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On the Right Path to Paris?

Can Green Growth Be a New Narrative to Unblock a Climate Deal?

REPORT AND REFLECTIONS

Report and reflections on the expert roundtable "On the Right Path to Paris?" held on Tuesday 28 October 2014 at the Royal Overseas League, London

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INTRODUCTION

Is Green Growth just the latest in a line of phrases that sounds good but means different things to different people, appearing to offer hope for boosting progress on climate change, but insufficiently concrete to make a difference in the real world? Or can Green Growth be defined and promoted in ways that will persuade key actors at the national and international level to change their habits of thinking and their behaviour – even to the extent of being able to influence the next crucial round of international climate negotiations in Paris in 2015? These were the questions posed at the expert roundtable organised in London in the autumn of 2014 by Climate Strategies (CS) and the Multinational Development Policy Dialogue of the Konrad-Adenauer-Stiftung (KAS), bringing together experts from many different countries and different fields, with a strong – but not exclusive – focus on economics.

The expert roundtable "On the Right Path to Paris?" covered both global perspectives and the view from some innovative and interested developing countries. This paper synthesises and reflects on the discussions at the expert roundtable. It offers a perspective on the concept and current international state of the Green Growth agenda, which is intended to help climate change stakeholders in both public and private sectors in Europe and around the world as they decide what weight to put on this concept in their preparations for Paris 2015. Can Green Growth be the foundation of a narrative that will change the global climate landscape?

Presentations made by contributors are available at **climatestrategies.org/green-growth-workshop/**. This paper was written by Henry Derwent and Andrzej Blachowicz of Climate Strategies, with the support of the Multinational Development Policy Dialogue of the Konrad-Adenauer-Stiftung. It draws on presentations and views expressed at the expert roundtable, but its opinions and conclusions are those of the authors.

THE CURRENT BASELINE– THE MEANING OF "GREEN GROWTH"

The term Green Growth has been adopted, with greater or lesser enthusiasm, by a number of different actors over recent years. The differences in the implicit or explicit definitions are easy to see. In the CS/KAS workshop Jason Eis, formerly of Global Green Growth Institute (GGGI), noted that to some it is a way of rebranding low-carbon development and making sure such development takes a proper part of the slow post-2008 return to global economic health. Others see it as an update to the concept of sustainable development, at least in the carbon and energy fields, though that at once causes some disconnect with the continuing and largely separate international debate and negotiations on the UN sustainable development agenda. Some see it as more pro-growth than "traditional" sustainable development, others as more inclusive of social elements. But it does not come from within the Sustainable Development (SD) world.

It is not an advantage for a concept, or label, to be hard for stakeholders to define or to contain potential elements that make them a little suspicious. While the World Business Council on Sustainable Development has given some private sector support to the Green Growth narrative, and the Corporate Leaders' Group can see the solid business reasons behind a green growth platform for national policy, in general the term seems more characteristic of public sector than private sector narratives about economic growth. It usually implies a greater role for the public sector in terms of standards, regulation and directed or nudged investment than most business organisations are comfortable with. It is not yet a reliable rallying cry for business, whose investments will ultimately be the determinants of the green-ness of growth, but who are suspicious of what may be just a new name for public sector constraints on their action (even if they are prepared to borrow the phrase when it suits). Nor has it been adopted with any enthusiasm by civil society worldwide, particularly where a widespread belief that growth has to be constrained by planetary limits leads to the suspicion that making that growth greener misses the point. Others fear an agenda of trying to make growth greener will make it more expensive – and hence that Green Growth is just a new way of making it harder and more expensive for countries to climb out of poverty.

Different important groups of stakeholders, whose support could be vital to ease the progress of shifts in climate policy, have not yet seen a clear link to their own objectives and concerns, even where the connections seem in principle comparatively easy to forge. Neither the global trade community (where recent advances via plurilateral agreements seem to have passed the climate agenda by), nor the ethics specialists, the climate adaptation world, nor even the renewable energy and technological innovation lobbies have seen enough clarity or benefit in the term to justify becoming forceful standard-bearers for Green Growth.

