Seizing a moment of opportunity after Trump's withdrawal

Καιρον αρπαζοντων!

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Trump's withdrawal is more than an unfortunate parenthesis

- Remember ***the lost decade 'COP6 -> COP15*** after $Bush_{jr}$'s withdrawal from the KP
  - ***Times had changed but not the paradigm*** of climate change economics and policies
  - From 'negotiating targets' to ***« fair » sharing of the remains of a limited carbon budget***
  - Climate centric policy tools ***helpless to unty the climate/development Gordian Knot***
  - Focus on carbon pricing and ***paradoxical ignorance of a key dimension of capitalism: finance***,
  - A ***chaste veil*** on the 2008 ***financial crisis*** and on the ***changing world balance of economic powers***
- Trump's withdrawal is a symptom of the intra and inter national tensions; there are few 'silent Trumps' amongst governments leaders
- Pressed by urgent demands ***climate resignated are tempted to postpone action***
- Waiting Cancun (COP16) for a ***paradigm shift (equitable access to low carbon development)*** and COP21 for a ***framework for action*** …

Motivate and help the climate resignated to seize the Καιρος

- ***Start from the short term world tensions***: nationalistic drifts embarking the discontents of the globalization, fear of migrations, exacerbated unequalities …
- ***Explain why climate action as a lever to reducing the 'fault lines' of the world economy*** (R. Rajan)
  - The gap between propensity to save and propensity to invest -> risks of secular stagnation (
  - The fragility of the financial intermediation system (generalized tragedy of the horizons)
  - Too export dependent development strategy in developing countries after the Asian Crisis
  - A large funding gap on infrastructures (IMF)
  - the traps of quantitative easing and of 'growth austerity'
- ***Indicate where is the 'fulcrum' for this lever …. To 'lift the word' if they want to be the new Archimedes***

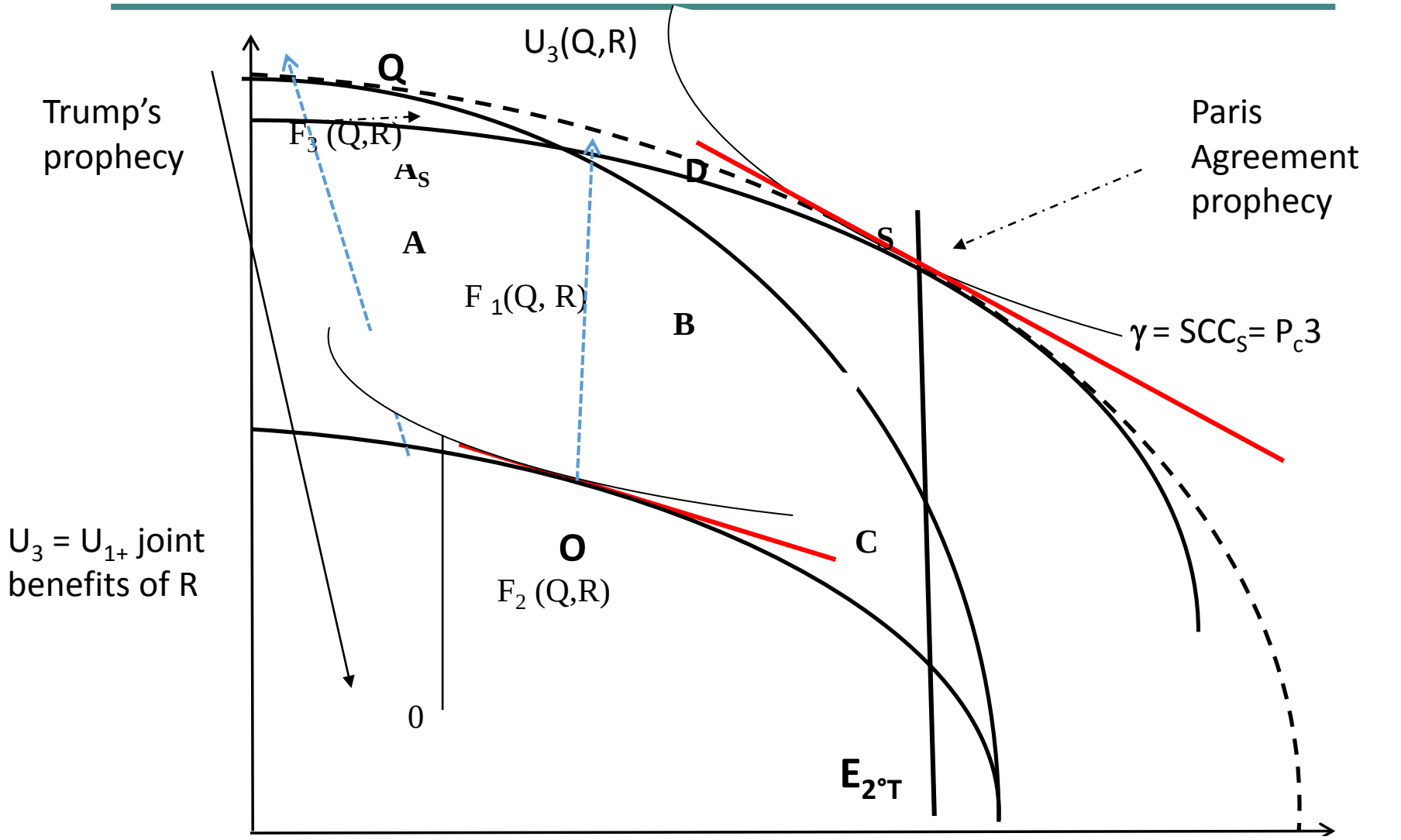
In search of the fulcrum: Finance, prices and values in the Paris Agreement

