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Are Treasuries killing the climate deal?

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There is a grave danger that in December, world leaders will gather in Copenhagen to decide on a new global climate change regime, only to find its chances effectively wrecked by the treasuries and finance ministries of the rich developed world.

There are a number of potential deal breakers in these negotiations. One of them is the fact that developing countries will no longer let themselves be sidelined. In the past, developing countries have been brought on board by promises of financial support. But all they got was the creation of a couple of funds that subsequently stayed more or less empty. This has not gone unnoticed, and it is clear that at Copenhagen, developing countries will not settle for more 'placebo funds'.

The global sums required are of the order of current global foreign aid (ODA), itself less than what is being spent on the war in Iraq. The UK, for example, would not be expected to cover more than 6 percent of this, which would make it of the order of revenue collected from UK electricity suppliers and earmarked for redistribution to them in the form of a 'recycled green premium' (as part of a scheme known as 'Renewables Obligation').

The sums in question are significant − particularly relative to what has previously been on offer to support developing countries in their fight against climate change − but they would not be crippling to developed countries. It is true that in times of economic hardship, treasuries find it more difficult to transfer tax payers' money abroad, no matter how good and worthwhile the cause. But there are ways in which this domestic revenue problem can be overcome.

Of course, finance ministries would be at a better starting point, if their governments had not agreed to give away so many emission permits for free − as the EU decided to continue to do when it reformed its Emission Trading Scheme last December, and as the US Congress now looks to follow suit. Even so, some of whatever permit auction revenue remains available to national treasuries could be earmarked to support developing countries. This is what the European Commission and European Parliament proposed, but they were largely overruled by EU finance ministries on the ground that earmarking (or hypothecation) is bad fiscal policy.

This is curious, because earmarking of revenue streams is actually quite common despite these fiscal purity objections. The trick has been to declare these revenues 'off budget', as has happened in the context of social security, national lotteries, and environmental degradation/compensation (UK Renewables Obligation). There is no reason why the same could not be done in the case of ETS auctioning, with the revenue flowing into domestic *off budget ETS Trust Funds.*

There have been alternative 'innovative financing' proposals that would bypass national treasuries altogether. The Norwegian government has put forward the idea of retaining a number of emission permits at the international level in order to auction them internationally and to distribute the proceeds directly to developing countries. Another proposal by the Group of Least Developed Countries envisages a passenger levy for international air travel, again levied internationally and distributed to poorer countries. These two instruments could cover a significant proportion of the financial underpinning for developing countries in a new climate deal. Naturally, these proposals have not gone down well with finance ministries − they may argue against earmarking on grounds of fiscal purity, but for 'fiscal purity' read 'fiscal possessiveness'.

If there is to be a deal in Copenhagen, something will have to give − and it must be the rich countries' finance ministries. We will have to find the money required to support developing countries in mitigating their emissions and adapting to the impacts of climate change. We will have to make use of all available tools and instruments. The sooner this is realized, the better. Or will we have to admit to our grandchildren that while we were aiming for less than 2 degrees warming, our treasuries insisted they could only afford 4?