

Comments by Benito Müller<sup>1</sup> for the 27-28 April 2008 meeting of the



## OECD Round Table on Sustainable Development

### *Mobilising Investments in Low Carbon Energy Technologies*

held at the OECD Headquarters, Château de la Muette, Paris.

The background paper written for this meeting<sup>2</sup> provides an excellent overview of some of the problems involved in trying to mobilise sufficient technology investment to tackle the climate change mitigation challenge. For the sake of brevity, I would just like to raise two points which I believe need to be addressed.

#### **1. The need to consider innovative forms of North/South collaboration not necessarily based on emission trading**

The stated overall aim of the paper is to investigate the possibilities of mobilising finance for technology investments at the level needed to generate the required global greenhouse gas emissions reductions. And there is no doubt that, if properly designed, emission trading mechanisms – including project based instruments such as the CDM – cannot only contribute to this end, but also do so in a manner consistent with the well-known differentiated responsibilities and respective capacities, enshrined in the principles of the UNFCCC.

However, emission trading is by no means the only way to mobilise finance for this purpose. Nor is ODA-type bilateral finance the only alternative, as comes across in the paper. There are numerous different modes of ‘innovative financing’ currently under discussion – some of which related to emission trading, others not – which the paper fails to touch upon. Indeed, when the paper speaks of ‘policy options’ (such as in the sub-heading in the section on “How could sufficient investments be mobilised to fill the financing gap?”), it really is only concerned with emission trading scenarios. And no matter how diverse they can be, they do *not* cover the full spectrum of genuine options in this context.

Moreover, while there are variations of such trading mechanisms with consequences that – as mentioned above – are mostly consistent with the demands of the over-arching principle of common but differentiated responsibilities, the sort of legally binding global trading regime put forward by the authors as optimal solution fails, in my mind, to reflect a fundamental distinction between the problem of OECD/Annex II and that of developing country/non-Annex I emissions; a distinction which – as the recent negotiations in Bali have shown – has to be made if we are to have any progress on reducing global emissions at all.

Given the pattern of historic responsibilities and respective capabilities, it is right to see the reduction of emissions in a developed country ultimately as the responsibility/duty of that country, and no-one else. Reducing developing country emission, by contrast, really has to be seen as a matter of a joint duty between the industrialised ‘North’, and the developing

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<sup>2</sup> Richard Doornbosch, Dolf Gielen and Paul Koutstaal, “Mobilising Investments in Low-Emission Energy Technologies on the Scale Needed to Reduce the Risks of Climate Change”, OECD (*forthcoming*);

‘South.’ Indeed, this is the very essence of the differential treatment of developed and developing country mitigation in the Bali Road Map (as characterised in Paragraphs 1.b.i and 1/b/ii, respectively).

The problem with legally binding emission caps/commitments *per se* in this context is that they are simply unable to reflect this sort of joint responsibility/duty: a failure to comply under such a trading regime is a failure of the country in question, and not a failure of North-South collaboration. Taking these points fully on board would probably involve too much of a revision of the paper, but I would again strongly recommend that it acknowledges its limitation of scope in this respect, particularly since there are, I believe, potential alternative modes of North/South cooperation that actually do reflect these patterns of responsibility, over and above the traditional ODA model. As a matter of fact, I have come here directly from an OIES/IEEE<sup>3</sup> project meeting in Beijing to consider not only possible ways of enhancing the CDM, but also ways in which the idea of joint responsibility could be implemented in the absence of generating offsets – indeed in the absence of carbon incentives – through large scale intergovernmental ‘joint ventures’.

## 2. The problem with “shares” in emission growth

My second observation may seem to be about a presentational detail, but because of its extreme political sensitivity it needs to be rectified. In several places, the paper refers to the share of developing countries in general, and of India and China in particular, in the global emission growth. (“More than 75% of the global growth in CO<sub>2</sub> emissions will be in developing countries, with more than 50% in China and India alone.”[p.5])

The problem with this sort of statements is that they can be misleading in at least two ways. For one, the use of percentages suggests certain implications which are simply not necessarily true. Thus, from the fact that 75% of the emission growth will be in developing countries, it does *not* follow that individual developed countries cannot have a share greater than 25%. The root of the problem is that growth increments can also involve negative growth. Take the case where at the outset someone, say *A*, emits 100 units, someone else (*B* and *C*) 10 units each. Over the period, *A* and *B* increase their emissions by 5 units, while *C* reduces his by 5 units, leaving a total emission growth of 5 units. To say then that *B* is responsible for 100% of the emission growth over the period is not to say that none of the others increased their emissions, for the same is true for *A*, i.e. *both A and B* are responsible for 100% of the emission growth during the period.

Apart from demonstrating the counter-intuitive use of the notion of a ‘(percentage) share’, the example also exhibits another way in which this type of simple increment statements can be highly misleading, namely in suggesting that the size of the relative growth allows one to identify where the problem lies. After all, the situation at the end of the period in our little example would have been: *A* = 105, *B* = 15, *C* = 5. To state that “100 % of the growth of emissions are in *B*” is clearly liable to misinterpretation as to the real levels of responsibility for the problem, and I strongly recommend that all references to such *shares in emission growth* be removed from the paper for it not to appear as tendentious.

To be fair, it must be said that the authors are by no means the only ones to use this sort of potentially misleading phraseology. Indeed I have made the same point against the US EIA claim that “developing countries alone account for 81 percent of the projected increment in carbon dioxide emissions between 1990 and 2010”<sup>4</sup> as long back as 2001 in a study<sup>5</sup> written in response to the near break-down of the UN climate negotiations at The Hague in late 2000 and the repudiation of the Kyoto Protocol by President Bush in early 2001. But since we are back at a critical juncture in the negotiations, I felt it right to resurrect the point in this context.

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<sup>4</sup> EIA/DOE, *International Energy Outlook*, 2001, 2001:6.

<sup>5</sup> Benito Müller, Axel Michaelova, and Christiaan Vrolijk, *Rejecting Kyoto: A Study of Proposed Alternatives to the Kyoto Protocol*, Climate Strategies 2001