So no politically important group of stakeholders, outside certain governments, seems yet to fully own the idea, which make progress with it hard on the international stage.

Professional economists are not quite sure what to make of Green Growth either. Michael Grubb of University College London, has been trying (in his recent book Planetary Economics [1] to synthesise different domains of economics – behavioural/organisational, neoclassical, and evolutionary/institutional – that need to come together before the term Green Growth can make sense within the economics discipline. Sam Fankhauser of the London School of Economics reminded the workshop that it is not hard to construct an intellectual history for Green Growth that links it to some of the giants of the past – particularly Keynes, Pigou and Schumpeter – and Michael Grubb emphasised the failings of the pure neoclassical approach to explain a significant proportion of economic growth, as well as the real-world (particularly the real business world) importance of government-set standards, strategic investment and help for innovation. However the continued relative weight of neoclassical economics, with its focus on assumed optimisation through market forces, makes many economists feel that Green Growth defies the basic logic of their discipline: a system that is already optimising cannot do better if given a constraint or conscious direction For those trained in the neoclassical logic, this broader approach is novel, hard to model, and not yet well-charted in economic policy development worldwide. Amongst these, of course, are many financial officials and economic Ministers in developed and developing countries alike – perhaps slaves, in Keynes' famous phrase, to a different set of "defunct economists".

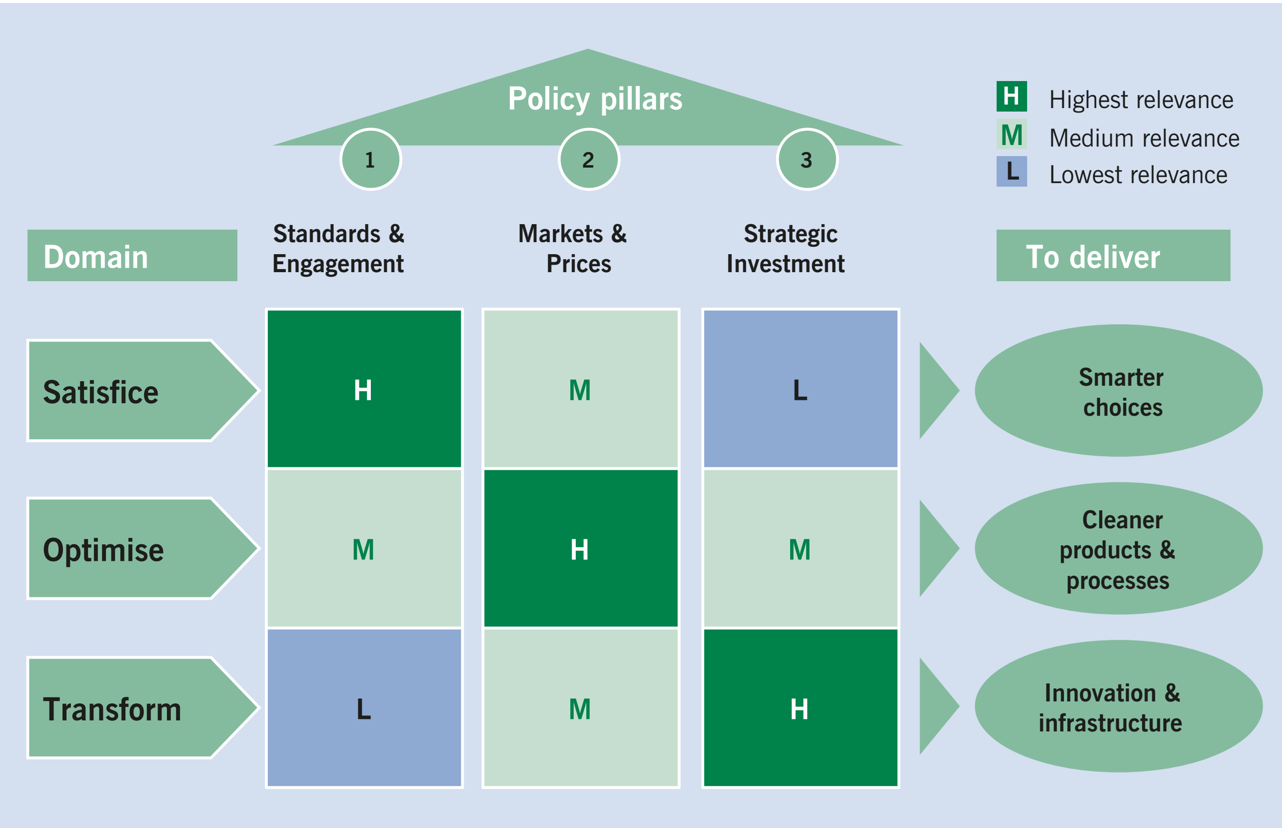
1. M. Grubb, J. C. Hourde and K. Neuhoff (2014), Planetary Economics: Energy, Climate and the Three Domains of sustainable development, Routledge Taylor and Francis Group, London and New York.

