

## **Post-Kyoto is likely to be very liberal...**

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*"They make you pay for bread, the sky, the earth, the sun and the misery of your life."*

Paul Eluard

Little by little, the elements of the rapprochement between supporters and opponents of Kyoto in the imperialist world are beginning to emerge. On the one hand, the European Union has adopted most of the neo-liberal dispositions originally put forward by Washington; on the other, a whole series of trans-Atlantic signals indicate that the United States will end up by coming over to the idea of quantified objectives for reduction, accompanied by a calendar for their application.

### **Taking another look at a hybrid Protocol**

Signed in 1997, the Kyoto Protocol is very insufficient and contains a certain number of perverse aspects, while at the same time presenting some positive ones. It is important to grasp this hybrid reality in order to understand the evolutions that are taking place.

The insufficiencies of the Protocol are well known:

- the 5.2 per cent of reduction of emissions that the developed countries have committed themselves to carry out during the period 2008-2012 only represent a miniscule first step;
- even if the Protocol was respected in its entirety by all those who have ratified it, its non-ratification by Australia and the United States would imply a real reduction of scarcely 1.7 per cent for the whole of the industrialized countries (1);
- Kyoto is chock full of loopholes that have been conceived in order to attenuate the effort required: the three "flexible mechanisms" enable the big companies in the developed countries and the states where they are based to replace part of the efforts that need to be made by investments in the countries of the South or the East, or to acquire emission rights on the world market (2). Some of these rights - in particular those which correspond to the famous masses of "Russian hot air" (3), or to the "carbon sinks" (see below) - do not correspond to any effort at structural reduction;
- In particular, in the case of a free allocation of emission quotas to the big companies which are

included in the planned reductions, the door is open to multiple arrangements, resulting from the complicity of governments and administrations with the employers (in the name of competitiveness). Presented as the model to be followed, the European system of emission trading provides an example of the frauds that are possible and of their implications: for the first year of the system, the authorities have distributed rights for 1848.6 million tons of CO<sub>2</sub>, whereas the emissions of the 11,500 companies concerned were only 1785 million tons. The British electricity sector alone thus made a profit of 800 million pounds sterling (4).

The principal perverse effects of Kyoto are the following:

- Kyoto considers as equivalent the reductions in greenhouse gas emissions on the one hand, and on the other the sequestration of CO<sub>2</sub>. Now, only reductions in emissions provide a really structural answer to the greenhouse effect. Most forms of sequestration - absorption by ecosystems (what are known as "carbon sinks": forests, the ground and oceans) and the capture of CO<sub>2</sub> on the level of electric power stations (with subsequent storing of gas in certain geological formations, for example) - are only at best temporary responses, ways of gaining time (5);
- The Clean Development Mechanism (CDM) and the Joint implementation (JI) give off a strong neo-colonial odour, since they enable the North to get its hands on the simplest and least costly means of reducing emissions.

The consequences of this disposition are:

1. To reduce the costs of carbon on the market and so to encourage the developed countries to buy rights rather than reduce their emissions;
  2. To handicap the future capacity of developing countries to reduce their emissions, when international negotiations oblige them to;
- The distribution among nations of emission quotas corresponding to the volumes of greenhouse gas produced in 1990, minus the reduction commitments (adopted in the framework of Kyoto), is in fact equivalent to a distribution of semi-permanent property rights on fractions of the atmosphere. This distribution accepts the inequality of development between North and the South and this is in contradiction with the definition of air as common property;
  - Kyoto does not provide for taking into account the efforts that the big developing countries could make from here and now, so as to anticipate their future responsibilities when they will be subject to an agreement. This defect of the protocol gives the ruling classes of these countries a handy pretext for burning fossil combustibles for as long as possible;
  - The emissions of air and maritime transport are not counted.

