

Stiglitz in Climate Wonderland

European Kyotism and Good American Common Sense

by Mario Sechi and Carlo Stagnaro

Joseph E. Stiglitz, the 2001 Nobel Prize Laureate in Economics, recently suggested¹ the creation of a “coalition of the willing” for climate. For the most part, the proposal makes sense, but the analysis of the American economist is naïve in some points.

First of all, he gives credit to the idea that President George W. Bush has changed the American climate policy. In reality, President Bill Clinton and his vice-president Al Gore never submitted the Kyoto Protocol to the Senate for ratification. Therefore, the White House has maintained the same position under both the Democratic and the Republican administrations, although the tone and emphasis have been quite different.

As to the scientific understanding of global warming, Stiglitz writes: “the Fourth Assessment, which was just issued, confirms the mounting evidence and the increasing conviction that global warming is the result of the increase in greenhouse gasses in the atmosphere”. He refers to the summary for policy-makers of the Fourth Report of the Intergovernmental Panel on Climate Change, presented at the beginning of February 2007 in Paris. Apparently Stiglitz has not paid much attention to the document, otherwise he would have realized two things. The first one is that in an unprecedented act, the IPCC released the summary but not the full report, which will not be available until May. Therefore there has been no way for independent scientists to verify the accuracy of calculations or the

coherence of the summary with the report itself. In the second place, notwithstanding the growing hysteria on global warming, IPCC estimates seem in reality to confirm the suspicions of the “skeptics”, as they resize the previous projections. For example, the Fourth Report² evaluates the increase in temperature in 2100 as falling within the interval between 1.8 and 4 degrees, while the increase in sea level will fall between 18 to 59 centimeters. In 2001, the figures were 1.4 - 5.8 degrees and 9 - 88 cm respectively.³ Thus, the alarm should decrease, not increase.

As to Bush’s position on biofuels, Stiglitz writes: “The US imposes a tariff of more than 50 cents per gallon on sugar-based ethanol from Brazil, but subsidizes inefficient corn-based American ethanol heavily—indeed, it requires more than a gallon of gasoline to fertilize, harvest, transport, process, and distill corn to yield a gallon of ethanol”. On this, Stiglitz is perfectly right: therefore we dare make the same criticism of the European Union (which, however, does not seem to be amongst the polemical targets of Stiglitz). The Commission supports the adoption of a mandatory target of 10 per cent market share of biofuels by 2020. To facilitate the reaching of such goal, the EU issues subsidies in favor of European farmers but at the same time imposes a 45% customs tax⁴ on imported ethanol.

1: <http://www.project-syndicate.org/commentary/stiglitz80>

2: <http://www.ipcc.ch/SPM2feb07.pdf>

3: http://www.grida.no/climate/ipcc_tar/wg1/008.htm

4: http://ec.europa.eu/energy/energy_policy/doc/07_biofuels_progress_report_en.pdf

The centerpiece of Stiglitz's article, however, is the following: "The Kyoto Protocol represented the international community's attempt to begin to deal with global warming in a fair and efficient way," he writes. "But it left out a majority of sources of emissions, and unless something is done to include the US and the developing countries in a meaningful way, it will be little more than a symbolic gesture. There needs to be a new 'coalition of the willing,' this time led by Europe—and this time directed at a real danger. This 'coalition of the willing' could agree to certain basic standards: to forego building coal-fired plants, increase automobile fuel efficiency and provide targeted assistance to developing countries to enhance their energy efficiency and reduce emissions. Coalition members could also agree to provide stronger incentives to their own producers, either through more stringent caps on emissions or higher taxes on pollution. They could then agree to impose taxes on products from other countries—including the US—that are produced in ways that unnecessarily add substantially to global warming. What is at stake is not the protection of domestic producers but the protection of our planet."

