

A Global Contract

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Session 1: Why Ministers of Finance should worry about Climate change.

I highly appreciate the opportunity to meet and discuss why I believe it is crucial that Ministers of Finance worry about the climate challenge.

We are in a situation where we are facing two major crises. For the last few months many of us have been concentrating on the financial crisis. At the same time we must bear in mind that the climate challenges will possibly be with us for centuries. While working on solving the financial crisis we need at the same time to ensure that we are on the right path to solve the climate challenges. We have to implement tomorrow's climate efficient technological solutions, and not yesterday's.

One year ago, at Bali, I stated the fact that in order to prevent the most devastating consequences, we must stabilize global warming within two degrees Celsius of pre-industrial level.

One year has passed and the facts about global warming have been even more substantiated while at the same time the goal has been more difficult to reach. Therefore, it is urgent for Ministers of Finance to confront the climate challenge.

In my short intervention I will focus on main parts of a framework to ensure emission reductions.

Climate change is a global problem. As Ministers of Finance we can look at this as a global investment project. Analyses tell us that it is a profitable project. The global cost of action is lower than the huge cost of inaction. This global investment project is not feasible if the mitigation activities are not designed and executed as rationally as possible on a global level.

The industrialized countries bear a great responsibility for the climate challenges. Therefore, we must take a special responsibility for reducing global emissions. We have to fulfil short term goals, while at the same time ensuring that the right long term decisions are taken. Norway will overfulfil our Kyoto target. As part of an international agreement, we will be carbon neutral by 2030, and take responsibility for all our emissions.

At the same time we need to seek out measures that we believe will be crucial for solving the climate challenges. Research and development is necessary to find new solutions and to reduce cost in the future. The Norwegian government has given priority to two important issues:

- measures to reduce emission from deforestation and
- measures to capture and storage emissions from large gas fired plants.

Through these priorities we hope to be able to make a difference by creating new solutions for the future.

To limit the global warming within 2 degrees means that we by 2050 must return to a level of emissions equal to two thirds of the 1990-level. Many have already given up on the 2 degree goal. They consider it unrealistic. Why is there such pessimism around realizing what we all agree to be a profitable joint project?

The answer, and the reason for this predicament is, as the Stern review points out, that emissions of greenhouse gases represents the world's largest market failure.

This failure cannot be rectified by industry or by each of us acting alone. It can only be solved by policy makers acting together. I believe that the Ministries of Finance should take a lead in this crucial work.

The challenge is to get the international community to act together, to create incentives and to provide sufficient resources. If we are successful, the result will be that a majority of the world's consumers and investors are given strong incentives to take the cost of climate into their daily choices.

Cap and trade systems and carbon taxes should be employed to implement such a policy. In my country we have chosen a combination. At this stage we should not spend time arguing which of these routes is the superior one. The point is that they both work if they are properly designed.

Economic instruments give good incentives at the individual level in each country. The actual decision to implement taxes or emissions trading is decided by each Party or country. However, at the international level the Parties take on obligations, and are as such given incentives to implement national policy instruments.

Meeting the challenge of climate change is an imperative. Commitments should be shared taking into account that countries are in very different circumstances. The distributional aspects are important, but climate has to come first. We have to concentrate more on the common problem of creating incentives for efficient resource allocation or, if you want, on how to do the job rationally.

Countries are different in terms of abatement opportunities and in the distribution of wealth, but there is a rapid change in prosperity. In order to secure climate-friendly growth, rich countries will have to especially assist the less developed countries. In other words, low income countries should receive strong incentives and economic support.

An international agreement should include as many sectors and sources as possible. We need a global agreement where also developing countries with growing emissions contribute significantly to emission reductions. The structure of the agreement could however be flexible, for instance by allowing countries to be included sector by sector.

We need a new mechanism, like the CDM. A new mechanism where host countries are more involved in setting policies and a mechanism which is more general and has wider coverage than a single project. Again a sector coverage could prove to be the right level of aggregation.

Use of transitional periods is normal in economic treaties. Since countries are very different and grow at significantly different pace, the concept of transitional periods should be employed.

One year ago, at Bali, I concluded my intervention by proposing a system for financing adaptation. Tomorrow morning we will revert to that proposal under the discussion of financial mechanisms. Negotiations of complicated and unprecedented concepts cannot be successful without trust between the parties. Our proposal at Bali on financing of adaptations was also meant to contribute in creating such a trust.

The cooperation on climate will last much longer than a financial crisis. Climate solutions must thus be enshrined in a more self executing, goal seeking structure. Ministers of Finance have both the opportunity and the responsibility to make a difference. It would be an important signal if we, the Ministers of Finance, could give a statement that even in a financial crisis we should not forget the longer term challenges of climate changes.

THANK YOU FOR YOUR ATTENTION