## **Positive Aspects**

However, certain positive aspects of the Protocol cannot be neglected:

- The Protocol is based on the notion of "joint but differentiated responsibility": all nations are concerned, but the developed countries, since they are responsible for 75 per cent of the problem, must make the bulk of the efforts and transfer technologies to developing countries;
- The reduction in emissions is quantified and linked to specific dates: each country is allocated an

objective to be reached in the course of a commitment period;

- The flexibility mechanisms can only be used as a “complement” to domestic measures (6). Furthermore, investments in nuclear energy do not qualify in the framework of CDM. As for the CDM projects for the forests, the developed countries can only have recourse to them to a limited extent;
- Sanctions are provided for. A country which does not respect its objective for reduction would have it carried forward to the following period, with an added penalty of 30%. Furthermore, this country could no longer have recourse to the emission trading system.

### **Towards a Less Rigid Agreement**

The defenders of the Protocol hope that it is only the beginning of a movement which will be amplified. It is true that things are moving. Several European countries have announced their intention, in time, to reduce their emissions to a very considerable extent. We must however distinguish between declarations that play to the gallery and policies that are really implemented. The European Union, for example, has announced that it is willing to maintain global warming below 2°C. But the 25 heads of state and of government, during their Council in March 2005, did not adopt the corresponding objective of a reduction in emissions of between 60 per cent and 80 per cent in 2050 (which was however suggested by the Ministers of the Environment). The communiqué of the Council avoided giving any firm undertaking: it “was appropriate to envisage” a reduction of between 15 per cent and 30 per cent between now and 2020. And even this range will have to be the object of an examination “into the conditions under which the objective can be achieved, including the question of costs and profits”.

In reality, the developed countries are not succeeding in respecting Kyoto: Canada is 30 per cent in excess of its objectives, Italy is hardly better off, Spain’s emissions are exploding (7). Britain will descend below its ceiling, but it will be thanks to the conversion from coal to gas: after that, things will start seriously... It is the same diagnosis for Germany: the fact that it is in the course of respecting its commitments (thanks to the dismantlement of industry in the East!) has not prevented the employers’ federation BDI from walking out of the negotiations on the national allocation plan for emissions. In Denmark, in spite of the boom in wind farms, the plan seems to be 21 per cent short of the national quota (8). Etcetera.

So simply prolonging Kyoto with tighter quotas seems highly unlikely. That is why the EU, in 2005, announced its “firm will to give a new élan to international negotiations” and “to obtain the broadest cooperation from all countries”, in particular “the big energy consuming countries, including those who belong to the category of emerging and developing countries”. We are certainly moving towards a new agreement, freed from certain “rigidities” of Kyoto. An agreement in which the participation of the big developing countries will change “conditions in terms of costs and profits”, to quote the words of the Council... The “Gleneagles dialogue on climate change, clean energy and sustainable development”, must be seen in this framework. Launched during the G8 summit in Scotland and involving the 20 countries who have the biggest consumption of energy, it is obviously not by accident that this dialogue has the aim of “informally discussing innovative ideas”, outside the official framework of the United Nations Framework Convention on Climate Change (UNFCCC).

## The Stern Report: A Marker

As we have explained elsewhere [in the article “The devil makes the saucepans, but not the lids: defense of the climate and anti-capitalism”, which can be found on this site], the Stern report on the economics of climate change seems to represent an important marker on the road to a new global agreement. That justifies paying a little attention to it. The following points should be borne in mind:

1 - Contrary to other economists, Sir Nicholas Stern does not quibble about the analysis of the climatologist: “Climate change is a series and urgent question. (...) The level of 550 ppmv CO<sub>2</sub>eq could be reached as early as 2035. At this level, there is at least 77 per cent of chance - and perhaps up to a 99 per cent chance, depending on the climate model used - of a global average rise temperature rise exceeding 2°C. If nothing is done, the stock of greenhouse gases could triple between now and the end of the century, leading to at least a 50 per cent risk that the rise will exceed 5°C in the course of the following decades”. Etcetera. The social and ecological consequences are examined in detail.

2 - The evaluation of the costs of warming is much higher than in other publications. According to Stern, the “business as usual” scenario could reduce average per capita consumption by up to 20 per cent between now and the end of the 22<sup>nd</sup> century. This staggering figure is explained by the following factors:

- the report includes not only strictly economic costs (a 5 per cent reduction in GDP per capita) but also a monetary evaluation of the impact on health (the number of victims...) and on the environment;
- account is taken of the fact that global warming could accelerate global warming (for example if the melting of the permafrost brusquely unleashed large quantities of methane, a powerful greenhouse gas);
- the discount rate used to evaluate the costs of the damage is around twice as low as the usual rate (in order to concretize intergenerational solidarity, they give future damage a higher cost than in other studies of this kind);
- lastly, Stern and his collaborators have called ethics to the rescue to correct the fact that, from a strictly accounting point of view, the damage in the countries of the South does not cost very much (it is evaluated based on the “willingness of the victims to pay”, which obviously varies according to income)...