- **Article 2 of the Agreement :** *“aligning financial flows along a new trajectory of global economic development consistent that leads to low levels of greenhouse gases emissions and high level of investments in climate-resilient development»*

- **Para 136 of the Decision** notes the importance of carbon pricing but only *”applies to “non-party entities”* and is not binding upon Parties to the Convention

- **Article 108 of the decision:** *recognizes the social, economic, and environmental value of mitigation activities and their co-benefits to adaptation, health, and sustainable development” (hereafter SVMA)*

The Social Value of Mitigation Action: a '3rd domain' concept



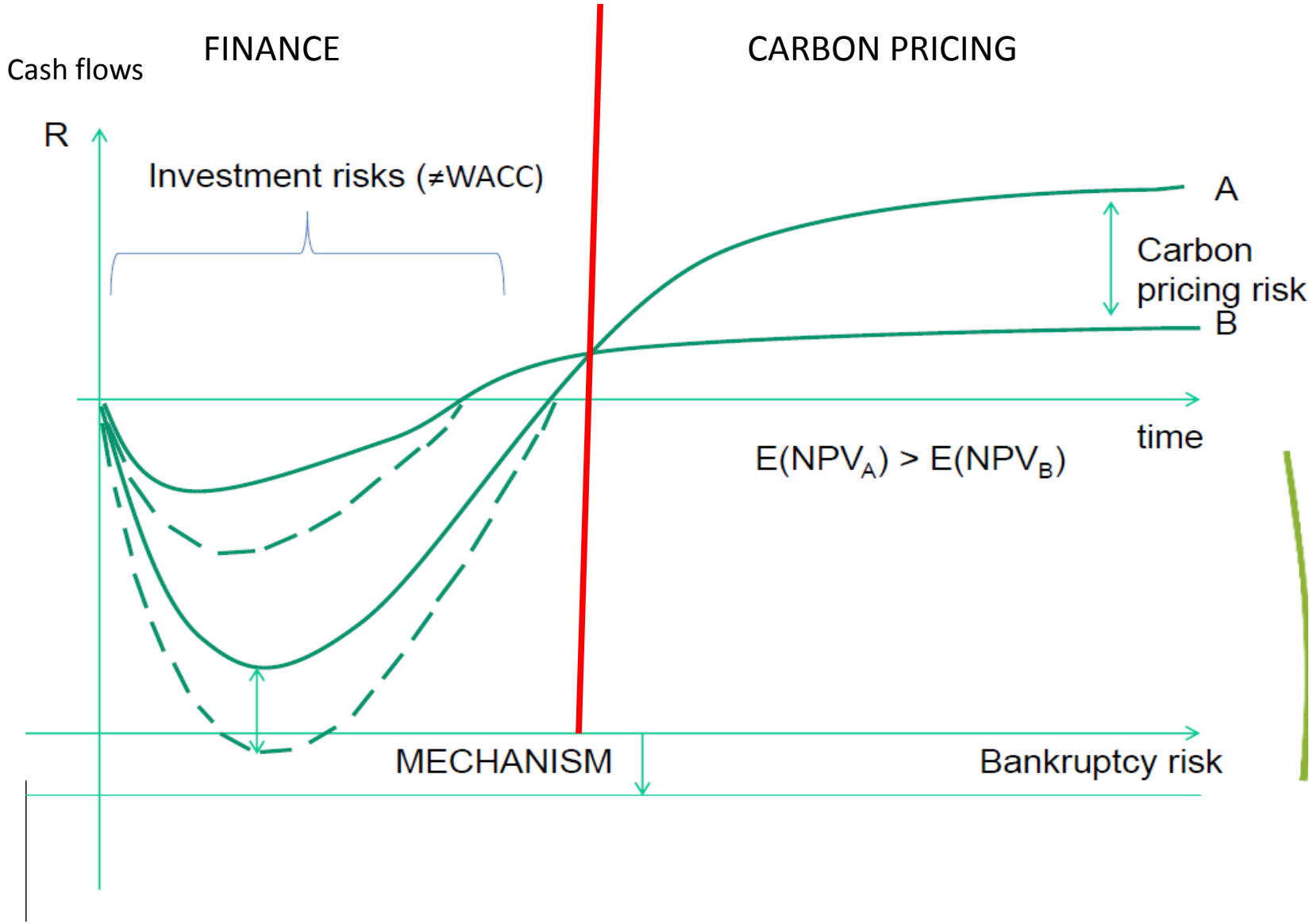
Q: Consumption of Composite goods

$E_{2°T}$: Emissions reduction to meet the 2°C target

Changing immediately the possibility spaces

- Real challenge but ***no unsurmountable macro-economic constraints***
  - Incremental Investments < 0,5% of the GDP in non O&G countries
  - leveraged inv costs< upfront inv costs < induced inv costs
  - Redirected investment = 8 to 9% of the Gross Capital Formation
- A double mouvement needed
  - ***to increase the number of economically viable LCIs, a 'micro-economic problem'***
  - ***attracts 'savers' all over the world … a financial intermediation problem***
- ***Under a Common But Differentiated Responsibility Principle***

Triggering investments in an uncertain context : carbon prices vs cuts in capital costs



A simple message:

- The carbon price signal is blurred by the volatility of many other signals (including fossil fuel prices)
- the ***'reward'*** for reducing carbon emissions ***comes often too late***
- The ***reward has to be given upfront*** through ***public garantees*** (Remind the experience of the railway transition)
- ***Public guarantee is not a subvention***, it is a burden for taxpayers only if …..
- But this raises ***risks of political arbitrariness and economic unefficiency***

