

# Forbes

com

Current Events

**Carbon Prices, Not Quotas**

Ernesto Zedillo 03.24.08, 12:00 AM ET

Ardivar  
✓

If you accept the scientific consensus on climate change then you'll also grant that this phenomenon must be mitigated in order to avoid substantial costs and even major calamities in the future. Global emissions of greenhouse gases, particularly carbon dioxide, must be reduced--an objective that cannot be accomplished without an international agreement among countries to sufficiently limit their individual emissions. But coordinated collective action is extremely hard to achieve, particularly regarding climate change.

Countries don't like to give up their sovereignty when determining policies that affect their citizens. Each is also tempted to free ride on the others' efforts, and they all have different priorities, depending on their respective levels of development and social values. Furthermore, dealing with climate change entails unprecedented uncertainties in both costs and benefits. The benefits-- avoiding something bad in the distant future--have a much longer delivery time than in any previous international undertaking. Typically, countries come together to do something in their collective interest when the immediate cost of failing to act is blatantly evident: the creation of the United Nations at the end of the monstrous Second World War; the General Agreement on Tariffs & Trade (GATT) after the regression into impoverishing protectionism during the 1930s; the International Monetary Fund following years of international monetary chaos; as well as the successes in preventing pandemics and even eradicating diseases such as smallpox that for centuries were scourges upon humanity. Inconveniently, the case for collective action to mitigate climate change cannot be built, for the time being, on the same kind of manifest basis.

**Real Dilemmas**

Governments will have to grapple with tough choices under any global emissions policy strategy. We can't escape the fact that somebody somewhere--and soon--will need to start paying the price for such a policy. It's not useful or fair to represent mitigation as a costless endeavor or--as some have claimed--as "good business." It can certainly be good business for some but hardly for all. The reality is that a sacrifice of some sort will have to be incurred by the present generation for the sake of people who will exist many years from now, in richer societies than ours and, most probably, in countries not our own. The ethical question is not only about comparing the well-being of future generations relative to ours but also about comparing the well-being of richer and poorer societies, today and in the future. Not surprisingly, the proposition that today's relatively poorer generations should help richer future generations to live better is particularly hard to sell to citizens of developing countries.

And yet--if only to insure against catastrophic global climate change that could irreversibly damage the world's human, natural and physical capital--an effective global agreement on mitigation must be achieved and put into force by the time the Kyoto Protocol's implementation period ends in 2012.

To be genuinely useful any post-Kyoto agreement must meet many conditions. First and foremost, it will have to achieve universal long-term participation, with binding obligations for all countries. If some countries remained outside the regime or were exempted from obligations there would be a leakage

2909 01

effect; e.g., industries in countries with emissions reductions would migrate to those without them. This would give rise to calls for the imposition of tariffs on carbon-intensive imports, as is already happening in the EU. Universal participation is critical to avoid having the environment used as an excuse for protectionism. Putting trade restrictions on carbon-intensive imports would lead to trade wars that would prove counterproductive to economic growth and the environment itself.

The new agreement must also provide clear and predictable market signals that will encourage the generation and deployment of new cost-effective energy technologies. It must have low transaction costs, avoid significant income transfers among countries, be practically invulnerable to fraud and corruption and lend itself to easy verification of compliance.

Frankly, a Kyoto-type framework--one with global quantitative emissions targets allocated among countries--that meets the above conditions is not feasible. The only approach that will fulfill the conditions and relieve countries' apprehensions regarding sovereignty and free riding is one in which all countries agree to penalize their carbon emissions in such a way that, over time, an internationally harmonized carbon price prevails. Consequently, the negotiation's focus would not be on emissions quotas but on the harmonized carbon-price trajectory.

Of course, carbon taxes (on burning fossil fuels) would provide the easiest way for countries to comply with the system, and each country could then decide what to do with the tax revenue. Some might make their carbon tax revenue-neutral by reducing other taxes. The regime would allow countries (or associations of countries such as the EU) to comply with the internationally agreed-upon carbon price by means of their own national cap-and-trade systems. It would also let poor countries move toward the agreed trajectory of carbon prices more slowly than rich countries.

If you're worried about climate change but don't like carbon taxes, think about the messy or even impossible alternatives!

**Ernesto Zedillo**, director, Yale Center for the Study of Globalization, and former president of Mexico; **Lee Kuan Yew**, minister mentor of Singapore; and **Paul Johnson**, eminent British historian and author, rotate in writing this column. To see past Current Events columns, visit our Web site at [www.forbes.com/currentevents](http://www.forbes.com/currentevents).

[Subscribe to Forbes and Save. Click Here.](#)