

Financing MDGs and Coping with Climate Change

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Outline

- MDGs and Climate Change Links
- Financing MDGs and Climate Change
- Elements of Global Deal
- Some Problems: Diversity and Competitiveness Concerns
- Doha and Copenhagen: An Emerging Role for the BRICs
- The Polycentric Approach
- A new Triad?

MDGs and Climate Change Links

We are just starting to realize that Global Warming is a greater threat for the poor

- Raincrop farming harder hit than irrigated farming
- Agricultural productivity will fall twice as much in SSA than in temperate climate countries
- Retreat of Glaciers in Asia will disrupt river systems providing water affecting food supplies for 2 billion.
- Climate disasters over 2000-4: hits 1/1,500 in OECD and 1/79 in developing countries
- Health Status of poor with low adaptive capacity hardest hit by global warming.

Financing MDGs and Climate Change

- Need to recognize the link between assistance for MDGs (assistance to LDCs) and provision of GPGs. Because of externality, we also need assistance to MICs to produce clean energy so strong complementarity between MDGs and fighting climate change.
- Huge required transfers imply clever ‘financial engineering’. Any deal will have to include extension of “cap-and-trade” inaugurated under Kyoto. This will help transfer resources through the private sector avoiding public budgets (carbon taxes will also be necessary though political economy of transfer to developing countries will be hard to achieve)

Elements of a Global Deal


- The Glue (to keep any global deal going)
 1. Emission targets for rich and developing countries (50% of GHGs from developing countries). BRICs cannot wait for commitments by the rich.
 2. Effective trading system (for efficiency + help to transfer part of necessary transfer of funds)
 3. Carrots and sticks (as under the Montreal treaty on CFCs (97% eliminated by 2007))

Other necessary elements

1. Combat deforestation
2. Fund and then share technological advance. Get friendly IP regime (perhaps remove TRIPs impediments as under WRO Public Health decision)
3. Stepping up transfers. Financing adaptation to global warming (around extra 50-80\$ billion per year for climate change starting around 2015). So far only 50% disbursement on GEF, and G7 commitments to finance SSA at Gleneagles still 14.5\$ billion short of 21.5\$ billion target for 2010. Other sources needed (e.g. taxes on air travel, transfer from ETS auctions, etc..)

Difficulties ahead (at Copenhagen): Bridging Diversity

Huge historical and current differences on GHG across countries place hurdles on reaching global abatement targets (suggesting other approaches are necessary)

- (23 + EU) countries account for 84% of emissions but within-group gaps huge)
- Per capita income gap of 58 and per capita CO₂ emission gap of 46.
-  Comparability of effort and how to bridge it? EU to pledge reduction of 20% (or 30% if others follow suit) relative to 1990 by 2020 while current US legislation foresees about 3% (from 1990 levels).

Difficulties ahead (at Copenhagen): Competitiveness Concerns

- Energy-intensive tradable sectors have strong political clout. Avoid tax on carbon content of imports (to ‘punish’ imports from low carbon price countries).
- Recent estimates suggest that such taxes to restore competitiveness would reduce real income of China by 3.7% and all those of LIC and MIC by 2.4%.
- Legality of border taxes: Probably not covered by articles I and III (problem of “likeness” to products that differ only on energy intensity or emission profile), but legality for such taxes might be provided by article XX exceptions.

Doha and Copenhagen: An Emerging Role for the BRICs (I)

- Conclude Doha (would help the poor, notably because MICs with higher tariffs than rich countries would give some market access to the poor countries. Among possibilities to explore:
- Agree to a large “Friends of the environment” list of goods with accelerated move to 0% tariff. For environmental goods, developed WTO members have bound tariffs of 15% and LICs and MICs of 21-35% (applied rates 5-19% range
- Adapt IT agreement (ITA) pattern to environmental goods –so non-WTO members (.e.g. Russia will benefit from MFN rule);
- an HS list specific for environmental goods (“environmentally preferable” products causing less damage would not be acceptable for differential treatment by WTO appellate body---thorny problem of defining process and production methods).

Doha and Copenhagen: An Emerging Role for the BRICs (II)

- BRICs have stayed on sidelines on Doha perceiving that they have been deceived by the rich countries continued protection of agriculture.
- BRICs partly on the sidelines on climate change because of much higher contribution of stock by rich countries as they want to see a real effort by the rich countries first.
- A more proactive participation by the BRICS would help in concluding DOHA.....staying on the sidelines would doubly hurt the poor and reaching the MDG targets and contribute to keep the developed countries stuck in an unfavorable 'political economy trap'.

Start with Minilateral and Polycentric Approaches

- Because of huge asymmetries, collective action to reach a meaningful global deal shortly is out of reach, so:
- ‘Minilateralism’ rather than ‘multilateralism’
- A less monocentric approach (markets and governments). Ostrom calls this alternative approach “polycentric” . She argues that because of benefits from action is at multiple levels, the necessary trust to help obtain collective action on a global scale can first be developed at multiple micro-levels (as an example, she shows that this polycentric approach has been shown to work for the provision of PGs in metropolitan areas).

A new Triad?

- Governance: Which Institutional framework most likely to deliver the Climate Deal?
- Keynes and White proposed IMF. WB and WTO dominated by small circle of rich developed countries
- Stern (and others) propose a new triad: WB/IMF, WTO and World Environment Organization (WEO) even though we must continue to work within the UNFCCC for the next few years.
- WEO occasion for a new governance structure on rights and mechanisms to shape decisions that would reflect the emerging world population structure (8/9 billion in 2050 will be from today's developing countries)

References

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