

North, South and Paradox of Climate Urgency¹

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The negotiations on the climate change issue, too long isolated from the development agenda, illustrate the risks of a truncated multilateralism and of obsolete international financial mechanisms.

Despite the evidence that stabilising global climate change cannot be achieved without the joint engagement of the South³ and developed countries, the COP 28 global stocktake⁴ made clear that 30 years of negotiations resulted in small progress in helping the South to access to low carbon development pathways. It concludes, inter alia, to “the priority to build capacity in the South through an international economic system favourable to a sustainable development”, the refusal of “measures representing an unjustified discrimination or a disguised constraint to international trade” and the needed “evolution of fundamental mechanisms of the economy carried out in a non-conflictual and non-punitive way”. These words reflect significant doubts about the state of multilateral cooperation around the climate affair in a context of geopolitical tensions and misunderstandings accumulated over three decades.

Back to the starting point

The climate issue was put forward on the international agenda in a G7 meeting in 1988 where pdt Bush and Ms Thatcher proposed a Climate Convention only three years after the first projections of global warming by three-dimensional climate models. This fast reaction of course has come against a backdrop of warnings about global environmental change but it cannot be explained independently of concerns about a greater dependency on OPEC after the fall of oil prices in 1986. Coordinated climate policies to limit CO₂ emissions and encourage the transformation of energy systems would avoid betting energy security on a risky diplomatic and military control of the Middle East.

The starting point was therefore both western-centric and climate-centric. But, invited to the Rio de Janeiro Environment and Development Summit in 1992, Southern countries imposed that the Climate Convention be oriented towards the sustainable development perspective of the Brundtland report (1986) and that poverty alleviation be considered its “first and *over-riding* priority” together with the principle of “common but differentiated responsibilities”.

A Climate-centric Approach and its rapid obsolescence

Northern countries believed to settle this duty by adopting emission reduction targets up to 1990 without requiring the South to do the same. They started discussing carbon taxes but at COP 1 in Berlin (1995), H. Kohl, concerned by their adverse impact on the German carbon intensive industry, succeeded in changing the agenda of the discussion. Taking advantage of the industrial collapse of Eastern Germany he announced a 25% reduction target of Germany emissions in 2010 compared to 1990. Combined with the necessity of flexibility mechanisms, this led to the cap-and-trade paradigm of the Kyoto Protocol in 1997.

¹ Adapted and updated version of La Rovere, E. L. & Hourcade, J. C.; “Nord et Sud. L’arythmie climatique”. *Revue Projet* 2024/3 (400), p. 64-69, juin-juillet 2024.

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³ In this text, “South” stands for G77+China, while “North” includes the developed countries, listed in the Annex I of the United Nations Climate Change Conference (UNFCCC).

⁴ 28th annual Conference of the Parties of the UNFCCC (gathering representatives from 195 countries + Europe).

This paradigm, rather than paying due attention to the links between climate and development, comes to reduce climate justice to an emissions budget sharing exercise. As a preventive response the U.S. senate declared unanimously in the Byrd-Hagel resolution (1997) that it would not ratify any protocol which would not include substantial emissions reduction efforts by the South. A polite silence accompanied the reception to the Brazilian proposal of a Compliance Fund financed by penalties on the excess of countries emissions over their commitments. The negotiations almost broke down when the G77+China declared that there would be no emissions trading without a prior agreement on the entitlement of emissions rights. They were saved by a last-minute creation of a “clean development mechanism” by which Northern countries could add to their emissions quotas the amount of reductions generated by mitigation projects they would fund in the South. In 2000, the last efforts to save the Kyoto Protocol failed at COP 6 in the Hague⁵.

But the spontaneous reflex was to blame G. Bush Jr., and the Kyoto paradigm remained a dominant reference in the North. The focus of negotiations shifted to the goal of limiting the average global temperature increase to 2°C. This objective was adopted in 2009, at COP 15 in Copenhagen but only in a declaration, given the refusal of many countries to accept formal emissions reduction objectives, and the request for financial support made by developing countries, severely affected by the 2008 financial crisis. To avoid a total failure the North promised a transfer of 100 billion USD/year to the South with no specification of its modalities.