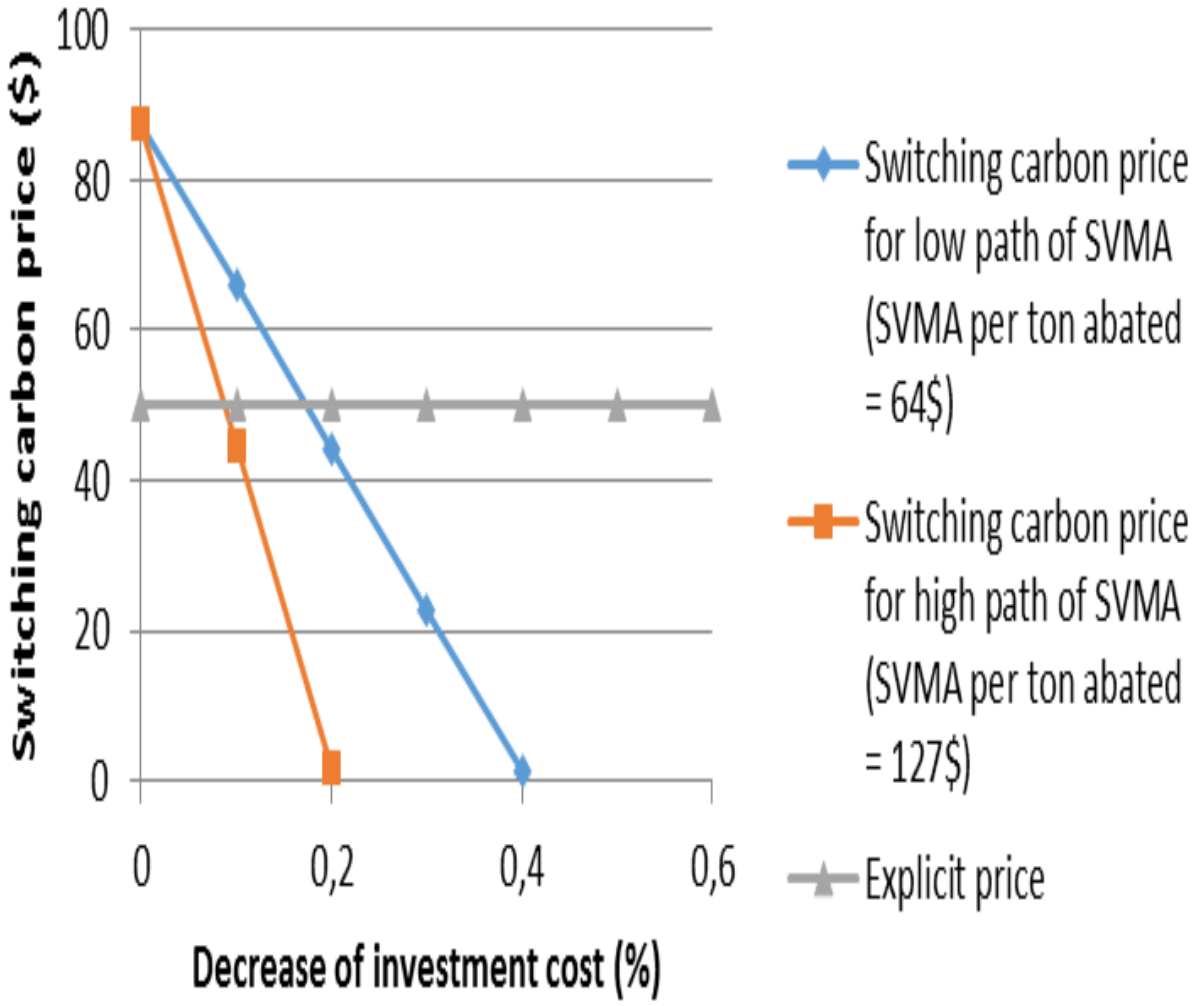
A 'surrogate' to carbon prices needed, here comes the SVMA

From the SVMA to the Present Social Value per Ton (World SVAT)

	Technological pessimism path		Technological optimism path	
Discount rate	5%	2%	5%	2%
T=10	73,50	87,25	36,66	43,24
T=20	75,76	104,71	36,54	50,20
T=30	72,26	115,34	35,56	56,96
T=40	68,82	127,50	34,34	64,22