Nevertheless, some national governments and some international public sector bodies have adopted the term as a means of consistently describing what they are doing or recommending. Probably the strongest national focus has been provided by South Korea and Ethiopia, though Jason Eis noted Mexico, Indonesia, Colombia and Peru in the second tier, and some support from India and South Africa. The absence of first tier countries – China, the US, and the EU or many of its key members – is notable, as is the comparative weakness of support among the BRICS (Brazil, Russia, India, China and South Africa). The countries most interested in the term do not form a natural grouping; the concept seems somewhat stronger (in practice rather than rhetoric) in developing than developed countries, but is powerful in neither. Among international non-government bodies, the OECD, UNEP, IRENA and some Multilateral Development Banks (MBDs) have used the concept as the basis for declarations, narratives and partnerships, as well as the GGGI, but not many climate nor finance specialist global organisations seem to be strong supporters at present, even though some donors are interested in looking at country needs through a Green Growth lens, as noted below.

From the standpoint of many economists working in the field, the paradox of Green Growth is that deep-rooted economic assumptions are often a key blockage to its perceived credibility. Yet some of the strongest evidence and analysis comes from the frontiers of economic research itself, and is increasingly supported by leading economics research centres and establishments like the OECD. The fact that practical support and implementation seems to be emerging not from traditional top tier countries may testify to the difficulty of changing traditional modes of economic thought in the biggest economic powers.

Figure 1: The three pillars of policy

Note: The row titles refer to the realm of opportunity, while the column headings refer to the policy pillars. The size of circles in each cell refers to the degree of relevance of the policy to each of the opportunities.



Source: M. Grubb, J. C. Hourde and K. Neuhoff (2014), Planetary Economics: Energy, Climate and the Three Domains of sustainable development, Routledge Taylor and Francis Group, London and New York.