The Cancun paradigm shift and the Paris Agreement: an unfinished business

A paradigm shift away from this climate-centrism was operated in Cancun (COP16) in 2010, which finally associated emissions reduction and ‘*equitable access to sustainable development*’. In 2015, the Paris Agreement confirmed a departure away from ‘top-down’ approaches with global emissions limitation targets shared between countries and adopted a ‘bottom-up’ approach of “Nationally Determined Contributions – NDCs” by which real deployment and the rise in ambition would be secured by international cooperation and financial North-South transfers.

However, the potential dynamics opened by COP 21 was hampered by new misunderstandings after the publication in 2018 of the IPCC⁶ Special Report on stabilizing the global temperature at + 1.5°C. This report acknowledged that the economic benefits of such a limit were not assessed and pointed to evidence that the last tons of avoided emissions to meet it would cost three to four times more than for a 2°C limit. Again in 2023, the IPCC AR6 established that global benefits of a 2°C target would exceed its costs but noticed the absence of an equivalent analysis for 1.5°C. However, in the media communication, messages ‘à la Greta Thunberg’ spread the idea that: “the IPCC says that global warming has to be limited to 1.5°C to avoid a planetary catastrophe, solutions toward this end are on the table; it’s a matter of political will”.

This statement facilitated the diffusion of a neo climate-centrism. First, 1.5°C imposes 2050 to reach carbon neutrality of CO₂ emissions, an untenable deadline to supply 3.76 billion people living below 6.85 USD/day with affordable renewable energy sources and fossil free transportation infrastructures⁷. Second, it enters in cognitive dissonance with the bottom-up

⁵ For the economic and political background of this failure, see: Hourcade J.C. & F Ghersi, “The economics of a lost deal: Kyoto-The Hague-Marrakesh”, *The Energy Journal* 23 (3), 1-26

⁶ In 1988, the United Nations Environment Program (UNEP) and the World Meteorological Office (WMO) created the Intergovernmental Panel on Climate Change (IPCC) gathering senior scientists to supply scientific support to a plenary composed of representatives of the 196 parties of the UNFCCC.

⁷ Technical progress can certainly cut drastically the costs of these options but unlikely at the pace demanded by low-income populations, especially once all sources of systemic inertia to their deployment have been factored in.

approach of the Paris Agreement. If, really, *'it's 1.5°C or a planetary catastrophe'* there is no room for voluntarily nationally determined contributions.

Fortunately, IPCC results do not support this storyline. First, since the strict 1.5°C limit is now untenable, the average of scenarios aiming at either returning to 1.5°C after an overshoot or stabilizing just below 2°C leads to the same peak of temperature increase, 1.7°C (Table SPM2, IPCC WGIII AR6). This results from the inertia of the climate system since temperature, function of the stock of GHGs, evolves far less quickly than emission flows. Hence, the level of damage between now and the end of the century depends much more on the dynamics that have already been set in motion than on the difference in concentration levels achieved between the 1.5°C and 2°C scenarios. Second, a 2°C target gives an extra 25 years (35 years with a 50% chance of success) to achieve carbon neutrality and align development with climate concerns.

A storyline centered on climate distracts attention from the paradoxical nature of climate urgency. The ultimate temperature increase depends ultimately upon all human societies being or not being enabled to heed the warnings so often sounded about climate disruption. The paradox of climate urgency is that, for this to happen, other social urgencies must be met starting with poverty alleviation (absolute priority of the Climate Convention [Rio 1992]) and responses to the fears of social downgrading among the middle classes in many developed countries.

Differences of perceptions of this climate urgency paradox are behind the very disappointing stocktaking of COP28. Northern countries have generally adopted 2050 as the date of carbon neutrality (particularly in Europe), and this target was introduced as a basis for discussion at the COPs. Southern countries have not objected to this target which provides a better reference point to negotiate the aid to adaptation and loss and damage compensations. But they have been vigilant not to translate this target into country pledges disconnected from serious enabling mechanisms. That is why the COP 28 Declaration has balanced each reference to ambitious decarbonization targets with reminders of the requirements of poverty elimination (sixteen times), respect to national and special circumstances (twenty times) and sustainable development (eighteen times)

Of course, Southern countries want to minimize climate change, for they will be the first victims of its negative impacts. However, since 1992 the North has often forgotten that meeting the climate challenge imposes urgent reforms of the mechanisms contributing to perverse development patterns in the South and preventing its access to development pathways compatible with 2°C. Calls for more balanced diets and reduced mobility to control climate change are not very effective, if not counter-productive, when people getting out of under-nutrition are hit by malnutrition and obesity, also in rich countries, and a heavy infrastructure deficit prevents city-countryside spatial patterns more favorable to sustainable development. In the same way, the rise in the number of climate refugees is a tangible argument for reducing carbon emissions. But this reduction will have a modest impact if the underlying causes of the need to migrate worsen.