Even in this Stiglitz shows triple naiveté. In the first place, he seems to overestimate European political intuition and the ability of the old continent to play a consistent game in the global scene. In the early days of March, the European Union will have to ratify an agreement on the reduction of CO₂ emissions which—seen through the "Kyotists" eyeglasses—is a disappointing compromise. Three European countries—Poland, Hungary and Finland—have raised serious doubts about the plan, which is intended to reduce emissions by 20%. Not only has the plan been dramatically downsized (originally the abatement had to be by 30%), but the negotiation of the burden sharing has unleashed a battle between the member states. The reasons are simple: Poland and Hungary belong to the category of the emerging economies of New Europe, they produce a great part of their energy with coal, and to substitute this source with a less polluting one within a few years means facing heavy investments and losing sight of economic competition which—let's not forget—is no longer on a regional but on a global scale. Finland—to stay in the area of the "dissident"

countries—has a powerful and energy-intensive steel industry, and the same applies to paper and cellulose production. Why should Helsinki penalize industrial sectors which are vital to its economy? The ministers of environment of the 27 European countries have reached a disappointing agreement, and the upcoming signing of this by the European Council on 8-9 March will not change in the slightest the ever-more modest discourse carried on by the old continent. If we continue to look at the climate problem through the eyes of the "Kyotists", we clearly see that the EU has further weakened its position, which once was said to be "avant-garde". How can a group of nations be credible when wanting to uphold the vessel of the Kyoto Protocol while dramatically reducing its ambitions and being divided on the sharing of the costs to sustain? By 2009, the United Nations negotiations aim at obtaining a global agreement on the so-called second phase of the Kyoto Protocol. How can one realistically think of involving the United States, China, and India in a project in which not even the old continent believes?

There is more. According to Carlo Rubbia, recipient of the Nobel Prize for Physics and an adviser to Italian Environmental Minister Alfonso Pecoraro Scanio (who comes from the Green Party), "Kyoto is not enough". If the Protocol were to be actuated, "at most we would obtain a seven year slow down on the accumulation of greenhouse gases". What are the solutions? According to Rubbia, there are two: "a new nuclear program and a new solar thermo-dynamic program could guarantee energy to the world for thousands of years". Strangely, Stiglitz does not mention nuclear—the only energy source with zero emissions, potentially available in great quantity, and possibly cost-effective—and the European Commission's document on the atom is the most hypocritical thing that politics can produce. It is admitted that nuclear energy is a valid, safe, and economical source of alternative energy to fossil fuels, but the courage to give a common direction to European politics on this matter is missing. The preference is the adoption of the Pontius Pilot line, where the EU washes its hands of the problem and allows member states to autonomously decide how to manage the atom. This is the best way to keep the European energy gap unchanged and to increase the now-chronic

dependency on gas imports from a small number of unstable countries.

Let us now remove the lenses of the “Kyotist” and move up for a periscopic view of what is really happening on the surface of things, that is, in the real world outside of Brussels and Strasburg. To imagine a separation of the scientific discussion about climate change and greenhouse gas emissions from geopolitics is an exercise that does not yield good results; rather, it produces many bad ones, the totem of Kyoto first of all.

Last February 21, ENI’s chief executive officer Paolo Scaroni stated that “those who have gas pipelines in their territory possess the armadas of the 21st century because they condition both those who are downstream and those who are upstream”. Scaroni is at the head of the six largest international oil company, and he speaks with knowledge when he explains that “more than 90% of gas is currently transported via pipeline, and that has repercussions on the economic, political, and military world”. The problem, in fact, is not simply “environmental”, but involves the entire system of international relations—and if we do not take into account other factors (power politics, international equilibrium, security and defense) the result is that in this matter, articles will be written, such as that of Prof. Stiglitz, with the mind set so far beyond the obstacle as to end up going straight into fantasyland. There is a planetary geopolitical vision of hydrocarbons that cannot be ignored. To think of applying Kyoto without taking into consideration oil and gas geopolitics is truly irresponsible. Yet this is what has been done so far—and the results are before everyone’s eyes, especially those of the “willing” to whom generic appeals are made.

