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Reviving the Spirit of Rio

The "Spirit of Rio", widely invoked as a new dawn when heads of state and government from 175 countries assembled at the first "Earth Summit" in Rio de Janeiro in 1992 and declared their intent to follow the path of sustained global development, has lost much of its sparkle in the interim. This impression is inescapable following the Special Session of the UN General Assembly in New York at the end of June, held to take stock of this process five years on. Readers may recall that the participating nations at Rio agreed on a package of programmes to protect the environment, the key item of which was the Framework Convention on Climate Change. This involved a pledge by the industrial countries that they would implement sustainable measures to protect the Earth's atmosphere, particularly by cutting man-made emissions of carbon dioxide (CO₂) and other "greenhouse gases" back to 1990 levels by the year 2000.

The outcome of the New York stock-taking event was bound to be a poor one, for the state of the global environment has deteriorated further since the Rio Earth Summit. Greenhouse gas emissions in general, and CO₂ emissions from energy use in particular, have again increased both worldwide and in the industrial countries as a group. The EU countries appear likely to come somewhere near to achieving the stabilization target, chiefly due to the "wallfall gain" arising from the collapse of industry in former East Germany, but other industrial countries will not attain it. In North America, for example, CO₂ emissions had gone up 6% by 1995, while in Japan they increased by almost 12%; further increases are likely by the year 2000. Emissions in developing countries and the newly industrializing countries will increase more sharply. This global increase gives all the more cause for concern as the UN's Intergovernmental Panel on Climate Change (IPCC) believes it is not just necessary to contain emissions at recent levels but to reduce them by 50% (by 80% in the industrial countries) by the year 2050 in order to stabilize the world climate.

Protecting a global common good such as the Earth's atmosphere is inevitably a difficult process because the costs of avoiding pollution need to be distributed fairly among the specific polluters. Airy declarations of intent such as those made at the Rio Earth Summit are unable to prevent emitters from "dumping" substances into the atmosphere that are noxious to the global climate. Even though it has long since become a scarce and valuable resource, because there are no economic signals of such scarcity polluters are still able to use the atmosphere free of charge, passing on the risks involved to the population at large. It is not an economic proposition for any single emitter to bear the costs of improved climate protection, because the degree of externality is so great that any resulting benefits to the global environment would chiefly be enjoyed by others. There are hardly any incentives to step up research and development efforts, e.g. to improve the efficiency of energy use. Because it is so attractive to act as a free rider when dealing with these global common goods, any solution involving isolated steps taken by individual countries will not work. The only way of resolving the dilemma is to ensure international cooperation coupled with binding reduction targets and, if possible, mechanisms to apply sanctions to offenders.

The first Earth Summit in Rio, much to its credit, provided vital impetus to this much-needed international cooperation in a number of ways. First of all, it triggered off intensive research efforts, yielding substantial progress in climatic research. As a result, it is now regarded as scientifically proven that there is indeed a connection between greenhouse-gas emissions and changes in the global climate. The risks involved in global warming and in the accompanying rise in sea levels are generally regarded as unacceptable. (This is also the position of the IPCC.)

Secondly, Rio introduced global environmental problems into the broad political debate. This factor, coupled with scientifically established knowledge, is presumably a key reason

why some of the major participant countries in the conferences set up at Rio have now begun to abandon their non-cooperative stance. For example, the USA, which is responsible for 25% of the world's CO₂ emissions because its per capita energy consumption is unparalleled anywhere in the world, has now recognized the scientific findings and conceded that its contribution to climate protection is inadequate, advocating a medium-term reduction in CO₂ emissions. However, in spite of these "successes" there can be no denying that policy towards the global climate has now reached a critical point. Unless binding reduction targets and timetables are laid down at the third conference scheduled to take place in Kyoto, Japan, in December, the danger is that international climate policy will get bogged down.

What, though, are the conceivable ways forward? The EU is a particularly strong advocate of binding, short-term reduction targets. Evidently, voters in these countries, and hence also politicians, are more sensitized to ecological dangers and hence to the industrial countries' global responsibilities. This also suggests that the EU ought to be taking the political lead on the issue of climate change: by committing itself to a firm CO₂ reduction, it could add new impetus to the process of establishing an international climate policy. The risk that if one group of countries were to beat a path of its own it would weaken the competitiveness of its own domestic industry is a limited one. For one thing, the high transaction costs involved mean that the danger of production being moved out of the EU's territory in response to a policy intervention is assuredly less than it would be if just one country were to move by itself. For another, there are growing signs that the EU's chief competing countries would follow suit in the medium term, since their own voters are liable to grow more sensitive to climatic dangers as time goes on. Hence an initial locational disadvantage could actually turn into an advantage in the medium term: structural change would be spread over a more manageable period, and the first mover would have gained a valuable lead in the development and application of energy-saving technology. The EU could, and should, ensure that competitors do indeed follow suit, as this is vital to any such initiative's success. One way of doing this would be to set out a medium-term timetable for the reduction of greenhouse-gas emissions, stating objectives and the measures needed to attain them, but to make the implementation of the plan dependent on at least the other industrial countries' following this lead.

If the EU succeeds in becoming the pacemaker among the developed countries by reaching binding agreements on climate policy, it will then face the no less daunting task of also persuading the main sources of future emissions, namely the developing countries and NICs, to take measures in the medium term to put the brake on increasing CO₂ emissions. Calls are often made for trade-policy steps to perform the persuasive task. The thinking behind this is that any country persistently refusing to internalize the external effects it generates on the world climate is establishing an unjustified competitive advantage for itself in international trade. As in the case of ordinary price dumping, an ecological compensatory tariff might be an appropriate means of preventing the migration of production to a "free-rider" country.

However, it would be unwise to expect too much of any such "greening" of trade policy. On the face of it, it is a good idea to prevent free riders from drawing benefits for themselves, in the shape of increased exports, from others' climate policies. Yet, quite apart from the practical problems involved and the danger that such measures might be misused in a protectionist manner, it cannot be the task of trade policy to force these countries to make the emission reductions needed in other areas which have no contact with international trade. It would then have long ceased to be dealing merely with distortions to international competition, and a policy area supposedly responsible for ensuring free trade would be turned into an instrument of environmental policy. That would soon prove too great a load for it to bear. So a "green" trade policy cannot function as a substitute for a proper international climate policy in its own right.

International policy towards climate change is a telling example of the fact that reform processes need a lot more than just an initial push to keep them moving down a long road. The "Spirit of Rio" needs to be kept alive on a permanent basis if the community of nations really has the will to make progress towards sustainable forms of production and consumption. All countries have their responsibility to bear in this. However, it would be fitting for the EU to play a special part as an engine of reform in this field.

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