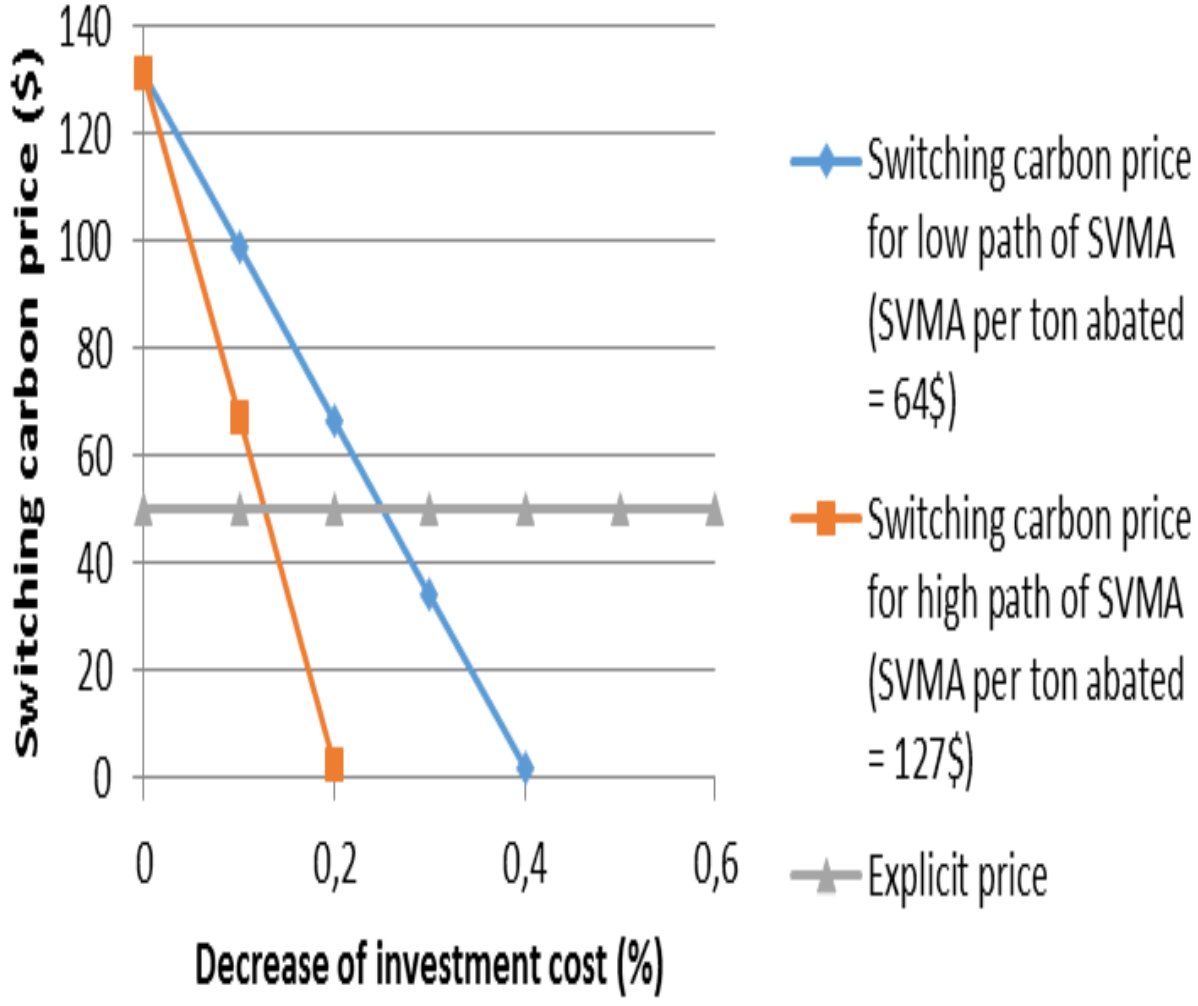
Switching carbon prices for coal CCS

(SVMA with 2% discount rate, 8% private discount rate)



