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Climate policy: a new foundation of stability and prosperity

Christiana Figueres^a

^a United Nations Framework Convention on Climate Change Secretariat ,
P.O. Box 260124, D-53153 , Bonn , Germany

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■ outlook: perspectives

Climate policy: a new foundation of stability and prosperity

CHRISTIANA FIGUERES

United Nations Framework Convention on Climate Change Secretariat, P.O. Box 260124, D-53153 Bonn, Germany

The art of successful government matches policy to the demands of the time so that nations may be stable and prosper together in an increasingly globalized world. No country would fail to include national security and economic planning in strategies for achieving future prosperity and stability, or deny that they should be addressed at the international level. The history of institution building by existing generations, from the United Nations to Bretton Woods, from the G8 to the G20 to the Rio Conventions, is the expression of that need. Yet, we have reached a turning point in this political narrative because of climate change, a turning point that presents the opportunity to create a new foundation of stability and prosperity.

Climate change is no longer just the perceived environmental threat it was two decades ago. It now amplifies and multiplies every crisis we face, including population growth, strain on water, food, and other resources, and insecurity of energy supply. Left unchecked, climate change will wipe out the development progress that has been achieved over the past 25 years, particularly in developing countries, and will catapult us over an environmental tipping point into uncharted territory, threatening the security and sustainability of all nations.

The answer is quite straightforward. The only way to regain energy security, stabilize water and food availability, and avoid the worst effects of climate change is to accelerate the economic tipping point towards low-carbon growth, towards the point where low-carbon living is the norm and not the novelty, the point where we create a new economic and social paradigm that supports our population without depleting our planet.

We are not there yet, but the international climate change process and the associated responses at national, subnational, and business levels are creating that para-

digm. In short, climate change has already become a new policy lens through which all governments must consider future national stability and prosperity.

The situation is encouraging and worrying at the same time. The pains of the Copenhagen climate conference in 2009, when governments stopped at the brink of an agreement and fell apart in acrimony, are well known. It is encouraging that governments have made more progress in the international climate change negotiations over the past three years than they did in the past decade.

The positive trend in policy response is that countries have recognized, beyond any doubt, that the global climate challenge requires a global response. Throughout the past three UN climate change conferences, culminating in Doha in 2012, governments have constructed a comprehensive response to address the climate challenge.

Governments made progress in three areas, by extending the existing legally binding climate agreement, by providing developing countries with technological and financial support, and by laying a foundation for a new, universal climate agreement. A brief summary of each is given in the following.

First, governments ushered in a second commitment period of the Kyoto Protocol, which began on 1 January 2013. This agreement underpins the important principle that industrialized countries lead by committing to binding targets to cut emissions, and preserves important accounting and implementation rules that may act as a model for wider agreements.

Second, governments finalized the international negotiation phase regarding Long-term Cooperative Action under the Climate Change Convention, and pushed it into implementation. This incorporates the efforts of all

countries to limit the global temperature rise to below 2 °C, and establishes a support system to provide developing countries with finance and technology to build sustainable, clean energy futures. Additional provisions provide a better understanding of ways to close the gap in financial support to developing countries, from developed nations, between the end of fast-start finance from 2010 to 2012 and the ramp-up to long-term support of US\$100 billion per year by 2020.

Last, but not least, governments advanced the new negotiating track under the Convention. The working group under the Durban Platform is tasked with two goals:

- To adopt a new universally inclusive and legally binding agreement by 2015, to come into effect from 2020
- To raise global ambition before 2020 by closing existing gaps in the effort to reduce emissions and increase resilience

Although this is positive, the fact is that policy response is not coordinated enough to shift climate action from 'you first' to 'first mover'. To achieve this, we must debunk three fading myths.

Myth 1: The path forward is either a top-down effort led by intergovernmental regulation, or a bottom-up exercise led by domestic policies, business action, and public engagement. Not so. The path forward is the result of concurrent, mutually reinforcing effort across three pillars of climate response: the international process, national policy, and private sector action. Response in these pillars strengthens the potential to act in the other pillars, and moves us closer toward the transformative tipping point.

Myth 2: The impetus for movement comes from the desire to 'save the planet'. Not so. The impetus for transformation comes from a growing realization by countries, investors, and companies that it is in their self-interest to use clean energy sources, increase energy efficiency, and provide access to clean energy to those who do not have it. The impetus comes through an increased understanding that solving climate change is not a burden, but a compelling opportunity to create new jobs, new industries, and new economic opportunities.

