IDDRI
SciencesPo.
UNITED NATIONS
ECLAC
FGV INTERNATIONAL INTELLIGENCE UNIT

WORKING PAPER

N°18/14 NOVEMBER 2014 | CLIMATE

Engaging the productive sector in the climate change negotiations

A perspective from Latin American and Caribbean think tanks on climate change issues Series

Marina C. F. P. D. Drummond,
Renato G. Flôres Jr. (Fundação Getulio Vargas, Brazil)

This publication is part of a collection of papers that analyze several of the technical and political issues in the UN climate change negotiations, including those related to climate finance and to the international adaptation framework; and how to support and encourage low-carbon and climate-resilient development. This work series was led by IDDRI (Teresa Ribera, Celine Ramstein) and jointly prepared with experts from four Latin American think tanks: Maria Elena Gutierrez, Maria Paz Cigaran, David Garcia and Carolina Chambi (Libelula, Peru), Rene Castro and Mario Chacon Leon (CATIE, Costa Rica), Hernan Carlino (Fundacion Torcuato Di Tella, Argentina) and Renato Flores and Marina Drummond (Fundacao Getulio Vargas, Brazil), as well as from IDDRI (Alexandre Magnan, Teresa Ribera, Sebastien Treyer and Thomas Spencer).

☆☆☆

The LAC region is at a crossroads: while its emissions are still relatively low compared to global emissions, they are changing quickly. The region will face tremendous impacts from climate change, while adaptation and mitigation policies could present many opportunities for strengthening regional integration. This collection has been prepared by think tanks in countries that belong to many different negotiating groups within the UNFCCC, as well as economic alliances, and therefore can play a key role to advance new ideas and find “bridges” between different positions.

☆☆☆

"Targeting public finance to leverage private sector capital can help meet the several hundred billion dollars of annual low-carbon investment needed to reduce and stabilise GHG emissions. By intervening to enhance the investment attractiveness of climate change relevant markets, the public sector may harness and redirect private sector capital flows away from carbon-intensive investments and toward low-carbon development.

To improve the risk-reward calculus of investments—possibly the most important barrier when it comes to leveraging private funds—the public sector can complement support for low-carbon policies, but bold measures are needed in order to change the pattern of emissions. A minimal agenda in this line is proposed in this paper. It is also crucial to engage the productive sector and this can be accomplished through a two-fold strategy: the creation of indirect incentives for greener production patterns and the promotion of 'better behaviour' from within the sector itself.

The above also implies a more careful look at the different governance levels of the climate issue and a more focused, less ambitious agenda for the COPs."

www.iddri.org

Institut du développement durable
et des relations internationales
27, rue Saint-Guillaume
75337 Paris cedex 07 France

☆☆☆

This document is an output from a project funded by the UK Department for International Development (DFID) and the Netherlands Directorate-General for International Cooperation (DGIS) for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of or endorsed by DFID, DGIS or the entities managing the delivery of the Climate and Development Knowledge Network (CDKN), which can accept no responsibility or liability for such views, completeness or accuracy of the information or for any reliance placed on them.

☆☆☆

This collection of papers was written by a group of independent experts acting in their organization's capacities and who have not been nominated by their respective governments.

Partner think tanks

Citation: Drummond, M., Flôres, R. (2014). Engaging the productive sector in the climate change negotiations, *Working Papers* N°18/14, A perspective from Latin American and Caribbean think tanks on climate change issues Series, IDDRI, 18 p.

Note: Both authors from FGV/IIU, Rio de Janeiro, Brazil. We are grateful to the participants in the Santiago workshop, at CEPAL headquarters, as well as for comments from the IDDRI staff. Renato Flôres also thanks—without committing none of them in any idea or statement in the text—João Paulo V. de Andrade and Samir Saran for creative discussions that helped in the formulation of the proposals. The authors are solely responsible for the ideas in this paper which do not represent either FGV's position or the official one from the Brazilian Government.

☆☆☆

This project has greatly benefited from the discussions held during the think tank workshop organized in Santiago, Chile on October 8th, 2014. We would like to thank the Economic Commission for Latin America and the Caribbean (ECLAC), the United Nations Environment Programme (UNEP), the EUROCLIMA programme and the Climate and Development Knowledge Network (CDKN), as well as the experts and negotiators who participated in this dialogue.

☆☆☆

For more information about this document, please contact:
Renato G. Flôres Jr. — rfatwto@yahoo.com
Céline Ramstein — celine.ramstein@iddri.org

ISSN 2258-7071

Engaging the productive sector in the climate change negotiations

A perspective from Latin American and Caribbean think tanks on climate change issues Series

Marina C. F. P. D. Drummond, Renato G. Flôres Jr.
(Fundação Getulio Vargas, Brazil)

FOREWORD

As part of its work on international climate coordination, IDDRI is animating a series of informal dialogues among negotiators from Latin America and the Caribbean (LAC), with the aim of contributing to the discussions ahead of the United Nations Framework Convention on Climate Change Conference of the Parties (UNFCCC COP 20) to be held in Peru in 2014, and of the UNFCCC COP 21 to be held in France in 2015. These dialogues are co-organized by the governments of Brazil, Chile and Peru, together with the Economic Commission for Latin America and the Caribbean (ECLAC) and the United Nations Environment Program (UNEP).