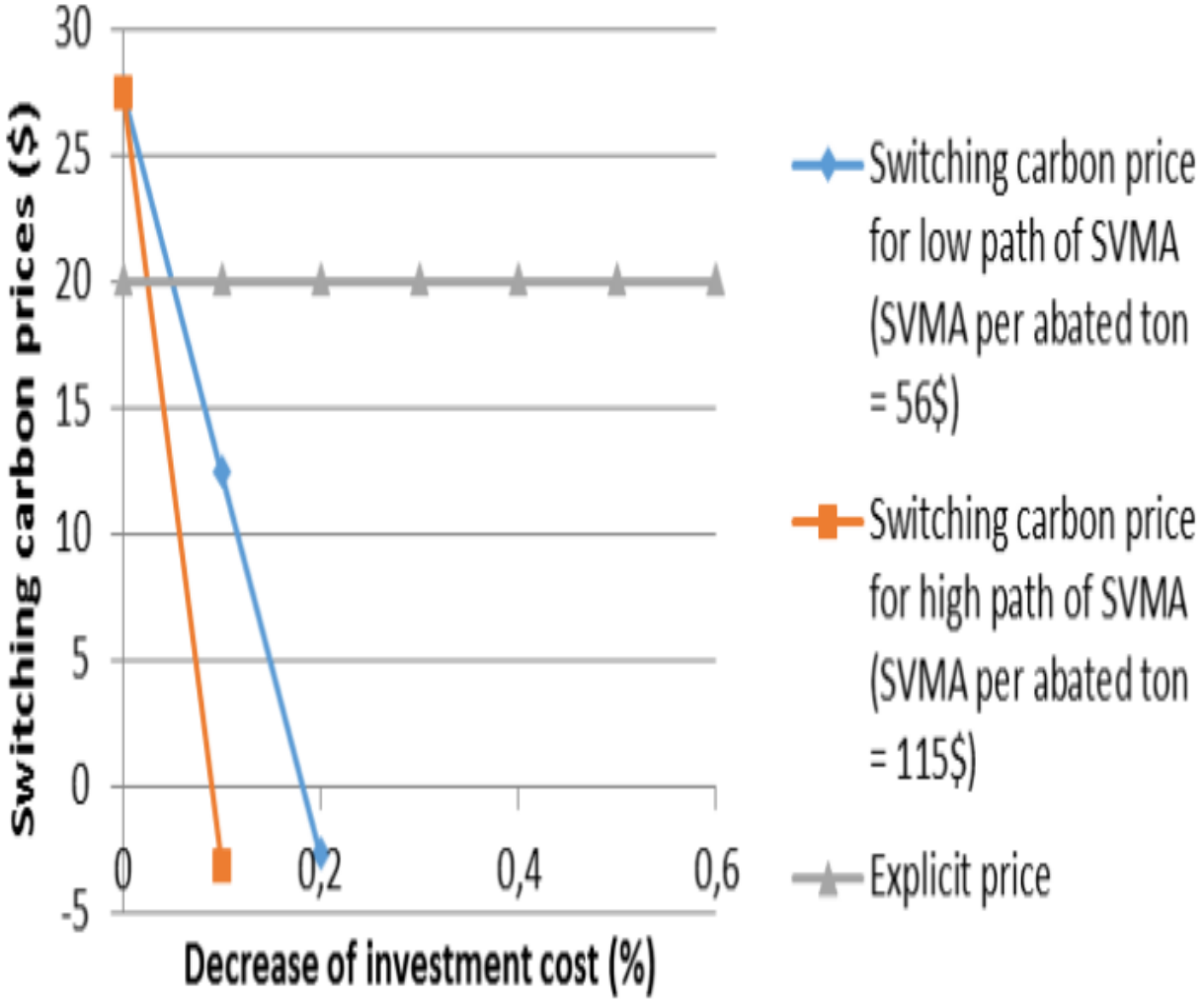
Switching carbon prices for coal CCS

(SVMA with 2% discount rate, 12,5% private discount rate)



Switching carbon prices for Hydro