Which threads to pull to untie the climate-development Gordian knot?

Undoing the paradox of the climate emergency thus demands reorienting development patterns in the North and in the South and changing central elements of international regulation. This is like a problem of squaring the circle since these elements will be touched for reasons far removed from the climate issue. Moreover, long-standing relationships will be challenged and many actors, at all levels, might be reluctant to change them, given the uncertain outcome of such changes in a fast-changing world. They form a Gordian knot that no Alexander will cut, and the only way out is to find the right threads that need to be pulled to untie it.

The basic data are simple: the bulk of investments in decarbonization and adaptation must be made in the South while half of global savings is in the hands of sixty million millionaires mostly located in the North. The challenge is to reorient a share of these savings towards low-carbon and resilient projects in the South. Such a shift would comply with the “common but differentiated responsibilities” principle.

The problem is thus not a lack of money but structural obstacles to channel savings towards a high enough amount of climate-friendly initiatives with good viability prospects (IPCC AR6 SYR chapter 7). On the one hand, the weakening of social safety nets in developing countries over the past four decades incited savers and the intermediaries to whom they entrust their capital to invest more in real estate, land, modern art or any liquid speculative asset to secure their retirement and face future turbulence. On the other hand, viable projects are hampered by high up-front risks, institutional barriers, vested interests and difficulty in accessing funding at reasonable interest rates⁸, especially in half of Southern countries below a BB⁹ grade and compelled to pay interest rates above 21%. Finally, accounting rules based on the “fair value” principle¹⁰, company management based on the shareholders’ value for money, preference of financial intermediaries for real estate and the Basel III¹¹ rules, explain why banks are so reticent about investments with capital recovery times above eight years. This is at the root of the gap between the ‘propensity to save and propensity to invest’ which weakens growth dynamics in modern capitalism¹² and generates a chronic underinvestment in infrastructure that the IMF has pointed out ever since 2014¹³.

These mechanisms contribute to the North-South distrust about the very notion of financial transfers for climate issue. Typically, the legitimate claims of southern countries about adaptation and “loss and damage” cannot be met through conventional assistance only since the adaptative capacity depends upon reducing infrastructure deficits (transport, building, health, sanitation, water management, early warning systems) due to the world macro financial governance.

Europe will be charged with hypocrisy, as it was at the time of the Kyoto Protocol if, without discussing governance issues, it imposes a carbon tax at its borders to protect its industry, and its banks support hydrogen production from biomass in Africa to replace its use of natural gas with no concerns about the priorities of the host countries.

The South needs to change its narrative too when it protests against the insufficiency of aid while rejecting any conditionality in the name of its autonomy to choose its development

⁸ See chapter 2 of the GCF report on scaling-up climate finance: <https://www.greenclimate.fund/scaling-up-climate-finance>

⁹ International rating agencies give grades to countries to measure the risk of non-payment of debts; the best grade is AAA while a bankruptcy situation corresponds to grade D.

¹⁰ This principle implies assessing an asset value by its instantaneous market price and not by its acquisition price; it pushes buying assets (real estate, companies in difficulties) to resell them at a profit instead of investing in production equipment.

¹¹ Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09; the measures aim to strengthen the regulation, supervision and risk management of banks.

¹² Summers, L. H. (2016). “The Age of Secular Stagnation: What It Is and What to Do About It” (D3286, trans.). *Foreign Affairs*, 95, 2. <https://doi.org/https://www.foreignaffairs.com/articles/united-states/2016-02-15/age-secular-stagnation>

¹³ IMF. 2014. *Is it Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment*, *World Economic Outlook, October 2014: Legacies, Clouds, Uncertainties*. Washington DC: International Monetary Fund, doi:10.5089/9781498331555.081

strategy. It is hard indeed to imagine politically combating the ‘donor’s fatigue’ without paying attention to the use of funds.