THE CURRENT BASELINE – THE NEGOTIATIONS

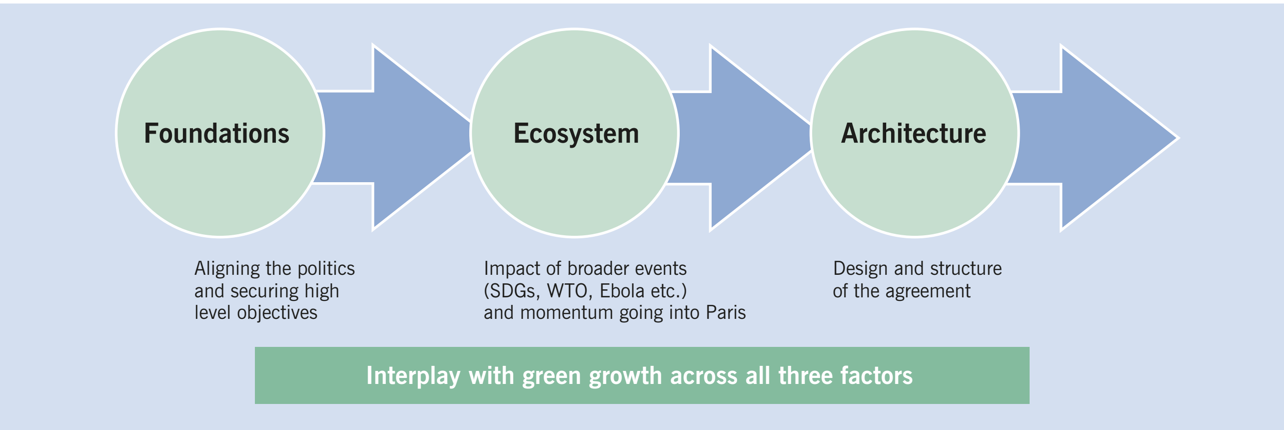
If the Green Growth narrative is to make a difference in the UNFCCC negotiations in Paris, where do those negotiations currently stand? The slow progress in the last few years suggests to many casual observers that the talks are irredeemably stuck, but Paris is in fact a potentially defining moment, for good or ill, as national commitments define, bit by bit, the landscape for a new phase in international climate policy. Shane Tomlinson of Chatham House warned of the dangers of locking-in failure via low levels of national ambition and no clear review pathways or ratchet system in the structure that Paris may endorse. Conservative or conditional national commitments – the Intended National Determined Contributions (INDCs), with a plethora of different timelines for mitigation, adaptation and finance – could fail to coordinate with a more complex landscape of global targets where low-or zero-carbon implementation objectives are not integrated with global physical temperature targets. Christopher Webb of CDKN noted the work being done to help increase the ambition of INDCs, particularly by identifying co-benefits from climate mitigation (and adaptation) action, but there remain many evidence gaps and so many countries remain unsure about the real possibilities of win-win-win solutions. For many, the work of defining comprehensive climate policies with quantitative outcomes is hard and novel, and support and expert help is sorely needed.

While the UN Secretary-General's 2014 Climate Summit did a good job in stimulating momentum, the global background remains marked by a failure to fully comprehend the magnitude of climate risk, a comparatively low level of public engagement, and a series of global distractions affecting security and public health. There are reasons to be hopeful in recent moves towards commitments and mutual understanding between China, the US and the EU, but other important countries remain in a different place. The preparatory negotiations for Paris are at last seriously under way, but the hard questions about the architecture of a new agreement remain, and the possibilities of dispute and recrimination over finance (including the role of the private sector), equity, damage to competitiveness, transparency and accountability could derail the approach to any substantive new agreement.

And the very complexity of the climate negotiations, and their long history, have tended to create climate teams in many governments who are different from, and only loosely connected with, other parts of world economic and social development, including the sustainable development, investment and world trade agendas. These are not only different teams: the negotiations have over the years fostered a mind-set of national self-interest within a zero-sum game, even if other parts of a country's economic policy are more sympathetic to the concept of growth through innovation. Some participants are still generally in "blocking" mode (though the old negotiating groups have changed dramatically), and ways must be found to block the blockers, remembering that judicious involvement of heads of state and sherpas is often essential to progress.

Green Growth has so far had little direct impact on the negotiations, even if the phrase has been acknowledged in some workstreams. This has the benefit of meaning that it has not yet been tainted or burdened by a negotiating history; but if it is to play a positive role rather than just avoid a negative one, it must be seen as a useful and positive framing device by a greater number of stakeholders in the climate world. It needs to affect the foundations of the negotiations, the ecosystem within which the negotiations take place, and the architecture which – hopefully – will emerge from Paris.

Figure 2: Key factors in assessing progress on the climate negotiations



Source: Tomlinson, S., (2014). Introduction to the State of the Climate Negotiations. Chatham House, Royal Institute of International Affairs, London.

CAN GREEN GROWTH MAKE A DIFFERENCE?