3. Stern compares the bill for global warming with the cost of mitigation (attenuation) and adaptation. This cost obviously depends on the level of stabilization chosen for the concentration of greenhouses gases. Instead of a stabilisation at 450 ppmv, the report opts for 550 ppmv. This choice noticeably increases the danger (9), but the authors suddenly change their tone: “The lesson here is to avoid doing too much, too fast (...). For example, great uncertainty remains as to the costs of very deep reductions. Digging down to emissions reductions of 60 to 80 per cent or more relative to baseline will require progress in reducing emissions from industrial processes, aviation, and a number of areas where it is presently hard to envisage cost-effective approaches” (10).

Stabilization at 550 ppmv would cost one per cent of world GDP and stabilization at 450 ppmv would cost three times more. Faced with damage estimated at 20 per cent of GDP, stabilization at 450 ppmv would in spite of everything remain “profitable” (according to the cost/profit logic of the report). Why is it excluded? Because the additional cost would be supported by “industrial processes, aviation, and a certain number of areas”... which concern particularly the developed

economies. It is difficult to exclude the idea that this choice is related to the appreciation that is also made that, up to 3°C of rise in temperature, the effects of global warming may be rather positive in these countries. The negative effects will be especially concentrated in tropical and sub-tropical countries, which, given their "geography", "are already too hot", according to the report (11). The ethics of Sir Nicholas Stern decidedly have their limits...

4. One per cent of world GDP is equal to 350-400 billion dollars. So, if we accept Stern's estimates, stabilization at 450 ppmv would cost between 1,050 and 1200 billion dollars per year. This sum would be easily covered by a combination of cuts in the defense budgets (1,037 billion dollars in 2004, of which 47 per cent come from the United States) (12) and in advertising, not to speak of the fantastic oil rent. But these means do not figure in the panoply of a former chief economist of the World Bank. Outside of the development of nuclear power - promoted to the rank of clean technology, this panoply only comprises neo-liberal instruments: a single world price for carbon; a tax on carbon (transferred to consumers via prices and compensated by a lowering of charges for companies); total flexibility in the choice of the place, the moment and the means of reducing emissions, anywhere in the world, at the lowest cost; deepening and widening of the emissions trading; imposition by the WTO of total freedom of circulation for low-carbon products and services, etc....

This approach has three implications which should be very attractive for the developed countries and the multinationals:

1- Between now and 2050 more than 50% of the reduction in emissions of the North will be delocalized to the South. Either in the form of a stop to deforestation (which is obviously desirable), or in the form of clean investments evaluated at 40 billion dollars per year (40 times the present day market in CDM) (13);

2- While taking advantage of this largesse, in the North, the big energy automobile, petrochemical and other groups will have 20 to 30 years to amortize their installations then re-orient towards new technologies (which will be developed thanks to a doubling of public budgets for research) without paying a cent for the catastrophe that they will have provoked (14);

3- The bill will be paid by the workers, the peasants, and the poor of the whole world, by the tax on CO<sub>2</sub>, public subsidies to private enterprise and the incorporation of the price of carbon into the prices of consumer goods.

## **A Global Political Project**

Beyond its economic construction, the Stern report is a very political document. As we read it, we find an ambitious strategic project: to use the fear of global warming to bring public opinion to accept objectives which are very far from being only climatic.

"A key issue for credibility is whether the policy commands support from a range of interest groups. Public opinion is particularly important: sustained pressure from the public for action on climate change gives politicians the confidence to take measures that they might otherwise deem too risky or unpopular" (15). The CO<sub>2</sub> tax, for example, is compensated for employers by a lowering of charges...