(SVMA with 2% discount rate, 8% private discount rate)



Switching carbon prices for Hydro

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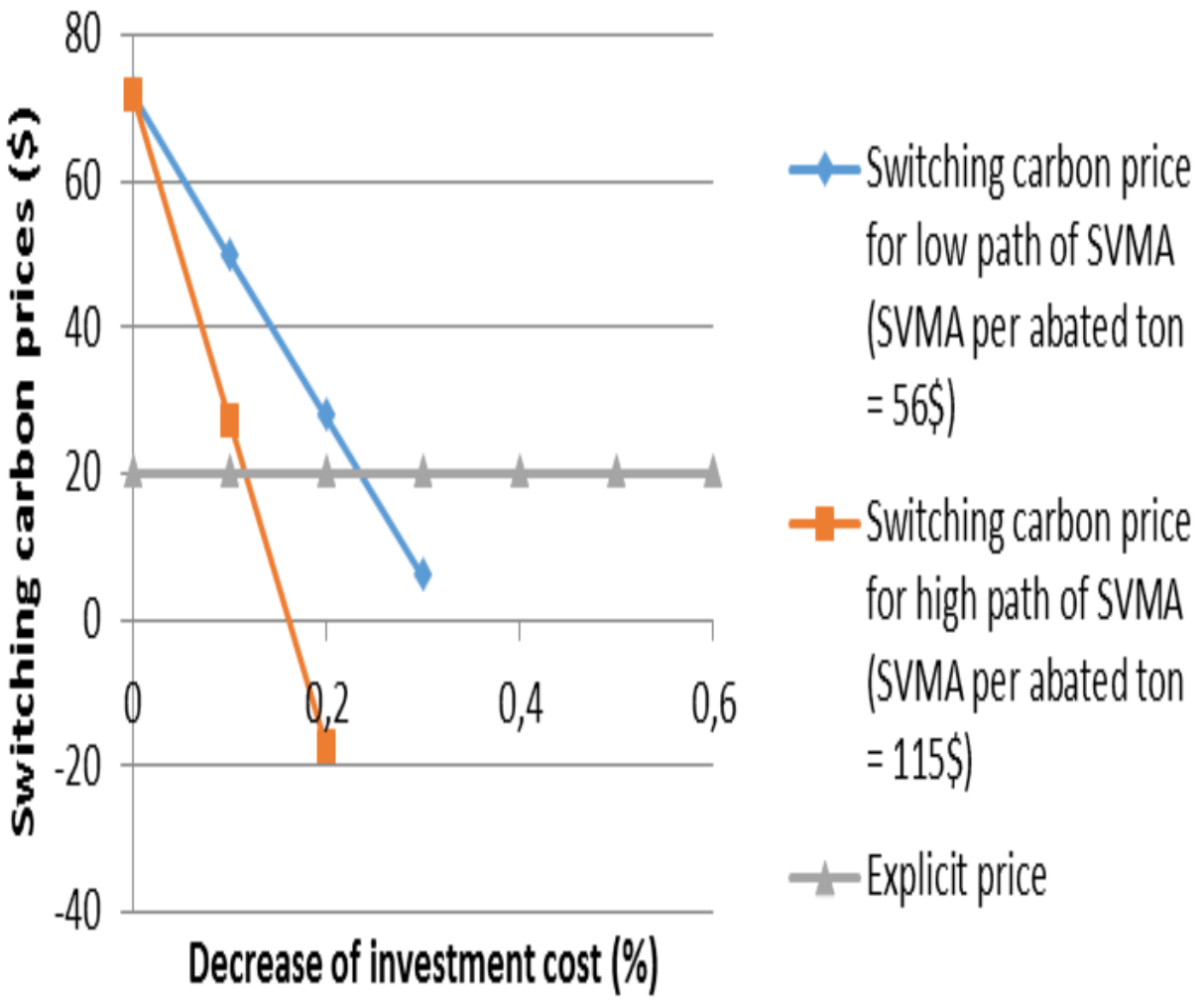