If Green Growth is ill-defined and lacks a strong constituency, and the negotiations are slow, fraught with danger and marked by suspicion and conservatism, how can a Green Growth narrative have an effect on them? There are in fact many reasons why the restatement, evidencing, publicising and development of that narrative is vital.

The first and perhaps most important is that many individual countries are already taking action on climate change, to an extent that suggests that within those countries there is far greater domestic willingness to follow the Green Growth narrative than might be assumed by looking at the climate negotiations. Sam Fankhauser pointed to the Globe surveys of national climate legislation, the 2014 edition of which finds around 500 separate pieces of climate legislation in a survey of 66 countries, many of which are only explicable in terms of national buy-in to the green growth and climate co-benefits propositions [2]. New analysis by LSE [3] shows a distinct peer effect – countries influenced by what others are doing (it also shows that the hosting of Ministerial level climate negotiations correlates well with new domestic legislation, though there is clearly a practical limit to making use of this factor!). Gradually, credible evidence is being built up on the extent of co-benefits – Sam Fankhauser cited a new IMF [4] study identifying high levels of carbon tax that would be justified by the predicted consequential domestic benefits, and Grantham Institute work on the beneficial knowledge spillovers from clean technology patents, as opposed to “dirty” ones, in many fields. “Creative destruction” is often difficult to sell to those with a stake in the status quo, so evidence that benefits from innovation spread far and wide is at a premium. And across much of the world, investment is at historically low levels as a percentage of GDP, indicating an opportunity to capture benefits by stimulating green investment.

Michael Grubb’s work [5] shows how those promoting Green Growth agendas can conceptualise and explain the positive results available if policy packages are based on interactions between the three pillars of, in particular, energy policy – standards and engagement, markets and prices, and strategic investment. Further work and argument is also necessary on competitiveness; the EU’s experience demonstrates that concerns here can be a brake on greening policy and investment, and the size, location and potential counter-measures for vulnerabilities on competitiveness need to be brought out into the open, and the cost-savings available and the winners and losers need to be identified and managed.

The second reason for optimism rests in the INDC process itself. As already noted, the current degree of effort and engagement on aspects of climate policies in INDCs is unprecedented: across the world governments and national institutions are applying scarce resources and “bandwidth” to assessing what they are doing, comparing national, regional, local and city-level approaches, deciding what results they think will be achieved, and what more they might do if the finance were available, all against the background of an emerging international rules-based system which is having an effect even if the rules themselves are still very unclear. Now is the time for these institutions, and their national stakeholders, to be hearing the arguments for adopting a Green Growth approach, to consider treating climate benefits as co-benefits of Green Growth if that helps the domestic narrative, and to be comparing their proposals and actions with their neighbours.

And a third reason is that the endorsement by funding agencies of a particular approach leads naturally to willingness, among those looking for funding, to frame their requests in accordance with that approach. Over time, the more that Middle Income Countries see MDBs and other funding agencies looking for the Green Growth narrative, the more they will use it and become accustomed to it. But those promoting such an approach must be more inclusive and diligent in identifying the needs and concerns of stakeholders outside the main stream of climate policy, but who might slow down or hold back beneficial changes.