Further on, we find this other revealing passage: "Much of public policy is actually about changing attitudes. In particular, there are two broad areas where policy makers may focus in the context of climate change: seeking to change notions of responsible behaviour, and promoting the willingness

to co-operate. Examples of the former in other areas include policies towards pensions, smoking and recycling, while those of the latter include neighborhood watch schemes on crime and community services more generally" (16). The example of policies concerning pensions (the offensive in favour of retirement pensions by capitalization, against state pensions, in the name of the fact that each individual, and not the collectivity, must be "responsible" for his or her old age) is particularly significant...

The enthusiastic commentaries that these reports provoked among many environmental NGOs (the WWF, for example, is asking for "a strengthened carbon market") (17) and in certain "left" parties (18) need to be questioned. There is certainly urgency. But Stern himself affirms: climate change is "the greatest and widest-ranging market failure ever seen". Either we will make the market pay for this failure, or else "the market" will make the exploited and oppressed of the world pay for it. The Stern report, unsurprisingly has chosen the second road. It gives us a foretaste of future capitalist policies in the face of climate change.

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### **Cinema: "An inconvenient truth"... for capitalism!**

Contrary to the very waggish "day after" of the director Roland Emmerich, the film "A truth that unsettles" represents a good presentation of climate change. The force of the images is astounding and the commentary is of a high scientific quality. Let us not reject this production on the pretext that this is the work of the former Vice-President of the US, former candidate for President (against George W. Bush) or because publicity in the media might make it ideologically suspect. Who can be surprised that Al Gore does not argue in favour of anti-capitalist solutions? Beyond its obvious political limits, this film has the merit of stimulating a broad consciousness of the major issue of the warming of the planet, which can only increase the pressure on the political decision makers.

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### **Schwarzenegger prepares Post-Kyoto**

On August 31<sup>st</sup> 2006 the representatives of the state of California adopted the Global Warming Solutions Act (GWSA). Whereas George W. Bush refuses any system of compulsory reductions in emissions and de facto excludes making an effort as long as the emissions of the big developing countries will not also be subject to undertakings, the GWSA is distinguished by these two points: California decides to reduce its own emissions by 25 per cent by the year 2020, and to do so independently of the decisions of other countries.

It is not the first to do so. Before it, nine states in the Northeast United States had adopted objectives of obligatory reduction and constituted a system of exchange of rights analogous to the one that operates in Europe. Since then, the polemic over the climate has considerably increased on the other side of the Atlantic, in particular after Katrina. At federal level the projected laws remain blocked, but 279 towns and cities have decided to respect the objectives of Kyoto. George W. Bush is increasingly contested on this dossier. The favourites in the race for the investiture of the two big parties, Hilary Clinton and John McCain, are both supporters of a compulsory reduction in emissions.

Does this mean that the climate dossier is on the way to being solved? No! California's commitment is in fact extremely timid: the 25 per cent reduction is calculated in relation to the tonnage of greenhouse gases that California would emit in 2020 in the absence of any measures being taken. Apparently radical, this decision aims only to bring emissions back to their 1990 level...8 years after the first period of engagement of Kyoto. To put things into perspective, the Protocol assigned the United States a reduction of 7 per cent by 2012.

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### **The Law of Value Breaks Down**

The acrobatics of economists trying to put a price on things which have no exchange value (human life and natural ecosystems), and to make this price seem to conform to "ethics", clearly shows that the law of value is less and less appropriate as a measure of social wealth.

The Stern report provides many illustrations of this, in its manner of dealing with what it calls "difficult ethical problems". On page 156 the authors make reference to studies which increase the overall costs of global warming by 33 per cent, or even double them, in order to give more correct emphasis to the impact in the Third World. Without these corrections, the climatic catastrophes in these regions would go unnoticed in the eyes of the economists: for a whole period, they would even be swamped by global growth...another example is found on page 410: to put a cost on the probable transfer of 200 million people, Stern multiplies the average income of these people by three. Why by three, when the majority of the victims will lose everything and when many of them will die?

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### **For an Anthology of Capitalist Stupidity**

Enterprises of the oil and energy sector, giants of the building industry, lemonade producers, makers of ice cream, tour operators: they are all taking out insurance against climatic caprices (winters that are too mild or too harsh, summers that are too wet or too hot).