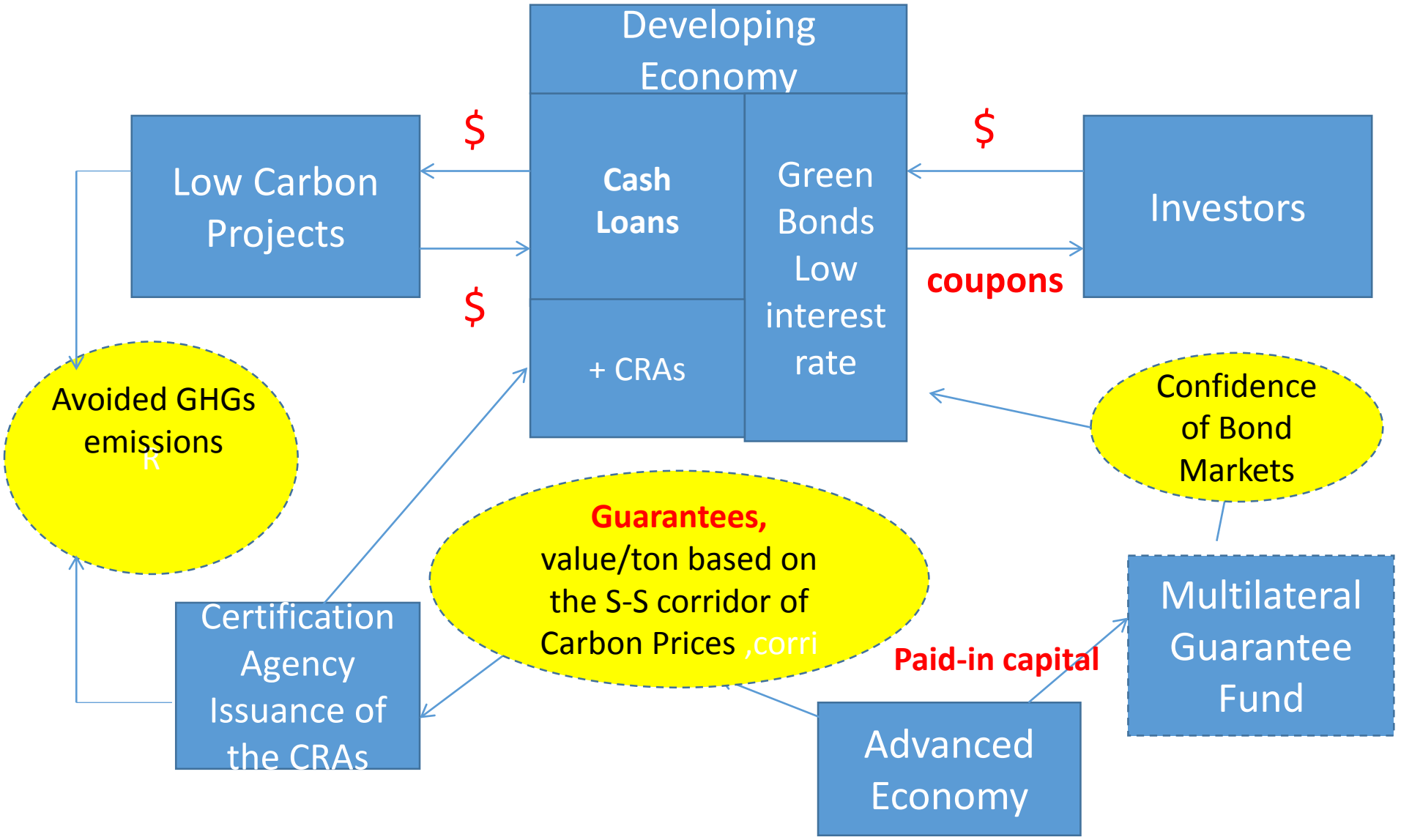
Domestic SVMA and Domestic Prices: the Indian Case

