Quid pro CO2: The Era of Carbon Conditionality

https://www.e-ir.info/2010/12/06/quid-pro-co2-the-era-of-carbon-conditionality/

ANDREW STOBO SNIDERMAN, DEC 6 2010

A new wave of aid and trade conditionality has arrived. In the 1950s, 1960s and 1970s, the West conditioned its support to developing countries on anti-communism, real or imagined. Then came the structural adjustments programmes and trade liberalization demands of the 1980s. The 1990s saw funding tied to democratization. Curse the Soviets, cut state subsidies, organize elections: these were the best ways for a poor country to secure aid. In each period, the West levered its money and power to dictate policy abroad.

We are now in the early stages of the era of carbon conditionality. First aid, then trade, will depend on greenhouse gas reductions. The West will reward developing countries that reduce their emissions and punish those that do not. The trouble is simple and fundamental: the vast majority of developing countries remain more concerned with poverty than climate change.

A quarrel last spring over a World Bank loan to South Africa suggests a shift in the priorities of existing development assistance. Donors will increasingly fund low carbon development and deny money for carbon-intensive projects like coal plants. South Africa had requested a US $3 billion World Bank loan to finance a coal-powered plant that will pump 25 million tonnes of carbon dioxide per year into the atmosphere. South Africa ultimately received the loan after a rare public dispute with the World Bank, but without the support of the US, the UK, the Netherlands, Italy and Norway. The US Treasury Department released a statement saying: “We expect that the World Bank will not bring forward similar coal projects from middle-income countries in the future without a plan to ensure there is no net increase in GHGs.” This episode augurs protracted tensions between emissions-minded donors and development-minded recipients.

Existing aid priorities are shifting, and some new aid is explicitly emissions-focused. At the UN climate change summit at Copenhagen in December of last year, wealthy countries pledged US $30 billion in ‘new and additional’ aid from 2010 to 2012, and up to US $100 billion per year by 2020. Shortly after the summit, a senior European official said of the promised financing: “It is not money for free, it is money that comes with an outcome where everyone is making an effort.” The financing *quid* arrives in exchange for an emissions reductions *quo*. The promised billions will help fund greener development, including renewable energy, energy efficiency and forest protection.

In the grand scheme of economic development, however, even US $100 billion a year cannot dictate the shape of the future. This sum will surely not finance a seamless shift to low carbon economies in developing countries, which will cost trillions of dollars. The carrot is substantial, but still relatively small.

Thus the looming stick. Nicholas Stern, august British economist and author of the *Stern Report on Climate Change*, recently said: “Ten or 15 years from now, those that produce in dirty ways are likely to face trade barriers.” The EU, committed to 20 percent cuts by 2020, has mused openly and for some time about restrictions on carbon-intensive imports. Formidable political coalitions of environmentalists and protectionists could bring these changes.

In sum, the pot of conditional aid will grow over time, along with a credible threat of conditional trade. Developing countries will undoubtedly resent this conditionality, possibly even decrying a new age of so-called ‘carbon colonialism.’

 ISSN 2053-8626

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It is ironic – though understandable – that most of the countries slated to suffer the worst consequences of climate change prioritize emissions reductions the least. The unfavourable geography and lower adaptive capacity of the developing world means that climate change will hurt it first and worst. Yet local poverty still largely eclipses global climate change on their agendas, and they insist that wealthy emitters pay both first and most. (There are exceptions, of course, including the commitment by the Maldives to become carbon neutral).

A transition to a low carbon economy will be expensive, and poor countries are the least well placed to absorb this cost. Some claim that it may be possible for certain developing countries to avoid dirty development altogether, in the same way that they skipped landlines in favour of cell phones, with no cost to economic growth.

This is false on two counts. First, green development remains more costly development, at least for the time being. Renewable energy is good for the global climate, but it cannot yet match fossil fuel-driven growth. Second, a shift to low-carbon development entails opportunity costs in the short- and medium-term. Even if the West were to fund all of the costs of new low-carbon energy infrastructure, which it certainly will not, this would still entail comparative disadvantages with competing oil-based economies. It would cost comparatively more to run a green economy, even if donors were to put the requisite infrastructure in place. Put differently: not only are electric cars expensive, but they also go slower.