To infuse the discussions with innovative ideas and to involve key stakeholders, IDDRI organized a workshop on October 8, ahead of the negotiators' dialogue held in Santiago, Chile, on October 9 and 10, 2014, which gathered representatives from various think tanks and institutions from across the region and regional climate change negotiators. We would like to take this opportunity to express our sincere gratitude to the ECLAC and UNEP regional teams for their support during this project and for the organization of this workshop and dialogue, as well as CDKN for funding these dialogues.

In the months leading up to this workshop, IDDRI worked with these think tanks to prepare background papers that analyze several of the technical and political issues in the UN climate change negotiations, including those related to climate finance, and how to support and encourage low-carbon and climate-resilient development. These background papers were discussed during the workshop by regional experts and negotiators. The authors of the final versions that are presented here have integrated into their texts the most notable comments that emerged throughout this process. We would also like to thank the workshop participants and the think tanks involved in the project who wrote the papers presented here, in particular Maria Elena Gutiérrez, María Paz Cigarán, David García and Carolina Chambi (Libélula, Peru), René Castro and Mario Chacón León (CATIE, Costa Rica), Hernán Carlino (Fundación Torcuato Di Tella, Argentina) and Renato Flores and Marina Drummond (Fundação Getulio Vargas, Brazil), as well as Gladys Hernandez (from the Centro de Investigaciones de la Economia Mundial) whose participation and comments during the workshop were extremely valuable. Thanks also to my colleagues at IDDRI who contributed to this publication: Céline Ramstein, Alexandra Deprez, Thomas Spencer, Alexandre Magnan, Sebastien Treyer, Michel Colombier, Sáni Zou and Pierre Barthélemy.

These papers are important regional contributions to the global debate leading up to COP 21, and our work on these dialogues gives a platform to these ideas and the voices of LAC countries, helping to build common perspectives. Coming directly from LAC, these contributions are particularly important for a number of reasons. First, despite the efforts of the Intergovernmental Panel on Climate Change (IPCC) and others, the literature on climate change is still somewhat dominated by researchers from North America, Europe and other Annex 1 countries. However, there is a vast amount of policy experience and research expertise that can be referred to in LAC, as these papers rightly demonstrate. Second, as the opening chapter outlines, the region has specific circumstances, which means that perspectives on policy and research coming from this region can be particularly innovative and valuable for discussion at the global level.

The results of this exercise went well beyond our expectations. We have been greatly encouraged and inspired by the concrete, pragmatic and innovative proposals formulated in the papers and the potential areas of consensus discussed during the workshop. Our hope is that this dialogue will help to address deadlocks in the negotiations in the coming months.

Teresa Ribera, director of IDDRI

Although IDDRI supports many of the views and recommendations presented here, each paper reflects the view of its authors.

1. INTRODUCTION: PURSUING INTERNATIONAL COMMITMENTS ON MITIGATION AND ADAPTATION

The desire to achieve sustainable development—a vague term with differing meanings[1]—has long existed, and yet not a single nation has successfully managed to fully implement this goal.[2]

Few deny the need to decouple development from environmental degradation; to shift towards a decarbonised societal paradigm; to ensure climate security or to promote climate-resilient development. The path to these ends includes mitigation frameworks, adaptation efforts and more: the terms are varied and interconnected. Ultimately, they all speak to a much deeper systemic challenge regarding whether or not humanity will be sufficiently innovative and ambitious to reach a scenario in which all policy planning—from global to local and from production to consumption, passing through job creation and poverty alleviation—will be realized in an integrated, coherent, climate-compatible manner. Without such forethought, the "doublethink of trying to minimise carbon emissions while maximising fossil fuel production"[3] will inevitably be perpetuated.

Four crucial challenges stand upfront:

a) a legal ("as multilateral as possible") framework in which political will is enshrined;

b) adequate means of implementation, in the form of finance, capacity-building and technology-transfer;

c) a meaningful—not yet reached—and harmonious marriage of basic development needs with environmental concerns, *taking into account the cultural dimension*;

d) a transparent and participative process for the definition of public policies, engaging all segments of society, along with markers to assess and monitor progress.

The first point speaks to what may or may not become the body of the agreement in Paris, at the COP 21. The last two challenges have been much discussed, but solutions have lacked clout due, among other issues, to the exclusion of key stakeholders like the entrepreneurial class.

Looming above these four points is the prickly question of how to integrate adaptation into the 2015 agreement, via a Global Adaptation Goal, or something close to it. Developing countries call for a separate fund to cover 'loss and damage' from climate change, while developed ones fear an open-ended and unaffordable commitment leading to a situation of being held liable for climate damage.[4] However, quantifying adaptation is an act of simulation; loss and damage occur in numerous, yet separate, local settings, and some losses are irreplaceable, thus non-quantifiable. Because many adaptation challenges are context-specific or difficult to quantify, the need for co-operation, or indeed for a clear and defined commitment—from all countries—to adaptation efforts should not be ruled out.

1. http://www.unep.org/greeneconomy/portals/88/documents/ger/GER_synthesis_en.pdf
2. http://sustainabledevelopment.un.org/content/documents/1742130419%20Concluding%20Summary%20for%20Co-Chairs.pdf
3. http://www.thersa.org/__data/assets/pdf_file/0004/1536844/RSA_climate_change_report_03_14.pdf
4. http://www.climatenewsnetwork.net/2013/11/warsaw-day-12-too-little-too-late-to-save-the-planet/

The separation of adaptation and mitigation in the negotiations thus far (and, as a result, the separation of funding) leads to an incoherent, non-integrative approach to the challenges at hand.[5]

Mitigation efforts center upon the need to limit global warming to 2°C by 2100. As recently highlighted by the United Nations Environment Programme (UNEP) Gap Report,[6] even if current unconditional pledges by groups of countries to reduce emissions were fully implemented this would still be less than one third of what reductions needed by 2020 to prevent a dangerous rise in temperature.

