Hold the rich nations to their word

By Jeffrey Sachs

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With days remaining in the Copenhagen climate talks, the rich have finally begun to discuss climate financing for the poor. The negotiating round has gone on for two years with little serious discussion on financing and many other topics, a gaping failure of a process run by and for rich-country politicians who do not like to be bothered with unpleasant details. This will not do. Climate financing needs a formula.

The governing law is the United Nations Framework Convention on Climate Change signed in 1992. It is unambiguous. "The developed country Parties . . . shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations" under the treaty. Moreover, "developed country Parties . . . shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects". The treaty emphasises the need for "adequacy and predictability in the flow of funds".

If negotiations were in good faith and properly managed, two years would have been enough to determine the mechanisms for new, additional, adequate and predictable resources to meet the needs of the developing countries. Of course, no such discussions took place. Political leaders of the developed countries did not speak frankly with their own citizens, nor did they deign to negotiate with the poorer countries. President Barack Obama has not breathed a word to the American people about the financing responsibilities of Americans to the developing countries under long-agreed international law.

Rich-country leaders want to sneak by on minimalist commitments eked out of recalcitrant parliaments back home, not ones consistent with global needs or international obligations. That may be clever politics on an election-to-election basis, but it is wrecking the prospects for a rational approach to global crises.

I know this well from another closely related set of financing commitments, the rich-country pledges on development aid. As recently as September at the Group of 20, rich countries promised again to fulfil a 2005 promise to raise aid to Africa by about $30bn a year between 2005 and 2010. Yet with three weeks to go until the deadline, the rich world is roughly $20bn behind. When I inquired in 2005 about the spreadsheet showing how the promise would be fulfilled, I was told that the US government had insisted on "no spreadsheets".

Only a few countries have consistently honoured their financing commitments (notably Denmark, Luxembourg, the Netherlands, Norway and Sweden). The recent "offer" by the European Union of $100bn a year in climate financing by 2020 is as bankable as Lehman shares. The "proposal", characteristically, had no specifics, no formulas and no accountability.

Copenhagen is the occasion to fix a broken system. We need to end the no-spreadsheet tactic that dominates financial transfers to developing countries. The draft climate text circulated on December 11 has the key phrase, though it is currently stuck in brackets, indicating a lack of agreement among the parties. The phrase is "an assessed scale of contributions".

We need, in short, an assessment formula. Member states of the International Monetary Fund pay assessments based on an agreed quota formula; likewise, the UN requires member states to pay an assessment for its budget. We need clear formulas as well for development and climate financing.

In the case of climate change, a formula stares us in the face. Countries should be assessed according to their greenhouse gas emissions, on the "polluter pays" principle. Not only would this be transparent, proportionate and aligned with proper incentives, but it would also be administratively manageable. Governments will in any event be collecting revenues through carbon taxes and auctions of emissions permits. They would then devote a modest fraction of those revenues to their responsibilities under international law, keeping the rest at home. Mexico, Norway and Switzerland have proposed emissions-based assessments along these lines.

The developed countries currently emit about 15bn tons of carbon dioxide a year from fossil fuel and industrial processes. An assessment of a bit over $3 a ton, roughly a fifth of the market price of emissions permits, would yield $50bn a year, a reasonable flow of financing for the next few years. Since China and other major middle-income economies have reached, or are quickly reaching, income levels where they too should agree to pay for the poorer countries, the base for assessments would grow over time to meet growing needs. Of course, today's low-income countries will also graduate from the need for transfers over time, so that this assessment system will phase out in a few decades. Principles for graduation could be established along the lines used at the World Bank.

A greenhouse gas assessment would be a major step forward in rationalising climate financing. A tax on international financial transactions, recently discussed by the Council of Europe, offers a sound base for analogous assessments for development financing. The entire world will gain enormously from the resulting predictability, fairness and follow-through of climate and development financing that we urgently need but have not yet achieved.

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