The geographical coordinates have changed and the maps must be redrawn. Once, the energy routes were East-West, South-North. Europe occupied the central space of the planisphere and the United States was busy cutting off the claws of the Russian bear. The “Kyotists” have in mind an old and disconnected world; the globalization they think of is that of chimneys and industries. But they exclude all the rest, including the contemporary infrastructure which is a solid part of a

connected and interdependent planet. To begin to reason with a different view of the problem, they should update the projections of their geographical maps: it is quite a while since Europe has ceased to be the centre of the world, and although there is still a west-bound route, there are also another couple—of embarrassing importance for those who pretend not to see them—towards the East. China and India are countries with very high energy consumption and in a couple of years the former Celestial Empire will overtake the United States. It is useless to underscore that these countries do not apply the Kyoto Protocol and have no intention of doing so in the future.

Let us turn the pages of *Geopolitiques du Pétrol* (the author is Philippe Sèbille-Lopez, the book is published by Armand Colin and is part of the collection *French Perspectives Geopolitiques*, edited by Yves Lacoste) and discover that the Chinese will build between 30 and 40 nuclear power plants by 2020, and that when that happens, this enormous effort will be sufficient to satisfy only “four or five per cent of the Chinese energy demand”. Why? Here are some numbers for the benefits of the Kyotists: “Urbanization will cause a growth of energy consumption. We need to know that in the last 20 years, more than 150 Chinese cities have surpassed the one million inhabitants mark. In 1978, only 18 per cent of the Chinese lived in cities: now that’s more than 40 per cent. In the last five years, China has laid 200,000 kilometers of train tracks and built 20,000 kilometers of highways, new ports, and about 12 important airports.” China is at the peak of its industrial revolution, but next to the historic one of England—delimited by Thomas S. Ashton as being between 1760 and 1830—it unfolds in a context where speed of technological transformation is an exponential factor. The Kyoto Protocol does not make it possible to bridle a tumultuous, disorderly and dramatic growth that unsettles a millenniums old social order. Such a scenario does not concern Beijing alone. India—the huge democracy with a very special social structure and extremely delicate relations with bordering countries—is going through the same process. The growth in the heavy industry sector (we must remember that Arcelor Mittal, the world steel giant, is a global company led by Mr. Lakshmi Mittal, an Indian who

started his business in his country in 1976), India associates research and development in high technology content markets such as software and services, where the “killer applications” that establish the victory or defeat of enterprises are invented.

None of the countries that are pulling world GDP at the moment can afford to slow down growth on behalf of Kyoto. Punitive instruments do not work, agreements with little elasticity break, the expectations of an industrialized Europe that wants to continue to devour energy without undertaking the enormous risks related to energy security (terrorism, regional conflicts, escalation of defense expenditures) are doomed to fail. Only one weapon is left for the “Kyotists”: the use of psychological instruments and the fear of climate disaster. It is a media arsenal utilized regularly, with a precise stop-and-go strategy. The anticipation of the latest IPCC report corresponds exactly to this strategy, no matter how accurate and verifiable the conclusions may be of a report which is not at all consultable. What matters is to spread insecurity to the point of reaching the absurdity of millenarian chaos, complete with maps of a new world which is either desertified or submerged. Imagine for a moment the anxiety—as thin as a blade—that the catastrophist IPCC report spreads in the common citizen who cannot exercise a critical judgment for the lack of cultural instruments and objective and balanced information. Today, those who have bought a house in a coastal area which is depicted as the future Atlantis have in most cases two possible recourses: ignore the report or take it at face value and rush to sell and reroute the liquidity so obtained towards other forms of investment. Would you entrust the risk management of your company to Kyotists? And would Stiglitz accept modeling the economic choices of a country on the basis of the “recommendations” of IPCC experts?