The implications for global security of a +2°C warmer world must be a serious, more realistic than desired concern, leading inexorably to an analysis of the adaptation capacity of the world. A negotiator attending COP 19 reportedly declared, "There will be an intense escalation of global instability caused by trans-boundary migration of displaced people, massive hikes in the price of food causing civil unrest, and many more climate-related disasters. That is the situation we are walking into."[7]

Aside from all considerations of human welfare, intergenerational justice and desire for ecological protection, there are still reasons for a global adaptation goal to be on the discussion table. Collective action must be structured at the global level so that the world society may be prepared for a +2°C warmer global environment, with all that it entails.

Be it with a view to preventing Loss and Damage, avoiding the difficulties of and for climate refugees, or in the interest of conflict prevention, *climate security cannot rely on mitigation efforts alone*.

To date mitigation efforts have been widely prioritized, accounting for 77% of all climate financing approved since 2014. Clearly, financing is a means to an end and not an end in itself; achieving a reduction of vulnerabilities will depend on access to *both funding and technologies*.

Planning processes for medium and long term adaptation goals in individual countries are already underway, as countries develop their National Adaptation Plans (NAPs). *Amalgamating the costs of these might serve as a first step to setting a financial goal and allocating costs across different countries.*[8] Nonetheless, the measurement of adaptation (and commensurate support) should be coherent with the 'science and the temperature goal' as called for by the African Group.[9]

Developed and developing countries will thus have to meet half-way; if both insist upon their positions—the former wishing to avoid financial responsibilities, the latter to be fully compensated for historical imbalances and future damage—the stalemate will go on. A global adaptation goal in which political will is enshrined and via which all countries, in proportion to their abilities and vulnerabilities, commit to financial and technological participation is needed. To declare that the need for adaptation is a global one—even in its most localised responses—*implies accepting that all countries must, to some degree, share in the responsibility (and desire) towards climate-compatible development*; in a certain sense, the ultimate goal of any COP.

Another issue is the significant overlap between climate and development finance. They are, of course, integrally linked, but a difficulty arises when one notes that 80% of the Fast-Start-Finance (FSF) mechanism was also reported as Official Development Assistance (ODA) along traditional lines, without correlation to high-emitting or climate-vulnerable countries. This suggests that there has not been much climate-oriented analysis to the FSF process of fund-allocation. Moreover, though a (modest) player in development co-operation, Brazil, together with other South American and African countries, nowadays shares concerns and criticism on the true value of this assistance; concerns which can be easily extended to climate financing. In spite of the nice rhetoric of sustainable development, many in both continents support the realistic view of some large Asian nations, like India and Indonesia, that conflict still exists between the development and environmental goals, and that, without the addition of cultural realities and choices, it will remain an open problem.

The need to improve and strengthen policy, regulatory and governance capabilities in recipient countries, so as to maximise the utility of both public and private climate finance, calls for both capacity building and improved transparency and accountability.

Although transparency and participative definition of public policies, and means of assessing and monitoring implementation, are complex and sometimes subjective, countries could set out their

5. http://www.forestsclimatechange.org/ forests - climate-change-finance/mitigation -adaptation -finance/
6. http://www.unep.org/pdf/UNEP Emissions GapReport2013.pdf
7. http://www.climatenewsnetwork.net/2013/11/warsaw-day-12-too-little-too-late-to-save-the-planet/
8. http://www.twnside.org.sg/title2/climate/news/warsaw01/TWN_update14.pdf
9. https://unfccc.int/files/documentation/submissions_from_parties/adp/application/pdf/adp_african_group_workstream_1_adaptation_20131008.pdf

policy plans in a clear and harmonised manner, allowing for inter-country comparability as well as for assessment from the civil society. There is room for this via either the improvement of the components of their NAPs—the scope of which still remains unclear and the level of detail provided rather limited[10]—or via policy white papers following the UNFCCC new Common Tabular Reporting format.

It is within this involved, not exactly optimistic, and disparate set of viewpoints and goals that we shall develop here a minimalist (i.e. skeleton) South American perspective on the most important issues for the COP 21.

The structure of the paper is the following. Section 2 states two basic, guiding principles, while Section 3 discusses selected measures considered more important. Section 4 introduces the productive sector, exploiting schemes that do not necessarily demand public, universal funds. Two ancillary dimensions, technology and culture enter the debate, and the often neglected aspect of community level is examined.

The final section concludes by joining the general points in this Introduction to the ideas in sections 3 and 4, producing a basic agenda. Such a proposal should be taken as a minimal list of objectives, to be better elaborated before December 2015.

2. TWO GUIDING PRINCIPLES

It is our belief that one of the weaknesses of the COP scheme is its vast ambition. Fewer and more focussed goals reduce the policy space and, although certainly limiting, would create higher chances of achieving common positions and fixing more concrete deals. Since Copenhagen, the conferences have clearly been hostage to the variety and complexity of the excessive number of targets, themes and proposals on the table.

The first principle we advocate in this paper is parsimony; for a slimmed down list of measures and policies to be agreed upon either in Lima or Paris. Without a reduction in procedural ambitions we run the risk to continue to have zero progress in the COPs.

The second principle is to more wisely exploit the relationship between the top national level—where commitments are signed in the COPs—and other governance levels. This includes not only subnational levels (states, municipalities and communities) but other entities as well, be they from civil society, such as business councils, confederations of industries and other associations[11]—of national or international status—or specific administrative units like cities or regional governments.

