Shaping Climate Cooperation in a More Contested World by Ki Young Park

A few comments

Stephane Hallegatte, Chief Climate Economist, World Bank Group

This excellent paper makes important and valid points on the need to look beyond UNFCCC, and the value of climate clubs

On the main narrative, I'm in full agreement:

- "Formal institutions such as the UNFCCC can help set goals and keep climate issues on the political agenda, but they seldom reshape the deeper technological and economic forces that drive emissions."
- "The institutional center of gravity in climate policy should shift away from the UNFCCC toward organizations capable of reshaping the global economy itself."
- "In a more fragmented geopolitical environment, such adaptive mechanisms [climate clubs] may be better suited to balancing ambition with feasibility and to aligning national incentives with the collective good."

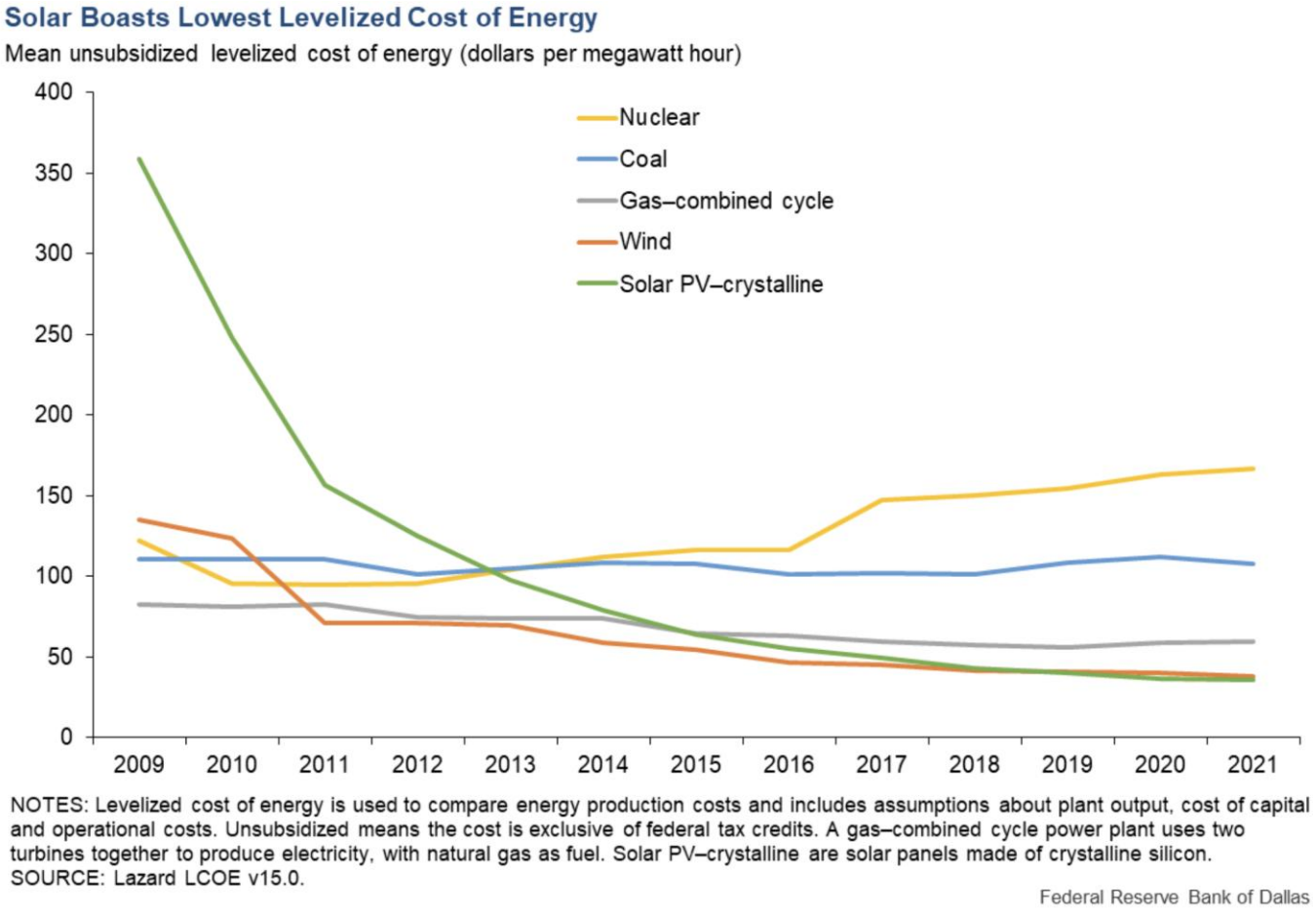
But I will focus on where I have a different view or emphasis.

The key obstacle: is it really the global public goods nature of climate change?

- “This inclusive form of multilateralism has found it hard to overcome the basic free-rider problem associated with the global public-good nature of climate stability.”

