FIVE QUESTIONS

ON INCENTIVES FOR BETTER CLIMATE PROTECTION

FOR AXEL OCKENFELS

Mr. Ockenfels, global CO_2 emissions continue to rise despite the efforts of some countries, such as Germany, to reduce them. Is reducing national CO_2 footprints a futile endeavor?

AXEL OCKENFELS: No, it isn't. But we have to make sure that we work together with other countries. The costs of national climate policies are borne domestically and the benefits are diffused globally; the incentives for ambitious national climate protection are too low. As a result, global emissions continue to rise – by more than Germany's total emissions last year. So, it's not enough to focus policy on our own climate footprint. We need to do better.

Do we need more ambitious climate targets?

Climate targets are not yet reducing global emissions. There is a huge gap between the Paris climate goals and national pledges. Even national climate targets are generally not being met. Moreover, unilateral efforts can actually reduce the incentives for others to cooperate, for example, if climate-damaging activities are relocated abroad or if fossil fuels saved in one country are diverted to other regions. In such cases, the efforts of climate altruists simply subsidize the CO_2 emissions of climate egoists. We need an incentive architecture that strengthens cooperation.

Is emissions trading a global panacea?

Emissions trading is one of the most effective climate policy instruments because it creates a CO_2 price that provides effective incentives to reduce emissions. But there is room for improvement. For instance, no more CO_2 can be saved in the European electricity sector than is allowed by the European emissions trading system with its cap. When emission rights are released as a result of ambitious national climate policies, the price of CO_2 emissions falls and the rights are sold to others who then save less CO_2. This improves the national climate footprint, but not the global one. If, on the other hand, a price floor were introduced for trading or if CO_2 were priced directly, these waterbed effects could be contained. But even such modifications to the emissions trading system would not yet solve the problem of international cooperation.

What could help?

Cooperation requires reciprocity. Reciprocity protects those willing to cooperate from those looking to exploit the system, while motivating those unwilling to cooperate to contribute to the common good. Virtually all cooperation is based on reciprocity, including international trade, arms agreements, and minimum tax treaties. Only climate diplomacy is based on nationally determined voluntary commitments.

What could this look like in practice?

There are different models. One is based on a common minimum price for CO_2 in a climate club, combined with climate tariffs on products imported from countries with less ambitious climate policies. The latter creates incentives to join the CO_2 pricing system. In addition, climate partnerships and climate funds can be used to support poorer countries if they themselves participate in internationally coordinated climate action. In the absence of international cooperation, we can also do a lot by developing and promoting green technologies. The cheaper green energy is compared to fossil fuels, the more it is in the interest of all countries and companies to leave fossil resources in the ground. This requires basic research and intelligent incentives. The market alone does not create enough incentives for innovation, and patents generally lead to high prices for a small number of users – the opposite of what we need.

Interview: Michaela Hutterer

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