Adopting these principles requires better knowledge and exploration of the interface between the COPs and what is going on outside their realm. We believe that increased connectivity between the COPs and non-UNFCCC fora is essential.

3. DETAILING OF SELECTED POLICIES

We discuss in more detail six policies which make up the areas where attention should be concentrated. They are ranked according to their priority.

3.1. Reduced public spending on fossil fuel subsidies and (total or partial) redirection to the productive sector

Continued public investment in development that is no compatible with a changing climate must be no longer an option. The need to reform global subsidies to align with *climate change mitigation objectives* is urgent. Reduced public spending on fossil fuel subsidies could free up much needed finance to fund climate-compatible development, *alleviating externalities arising from the development process*. With a bit of caution—there might be exceptions—we have a strong position for the full enforcement of this point.

There is a growing recognition of the need to eliminate fossil fuel subsidies (FFS), estimated at US$ 523 bn globally in 2011 (IEA, 2012). Civil society and international institutions such as the European Union, the OECD, the IMF and the World Bank, have all been calling for the phasing out of FFS.

The benefits of removing fossil fuel subsidies include but are not limited to:

- Lessening the cost and increasing the speed of the transition towards a "zero anthropogenic emissions" scenario;
- Reducing the economic attractiveness of carbon-intensive activities;
- Spurring the development and implementation of energy efficient practices;
- Directing investment towards low-carbon technologies (OECD, 2013), Whitley (2013).

At present, 15% of emissions-generating activities receive an incentive of US$ 110 per ton of carbon, due to FFS, while only 8% of emissions are subject to a carbon price; illustrating the unfair

10. http://www.mitigationmomentum.org/downloads/Mitigation_Momentum_Status_Report_JUNI2013.pdf

11. As known, several NGOs are already actively involved in these themes.

balance of the market in favour of polluting activities, IEA (2012). By acting as a direct barrier to private investment in energy efficiency and clean energy, fossil fuel subsidies function as a significant deterrent to a paradigm shift towards low-carbon assets, Whitley (2013).

Very unfortunately, agreeing upon a common definition of what constitutes a subsidy, as well as upon a set of standards for estimating its distinct elements, is still an open question. Fixing an operational definition allowing the construction of insightful aggregate estimates for subsidies and derived indicators is more than desirable: it is an essential first step. Significant information and reporting gaps exist today, rendering transparency on subsidies a challenging task.

How strictly the phase-out would be monitored, reported and verified, needs to be defined in the corpus of the agreement. The (potential) political power of the UNFCCC is such that the phasing-out of fossil fuel subsidies could be more than a directive for states, such that international financial institutions would also form part of the system prioritizing carbon-intensive assets and projects.

Decisions in Paris should include, Whitley (2013):

- Global agreement to phase out all FFS by 2025 or not much later.
- International architecture to support common frameworks to measure fossil fuel subsidies, as well as data collection, sharing and analysis on subsidies and investment in climate relevant sectors.
- International assistance to support the phase-out of FFS in developing countries.
- Support for low-carbon investors through the incorporation of subsidies in rating tools.[12]

The last two points deserve further comments.

FFS are unevenly geographically distributed, as well as along the duality emerging/developing & developed. Time frames as well as quantitative targets should differ for each group and, within the developing country group, hence an internal financial mechanism could be created to help in the phasing-out. To avoid behaviour so often noticed—as when, for instance, soon after the NAFTA ((North American Free Trade Agreement), heavy polluters from the US moved to Mexico, thanks to the less strict environmental regulations—a fiscal mechanism could be applied to foreign producers to generate cash for the programme. Undesirable movements of low-carbon investors, avoiding their clustering in more developed or prosperous regions should also be taken into account and, whenever possible, minimized.

Overall, the procedure must pay attention to the three last points of Whitley's agenda for Paris, outlined above. Further study is needed on implementation, via adaptive goals that may account for size and sector dimensions and, if possible, financial aid, to help developing and emerging countries. For developing countries, the FFS reduction time frame could be combined with time targets for poverty alleviation measures, the latter preceding the former. Within each country, the saved funds from the subsidies could be used to assist low-carbon firms and activities, increasing, without much disruption, incentives for these practices.

3.2. An International Carbon Fee and Dividend: Carbon Taxation

Over forty countries have implemented some form of carbon tax or emission trading scheme. It is our contention that the Fee and Dividend mechanism, whereby carbon is taxed directly and the dividend is returned to the population in its entirety, is the simplest, fairest and most effective method available to reduce CO_2 emissions and enable the transition to the post fossil fuel era.[13]

Many, including leaders from business and government, agree that there is a need to put a price on carbon.[14] However, it remains unanswered, via which mechanism this ought to be done.

Some have asked compellingly for revitalizing the Clean Development Mechanism (CDM), arguing that the focus of climate financing ought to be finding the most efficient and low-cost emissions-reduction strategy available. The CDM establishes a "backdoor global minimum price on carbon", which is viewed as politically easier than a direct price, out in the open. From a climate perspective, the CDM was a relative success,[15] while, notably due to regulatory uncertainty, from an investors perspective it was not, (Climate Change Capital, 2014). Others make the case for the introduction of a new market mechanism, to replace the CDM, whereby each state can set up domestic emissions trading schemes, while the mechanism would certify allowances and credits that meet specified international criteria. There are, however, various approaches to such a structure[16].