- Before 2015, climate policies was a typical “global public goods” problem, but it is not any more.

- (Most of the references on mitigation cost are pre-2015 in the paper: Barret 2005, Nordhaus 2013, etc.)



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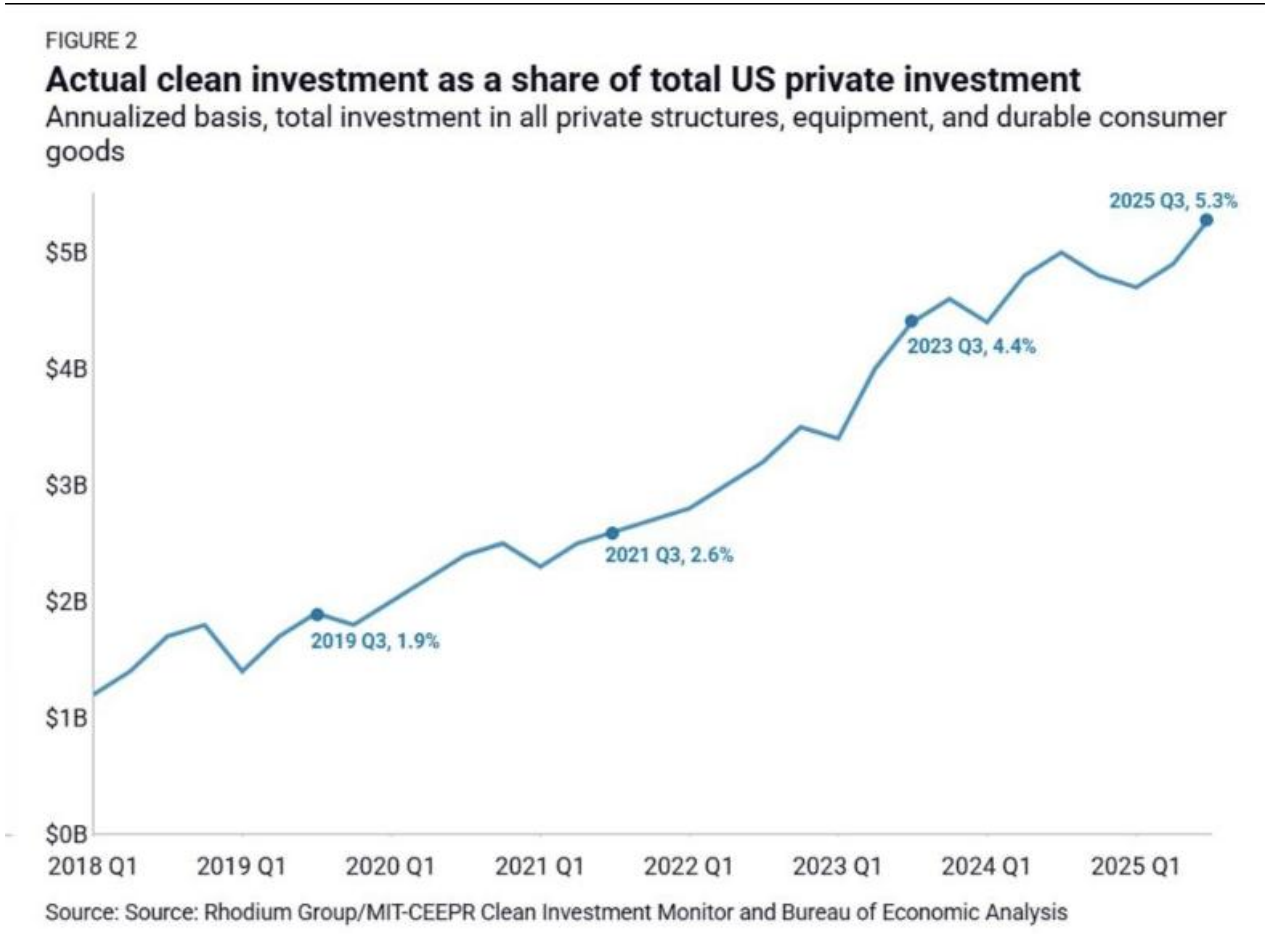