The Nobel Prize winner, by the way, seems also to lose sight of the objectives in the fight against climate change, namely to limit the release of greenhouse gases in the atmosphere. Any wise political choice should be “blind” towards the means through which the purpose is reached. For example, it doesn’t matter whether the emissions tied to electricity production are cut

by shutting down coal-powered plants or by adopting techniques of emission sequestration; by the same token, the place where the reductions are pursued is irrelevant—whether in Europe and the United States through regulation and taxation, or in the developing world through technology transfer. On this point, Stiglitz is truly weak, and it is surprising to see how he does not seem to realize what kind of Pandora’s box his setup represents, based as it is on short-term fiscal and tariff politics that risks being opened to rent-seekers. The belief that it is possible to build customs taxes onto carbon without giving in—one way or another, sooner or later—to pressure groups and lobbies which already dominate European politics today would be truly an embarrassing naiveté. These groups have every interest in closing continental markets to the competition—for example, of China or America. Furthermore, the idea of customs duties collides with that of technological cooperation—also supported by Stiglitz—which comes in a more immediate and natural way into a context of liberalization and the opening of markets. Stiglitz seems to simultaneously ask for an energy Doha Round and a flashback to before the creation of the WTO.

Finally—and this is truly the most incredible point of Stiglitz’s reasoning—the Nobel Prize winning economist does not realize that the “coalition of the willing” that he hopes for already exists, and it is called Asia-Pacific Partnership on Clean Development and Climate, an organization which has been thwarted by the EU since the moment of its creation. The Partnership includes Australia, China, India, Japan, United States and South Korea. Its objectives are consistent with Stiglitz’s hopes: remove the barriers to the development and adoption of clean technologies, favor cooperation between industrialized and developing countries, and create a long-term strategy to face climate changes. Furthermore, differently than Kyoto (which involves 34 nations, many of them small, on a path leading nowhere) the Partnership has on its side the force of numbers. The states that are part of it represent almost 65% of the world GDP, 45% of the population, 51% of the energy consumption and 49% of the emissions of climate-altering gases.

In a previous paper,⁵ we argued that the Asia-Pacific partnership is a reasonable compromise in the attempt to marry a precautionary approach to the climate question without the need to alter prospects for economic growth. All the energy scenarios, in fact, show that most of the global emission production is destined to be move towards developing countries. This implies that Kyoto's logic—the adoption of objectives that are binding and short-term in industrialized countries—is destined to fail even if the objectives were to be reached. On the other hand, the demand to follow draconian restrictions exerted on nations that just now are emerging from poverty is not realistic nor probably justifiable or desirable. On the basis of these convictions, the creation of a coalition capable of putting together the developed and the developing world is no doubt the only reasonable avenue. This is also because this is the only way to conjoin economic growth and technology transfer and, therefore, the reduction of emissions. It is worth remembering that, according to some estimates,⁶ if China were to adopt today a technological standard that is similar to that of Japan, it could obtain an energy saving of 17% in electric generation, 38% in crude oil refining, 86% in coal mining, and so on. This demonstrates that the key to solving the problem lies in technological progress. The results in terms of energy savings and emission reduction are obviously even more astounding if we consider the rate of growth of consumption in emerging economies.

In his op-ed, therefore, Stiglitz poses real problems and proposes sensible suggestions, although viewing matters with a curious squint that has him idealizing the European ability to express an efficient economic policy, and to underestimate the results of the (albeit contradictory) American policy. If the European Commission did pay attention to the suggestion by Stiglitz and did recognize the innovative thrust of the Asia-Pacific Partnership, the effectiveness of European climate policies would grow and hence their costs decrease. Of course, this does not mean that this prospect is pleasant for those groups who have an ideological or eco-

nomic interest in maintaining a pervasive public interventionism under the banner of end-of-the-world risk. But at least being able to discuss the foreseeable consequences of the several approaches available would help to clear the field from unjustified alarmism and hidden opportunism.

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5: http://brunoleoni.servingfreedom.net/BP/IBL_BP_28_Stagnaro_Sechi_en.pdf

6: http://www.iccfglobal.org/pdf/APP_Paper_Final.pdf