12. http://www.odi.org/subsidies-change-the-game

13. http://www.climatelobby.com/fee-and-dividend/

14. http://blogs.worldbank.org/climatechange/storify-who-supports-putting-pricecarbon

15. http://cdm.unfccc.int/about/dev_ben/CDM-Benefits-2012.pdf

16. http://goo.gl/Su9YzA

Behind all this lies an almost philosophical point: emissions-trading encourages the rise of traders as opposed to investors. The latter need, in order to flourish, a functioning economy and a certain degree of system stability; they allocate their funds (although with a profit motive) with some level of understanding regarding the system-wide effect of the chosen placement of their assets. Traders, on the other hand, can thrive in situations of volatility and do not care for, or at least do not encourage, the development of green physical assets.

The CDM—or any equivalent emissions trading system—has, unlike a tax, high transaction costs. This entails to the development of large bureaucratic structures for the creation, maintenance and monitoring of the system, which cost money that could be better directed towards investment in low carbon assets.

Lastly, many economic studies raise the point that the mechanism also works as a kind of 'licence to kill';[17] wealthy polluters using it as a legal excuse to pursue their devastating practices. Moreover, even on philosophical grounds, not to mention the ecological ones, this practice is also contested.

The use of a carbon tax places a clear price on carbon, favors investment in new zero or low-carbon generation technologies, and is an economy-wide tool and forces gradual divestment of older carbon-intensive generating sources as well. A strong price signal, especially in major economies, will establish the right incentives and direct financial flows toward efficient, resilient investments.

But again, a few subtleties are in place.

A uniform treatment for developed and developing countries as well is debatable. A lower carbon tax in a backwards economy may encourage heavy carbon emitters from developed areas to establish themselves there. In this case, our position, at the risk of seeming insensitive in a first evaluation, is less opposed. They will, even if not in the ideal mode, bring jobs and income, if so the community decides [See also the end of the next section]. The problem then is which other precautions are taken by the local authorities, and how the international community could help them in progressively also shedding or taxing such emitters.

Anyhow, the dumping of environmentally undesirable activities should be taken into account and modulating the tax by sector, size or type of business may be a correcting factor. Thus, the tax scheme will very likely not be a uniform one, though overly complex and varied grid may cause confusion and operational difficulties. A basic level would be approved at the COP; countries would then dispose of funds not only to pay the enforcement costs but to help other initiatives as well, for example additional financing to green innovations (Spencer et al., 2012).

3.3. Taxing different transactions, from international transport emissions to international financial transactions

The IMERS (International Maritime Emissions Reduction Scheme) initiative regarding the market-based measure for the carbon pricing of emissions from international transport is currently in limbo. The triennial Assembly of ICAO (International Civil Organization) in 2013 failed to define a global measure for international aviation. Furthermore, with regard to international shipping, the issue was not even discussed in the environment session at IMO (International Maritime Organization), in 2014, despite having already been postponed to a 'future session' in 2013.[18] Should such policies go forwards, countries would have to pay for their emissions from international transport, while developing countries obtain annual rebates in relation to their share of global imports. All remaining revenue from developed countries would be directed to climate change action.

The international financial transactions tax (FTT) has long been discussed in the international arena. During the Rio+20 Dialogues with Civil Society, in the session regarding 'Sustainable development as an answer to the economic and financial crises' it was the recommendation most voted for by the participants. Funds would be directed to job growth and the development and deployment of clean technologies. According to a news release from the UN Office of the High Commissioner of Human Rights,[19] estimates suggest that, at its lowest rate, the FTT would yield about US$ 48 bn across the G20 economies, with higher rates offering up to US$ 250 bn per year.

3.4. Leveraging Private Capital for Climate Finance

Targeting public finance to leverage private sector capital can help meet the several hundred billion dollars of annual low carbon investment needed

17. As in a James Bond movie…

18. http://imers.org/

19. http://www.un.org/apps/news/story.asp?NewsID=41988" \l ".U-aHYeNdXqk

to reduce and stabilize GHG emissions. By intervening to enhance the investment attractiveness of climate change relevant markets, the public sector may harness and redirect private sector capital flows away from carbon-intensive investments and toward low-carbon development (Venugopal and Srivastava, 2012).

To improve the risk-reward calculus of investments—possibly the most important barrier when it comes to leveraging private funds—the public sector can complement support for low carbon policies with direct finance to manage political, macro-economic and low carbon market risks. Instruments include first-loss equity and debt investments, concessional loans, flexible loans, partial risk and credit guarantees, and risk sharing facilities.

The end goal, however, is the same: to use public funds to lower the incremental cost of private investment and, by reducing risk, to encourage the private sector to invest in low-carbon assets. Nevertheless, not only mechanisms to fully and autonomously engage the private financial sector would be highly desirable as, in any case, whatever the specific situation, the big question will always be: Where does the money come from?

An agreed methodology for calculating leveraging ratios is also important. Given the need for a fundamental redirection of investment towards low carbon growth, a more credible and rigorous way of calculating what additional climate finance investment has been leveraged will be essential in monitoring the extent to which such a redirection is happening, (Brown et al., 2011).

3.5. A UNFCCC Register for Non-State Entity Reporting

The UNFCCC could create a non-state register for the reporting of GHG emissions reductions achieved by private companies and/or institutions. Any and all contributions to adaptation and/or mitigation via increased investments in low-carbon assets ought also to figure here.

As noted by Haites et al. (2013), annual recognition or rewards for best achievements are a possibility. This would have the happy effect of making states more willing to implement regulations, policies and incentives to encourage non-state actors to reduce emissions, promoting a private investors paradigm shift, since the net effect of non-state actions would be reflected in member state parties' emission inventories.