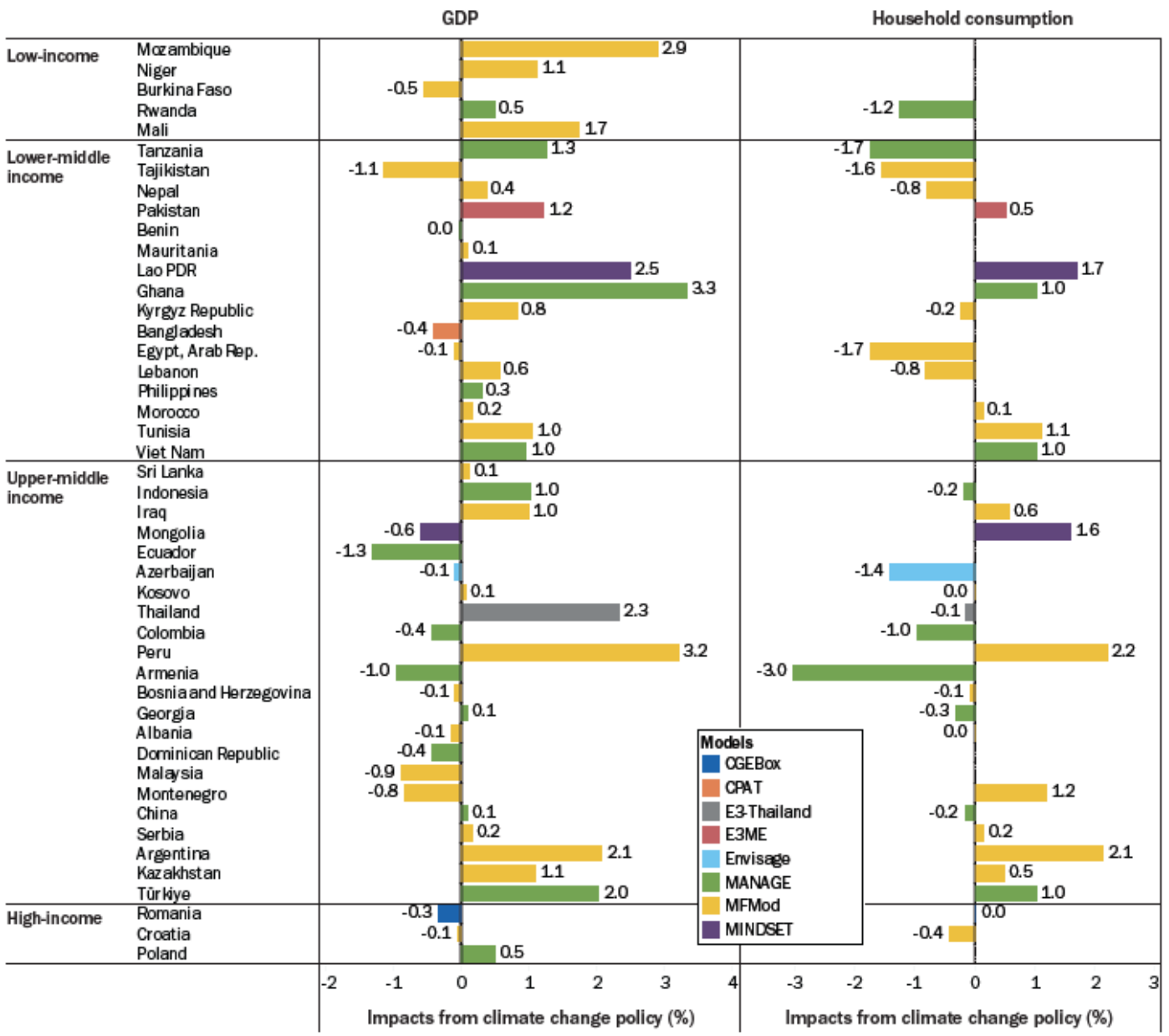
Economic growth can be similar or even faster in low-emissions development scenarios, <u>but only if:</u>

Countries, firms, and people can **finance** economically-desirable projects

Countries, firms, and people can **access green technologies** at lowest cost

Countries can navigate the **political economy** of changes.

Impacts of low-emission development pathways on GDP by 2030, compared with the reference scenario, by country income class and per capita income



