Don't Hog the carbon space

-Amitabh Kant

In the New Delhi Leaders' Declaration, G20 countries noted that the impacts of climate change will be much lower at the temperature rise of 1.5C compared to 2C and reiterated their resolve to pursue efforts to limit the temperature increase to 1.5 C.

Let's examine the immensity of task at hand. Global annual CO2 emissions are estimated at 40 Gigatonnes CO_2 (Gt CO_2), or $4*10^{10}$ tonnes of CO_2 emissions annually. A recent article published in Nature Climate Change concludes that if we want to have a 50-50 probability of staying within the human induced temperature rise of 1.5C, then we need to operate within the Remaining Carbon Budget (RCB) of only 250 GtCO2. This implies, that at our current rate of annual CO_2 emissions we will run out of RCB in six years, i.e. by 2029. Based on this information climate scientist's analysis about climate endgame does not appear that far off.

Earlier this week, the German Finance minister questioned the aim to end coal use in Germany by 2030. The Prime Minister of UK – the first country to have enshrined carbon neutrality by 2050 in law – has pledged to 'max out' UK's oil and gas reserves and authorized more than 100 new North Sea licenses. While France is seeking stronger EU stance on phasing out fossil fuels, French Banks have financed $154 Bn towards biggest fossil fuel projects since the 2015 Paris Agreement. Japan also pushed for G7 to step up gas investments. In US, the President Biden's efforts to promote offshore wind development was tied to the approval of new oil leases by the Congress. More recently US Export-Import Bank has approved USD 1.5 Billion for an overseas oil and gas project in Estonia, contrary to US and G7 promise to end international fossil finance. What is worst is that as the climate risks are growing, the developed countries are cutting down resources towards adaptation.

All this will blow away even the remaining RCB before the turn of this decade. Developing countries can least afford this as it will not only exacerbate climate impacts – further increasing their vulnerability, and leave them with very little time to meet their developmental needs and enhance their resilience. Providing developing countries with little or no finance at unfavorable conditions to enable just transitions is not a license to keep on capturing the limited carbon space that urgently needs to be directed towards enhancing welfare gains.

Economists, have unfortunately not factored in the immensity of this task in their models. Joseph Stiglitz and Nicholas Stern have led the charge that the Integrated Assessment Models (IAMs) which evaluate the technological and economic feasibility of climate goals by integrating climate and economy championed by William Nordhaus are simply *"inadequate to capture deep uncertainty and extreme risk, involving potential loss of lives and livelihoods on immense scale and fundamental transformation and destruction of our natural environment employed"*. This inadequacy has resulted in taking the findings of IPCC and other assessments lightly.. For example, drawing on these models, investment consultants have been advising pension funds that global warming of 2-4 C will have very little impact on their portfolios, risking savings of millions of people.

Climate economics is inadequate to provide policymakers with commensurate policy advice needed to navigate the climate endgame. No wonder Stern has called for a wholesale change in economics "*to foster rapid transformation*" by reimagining Responsibility, Opportunity, Collaboration and Leadership.

This is in line with the technical assessment of UNFCCC's Global Stocktake (GST), that "*global emissions are not in line with modelled global mitigation pathways consistent with the temperature goal of the Paris Agreement, and there is a* ***rapidly narrowing window*** *to raise ambition and implement existing commitments in order to limit warming to 1.5 °C above pre-industrial levels.*"

Irrespective of whether economics and scientists are able to build bridges across their disciplines to provide clean policy advice, in responding to the call of GST by 2025, the policymakers would need to come to terms with concepts of responsibility, opportunity, collaboration and leadership in relation to climate change. Fostering rapid transformation is a huge opportunity for all the countries, particularly emerging economies. This won't be realized without incentivizing collaborations across governments, business and various non-state actors.

This opportunity simply can't be realized if developed countries continue to keep kicking the can down the road. Developed countries claim of leadership on climate change already rings hollow as their actions do not factor in the principle of Common but Differentiated Responsibilities in action. On the contrary, instead of leading by example, developed countries are showcasing gross abdication of leadership on climate change.

Responsibility and Leadership are built on trust. The only way for developed countries to earn trust is to not tell but show their ambition, in action. For that, it is imperative that in responding to the GST, they advance their net zero targets to 2040 and take concrete actions to deliver on their renewed targets. This would understandably require a significant amount of political heavy lifting domestically and undertaking several practical elements to nudge business towards low-carbon future. They can start this by focusing on the top 1% of their top polluting companies.

First, consistent disclosure standards should become mandatory for major stock exchanges knowing that 1 percent of publicly listed companies are responsible for 40 percent of greenhouse gas emissions. The International Sustainability Standards Board's global baseline of sustainability disclosures could be useful in this regard. Second, even when data disclosure happens, a framework—involving technological platforms and protocols — should translate big data into machine readable format. The design of such technological frameworks is maturing fast and needs to be regulated to serve the climate ambition, especially where it intersects with Artificial Intelligence. Finally, based on this data, a consistent framework be developed for capital markets to rate corporates on the sustainability front. This standardized rating system would encourage corporate boards to develop effective long-term plans, knowing that capital would flow to the most climate ambitious projects.

Action on climate disclosures will impact the balance sheets in the real and the financial sector. Global institutions like the IMF and the World Bank and regional development banks that are leveraging their balance sheets to provide climate financing will need to integrate it with their own plans. Other institutions like the Financial Stability Board and the Bank for International Settlements will need to ensure that regulators keep an eye on financial stability.

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