Many other ideas or initiatives, such as Reducing Emissions from Deforestation and Forest Degradation (REDD+), have come into prominence and deserve attention.[20] We however focus on the five above.

4. PUTTING THE PRODUCTIVE SECTOR INTO THE DEBATE

Profit determines the logic of production. Independent of the different alternatives and approaches to business, final decisions will always take into account the need for regulatory, technical and financial constraints that will lead to, if not a maximum one, a reasonable profit levels that will assure survival and the satisfaction of investors.

Irrespective of what may be said, and forgetting for a while the transforming power of education and the change of mentalities, it is rather naive to think that by itself the productive sector will adopt, across the board, green and sustainable practices. That is why the (constraining) policies discussed in the previous section are important: with the support of the whole of society they can progressively re-orient firms, companies and corporations to a more sustainable production mix.

But this is not enough: ways to elicit proactive attitudes from within the sector itself are needed.

Fortunately, some good practices, positive examples and encouraging tendencies may be identified. We highlight here two existing concepts—or efforts—that should receive attention and systematic as well as innovative treatment at the COP21 and two more global points also deserving to be considered. Their main contrast with what has so far been discussed is that—beyond trying to straightforwardly involve the private sector—the question of funds, always crucial, enters indirectly, being oftentimes possible to be equated in a more individual, sectoral or local level.

4.1. Boosting two existing approaches: Corporate Social Responsibility and Codes of Conduct

Corporate Social Responsibility (CSR), many times used as a make-up to give huge or competitively aggressive multinationals a nicer and sweeter look, specially when trying to gain new markets in emerging or developing countries, has nevertheless its merits. Here, quite frequently is the outcome, and not the reasons, that counts, and many positive

20. In Latin America, Costa Rica is an internationally leading country in REDD+ and Brazil, together with the Amazon basin nations, has a key interest in it, but the sources of money should perhaps be enlarged and strengthened.

developments can be listed, in a variety of situations and cases. In the developed societies, the higher educational level of the population and the more encompassing rule of law end up by –nearly naturally- obliging many companies to enter the CSR wagon, at risk of losing market share and, even worse, consumers' trust.

At the side, and not exactly alien to these endeavours, a few sectors have relatively spontaneously decided to formulate Codes of Conduct to be followed by, at least, their main players. This is particularly found in the high energy-consuming activities, often accompanied by conspicuous levels of environmental stress, as is the case of mining and fossil fuel extraction, in general.

The Code of Conduct of the cement industry is a good example of this practice, being uniformly adopted by all the key multinationals of the sector. Unfortunately, it also stands as a good example of, a Code which, although undoubtedly laudable, is too general, overlooking many practices that still bear significant impacts on the climate change dynamics.

These two encouraging developments could be combined in a Code of Sustainable Operational Practices (CSOP), at a sectoral level, that would simultaneously be more detailed than the possibly existing Code of Conduct and be framed as an integral part of the CSR package of that specific sector.

At this degree of generality, many unknowns remain to be solved.

- At exactly which sectoral level?
- What technical level of detail should the specifics aim to go into?
- How to fashion the CSOP so as to be palatable and generate a legitimate engagement of the sector players?
- What would be the sequencing of creation of such CSOPs, and who should be in charge of their formulation?

The case of advertising perhaps provides good initial guidance. The current code of conduct of advertising, even if far from perfect, enables a higher than minimum level of social responsibility, ethics and fair competition among the sector players. It also has a hierarchical structure, with "universally agreed" rules that become more detailed at country level, according to the specifics of domestic arrangements and culture. And more importantly, the key to its success is that it is a creation from within, *a self-regulating device produced at the sector's own discretion and which will, due to the widespread sectoral perception that all its members clearly profit from the Code*.

With its powerful multilateral and democratic spirit, the COP 21 seems the ideal place to launch a similar initiative. Such an endeavor will demand several organizational tasks, in order to, first of all, define the sectors and prioritize them, in terms of elaboration of the codes. A sector-dependent threshold on the size of business may be applied; more intensive fossil fuel energy users should be addressed first.

The code must be the outcome of the sector's own agents, who would discuss and formulate its rules. The UN, and necessary experts, would have a seat in the working groups, trying to achieve sensible operational standards. Even if falling short of the ideal, establishment of a code is deemed a key starting point. We propose that adhesion to the Code would be voluntary and governments would be regularly informed of the list of adherents. Indirect incentives, at the country, regional, pluri- or multilateral levels should be devised in order to progressively exclude non-adherents from many interesting and profitable opportunities.

The UNFCCC would be the administrator of these documents and would keep a record of the adherents and their accomplishments. As touched upon in section 3.5., this could significantly aid the formatting of sectoral investment shifts and act as a way of linking non-state actors to their respective country (or countries) climate friendly status. Flexibility in using the Code, at the country and regional level, especially during the first years, would be a must.

4.2. Keeping eyes wide open to two key transforming processes

Ultimately, technology will mitigate, if not solve, many of the problems producers, manufacturers and service providers face nowadays as regards a greener approach to their business. Far from being a statement of an undisputed faith in the "Technological God", this simply means that we should take into account that many developments will alleviate several current impacts, as well as allow efficient uses of new alternatives. It suffices to think of the speed of innovation in wind energy, notably in China and Germany, to acknowledge that vast transformations lie in the future. Much progress has already been made, though a considerable fraction already under cost limitations.