Source: World Bank Country Climate and Development Reports

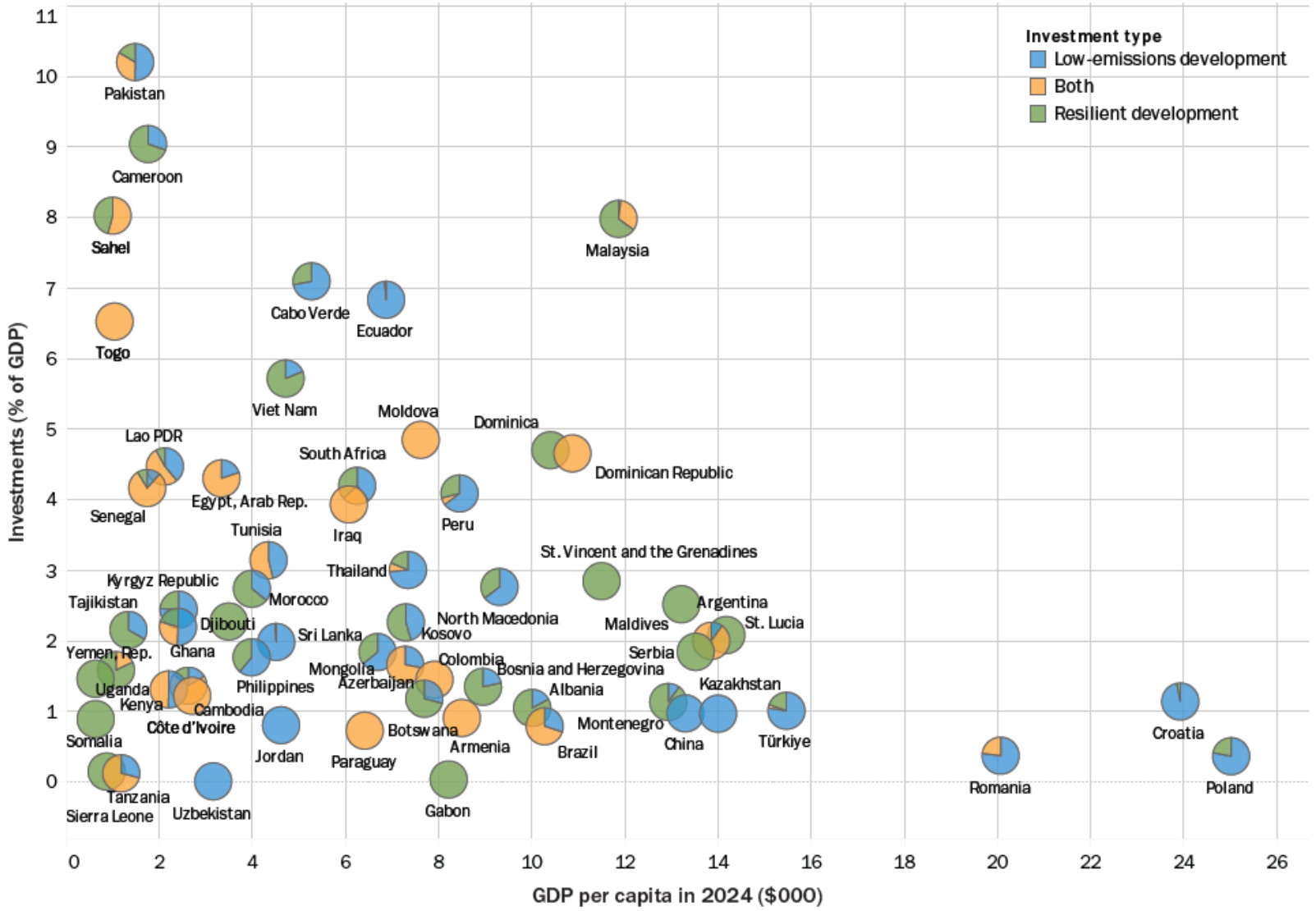
If not the incentive, what are the key barriers? What do countries need from the international community?

- Provide a **clear direction to travel** to provide investors with a predictable regulatory landscape
  - UNFCCC + Long-term strategy + National climate change framework laws
- Facilitate **access to sovereign finance** for low- and middle-income countries, which are often in or close to debt crisis.
  - MDBs, IMFs, FICs, bilateral agencies, etc.
- Facilitate **international private finance flows** to the private sector in low- and middle-income countries
  - MDBs, FSBs, Central Banks, etc.
- Facilitate **access to green technologies**
  - Technology transfers
  - Trade and tariffs, standardization, WTO, ISO, others
- **Support to the most vulnerable countries**, either to climate impacts (e.g., Sahel, Bangladesh, small islands) or to global green transition (Iraq, Timor-Leste, Colombia, etc.)

On finance: solutions for sovereign and private actors, especially to increase investment in (green and resilient) infrastructure

