. We must do a just search for a better lifestyle.
3. Internal research in developing countries on climate change needed in order to dispel suspicions of the South.
4. Developing countries must stop hiding behind the poor. The lifestyle of the middle class often imitative of the western lifestyle is carbon heavy, unhealthy and unsustainable.
5. The focus on global and long -term effects (a la Stern Review) are not convincing. Need to focus more on (a) the large number of vulnerable people (b) short and medium term adverse effects

Necessary Criteria for a Credible Global Compact

- First, it has to be comprehensive.
- Second, it has to be equitable.
- Third, the targets on emissions have to be realistic.
- Fourth, the program has to be efficient.
- Fifth, the program has to develop an institutional mechanism for effective implementation.

Limitations of Kyoto Protocol Approach

First, not comprehensive mechanism for emission control.

Second, does not deal with the issue of equity.

Third, no commitment even in broad terms, the programs of technological dissemination, incentives, and resources needed for achieving the targets.

Fourth, for efficiency in carbon reduction, Kyoto Protocol uses a cap-and-trade system. That is administratively difficult particularly for the developing countries and conceptually untenable without a comprehensive emission program.

Fifth, the Kyoto Protocol does not provide for an effective implementation mechanism.

In view of the limitations of Kyoto Protocol, it is not surprising that the objective of reduction in carbon emissions is not being achieved.

An Alternative Framework for Managing Climate Change

1. Comprehensive program.
2. For equity, per capita equality in carbon emission rights is recognized but not for achievement immediately. In recognition of the grandfathering clause, the initial conditions of emissions in developed countries recognized. The equality in per capita emissions to be achieved by 2050. With these targets, the goal of 50% reduction in emissions by 2050 seems unrealistic. At best a goal of stabilization in carbon emissions is feasible.

Table 2: CO2 Emissions (billion tons), 2003 and 2050

	2003 total emissions (billion tons)	2003 emissions per capita (tons)	2050 total emissions (billion tons) with:		Population (billion) 2050	CO2 emissions per capita in 2050 with:	
			50% reduction	Stabilization at 2003 level (with equality in per capita emissions)		50% reduction in total emissions from 2003 level	Stabilization in total emissions at 2003 level
High-income countries	12.74	12.79	-	3.44 (-73%)	1.25	1.45	2.75
Developing countries	12.65	2.39	-	21.86(73%)	7.95	1.45	2.75
World	25.39	4.30	12.70	25.39	9.2	1.45	2.75

Note: Figures in parentheses are changes between 2003 and 2050.

Source: WDI, 2007, World Bank, UN Population Projections and author estimates.

If it is accepted that stabilization of emission levels until 2050 is a more realistic target, it will mean a greater focus on adaptation. In aggregate terms, the approach suggests the following targets:

Between 2003 and 2050, developed countries will reduce CO2 emissions by no less than 73% and developing countries will increase CO2 emissions by no more than 73%.

In this framework, both developed and developing countries will aim at reducing carbon intensity of GDP by 5% per year between 2003 and 2050.

Table 3: Targets on reducing carbon intensity of GDP

	GDP in trillions of 2000 PPP\$		CO2 emission (kg per 2000 PPP\$ of GDP)	
	2005	2050	2003	2050
Developed countries	29.4	71.7 (2%)	0.46	0.048 (-5.0%)
Developing Countries	25.3	348.5 (6%)	0.57	0.063 (-5.0%)
World	54.7	420.2 (4.6%)	0.51	0.060 (-5.0%)

Note: Figures in parentheses are annual growth rates between 2005/2003 and 2050.

Source: WDI and author calculations.

In this framework there is a trade-off between improving the carbon efficiency of growth and space for growth. Within the over all carbon emission rights, a country can grow faster if it increases carbon efficiency faster.

Getting Carbon Prices Right for Efficiency

1. Minimize carbon subsidies.
2. Tax carbon emission with proceeds to be used for carbon emission reduction and adaptation. Taxes are to be a equal (say \$10 per ton of CO₂ emission in PPP terms) for both the developed and developing countries. And in recognition of historical carbon debt a certain percentage of the carbon taxes in developed countries to be allocated to international institutions for international transfer for mitigation and adaptation.
3. Cap and trade system can be used where administratively feasible but in order to achieve equivalence with carbon tax, without any free allowance.
4. Beyond the allowed carbon emission rights, emissions will attract a progressive carbon tax all of which will be allocated to international fund for climate change. Countries will also have the option of buying extra emission rights from countries whose emission levels are below the allowable limits.

Development and Dissemination of Carbon-saving Technologies

What was done in the past for agricultural research activities under the Consultative Group International Agricultural Research (CGIAR), for example, could provide a model of what international institutions can do for carbon saving technologies.

These “success stories” of carbon savings need to be publicized. perhaps through a web page by some international institution.

Framework for Implementation 1

Recognize that for providing global public goods, we need a global governance with powers of taxation and accrual of seigniorage.

While UN institutions are right for negotiations of global agreement, Bretton Woods Institutions with proper change in governance are right for mobilizing resources and implementing global carbon reduction programs.

Finding resources for funding green growth (1% of global GDP) is a central issue. Budget transfers from developed countries on the scale needed not feasible. What are alternative sources?

International component of carbon taxes should accrue to global financial institutions for supporting time-bound action programs for reducing carbon intensity of development.

In addition, seigniorage generated by global liquidity needs should be used at least in part for provision of global public good such as carbon emission reduction. This issue has acquired new salience in view of the current global financials crisis.

Framework for Implementation 2

With this trillions of dollars being injected by the US to manage its financial crisis, there is now serious risk of loss of confidence in dollar which was already under stress before the 2008. There are now influential voices in the US and abroad calling for revival of the idea of substitution Account and Special Drawing Rights (SDRs) as the principal international reserve currency. If SDR becomes the principal international reserve asset and IMF issues SDR on an annual basis to meet the currency needs of international trade and capital movements, the seigniorage that has been accruing to the US will accrue to the international community. If these SDRs (perhaps at least \$200 billion per year) are then used for funding provision of global public goods such as climate change management, they can take care of the issue of resources for funding climate change programs. This will be a text book example of global seigniorage being used for provision of truly global public good.

Thank You