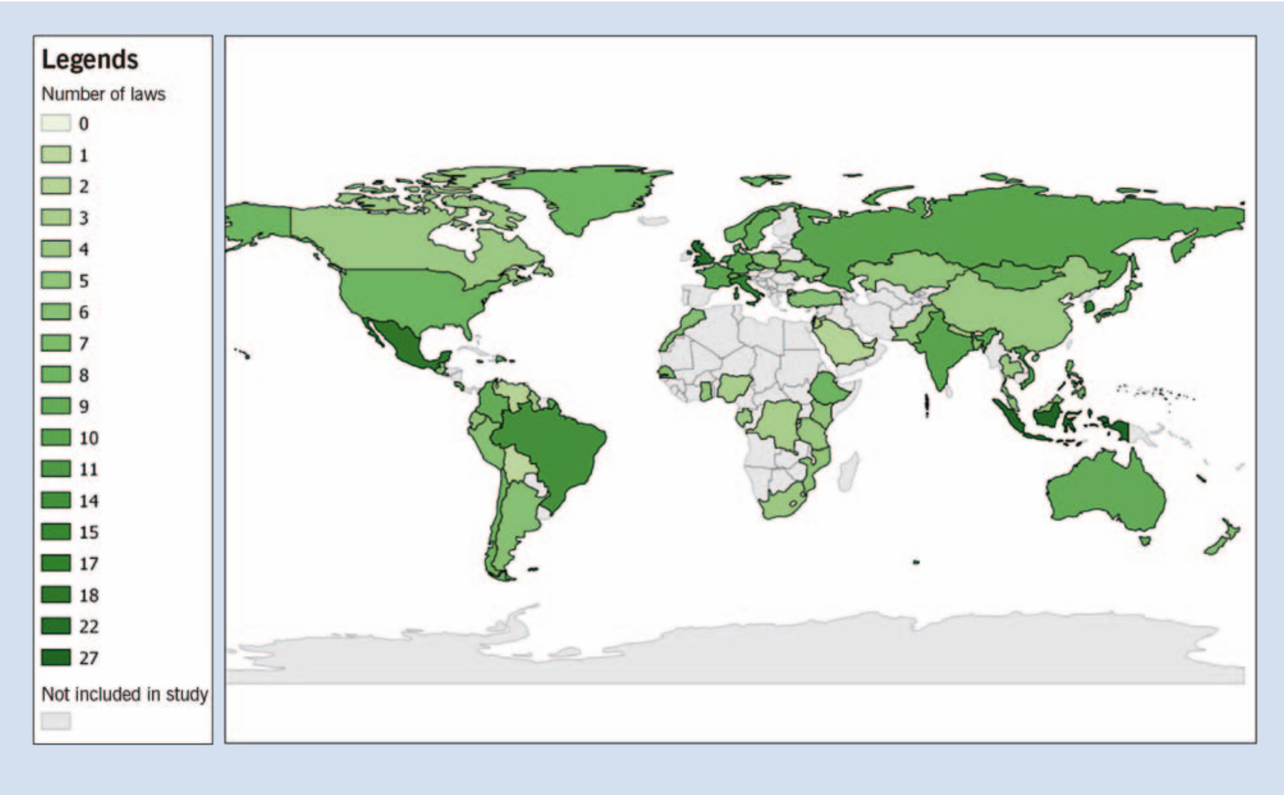
Ahmed Abdel-Latif of ICTSD pointed to the need to bridge the continuing gap between climate change negotiations and important developments in the trading system, most notably the Environmental Goods Agreement (EGA) negotiations recently launched in Geneva, in July 2014, with

2. Nachmany, M., Fankhauser, S., Townshend, T., Collins, M. Landesman, T., Matthews, A., Pavese, C., Rietig, K., Schleifer, P. and Setzer, J. (2014). “The GLOBE Climate Legislation Study: A Review of Climate Change Legislation in 66 Countries. Fourth Edition.” London: GLOBE International and the Grantham Research Institute, London School of Economics.
3. Fankhauser S., Gennaioli C., and Collins M. Submitted
4. International Monetary Fund: Parry I., et al. (2014)
5. M. Grubb, J. C. Hourde and K. Neuhoff (2014), Planetary Economics: Energy, Climate and the Three Domains of sustainable development, Routledge Taylor and Francis Group, London and New York.

the aim of achieving "global free trade in environmental goods." These negotiations, which are being undertaken by 14 World Trade Organisation members including the EU, the US, Japan and China, could make an important contribution to combating climate change by facilitating the large scale deployment and diffusion of clean energy technologies. However, they have so far received limited attention in the context of global climate discussions. Looking at the role of intellectual property rights (IPRs) from a "climate change" narrative differs from looking at it from a "green growth" narrative. The debate on IPRs in the climate change context has focused on whether IPRs are a 'barrier' to the transfer of climate technologies and thus on how to find solutions to overcoming such barrier, including through proposals such as using resources from the Green Climate Fund to meet the cost of licensing such technologies to developing countries if necessary. In the context of Green Growth, IPRs are considered an important incentive to foster green innovation and several countries have adopted schemes to fast-track the examination of 'green' technology patents so innovations can reach the market quicker. There is ultimately a need to bring together these different narratives in one conversation if we want "green growth" too make a difference in the climate context.