To design a fully-fledged alternative financial system (of which development finance is only one of the components) seems out of reach in due time. However, it is possible to design a device apt to both accelerate immediately the funding of climate-friendly projects and pave the way for a structural evolution of the economic and financial system: the use of public guarantees to reduce the risk and transaction costs of climate-friendly projects and encourage financial intermediaries to invest their customers' money in these projects. Such public guarantees impose no burden on taxpayers: the State gets taxes on successful projects and pays only in case of project failures.

The emergence of low-carbon assets appreciated by financial markets and rating agencies would enhance the attractiveness of infrastructure investments against real estate investments and foster a macroeconomic multiplier effect through the allocation of savings to productive sectors. Southern countries would benefit from AAA guarantees offered by the North and mobilize private savings at reasonable interest rates to fund low-carbon infrastructure. This might unblock the growth potential of over-indebted countries that represent 40% of the world economy¹⁴. However, an effective and fast deployment of this mechanism depends upon its political credibility. In this perspective, two major difficulties must be overcome which, once again might be a cause of misunderstanding given that they are not of the same importance depending on whether we look at them from the point of view of a rich or a poor country.

The first difficulty is that a guarantee mechanism is totally adapted to mitigation projects which provide marketable goods but only partially to adaptation projects which provide a high share of non-marketable services. It can contribute significantly but indirectly to adaptation funding by mobilizing private savings which frees the public money of development banks to finance adaptation and basic needs projects. However, a full coverage of adaptation investment needs and the transfers for compensating loss and damage require direct North-South public transfers which might come from a variety of sources, for example higher taxes on billionaires as suggested by G. Zucman and E. Duflo¹⁵. In order to form the circle of trust we need, it might be better not to make the solutions to adaptation and loss & damage issues a pre-condition for a guarantee mechanism for mitigation.

The second difficulty starts with the need of a multilateral guarantee fund supporting this kind of mechanism to ensure its credibility. It would need to adopt common rules of project assessment, including the use of a reference social value for a ton of avoided carbon emissions¹⁶. B. Deese in Foreign Affairs¹⁷ just suggested public guarantee devices for cross-border investments similar to what we develop in this paper. But he envisages them in a unilateral perspective to reinforce the US leadership. Given cumulated North-South distrust in the climate affair and the more general context of competition between the OECD and the BRICS, a multilateral fund or at least, agreed upon rules for diverse regional or national funds seems required both for minimizing political bargains and to prevent the suspicions of green

¹⁴ On these mechanisms and the orders of magnitude at play, see J.C. Hourcade, D. Dasgupta, F. Ghersi “Accelerating the speed and scale of climate finance in the post-pandemic context”, *Climate Policy* 21 (10), 1383-1397 and Dasgupta D, Hourcade J.C. and Nafso S. “A climate finance initiative to achieve the Paris agreement and strengthen sustainable development”, report for the French government, <https://hal.science/hal-02121231>

¹⁵ <https://www.ft.com/content/2fa5787c-7139-405d-aecc-b07a493cb304>

¹⁶ Hourcade, J.C., Shukla, P.R., La Rovere, E.L., Dahr, S., Espagne, E., Finon, D., Pereira, A., Pottier, A., 2017. “How to Use the Social Value of Mitigation Actions - SVMAs to Reduce the Carbon Pricing and Climate Finance Gap: Numerical Illustrations”. Working Paper CIRED n_2017-61 Paris, March 2017

¹⁷ <https://www.foreignaffairs.com/united-states/case-clean-energy-marshall-plan-deese>

colonialism. Moreover, it would help to correct the tendency to privilege large projects against smaller interventions, more favorable to local development but suffering from transaction costs, administrative barriers and the multiplicity of counters that discourage project leads.

Conclusion

Development assistance was framed after WWII to “teach how to fish” instead of “giving a fish”. But the South has changed. Today, the South has learned to fish and demands to overcome the barriers to its access to fishing tools, to be associated to its manufacturing and to the invention of more effective tools.

Even if times are not in favor of multilateralism, the current mechanisms of development finance desperately need to be changed. We face two options: to resign ourselves to seeing the climate issue taken hostage by geopolitics; or to work on options capable of untying the Gordian knot Environment x Development and of recovering the sense of the mutual benefits of cooperation. That was the idea behind the creation of the United Nations Environment Program in 1972: a work site for the peaceful coexistence of two antagonistic systems. It is perhaps time once again to counterbalance current sources of tensions in the world.