Facilitation mechanisms for all those investing in research, testing or experimenting with the use of greener technologies should be multiplied. This must be done wisely, and not at all in an indiscriminate fashion, easily giving room to mock attempts or solutions in which the carbon footprint of their implementation and operation surpasses that of the previous environmentally damaging practice— apart from the always key cost considerations.

No wonder the Chinese invested so heavily in wind energy technology: conscious of the heavily polluting impact of many activities demanded by their development model, they try, as best as possible, to countervail such impacts, while at the same time prepare the grounds for a greener productive mix. It was the result of a domestic, State decision, backed by the large majority of the country.

In similar terms, our advocacy here goes not in the direction of global pursuits or encompassing measures, but in deepening and strengthening the intelligence and knowledge channels—in order to put more dynamics in the exchange of solutions and good practices, without smothering competition inherent to any technology-creating research—and in identifying geographical areas where special efforts are needed. Questions of intellectual property rights, and related ones as well, instrumental for reaping profits that would cover the research and innovation costs would not be changed, unless specific and humanitarian motives—like in the famous anti-HIV drugs case, about a decade ago- would justify a break in the existing regulations.

This more nuanced approach cannot be decoupled from a key variable in the climate change and development narrative: the cultural factor. Many technological developments have universal application; others do not, were local cultural conditions render their use unfeasible. Moreover, codes of conduct and socially responsible corporate practices may need adaptations—and even sometimes substantial changes—in different cultural environments.

The nation-state, as the ultimate representative in the prevailing international order of each country idiosyncrasies and cultural traits, will be the final judge, at the international level, of the amount of change or adaptation needed in each country's case. This may be seen as a nuisance and even a waste of time. Many times yes, but without bringing this consideration into the fore, culturally blind decisions may never be able to be implemented once approved, ultimately wasting more time.

4.3. Producers are citizens: the community level

Sustainability is, at the very end, a community decision. Climate is a global commons problem, but, as happens with development, political and welfare decisions, in a world order respectful of identities and their diversity, it is at the community level that actual transformation takes place.

Poverty, hunger, threat of disease or natural adversities may direct policy away from good green practices or broader sustainability goals, and often towards globalized production interests—and yet, so what ? The degree of local intervention authorized by top level agreements on standards, constraints and patterns of behavior—even if based on robust scientific advise—is a most debatable point. In many emerging economies like Brazil, India, Indonesia, Peru and Vietnam, to cite a few, but also in the two economic superpowers China and the United States, the nation state, many times on the grounds of community arguments, blocks or rather avoids complying with otherwise globally sensible recommendations.

Instead of acting as if the above conundrum did not exist, it is high time that the COPs start to design policies that take due account of its blatant, disturbing and widespread occurrence.

This would give rise to three consequences.

First, as pledged in section 2, less ambition and more common sense; this would mean greater care when fashioning encompassing principles such that they would pass a reality check at the community level. Second, the role of education, together with open and enlightened discussion of the climate problems, is essential for securing, *in the long run*, a more generalised *and committed* acceptance of the importance of some key universal practices and measures. Third, and most importantly in our opinion, this very issue can be used as *a further and crucial instrument for re-orienting the productive sector to greener standards*. No great fuss if employment, in many instances, will be used as an excuse for less-recommended practices, provided an overall positive trend is achieved. For this, the nation state enjoys a privileged position to ensure that the final balance between rough poverty alleviation or welfare improving measures, not exactly environmentally friendly, and those under a sustainable, green umbrella, oscillates towards the latter.

Greater community empowerment, providing them with the information and if needed the tools to constrain investors, suppliers and producers towards greener behaviour—without losing their economic interests—is ultimately, the right way to engage such economic agents in the sustainability debate. In addition, as any producer or investor is also, in his/her individual capacity, a member of a given community, this eventually turns out to be the most efficient and harmonious form of non-regulatory pressure.

5. CONCLUSION: BULLET POINTS FOR A MINIMAL COP 21 AGENDA

All ideas and policies sketched in the two previous sections are deemed relevant and our broader purpose is that they all would be taken into

account in Paris. It is within this scope—and keeping in mind the general guidelines in the Introduction, as regards adaptation and the need to create responsibilities shared by all partners, even if unequally—that we now extract a minimal agenda with (hopefully) a fairly reasonable likelihood of success. Under the spirit of this exercise, the agenda also tries to reflect what, from a South American though neither exclusive nor autistic perspective, was judged more important.

The agenda envisages two groups of policies:

a) encompassing mechanisms for substantially reducing the carbon footprint of several activities;

b) normative measures targeted at creating a favourable environment for greater engagement and interaction with the productive sector, as regards the most serious climate change issues.

Group 'a' pledges two sets of policies:

a.1. Progressive phasing out of fossil fuel subsidies. Complete elimination in the G20 economies, by 2025, and complete elimination globally by 2030;

a.2. Heavy taxation of carbon emissions—carbon taxes on emissions, from production and transportation, domestic and international—as well. This includes air and maritime transport and the politically charged issue of domestic transport via private cars. In spite of the powerful lobby of the car manufacturers, boldly addressing this is fundamental for re-orienting the global pattern of carbon emissions. Emissions from meat producers should also be considered.