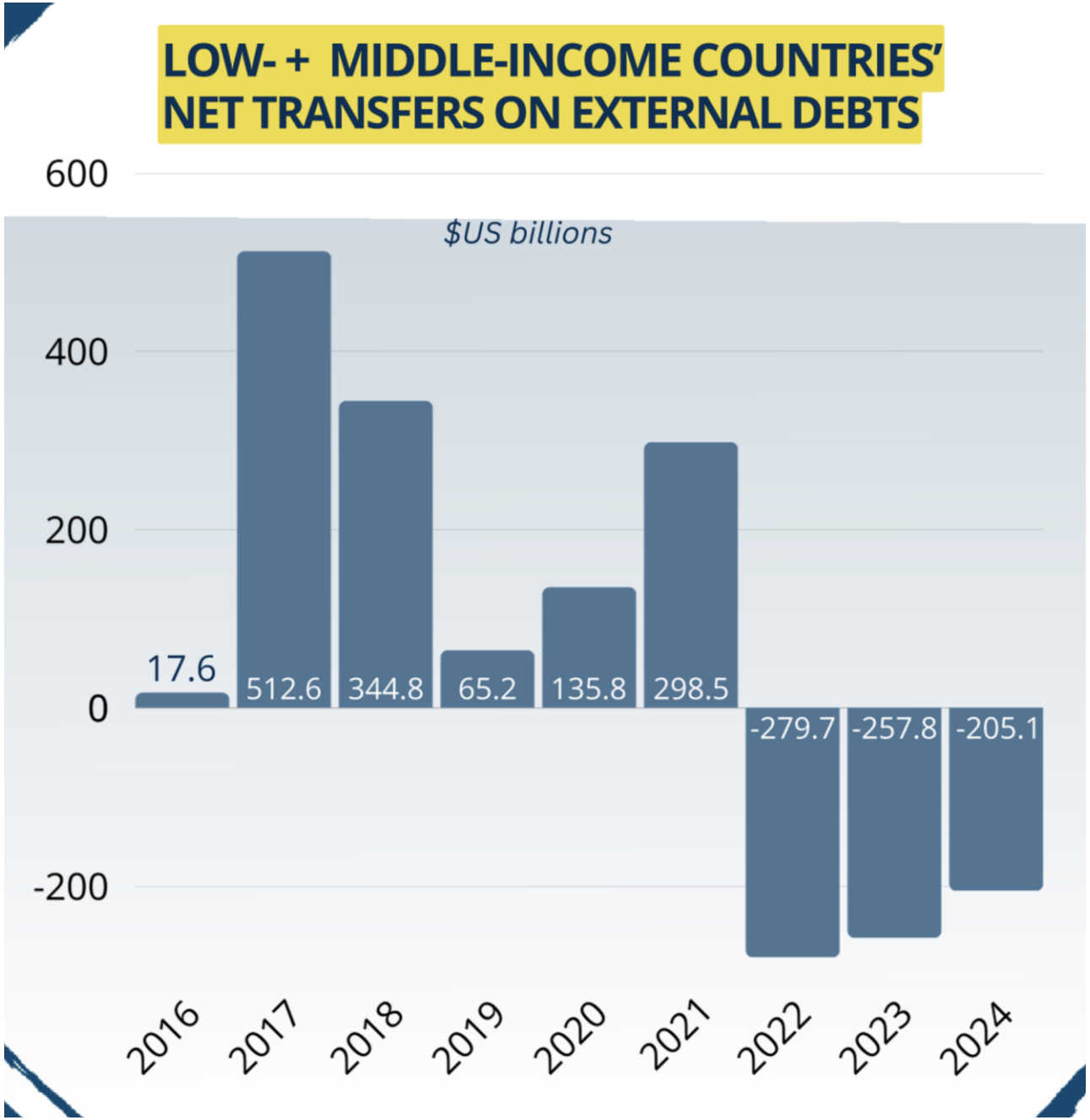
Around 50-60% of these investments expected to come from the public sector

Increase in annual investment by 2030 in CCDR countries' resilient low-emission pathways



On finance: solutions for sovereign and private actors, especially to increase investment in (green and resilient) infrastructure

I was surprised that the paper does not discuss the role of international financial institutions, like multilateral development banks, IMF, or FSB



On technology and trade: how to benefit from low cost while maintaining resilience and fair distribution of jobs and income?

