Price and Track The Transition

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At a time when economies sit on the cusp of oil dependence and insufficient RE expansion, it is convenient to agree that there is a need for a transition tailored to national priorities. At international fora, it is also easier to agree that international development institutions have not lived up to their promises. Procrastination afforded by the debate will exacerbate the climate crisis, and it is time to turn words into reality. To do so, the ambitions of G20 will have to tie in with processes at United Nations Framework Convention on Climate Change (UNFCCC), and many hard questions need to be answered. The most important are definitional clarity of 'obligations' and 'fair share', and the consequences of their non-compliance.

FINANCE

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Global financial flows to fossil fuels are substantial: the annual bank investment was \$742 billion in 2021, and the total investment was \$1.2 trillion. This is more than the investments of \$653 billion for climate, estimated for 2020. Much of the capital is moving to oil and gas. As countries raise their ambitions, these investments could lose value. TA Hansen finds the loss of value, subject to oil price projections, could be \$13-17 trillion. This means that the financial and real sectors are at risk, the degree of which would vary as per the pace and nature of the transition.

The distribution of these losses also feeds into climate negotiations. The US and West Asia stand to lose more if the phase-down were to apply broadly to oil and gas. The former would lose \$2-3 trillion, and the latter \$4.6 trillion. On the other hand, 81% of the coal assets are in Asia-Pacific and the losses would be \$1.77 trillion. So, can a green transition be expected at the desired pace, and, more so, who will pay?

Much emphasis has been placed on multilateral development banks (MDBs). Demand for reform is cyclical, intensifying during major events. However, not much has changed as voting patterns and shareholder contributions remain skewed. Yet, developing countries have urged that the capital adequacy framework and contributions be modified to accommodate the need for low-cost financing. The G20 report suggests \$260 billion in financing can come through reform. Seemingly, this is an easy ask, but larger issues loom on whether this will become the ceiling to obligatory contributions, and whether the qualitative composition will change. Moreover, the sum is insufficient compared to the necessary trillions.

The demand for loss and damage due to climate change by the developing world is legitimate, but the \$100 billion target may only be met this year. What is critical is that 48.6% of these are loans. As the time to renew the global commitment draws close, it must be established if the fair share is to be defined based on historical emissions, how far back, and per-capita incomes. Even if the fair share is guaranteed, a reasonable share may be foreseen as coming through the private sector. Of the globally tracked climate finance flows, 48.8% were from the private sector.

Climate finance experts are trapped in the trilemma of returns, resources and fiscal constraints. Too much focus on one makes the pursuit of change difficult. Given the quandary, how can the discussions move beyond the impasse? Regulations are foes of finance, but the aftermath of the Asian and global financial crises shows that they are the only way to respond. The last decade has witnessed benign regulations, such as disclosures, but these are not enough. An industry that works on valuations and returns must have a clear metric of costs associated with the status quo. A price must be attached to carbon to tip this balance where private investors see the business case for transition-aligned investments. The process is underway in many countries, and this is a conversation to be had at UNFCCC.

The experience with oil windfall taxes shows that governments do not shy away from opportunities to raise revenues, carbon price and taxes, therefore, hold potential. Pricing mechanisms may also lend transparency to the leniency by developed countries while treating their industries, the revenues collected can form the basis to insist on global redistribution as well as the value placed on transition. Nothing prohibits governments from pricing as they like. But not pricing makes clear that the flows of finance will continue as usual.

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