Figure 3: Countries are legislating on climate change

Survey of 66 countries found ca 500 climate or climate-related laws
Many laws are motivated by domestic factors (pollution, green growth)



Source: Nachmany, M., Fankhauser, S., Townshend, T., Collins, M. Landesman, T., Matthews, A., Pavese, C., Rietig, K., Schleifer, P. and Setzer, J. (2014). "The GLOBE Climate Legislation Study: A Review of Climate Change Legislation in 66 Countries. Fourth Edition." London: GLOBE International and the Grantham Research Institute, London School of Economics.

GREEN GROWTH IN PRACTICE: DIVERSE EXAMPLES FROM BRAZIL, INDIA, COLOMBIA

To deepen understanding of how larger developing countries are already translating Green Growth principles into policies that make domestic sense, the workshop examined current examples from Brazil, India and Colombia.

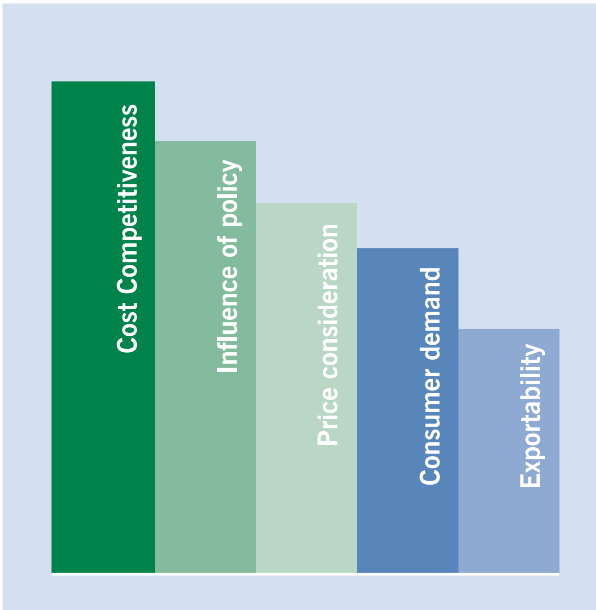
Aron Belinky of FVces Brazil considered the successes and challenges of the Brazilian government's Plano ABC (Low Carbon Agriculture) from a Green Growth perspective. Growth here is vital, since agriculture, though a low proportion of Brazil's GDP, represents over one third of Brazil's exports and is a major net earner of foreign exchange[6]. Brazil's ecological footprint makes the greening of agriculture and agricultural growth a political necessity[7]. The seven programs of action under the Plan are together intended to meet a quantified emissions reduction target that will count towards Brazil's pre-Paris commitment as well as promote climate change adaptation, and a new institution. The Plano ABC Observatory has been created to evaluate and refine its implementation.

The Plan is an important and well-designed initiative, but there are two significant problems. Firstly, the primary tool for promoting the forest planting, degraded land recovery and other programmes is low interest loans. Yet the take-up of these loans has been surprisingly low; the knowledge of them among potential customers is limited, they are outside the experience and risk-appetite of many farmers, and the local banks and other intermediaries find the approach runs counter to their natural commercial logic. While this may improve with exposure, it is hard to force economic actors to do what seems unnatural. Secondly, the monitoring, reporting and verification (MRV) of the activities supported leaves something to be desired; in the absence of any supranational standards for MRV there is insufficient motivation in the government to address these problems.