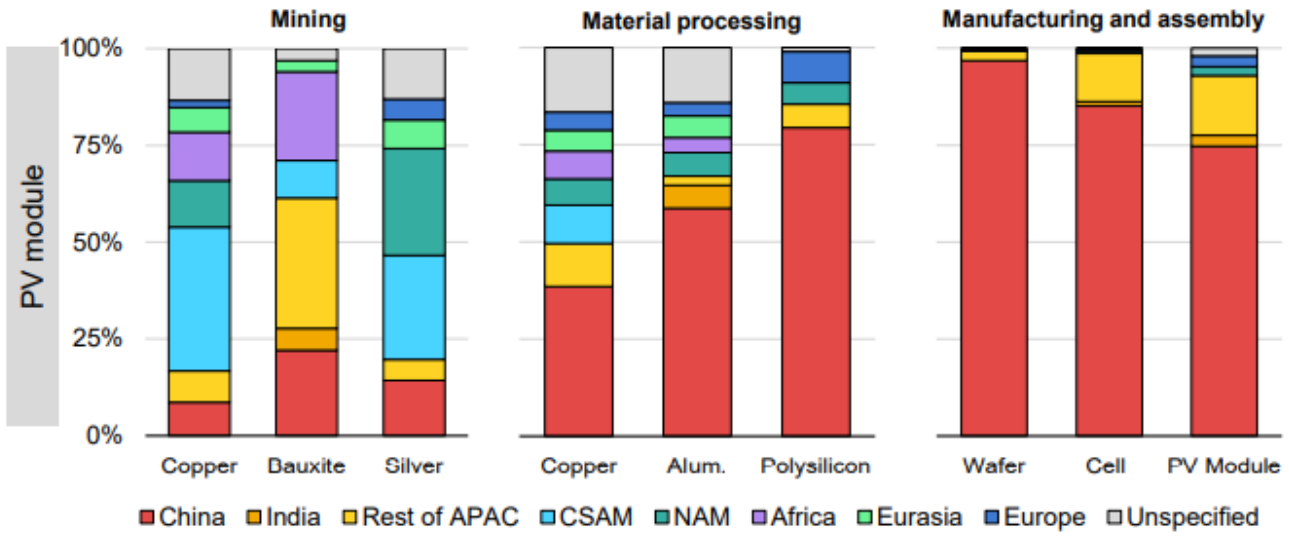
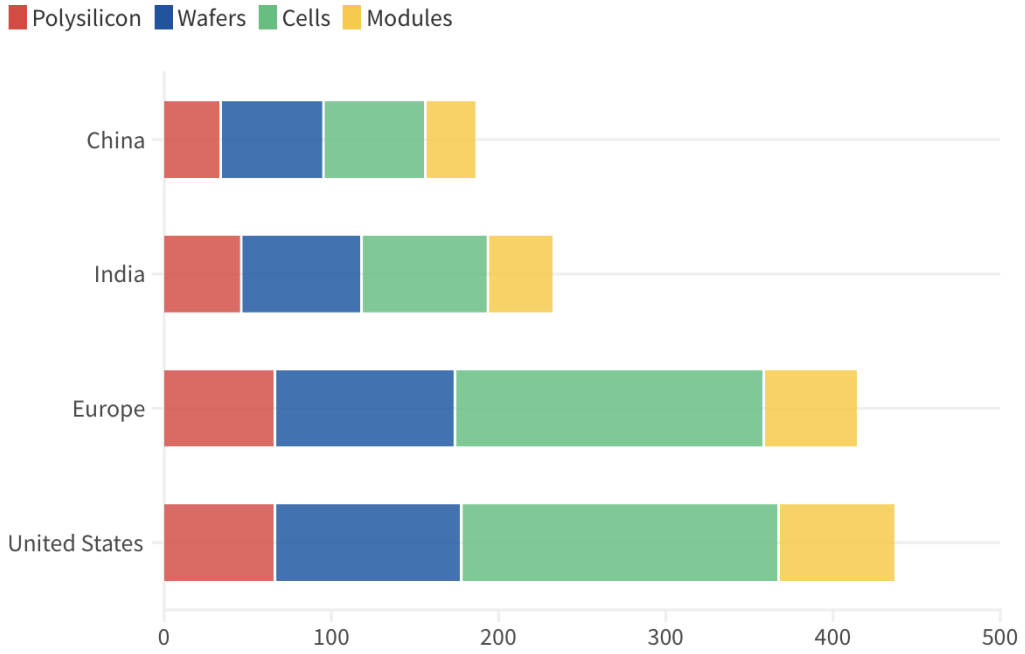


Figure 4: Estimated Overnight Unit Capital Costs for Solar PV Technology Manufacturing Facilities in Select Countries/Regions, 2023

USD/kW



Source: International Energy Agency: Advancing Clean Technology Manufacturing

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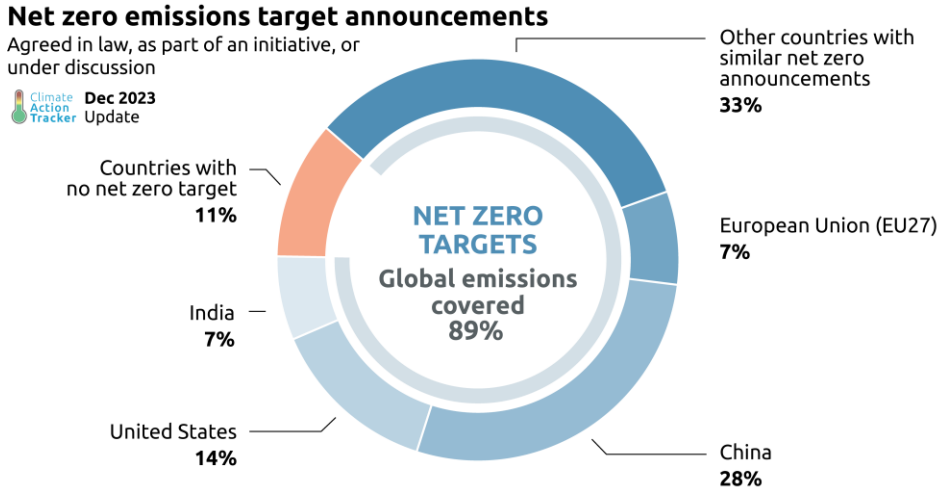
These obstacles are not ignored in the paper! It's a question of emphasis on what are the key obstacles.