Weather derivatives are the financial products derived from this insurance. Products for speculation on the stock exchange. Compared to other derived products, the exchanges remain limited. But investors are banking on strong growth. The Chicago Stock Exchange intends to invest 1.8 million dollars in the next three years in the development of these markets. Coriolis Capital, which manages patrimonies, has bought 350 million dollars of weather derivatives. "The climate is our new frontier", commented Terry Duffy, President of the Chicago Mercantile Exchange.

For the holders of capital, the trick consists in holding weather derivatives linked to the climate of different countries in different continents. In reality, climatic extremes are often spread about in a very contrasted fashion. During the 2003 heat wave, for example, the East of the United States experienced a wet and cool summer. With diversified weather derivatives, luck, and the advice of a meteorologist, a clever financier can make quite a lot of profit.

The financial perspectives are all the more attractive because the warming of the planet leads to increased climatic variability. The multiplication of extreme phenomena, in particular, can only encourage enterprises to ensure themselves against such and such a phenomenon. Now, when you

say more climatic insurance, you are saying more weather derivatives, therefore more profit for the financial market.

The title of the article from which this information comes should take its place in an anthology of market stupidity: "letting nature run its course, and making money from it". That is a very concrete example of the way in which competition leads to judgments which are opposed to simple common sense, and even to the instinct for survival. Or, to quote Karl Marx: "From the viewpoint of competition, everything appears thus distorted and turned topsy-turvy." (Marx, *Capital*, Vol. 3.) Source: *New York Times*, August 15, 2003.

## Notes

1. EEA ( European Environment Agency) Report, No. 8/2005, p.9.
2. These three mechanisms are the "Clean Development Mechanism (CDM), the "Joint Implementation (JI)" and "Emission trading".
3. The expression "Russian hot air" designates the mass of emission rights attributed to Russia and eth Ukraine because of the fact that the reference year for Kyoto is 1990, just before the economic collapse of the former Soviet Union. See Daniel Tanuro, "A new phase of the climate poker game", <http://www.europe-solidaire.org/spip.php?article1323>.
4. The European Commission and The Economist, 9 September 2006.
5. Estimates of the length of time of geological sequestration vary widely. Sequestration for several centuries seems possible if the sites are well chosen for their sealing. Sequestration in the oceans must be ruled out for ecological reasons (acidification).
6. This notion of "complement" gives rise to different interpretations, the American negotiators considering that 90 per cent is the complement of 10 per cent.
7. Madrid is the worst student in the European class: its emissions in 2008-2012 could be 33.7 per cent higher than the level of 1990, instead of the 15 per cent higher intended by the EU, and the bill could reach 5 points of GDP. The employers' federation CEOE has demanded a renegotiation of the quotas.
8. <http://www.eceee.org>.
9. Depending on the models, the rise in temperature would be between +1 degrees Celsius and +3.8 degrees Celsius for 450 ppmv, and between +1.4 degrees and +4.6 degrees for 550 ppmv.
10. Stern Review, p. 247.
11. Stern Review, pp. 94-95.
12. Figure from SIPRI, Stockholm.
13. These 50 per cent of reductions from the North "delocalized" to the South correspond to an estimate of the European Environmental Agency, according to which the EU will only be able to reduce its emissions by 40 per cent in 2030 by buying half of it in the form of rights (EEA Report, No. 7, p. 12).
14. The passage in the report on the reductions of emissions in the energy sector was written by



Professor Dennis Anderson, former Chief Economist at Shell. As if by chance, he only advocates reducing the emissions of this sector from 24 to 18Gt between now and 2050.

15. Stern Review, p. 325.

16. Stern Review, p. 395.

17. WWF Communique, 9/11/2006.

18. The French Socialist Party believed it could 'note with interest that the measures of economic policy proposed by Nicholas Stern are not confined to just the instruments that are compatible with the laws of the market, and that he clearly envisages constraining regulations, such as taxes' (Communique of the National Bureau, 31/10/2006).

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**P.S.**

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\* Daniel Tanuro is an environmentalist and the ecological correspondent of the newspaper of the Socialist Workers Party (POS/SAP, Belgian section of the Fourth International), "La Gauche".