The Copenhagen Solution

02/03/2010

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Copenhagen was a challenging experience for EU policymakers. At this stage, the best possibility for a solution may be to engage the private sector, in order to amplify funding for adaptation, mitigation and carbon reduction. The U.S. Secretary of State Hilary Clinton made an announcement that agrees with this approach. In her speech, Hilary Clinton mentioned that the US will participate in a $100 bn fund to assist developing nations. The US proposal is a welcome step forward. It changes the tone of the negotiations, yet it is somewhat vague and implies no commitments. Earlier the U.S. offered to bring emissions to 17% lower than 2005 levels by 2020. It now aims at 19% lower than 2005 levels. This is another positive sign, yet when compared with EU commitments to reduce emissions by 20% of 1990 levels, US reductions are only 4%. This is not likely to have a positive result. President Nicholas Sarkozy has emphasised that it is important for developed nations to reach a positive agreement in the next 24 hours. A proposal presented below – the same proposal that I provided to the US Department of State and US Treasury just prior to Hilary Clinton's announcement in Copenhagen – provides a solution that should be acceptable to both developing and developed nations. It involves $200 bn a year and private as well as public funding. This proposal is presented in the spirit of having the EU adopt it and help develop it into an overall market based solution that benefits the industrialised and the developing nations and, more particularly, the low emitting nations of Africa, Latin America and the Small Island States. When looked at closely, this proposal is made possible by the carbon market that I designed and drafted into the Kyoto Protocol, which created profitable opportunities in clean energy for the private sector that did not exist before. In this sense this proposal is likely to continue a process that began in Bali and developed further in Copenhagen: bringing the US into the fold of the Kyoto Protocol process.

My proposal calls for a $200 bn a year private/public fund to build green power plants in developing nations, in particular, in low emitting nations in Africa, Latin America and the Small Island States. The proposal is gathering support from a number of nations, including the US, Papua New Guinea, Costa Rica, Ghana and others. It agrees with the U.S. policy of involving the private sector and following market based solutions, and it supports also the developing nations' natural aspiration for preserving the integrity of the Kyoto Protocol with its binding emissions limits.

Most of the yearly $200 bn I propose will come from the private sector, so it is important to indicate how the private sector is likely to step up to the plate and provide the funding needed. The rationale revolves around the critical role played by energy, which is the mother of all markets. Energy demand is rapidly increasing in the world economy, and most of the increase comes now from developing nations. The energy industry is aware of the strategic opportunity this creates for expanding their profitable activities into new developing regions where demand is strongest. Yet lack of funding in developing nations can be a problem. This problem can now be resolved by building "green" power plants with funding provided by the carbon market and its Clean Development Mechanism.

The technology was recently advocated by Dr. Pachauri, Chief of the IPCC, who said that "sucking carbon from air" is now necessary for averting catastrophic climate change risks. With this approach one could make green power available for economic development, and for adaptation and mitigation against climate change in developing nations -- while averting climate change risks. Because air is available uniformly around the world, the raw material for sucking carbon is readily available to all nations. These power plants can enable countries to suck more carbon than they emit, and therefore the solution can bring funding to low emitter nations in Africa, Latin America and the Small Island States that until now got relatively little resources from the CDM.

I propose therefore an innovative financial mechanism that can provide private/public funding for the purpose of building green power plants in developing nations, focused on low emitting nations in Africa, Latin America and the Small Island States. The financial mechanism consists of $200 bn/year fund for the purpose of building green power plants in developing nations. The fund relies on the carbon market that I designed and drafted into the Kyoto Protocol, and its Clean Development Mechanism (CDM), and is therefore based on legally binding emission limits on industrialised nations, thus satisfying the aims of most of the Parties of the climate negotiations including the G77. At the same time the solution will raise funding from the private sector to greatly amplify Annex 1 pledged resources, and this will satisfy the fiscal constraints faced currently in Annex 1 nations. As the technology is particularly favorable to low emitters, the plan would also meet the aims of, and bring substantive CDM funding to, the Small Island States, Africa and Latin America – regions that until now got little support from the CDM.

The proposal depends on the incorporation into the Global Negotiations of the new concept of Negative Carbon. This means projects that can reduce more carbon than they emit. In Copenhagen I introduced wording into the CDM, which will be sent for technical review at the Subsidiary Body for Scientific and Technology Administration for consideration and approval.

From the financial perspective, this innovative financial mechanism will work as follows. Annex 1 nations will underwrite and guarantee a $200 bn a year fund contributing for this purpose their already pledged funds (approximately $10 – 25 bn) that will be used to cover the lowest 'riskiest slice' of the fund. The second riskiest slice will be covered from pension funds within the Annex 1 nations, who are required to green their portfolios. The rest of the funding will come from global capital markets, thus greatly amplifying the public funds. The energy industry in the OECD will contribute technology, know-how and training for developing nations to running and future

development of their own plants, and is also expected to support the effort in legislative circles. The main beneficiaries will be the lowest emitting nations of Africa, Latin America and the Small Island States where most of the plants will be built. For this purpose recent wording I introduced in the CDM WG in Copenhagen working with Papua New Guinea, if adopted, will allow the CDM to accredit 'carbon negative' projects, which reduce more carbon in the atmosphere than what they emit.

Investment bankers in the U.S. and the UK have already expressed great interest in raising the private funding that the fund will require that they considered quite realistic, all within the restrictions that the UNFCCC and its carbon market and CDM will impose as the administrators of the fund.

Copenhagen is a critical step in the climate negotiations mostly in integrating the USA – but much will be decided in the next few months – and as the US offer is fleshed out the business objectives and the global imperatives of the situation will steer the equation into the green energy direction. However, only the future will tell whether the international community makes itself available for this opportunity that represents a win win solution for the world economy.

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