Overcoming the Copenhagen Failure with Flexible Commitments

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Executive Summary

Only by global action can the accumulation of greenhouse gases in the atmosphere be stymied, and there must be some appropriate form of burden sharing. The voluntary measures taken by various countries simply don't add up to what is needed. This paper points to an alternative framework for negotiations which, I believe, is more promising than that on which the world has embarked since the Rio agreement of 1992.

The fundamental issues are simple to state but hard to resolve: the global environment is a global public good. As in the case of any public good, *everyone* would like to "free ride" off the efforts of others to provide that good. But even if that problem is solved a global agreement entails burden sharing—who should pay the cost of reducing greenhouse gas emissions? Should it be the large developed countries who have contributed most to the increase in greenhouse gases? Should poorer developing countries be asked to sacrifice their growth potential so that the advanced countries can continue in their emissions-intensive life style? Perhaps, in the end, citizens in the more developed countries~~y~~ will feel a stronger obligation to bear their fair share of the burden. This paper, however, is written in the hope that a negotiated solution can be arrived at sooner rather than later.

The failure of the current approach

The Kyoto approach, of allocating "emission rights" to different countries, has an inherent problem. Giving a country emission rights is equivalent to giving them money. A global agreement must allocate an asset worth some trillion dollars a year. Inevitably, if there is to be an agreement, the world will have to decide on some principles of allocation—a formula.

Kyoto seemed based on a principle that worked imperfectly among developed countries, but will simply not work when developing countries are included: a uniform percentage reduction relative to their prior levels of emissions. No developing country would or should agree to this principle. There are alternative principles that seem more ethically justifiable. The approach suggested here implies avoiding a grand solution to the fair allocation of emission rights, but recasting the problem in ways that minimize the redistributive aspects of the negotiations.

The costs of adjustment

The societal cost of a carbon charge is the dead weight loss associated with the charge. Fortunately, this is likely to be small for most countries, and if other taxes are replaced with carbon revenues, it may even become a net gain.– But *within* the oil producing countries, owners of oil assets would be worse off. These losers may have disproportionate voice in many countries.

However, if those countries without a large fossil fuel lobby could agree to a common carbon price, none would be viewed as having an unfair advantage over the other. In effect, a country which does not charge the full social cost of carbon is *subsidizing* carbon emitting industries, an unfair trade advantage, not unlike that of a country which subsidizes labor. Hence, carbon pricing countries could impose trade sanctions—a cross border tax—on those who do not implement the common carbon price. This would help ensure compliance with a global agreement—and would strongly encourage those not adopting a carbon price to do so. That is why the target should be an agreement among a "coalition of willing."

Voluntary vs. enforceable agreements

The current approach seeks voluntary reductions. In no other area has voluntary action succeeded in~~as~~ solving a public-goods problem. ~~And~~ This will be especially true in the face of large fossil-fuel interests. That is why the *soft* approach advocated in recent years by the US, amongst others, based on voluntary contributions simply will not work.

Flexibility and Common but differentiated responsibilities

Countries should be given flexibility in how they meet their obligations—whether through a carbon tax or through a system of cap and trade, which could be complemented with regulatory mechanisms when their results are sufficiently measurable.

Much of the efforts of the international community have been directed at creating regulatory standards such as fuel efficiency in cars. But such an approach opens up difficult questions: should an industry that does not pay a carbon charge be viewed as subsidized if it faces a regulatory constraint that forces it to achieve the same level of carbon emissions?

The approach delineated above does not adequately differentiate among the circumstances of different countries. This leads to two suggestions: (a) a global green fund, financed by allocating 20% of the funds from carbon pricing in developed countries, and (b) the developed countries should provide technologies that reduce carbon emissions free or at affordable costs. Together these two suggestions could be used to implement "differentiated responsibilities."

Concluding comments

We have explained why —voluntary caps and actions —will almost surely fail. We have outlined another approach, based on a global agreement around a common carbon price, with flexibility on how each country implements that agreed-upon price. It is time to give this alternative approach a chance. Climate change is too important to allow the current impasse to continue.