- "Taken together, these shifts suggest that climate cooperation is now tightly constrained by concerns over energy security, **technological competition**, and **fiscal capacity.**"
- "Third, a serious strategy needs to concentrate on **transformative technologies** that can deliver deep decarbonization."
- "Even the most carefully crafted climate club will fail if **low-carbon technologies** remain prohibitively expensive or if countries lack access to the finance needed for transition."
- "The **political economy** of climate policy adds another layer of difficulty."

- I agree for technological competition and fiscal capacity.
- (But energy security has reinforced, more than constrained, climate action.)

I have a different view on what the Paris Agreement was meant to achieve

- **The Paris Agreement is not trying to create hard incentives for countries to reduce emissions or internalize the global externality (like Kyoto tried to do). Instead it tries to provide:**
- **A clear direction of travel** to promote investment in green technologies and different technological choices for long-lived assets
  - EU Fit-for-55, with clear challenges today (e.g., ICE ban)
  - This is connected to the paper's discussion on international arbitration (predictability for investors)

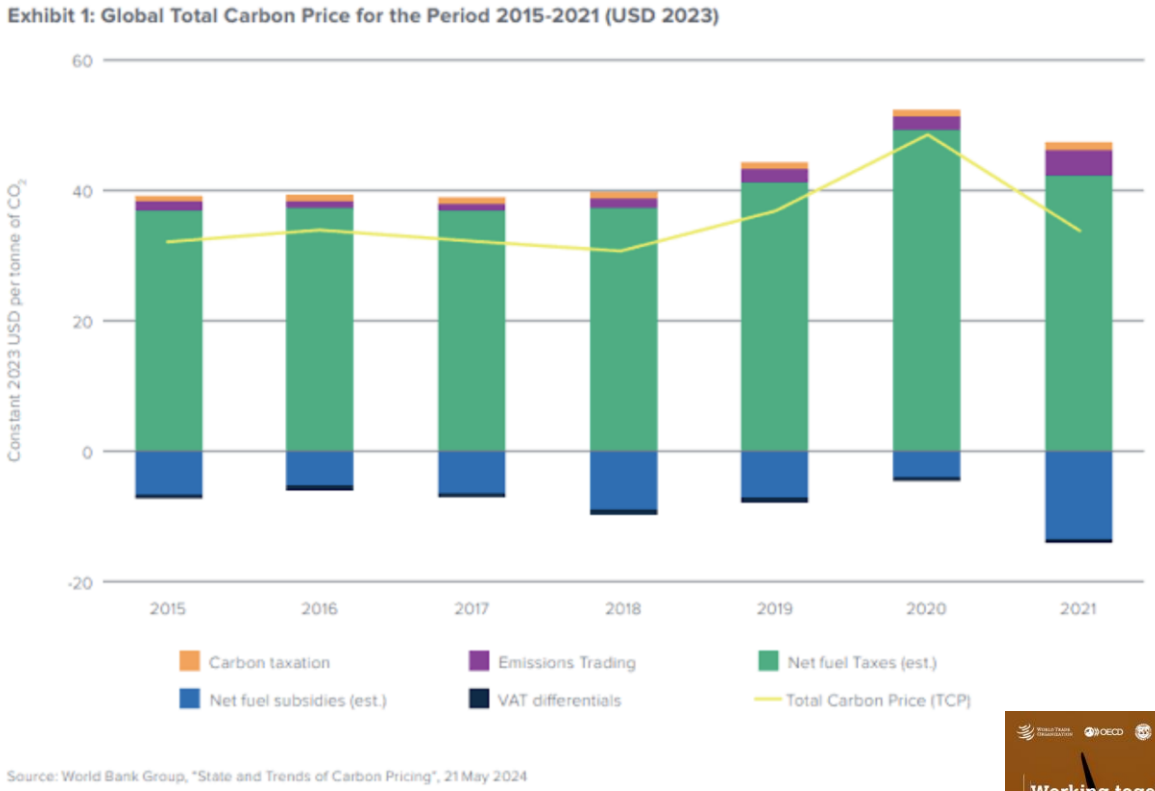


- **A framework in which the subset of countries ready to move faster can do it**, to develop the technologies, reduce their costs thanks to economies of scale, experiment on the policies, and demonstrate the feasibility
  - Example of China – energy security, technology leapfrogging
  - Example of Morocco, Brazil or Gulf countries – building on comparative advantage on renewable power
  - Europe – population demand for action, and energy security

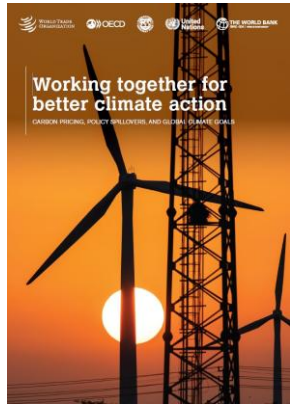
- The **Paris Agreement is not only about emission targets**: the two other objectives are (1) adaptation; (2) aligning financial flows. Big challenges in these areas too.

