Reducing global emissions can be simple and self-financing

The world needs a plan that supplants fuzzy commitments with real penalties for the big polluters

RAGHURAM RAJAN

Will COP26 deliver? As Queen Elizabeth put it: “They talk, but they don’t do.” The least that should come out of the deliberations is stronger individual country commitments to reduce emissions. Ideally, we would also agree to a global plan to keep warming from reaching 1.5°C above pre-industrial levels. All this seems unlikely on the current trajectory.

The 1992 UN Rio summit concluded that countries had a common but differentiated responsibility to tackle emissions — common in that climate change affects us all, and differentiated because countries have different responsibilities for creating the problem, as well as differing abilities to resolve it.
Unfortunately, there is no agreement on how to build constructively on the idea. Clearly, Uganda, which emits 0.1 tonnes per capita of carbon per year (in 2018), has much less responsibility both for the carbon that is already in our atmosphere and for what continues to be pumped out than the US, which emits 15 tonnes per capita per year. And the US has more responsibility than the EU, which emits 6.4 tonnes per capita. Yet the EU has committed to cut its 1990 emission levels by at least 55 per cent by 2030, while the Biden administration wants to only halve its 2005 emissions by 2030. And of course, there are no penalties if a country fails to adhere to commitments.

Emissions rights are a form of property right held against the planet. The weaker a country’s commitment to reduce emissions, the more rights it claims. Collectively, countries have claimed significantly more emission rights than is good for the planet, and there is no agreement on how to limit these self-claimed rights. Instead, it is likely that the principle of “common but differentiated” gets tossed out of the window as we try anything to avoid climatic catastrophe. For instance, restrictions on international bank financing of carbon-intensive coal and gas plants force poor countries to go green, while giving existing coal plants in rich countries a free pass. We must do better.

We need to penalise large emitters rather than grandfathering them. At the same time, we need to give countries like Uganda the incentive as well as resources to grow green. The way to do this is to distribute emission rights fairly, while improving incentives to do more. Here is one way: let every country that emits more than the global average of around five tonnes per capita pay annually into a global fund. The amount paid would be the excess emissions per capita multiplied by the population and further multiplied by a dollar amount called the Global Carbon Incentive. If the GCI started at $10 per tonne, the US would pay around $33bn each year. Meanwhile, countries below the global average would receive a commensurate payout based on how much they emit below the average (Uganda, for example, would receive around $2bn).

Every country would then face an effective loss of $10 per capita for every additional tonne that it emits, regardless of whether it starts at a high, low or average level. Uganda would have the same incentives to economise on emissions as the US. A $10 GCI is just for illustration. The point is to start small in order to get the scheme going and iron out the kinks. The GCI can be enhanced (or reduced) depending on progress. But to avoid creating uncertainty, changes might be considered only every five years or so, and arrived at through global consensus.
The scheme is simple and self-financing. Low emitters, often the poorest countries and the ones most vulnerable to climatic changes they did not cause, would receive a payment that could help their people adapt. Conversely, the responsibility for payments would appropriately lie with big rich emitters, who are also in the best position to pay. Countries would be free to choose their own domestic path to emissions reduction. Instead of levying a politically unpopular carbon tax, one country might impose regulations on coal, another might incentivise renewables.

Why would big emitters agree to join? Domestic political pressure from the young, who understand how devastating inaction is, would help. However, enforcement should be postponed for, say, five years to bring the reluctant on board, giving them time to implement serious emission-reduction measures. In the meantime, poor non-emitter countries could borrow against their anticipated receipts, thus getting funds to implement action today.

The GCI would move us toward the common goal of reducing emissions but specifies differentiated responsibilities. It would supplant unenforceable fuzzy commitments with real penalties for underperformance. And it would assure the world that every country has the incentive to not just talk but do.