

## Executive Summary

### Search for a New Consensus

The commitments in the Kyoto Protocol to reduce greenhouse gas emissions expire in 2012, and a new global strategy to address climate change is required; this was recognized by the leaders of the G8 at the Heiligendamm Summit in June 2007.

There also appears to be consensus that work on this strategy might begin when Parties to United Nations Framework Convention on Climate Change meet in Bali, Indonesia in December 2007. If it does, the new strategy will not appear overnight; the Kyoto Protocol took several years to negotiate, and major differences over it remain.

The challenge is to forge a climate change strategy that is pro-development. With between one and two billion people still living in poverty, developing countries insisted from the time the Framework Convention was negotiated that no climate change measures should be adopted which prevented countries from giving priority to economic development. The need to balance environmental and developmental factors continues to be the single most important issue over policy on climate change.

On current settings, there are two general options for a new global strategy. The first is to replace the Kyoto Protocol with similar but tougher measures for compulsory reduction of greenhouse gas emissions, principally by regulating consumption of energy. The second is to promote collaboration among governments to adopt technologies and systems that reduce greenhouse gases. These won't secure global consensus.

A key lesson from Kyoto is that a successful global strategy must have global support. That will not be achieved unless the strategy is pro-development. New thinking is required.

### The Development Dimension

The biggest source of greenhouse gas emissions is combustion of fossil fuels to generate energy. The leading strategy in the Kyoto Protocol is to reduce consumption of energy, and in the Protocol it was an obligation only for developed parties. However, the backers of Kyoto have always indicated developing countries should at some point commit to reduce emissions.

Ninety percent of energy in the developing world is produced from biomass: over 2 billion people do not have electricity. Growth and improved living conditions like less disease and longer lifespan requires more electricity. The International Energy Agency estimates that global electricity production will increase 50 percent by 2030, with most of the increase coming from the developing world. And as production of energy increases, so too do greenhouse gas emissions.

Although developing countries repeatedly secure commitments in the U.N. that development needs will not be compromised by measures to reduce greenhouse gases, proposals

which do so continue to be advanced, like that from the British Treasury economist, Sir Nicholas Stern, who recommended in 2006 that the world economy forego one percent in economic growth annually to meet the cost of containing and reducing emissions of greenhouse gases.

The cost of the Stern proposals is much more than the one percent per year of GDP for economies in which dependence on carbon is high. The annual cost to China is estimated at between 14.3 percent and 16.9 percent of GDP; for India 10.6 percent to 12.3 percent; and for Brazil between 3.7 percent and 7.5 percent. As such, cuts of the dimension proposed by Stern would cut growth dramatically in most economies.

Cuts of the order proposed by Stern would significantly impede strategies to lift the 1.2 billion people living on less than one US Dollar a day out of poverty. A high percentage of those people live in India and China. As the Chinese National Reform Development Commission noted in its report in June 2007 on China's approach to climate change:

*"In the history of human beings, there is no precedent where a high per capita GDP is achieved with a low per capita energy consumption."*

Evidently no climate change strategy will secure global support if that is the consequence.

### Lessons from the Kyoto Protocol

The Kyoto Protocol is now widely regarded as a failure. It has not laid down a long term strategy to tackle climate change; has not met its targets to reduce global emissions of greenhouse gases; has not created a global system of emission trading (and, where parties have set up regional systems pursuant to the Protocol, as in the European Union, the inherent difficulties of establishing such systems has become apparent); has delivered only limited benefits to developing countries; has demonstrated the high cost of mandatory emissions targets; and has failed to build a global consensus on a strategy to tackle climate change.

Nevertheless, the leading suggestion to replace Kyoto is effectively a Mark II Kyoto with deeper, compulsory cuts in emissions over a longer period and a mechanism gradually extending to developing countries obligations to reduce emissions. The next most current idea is to replace Kyoto with another global cap-and-trade system where greenhouse gas emissions are capped and permits to emit gases are traded among parties. In principle there is little difference between the two options, as the Kyoto Protocol is already a form of cap-and-trade.