	2020	2030	2040	2050
Indian SVMA	20	50	70	105
Explicit carbon prices	3	10	18	30
$SVAT10$	25,51	46,76	67,98	81,08
$SVAT40$	19,96	29,76	37,08	40,35

National and World SVMA? transforming the heterogeneity obstacle into sources of mutual gains

1. Remind the main obstacles to carbon pricing:
    1. the ***decreasing marginal utility of income***
    2. ***countries*** situated at ***different phases of their development***
    3. The ***reluctance to large compensatory transfers*** … and risk of 'windfall' profits for some
2. For the same reasons, ***the national SVMAs will be lower than the claimed willingness to pay of international community to pay for the 2° targets commitments,***
3. Indian government would is ready to value at 20$ per ton a public guarantee for a LCI while the world community assess it between 34$ and 125$!!!!
4. Here is the space for financial assistance to overcome the trap of the 'when flexibility' (everything is cheaper in developing countries BUT macroeconomically costly)

Articulating two leverage effects



A blueprint for ‘Clubs of Initiatives’

- An agreement on ***SVMAs***
  - A ‘common SVMA’ for public garanties of overseas investments
  - National SVMA for domestic public garantees
- ***Voluntary commitments, by ‘clubs’ of governements,*** to back a quantity of carbon abatement over every 5 years; their central banks open credit lines and accept ***CRAs*** as repayment which are accepted for interbank payments within the Club
- A commitment to ***paid-in capital for a multilateral guarantee fund*** needed for political and economic reasons
- ***An Independent Supervisory Body*** to certify the eligibility of the projects in function of the **NDCs** list and secure their ***statistical additionality*** through allocation rules of CRAs (let us have a look to the ‘Marshall Plan technique’ cf Tom Schelling)
- These Clubs will enforce the ***enabling conditions for reducing the carbon pricing gaps***

Conclusion: why the MGF + SVMA constitute the fulcrum … some back of the envelop calculations

- A 0,01 €/litre tax on gasoline in France would raise a B$ 0,5 paid-in capital for a MGF
- This would could back between 2,5 to 5 B$ of public guarantees given assumptions about the failures risks
- These guarantees would lever B$ 25 to B$ 50 of investments … a club with a few developed countries would fulfil the B$ 100 Copenhagen promise and “Move the Trillions’ with joint public guarantees by developed and developing countries
- A share of the proceeds of mitigation projects needed to fund *non-marketable basic needs and adaptation* to climate change through public *overseas aid mechanisms*.
- 2% to 4% of the B$ 100 or B$50 investments returning to the French economy in the form of sales of equipment will outweigh the costs for the French public budget of the required B$ 0,5 asset-backed security (with a 50% fiscal charge on sales revenues).
- Practical institutional issues …. I let the floor to Dipak