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Financing Adjustments to Climate Change

Responses to the global banking crisis demonstrate that really serious losses and systemic costs are borne by governments. Thus it will prove with the bulk of the transitional costs of climate change. Albeit appropriately, are driven by government insistence on action.

While this is the logical conclusion, industry needs to remain mindful that transitional funding rules to address climate change still have to be negotiated both domestically and internationally.

Internationally, as the next full round of United Nations climate change negotiations draws near (Poland in December), the international business community continues to express concern.

Industry can expect to hear criticism that measures to reduce harmful climate change by forced action like emissions caps and costs are being introduced more rapidly than the schemes to encourage and support reductions. A potentially costly imbalance.

The problem is that for developed countries like Australia, current policy settings net out to a carbon balance sheet long on liabilities but short on assets. For example, the massive amount of carbon stored in wood products cannot be counted as assets, but emissions from harvesting that creates those wood products are counted as liabilities.

There are many such anomalies and along with many governments, the international business community will argue strongly that the carbon balance sheet must be accurate.

On emissions reductions, developed countries will argue that developing countries, especially China and India, must make commitments before developed countries will make larger commitments.



One measure under discussion now is whether 'sectoral arrangements' can be used to reduce emissions and maintain existing investments. Sectors where there is high capital concentration – including pulp and paper – may be able to reach agreements to reduce emissions by cooperative action within the sector. Serious issues remain to be resolved, including information levels and financial mechanisms.

At a recent meeting of the International Chamber of Commerce and the United Nations in Paris, participant consensus was that sectoral arrangements are likely to have only in principle global support by the end of 2009.

However, for sectors concerned about 'leakage' of capital and jobs from developed to developing economies, Sector Arrangements may be a solution.

On financial issues in general, funding to assist sustainable, low emissions development will not flow to developing countries unless they make real emissions reduction commitments. This is the big issue for the Poland negotiations.

Overall, the policy complexity for Australian policy makers is demonstrated by the following.

- If countries like Australia have domestic emissions reduction programs that reduce marginal investment efficiency, then investment, jobs and economic prosperity will move off shore. So, international agreement is needed to ameliorate these effects.

But

- If countries like Australia pay too much for too little emissions reduction (or worse, for none) from developing countries, then the same domestic effects arise. So, domestic policy flexibility is critical until the international rules are locked away.

The wash up is that the Australian government has correctly determined to settle its domestic policy outcomes only when it knows the shape of the international agreements.

Some comfort for businesses and the population, but there is hardly certainty yet.



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