

Post-Paris Accord Prospects — the Role of International Governance & of the Market

By Kazumasa Kusaka

Some 90% of CO₂ emissions have their origin in the production and use of energy. So when we contemplate ways to achieve our climate goals, we naturally have to discuss the future of energy. Even the energy sector itself knows that fossil fuels are depletable resources, though it does not know when this depletion will occur. Markets are good at finding efficient solutions in resource allocation for a short period, but the question is how good are they when it comes to intertemporal resource allocation. So both the energy and environment communities need to work together from long-term perspectives.

When we look back at the transformation of Japanese energy policy, it reflects the policy needs of the time which markets alone cannot meet. In the 1960s, coal-to-oil fuel substitution was the theme; then the two oil crises hit in the 1970s and the key theme became “alternatives to oil”. In the 1990s, regulatory reform for more competitive energy prices and the goals of the United Nations Framework Convention on Climate Change were the priorities. Then the Great East Japan Earthquake and Fukushima nuclear accidents put safety and supply security at the top of the agenda.

And now, the shift to low-carbon energy systems is the challenge towards 2030 and 2050, though the features differ. For 2030, a set of concrete policy measures will aim to achieve the targets, while for 2050 the plans are an “ambitious vision” in the United States, a “possible path” in France and a “direction” in Germany. Why are they so ambiguous?

Actually, 2030 is too short a period for power stations to be replaced, or for buildings and automotive fleets to be fully replaced by revolutionary technology. We have to rely on the best known available technologies. For Japan, zero-emission power sources, i.e. renewable and nuclear, have to be increased, while electricity should be competitively priced. The good news is that, in spite of pessimism among the energy community, newcomers from outside and IT technology have a big role to play in demand side price-responsiveness which is now exploitable through regulatory reform and technology.

In regard to 2050, long-term thinking is required. The gap between ambition and reality can only be filled by revolutionary unknown technologies.

To enhance awareness in society and spur political action for stop-gap measures, it is eye-catching to emphasize extreme weather events, even though a 2012 Intergovernmental Panel on Climate Change report points out that long-term trends in economic disaster losses, adjusted for wealth and population increase, have not been attributed to climate change. However, for long-term sustainable commitments, we rather need solid and

scientifically supported analysis, as well as correspondingly effective measures.

Also, as Professor Wilfred Beckerman writes in *Through Green-Colored Glasses: Environmentalism Reconsidered* (1995), there is no choice between environment and development. Development is necessary to acquire the capacity and resources to address the climate challenge, especially in developing countries. “Sustainable development” is not just the environment, but about development consistent with the environment, as Sustainable Development Goals (SDGs) adopt a holistic approach. Achieving the 17 SDGs requires significant investment reoriented to address them.

Where are we now with regard to international governance? Regarding the Paris Accord, a “bottom-up pledge and review mechanism”, the so-called Nationally Determined Contribution (NDC) process, has been agreed. However, implementation guidelines, the so-called Rule Book, have still to be negotiated and agreed under the adverse circumstance of the declining presence of the US. There are two main elements to consider. How common and how differentiated should the guidelines be between OECD countries and most developing countries? And how much financial assistance should be given? Whether detailed rules with much substance can be agreed upon at the upcoming COP24 in Katowice, Poland, in December is not certain.

And even as we accelerate our efforts towards a low-carbon society, there seems to be a gap between ambition and reality. Regardless of President Donald Trump's policies, we are making some progress in ambitions because of the positive development in Chinese commitment, the declining costs of renewables, and the attitude of the private financial sector, such as the Task Force on Climate-related Financial Disclosures. But in reality, although the direction is right, whether the targets of 1.5-2.0 C and net zero-emissions in the latter half of this century can be achieved is not certain. Especially in developing countries climate change is not a top priority, but only one of the SDGs.

This is the challenge in how to obtain optimal long-term solutions in the market economy. There is a need to mobilize various players, both domestic and global, in an inclusive manner, and not just in economics but also politically and socially. In other words, no government alone can achieve the climate goals; but neither can any single president stop the progress.

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