The idea of global emissions trading has acquired a fashionable cache, appealing to free market economists and arbitrageurs alike. It has become an elaborate distraction. The impracticalities of establishing a global system are enormous as insights from experience of regional trading of emissions in

the E.U. under the Kyoto Protocol reveal. Significant problems include high volatility in prices, lack of monitoring of compliance and lack of certainty about fair trading. The role of emissions trading was always secondary—to smooth the impact of the primary process which is to reduction of emissions. Attention needs to focus on getting the primary process right.

Kyoto didn't. The key takeaways from the Kyoto experience were: One, that climate change strategies need to recognize that the interests in every economy are different (Kyoto failed to respect the injunction in Article 4.2 of the UNFCCC to do so); two, global regulation of economic activity and use of energy will not work; and three, strategies will not be supported if parties do not consider the impact of obligations are economically equitable.

### **The World Beyond Kyoto**

Debate over the Kyoto Protocol has left an impression that it is the climate change policy universe. It is not. This is a serious misperception in the climate change debate. As this report shows, hundreds of millions of dollars are being spent in the public and private sector to tackle climate change. Important regional and national programs have been overlooked.

The economies that account for half of the world's greenhouse gas emissions have established the most innovative effort yet to tackle climate change. It has had little airplay. In 2005, Australia, China, India, Japan, South Korea and United States formed the Asia-Pacific Partnership on Climate and Clean Development. They have developed eight programs in the Partnership to develop practical approaches and strategies to reduce emissions, however, none entail regulation of energy. Research has demonstrated that the activities planned for this partnership in general should be able to achieve reductions in emissions comparable to those sought in the Kyoto Protocol and without a development liability.

In addition there are important bilateral programs, like the US-China Methane Capture Program, as well valuable contributions by the private sector.

### **Crafting a New Strategy**

To be successful, a global climate change strategy needs to satisfy five criteria. It should:

- Enjoy consensus among countries which account for a substantial majority of global greenhouse gas emissions;
- Support national development objectives;
- Demonstrate tangible short term results;
- Allow countries to regard the cost of the impact as spread equitably; and
- Facilitate adaptation and mitigation.

Neither a Mark II version of the Kyoto Protocol, nor a new global cap-and-trade model will satisfy those criteria. Developing countries will not accept global regulation of energy production or energy economic activity which is central to successful development strategies. Economies with high carbon dependency will not accept strategies that cause impacts which seem inequitable.

Is global consensus around the Asia-Pacific model of voluntary collaboration an alternative? This seems unlikely. There is a strong desire among a number of countries, particularly in Europe, to see an international system of binding commitments to regulate climate change activities.

### **A Multi-Track Approach— The Only Practical Post-Kyoto Option**

Fresh thinking is required, and a Multi-Track approach is proposed. Parties could select the track or tracks they wished to follow to within broad goals laid down within the Framework Convention.

The UNFCCC (Article 1.b) lays the basis for a Multi-Track approach – each party is required to prepare a regular report on measures to mitigate emissions and strategies to adapt to climate change. If some parties wished to regulate energy, including in concert with others, that would be recognized as meeting the broad goals, as would strategies developed by others following the voluntary collaborative or national program tracks.

To give bearing to the Multi-Track approach, broad goals to be achieved by climate change policies would need to be developed, and kept indicative to give developing countries the flexibility they require.

Two objections are anticipated. The first is that large reductions in emissions are required sooner rather than later (as envisaged in the Stern report) to mitigate increasing emissions in the long run. A voluntary system like this is unlikely to deliver the deep cuts required.

The assumption underlying in this is taken as given among many climate policy specialists, but it does not represent mainstream thinking among economic analysts and development experts. It is reflected in “The Copenhagen Consensus” among leading global development experts in 2004 that modest reductions in emissions in early years will be adequate and that it is more cost effective for countries to meet the costs of mitigation and adaptation several decades or a century later when all societies will be wealthier. As well, experience to date demonstrates that national action and global collaboration does deliver reductions in emissions.

The second objection is that there will be no compulsion in the Multi-Track model. The retort to that is that if there were compulsion, there will be no climate change strategy. Global solutions to global problems will only work if crafted within the reality of how global politics work.

The level of concern about climate change, particularly in the industrialized world, is understandable. However, so is the concern in the developing world about lifting the bottom billion of the world's people out of poverty. This is not a question of difference of perception between people in the developed and developing worlds. There is great concern about poverty in the industrialized, as evidenced by the Live Aid concerts in 2007. ●