Group 'b' defines three sets:

b.1. Sectoral codes of conduct for the productive sector. A set of Codes of Sustainable Operational Practices would be developed for different groups of activities. These should go beyond of existing Codes of Conduct—whenever they exist—and qualify the firm or corporation following it as a responsible and "better" economic agent;

b.2. Agreements to enhance the diffusion and acquisition of green technologies. Manifold options can be designed here, from a WTO (World Trade Organization) zero-tariff agreement for green technologies to creation of and improvement of existing information networks on green research, technologies and information and experiences sharing. Without interfering with the normal flow of goods and knowledge, measures should be tailored to boost such activities in this context. Faithful to the philosophy of the minimal agenda, we propose that no more than three projects be identified to be discussed in Paris hopefully allowing alignment to a common, global pursuit.

b.3. Empowerment of communities, cities and megalopolises for better decisions on the dilemma of development and the fulfilment of basic needs and decarbonisation. Education (and dialogue), in its broadest and most modern conception, is the key tool here. From networks of seminars and discussion groups, to short capacity building workshops and local activities, a myriad of strategies can be mobilised to broaden the scope of the 'poverty alleviation versus climate change' debate. A global initiative co-ordinated by the UN, and supported by all COP participants would be launched, with a detailed timetable for its activities and clear targets. Existing pursuits, like the Transition Town Movement,[21] started in 2006 in England, could serve as inspiration.

In all of the above the cultural dimension, with its capacity of creating ways of mutual understanding, should always be present, as an instrument for closing sensible and steady compromises. Moreover, the five proposals must be deepened and further detailed, beyond the discussion in sections 3 and 4, as well as tested in different forums. The coming COP 20, in Lima, seems to a good place to start.

21. See www.transitionnetwork.org

REFERENCES

Brown, J., G. Wagner, B. Buchner and K. Sierra. 2011. *Improving the effectiveness of climate finance: A survey of leveraging methodologies.* Climate Policy Initiative, San Francisco.

Climate Change Capital. 2014. *The CDM: The power of markets should be reignited for the 2015 Paris climate agreement*. London.

Haites, E., F. Yamin and N. Höhne. 2013. Possible elements of a 2015 legal agreement on climate change. Working Paper 16/13. Sciences Po/IDDRI, Paris.

IEA. 2012. *CO_2 Emissions from Fossil Fuel Combustion*. International Energy Agency, Paris.

OECD. 2013. *Climate and Carbon: Aligning Prices and Policies*. Organisation for Economic Co-operation and Development, Paris.

Spencer, T., C.-A. Sénit and A. Drutschinin. 2012. *The political economy of Australia's climate change and clean policy legislation: lessons learned.* Working Paper 21/12. Sciences Po/IDDRI, Paris.

Venugopol, S. and A. Srivastava. 2012. *Moving the fulcrum: a primer on public climate financing instruments used to leverage private capital*. Working paper. World Resources Institute, Washington D. C.

Whitley, S. 2013.*Time to change the game: fossil fuel subsidies and climate*. Overseas Development Institute, London.

Engaging the productive sector in the climate change negotiations

A perspective from Latin American and Caribbean think tanks on climate change issues Series

Marina C. F. P. D. Drummond, Renato G. Flôres Jr. (Fundação Getulio Vargas, Brazil)

IDDRI'S PUBLICATIONS

- Ramstein, C., Ribera, T. (2014). The LAC region in the face of climate change: perspectives on national policy and international cooperation, *Working Papers* N°16/14, A perspective from Latin American and Caribbean think tanks on climate change issues Series, IDDRI.
- Castro, R., Chacón León, M. (2014). Agriculture, forestry and other land-use in the climate negotiations: a Latin American perspective, *Working Papers* N°17/14, A perspective from Latin American and Caribbean think tanks on climate change issues Series, IDDRI.
- Gutiérrez, M. E. et al. (2014). Reconciling development with the need to 'decarbonize' the economy, *Working Papers* N°19/14, A perspective from Latin American and Caribbean think tanks on climate change issues Series, IDDRI.
- Carlino, H. (2014). How to finance low-carbon and climate-resilient development?, *Working Papers* N°20/14, A perspective from Latin American and Caribbean think tanks on climate change issues Series, IDDRI.

Publications available online at: www.iddri.org

IDDRI SciencesPo.

www.iddri.org

The Institute for Sustainable Development and International Relations (IDDRI) is a Paris based non-profit policy research institute. Its objective is to develop and share key knowledge and tools for analysing and shedding light on the strategic issues of sustainable development from a global perspective.

Given the rising stakes of the issues posed by climate change and biodiversity loss, IDDRI provides stakeholders with input for their reflection on global governance, and also participates in work on reframing development pathways. A special effort has been made to develop a partnership network with emerging countries to better understand and share various perspectives on sustainable development issues and governance.

For more effective action, IDDRI operates with a network of partners from the private sector, academia, civil society and the public sector, not only in France and Europe but also internationally. As an independent policy research institute, IDDRI mobilises resources and expertise to disseminate the most relevant scientific ideas and research ahead of negotiations and decision-making processes. It applies a crosscutting approach to its work, which focuses on five threads: global governance, climate change, biodiversity, urban fabric, and agriculture.

IDDRI issues a range of own publications. With its *Working Papers* collection, it quickly circulates texts which are the responsibility of their authors; *Policy Briefs* summarize the ideas of scientific debates or issues under discussion in international forums and examine controversies; *Studies* go deeper into a specific topic. IDDRI also develops scientific and editorial partnerships: among others, *A Planet for Life*. *Sustainable Development in Action* is the result of collaboration with the French Development Agency (AFD) and The Energy and Resources Institute (TERI), and editorial partnership with Armand Colin for the French edition, *Regards sur la Terre*.

To learn more on IDDRI's publications and activities, visit www.iddri.org