Consider the case of Bangladesh. Bangladesh is a low-lying coastal country suffering from extreme weather linked to climate change. Bangladesh has a horrific history of natural disasters, including floods and cyclones that have killed some 200,000 people and caused billions of dollars in damage in the last three decades. Prime Minister Bismillahir Rahmanir Rahim said in 2002 that, “while for some countries, the impacts [of climate change] might be lifestyle threatening, for others it is life threatening.” Bangladesh has one of the lowest per-capita emissions in the world, some 0.29 tonnes per year per Bangladeshi, as compared with 18.81 tonnes per year per Canadian, and despite its large population of 175 million, today it emits less than a fifth of one percent of the world’s total emissions.

In a country of 180 million souls, 100 million lack access to electricity. Its government wants to increase energy output and energy access at the cheapest cost to its limited budget. As one Bangladeshi engineering professor and World Bank consultant put it to me, “The only problem with sustainable development is that no one wants it if it means lower economic growth rates for poor economies.” Dirty development produces more energy output in the short-term.

The Bangladeshi government welcomes aid to deal with climate change. But it wants aid to help it *adapt* to climate change, not to reduce its emissions. Its own investments in the energy sector, unsurprisingly, develop fossil fuels.

Of course, a circumscribed discussion on economic growth ignores the hidden costs, or externalities, of fossil fuel usage. Nicholas Stern has argued that investments in low carbon growth will pay off in the long-term, while business-as-usual development will lead to catastrophic climate change. This is why wealthy countries are increasingly choosing to absorb the costs of a shift to low carbon development. Their wealth gives them the flexibility to bear the transition costs. A poor country remains unlikely to choose to do so, and the West will not do it all for them. However, the West may demand the costly changes nonetheless.

The prospect of carbon conditionality is especially galling to poor countries because many wealthy countries are failing to significantly curtail their own emissions. Moreover, these same wealthy countries are responsible for the majority of historical emissions. Poor countries will feel like infantry in a war waged by hypocritical generals.

Perhaps the most problematic forms of carbon conditionality – ones that impose onerous costs on the world’s poorest – will not materialize. After all, the West has not yet made an ironclad political commitment to global emissions reductions, much less domestic ones. Still, wealthy countries may yet make reducing global emissions a core priority of their foreign policies, especially if a global climate treaty fails to materialize. Providing a global good can require enforcers to pressure recalcitrant nations, with or without universal consent.

This new conditionality is likely to occur in the near future mainly because it is a *necessary* conditionality. Without external pressure on developing countries, justly or unjustly applied, global carbon emissions will not be reduced in amounts necessary to avert catastrophic climate change. In 20 years, 70 percent of global emissions will spew from developing countries. Somehow a global tragedy of the commons must be avoided.

And yet effective conditionality requires differentials in power. In the 1980s, many African governments heeded the IMF's calls to slash state budgets because they had little choice. They accepted conditions because they needed loans.

This leads us to the central paradox of carbon conditionality, and to its limits. The West has the greatest leverage over the lowest emitters. The countries that rely most on Western aid are not responsible for a high proportion of global emissions. One must distinguish between low-income and middle-income developing countries. Perhaps Bangladesh and Kenya will green their development to please their donors, but what of India and China? It will be difficult to twist the arms of emerging giants. It grows harder to manufacture consent in an increasingly multipolar world. Moreover, Chinese aid and investment are an increasingly viable alternative for poorer countries that resent onerous demands of the West. Finally, would the West really risk trade with some of its largest trading partners?

A global emissions effort cannot succeed without the cooperation of emerging economies like Brazil, India and China. Faced with carbon conditionality, they could just say no. They might even have conditions of their own.

At Copenhagen in December 2009, during the much-hyped leaders' summit to negotiate a global climate change deal, American hypocrisy met Chinese obstructionism. Americans demanded emissions reductions without a credible plan at home. According to most reports, the Chinese stripped the Copenhagen Accord of much of its early ambition, including seemingly distant commitments to 2050.

The West plans carbon conditionality. The rest expect reciprocity, and some countries will be in a position to demand it.

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