Shyamasree Dasgupta of Jadavpur University looked at Indian national policies particularly in industry and power energy efficiency as drivers of Green Growth in the Indian economy. There has been a continuum of policy development from Energy Conservation Awards, Energy Conservation legislation, and a market mechanism for large energy-consuming installations, the Perform, Achieve and Trade (PAT) scheme. A global carbon price could, under the right circumstances, be used to develop the achievements of these programmes further. Emissions reductions from business-as-usual are significant, but they can be seen as co-benefits from achievements that have greater domestic traction and often greater capacity to persuade business: including the national priority of improvement of energy access, direct energy cost reductions, price and cost-competitiveness benefits, and consumer demand. One reason why cost reduction is so important is that further greening at the national level usually requires expensive technologies, which have to be made affordable.

Claudia Martinez Zuleta of E3-Ecologia Economia y Etica and CDKN representative in Colombia, described the emergence of a suite of national policies largely driven by a clear consciousness of the way climate change is throwing Colombia's existing economic model into question, impacting on poverty and employment, on territorial

Figure 4: Driving forces behind actions in India



Source: Chakraborty,D. and Roy, J., (2012). Climate Change Adaptation and Mitigation Strategies: Responses from Select Indian Energy Intensive Industrial Units. International conference on Public Policy and Governance 2012, Dept. of Management, IISC Bangalore & Public Affairs Centre, Bangalore. This graph is based on the responses of industries (gathered through a primary survey) when asked about the reasons behind opting for green initiatives.

6. The Brazilian Institute of Geography and Statistics
7. Ecological Footprint Atlas, 2010 (2007 data) from the Global Footprint Network

and sectorial competitiveness, and on economic growth and productivity. Whether through changed rainfall and water availability, the impacts of deforestation, protection of coastal heritage, defending other local vulnerabilities, or changed patterns of agricultural production, climate change is a constant theme. Achieving growth, internal peace and development alongside climate objectives is a key national objective, and Green Growth has been recognized as consistent with environmental protection and a necessary part of national planning. Colombia's desire to join the OECD is pushing it to accept the implications of OECD's environmental performance review, even if some of the approaches seem "northern". Yet alongside this, Colombia has a major mining sector, and domestic pressure is strong to maximize GDP, and capacity for development, by taking value from this and other natural advantages. Colombia has the opportunity to advance into a different pattern of development where growth is maximized with equity and environmental sustainability, having a leading role in the international climate negotiations, including its national endorsement of Green Growth.

CONCLUSION

Green Growth is a sympathetic concept, but one which awakens some underlying suspicions, ranging from the economist's fear that it introduces inefficiencies and sub-optimality, to the development lobbyist's suspicion that it is a stealthy new form of conditionality on aid and additional cost for the poor. Keeping the concept unthreatening has so far come at a price of a continuing vagueness of principle and implication, which has sapped its power to provide real momentum in many countries' domestic policies and in the international climate debates. The questions that Green Growth begs are becoming progressively more capable of convincing answers, as evidence develops on the co-benefits of climate action and the way neoclassical economics undervalues the contributions of standards and strategic investment to economic growth. Those who support Green Growth must do their best to ensure these answers are more widely disseminated and understood: particularly during the present crucial phase in national and international climate policy when countries' commitments and contributions are being firmed up.

But Green Growth must not be expected to bear too much weight. Huge amounts of new investment in low- and no-carbon processes and energy production are needed, and asking the private sector, as well as many countries, to shoulder the incremental costs just because Green Growth is better is not going to work. The Green Growth narrative has the potential to be a very important part of the development of climate policy and action, if it is adopted and implemented rather than taken just as an object of lip-service; but other narratives are needed too: investment, equity, adaptation, transparency and accountability, and risk, to name but a few. Not many of these narratives are sufficiently developed to ensure that the Ministers meeting in Paris later this year (2015) will have a common starting-point, or at least the tools to understand where the others are coming from without being diverted by artefacts of the negotiation process. Much work needs to be done in a short space of time. But teasing out the meaning and advantages of Green Growth is not a bad place to start.

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