I agree on the important role of climate clubs, but not necessarily on carbon pricing: technology, finance, trade

- The paper highlights multiple climate clubs, or options to do so, mostly focused on carbon pricing.
- I think we went beyond "*Economists generally agree that a broadly applied carbon price would be the most cost-effective way to reduce emissions.*" Climate pricing part of the ideal policy package, but not THE policy.
- If the incentive is not the key issue, but resources are, then we need **climate clubs for technologies, trade, and finance**.
- (I would also question the enforceability of price-based carbon clubs, it's more complicated than it looks.)



Source: World Bank Group, "State and Trends of Carbon Pricing", 21 May 2024



In conclusion: Is careful optimism reasonable?

- A structural change in the global economy is unlikely to happen as a smooth, straight line.
- Increase in climate policy uncertainty may be a early signal of that change?

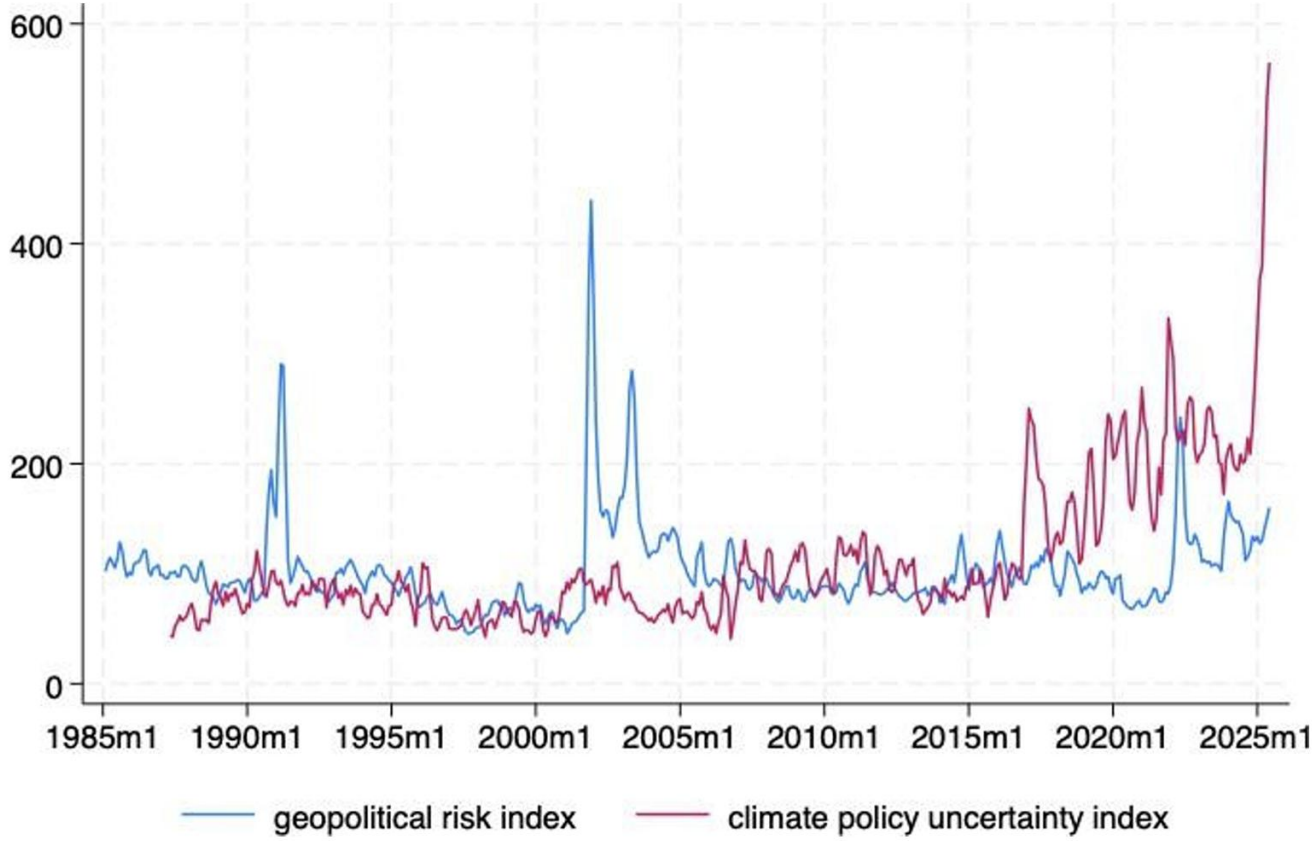


Figure 1: Trends of geopolitical risk index and climate policy uncertainty index

Source: Caldara and Iacoviello (2022), Gavriilidis (2021)

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