Myth 3: Climate change would be more effectively addressed without a complex, multilateral process. Not so. The geopolitical shifts of the past quarter century created multiple economic power centres, both established

and emerging, making it less possible for nations to act confidently together without stable reference points and the platform of trust that the multilateral system provides. Without this trust, there would be no agreement now to raise current inadequate ambitions and no commitment to a new, universal climate agreement from 2020. Furthermore, without a new global agreement, there is little hope of staying below an average 2 °C global temperature rise.

Looking at recent progress, one thing stands out – the clean, renewable energy revolution has begun. Renewable energy contributes more to new energy consumption growth than oil. This is due, in large part, to a dramatic reduction in clean energy costs. It is no longer a pipe-dream that investment per annum in clean energy may soon surpass that in traditional fuels. As of 2011 this investment had surpassed the one trillion US dollar mark.

There is a clear trend for major energy producers to take the lead in clean energy markets, putting the full weight of their advanced capabilities behind quality assurance, cost engineering, and investment planning. More and more major companies around the world are recognizing climate change as the biggest medium- to long-term risk and opportunity, and are disclosing and reducing their own carbon emissions and designing mitigation and adaptation strategies because they benefit the bottom line.

Meanwhile, all industrialized countries and 56 developing nations, together accounting for more than 80% of global emissions, have pledged emission cuts, and the countries with renewable energy targets or policies grew from 55 in 2005 to 118 in 2011, more than half being developing countries.

Significant differences remain between countries at different stages of development. Industrialized countries have to dramatically reduce their emissions, while making adjustments according to their debt and stressed demographics. Emerging economic powers need room to grow out of poverty in a balanced way, ensuring future security of energy and resources without conflict. The poorest and most vulnerable countries need support to leverage existing technology in order to leapfrog into sustainable, low-carbon growth without the environmental and budgetary burdens of the old growth model.

It is striking that the policy solutions to climate change based upon clean energy and sustainable use of resources answer each set of problems equally well: cost reductions for national budgets; job creation and

technology innovation in sustainable new industries; and investment alternatives that produce stable, long-term returns.

Good policy is indeed emerging at both international and national levels, but the signal is not yet strong enough to accelerate the clean energy revolution to the pace and scale that is needed to reach the tipping point. So what is still missing?

An important part of the puzzle has to be better policy coordination that generates a greater business response. This is even more important in light of recent financial and economic crises. Many governments essentially saved their economies by shifting private sector liabilities into the national debt and central bank balance sheets. This has left business, balancing innovation and finance, to push forward climate solutions, and has placed even greater emphasis on the need for stronger, coordinated government policy incentives to unleash all business potential.

A list of such coordinated policy responses optimally includes the following:

- Fiscal, regulatory, and monetary policy coordination, which sets climate risk firmly in the context of national economic and security planning
- Clear policy structures in which business can and must act
- New thinking on climate-related, long-term debt financing that attracts large institutional investors who think in multiple billions of dollars for a single reallocation of funds
- Using available public funds to de-risk and leverage private funds into developing world projects at very large scales
- Perhaps most importantly, a much clearer global carbon price signal

The good news is that, from 2013, pricing schemes are expected to be active in 33 countries and 18 subnational jurisdictions, covering 20% of emissions. These carbon markets or emissions trading programmes are proliferating across the globe. Some notable examples include seven pilot programmes in China that are providing a

test bed for various market mechanisms, which are set to be integrated into a national market in 2015. In the US, California recently opened its carbon market, and we are seeing ongoing success in the Regional Greenhouse Gas Initiative in the highly populated northeastern US. Each of these markets is looking for opportunities to link with other markets. In Australia, Korea, South Africa, Chile, and Mexico, emissions trading is being instituted as a way to reduce GHG emissions.

Progress in international negotiations, national governments, and the private sector offers an example of how the three pillars of climate response mutually reinforce one another. Governments set policy and institute markets that allow the private sector to create long-term business and investment strategies, which moves economies towards low-carbon growth. As the benefits of low-carbon growth are realized in more and more countries, space is opened for international agreement.

As we approach a new, universal agreement in 2015, it is the right time for governments to recognize that the private sector plays a significant role in creating a larger political space within which to be more ambitious. It is also time to bring that ambition to the international process, where collaborative action can finally push us over the tipping point towards a new global model for sustainable, low-carbon, high-resilience growth.

In summary, the knowledge and understanding of how policy can be linked together is growing. Governments are charting a blueprint at the international level, and increasing numbers of countries have climate policy embedded in their national legislation. Simultaneously, the private sector is already integrating an emerging economic model that benefits planet, people, and profit margins. Public awareness and support for action is rising. A clear majority of citizens in all major emitting countries now say they recognize climate change as a threat and want more to be done about it.

We have an increasing breadth of policy. We have an increasing depth of policy. We now need more intense and coordinated policy. When we accomplish this, we will cross the tipping point that provides current and future generations with a new foundation for stability and prosperity.