

A Climate for Cooperation & Strategic Leadership
Business & Industry Global Dialogue 07
The global energy, climate & chemicals agenda
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- Opening address by Ambassador Rubens Ricúpero -

“Climate change is the greatest and widest-ranging market failure ever seen”. This stunning statement is not mine. It belongs to the Stern Review on the Economics of Climate Change, commissioned by the British Government to Sir Nicholas Stern, former Chief-Economist of the World Bank.

I could find no better words to start a dialogue with business on the global energy, climate and chemicals agenda. It puts the right emphasis on the market, that is, on the place where producers and consumers meet, as part and parcel of the problem and its solution.

The indispensable global response, says the Review, will require “deeper international cooperation”, underlining the other elements in our meeting’s title: cooperation and strategic leadership.

I will closely follow the Stern Review in my presentation for a simple reason: it is difficult to find another study of environmental challenges that is more solidly market-oriented than this one.

Its approach stems from a straightforward idea: the market has created the problem; consequently, it has to solve it. This is not the naïve belief that the market is all-powerful or that its self-regulatory capacities are equal to any challenge.

Anyway, who would make such extravagant claims at a moment when markets are imploring the Fed and the Treasury to save them from their subprime mortgage follies?

Markets alone cannot do much. They do need the State, that is, governments acting individually within their domestic realm or collectively, through cooperation, international organizations like UNEP and binding agreements.

Take, for instance, the first element of any effective carbon reduction policy: the adequate pricing of carbon.

An appropriate price for carbon depends on solving the externality problem. As the report’s puts it: “people who produce greenhouse-gas emissions are bringing about climate change, thereby imposing costs on the world and on future generations, but they do not face the full consequences of their actions themselves”.

In order to persuade individuals and businesses to switch away from high-carbon goods and services, and invest in low-carbon alternatives, they have to bear the full costs of their actions.

There are only two ways of achieving this objective: explicitly, through taxes or trading in carbon emissions reductions certificates, or implicitly through regulation. In each alternative, we have to rely on a sort of triangular cooperation among society, governments and international agencies.

First and foremost, society, that is, scientists who provide the knowledge basis, business that convert ideas into practical solutions, organized groups with the power to influence the political system.

In the following stage, governmental action is indispensable to bring about regulatory frameworks at the domestic level and international cooperation on a regional or global scale.

The final stage is where the United Nations, and organizations with specific competence in environmental matters such as UNEP or the environmental conventions secretariats, will have to bring all the actors together for the negotiation and enforcement of binding agreements.

In the recent three decades or so, what our title calls “cooperation and strategic leadership” has been showing that it is possible to tackle environmental challenges through an amazing capacity for market-creation. Far from going against the market, approaches to problems like the threat to the ozone layer or global warming are increasingly relying on market mechanisms as part of the solution.

Climate change mitigation presents us with a clear illustration of how the process works. At the start, in the late 1980s, the UN, through UNEP and the World Meteorological Organization, convened and supported the scientists that formed the Intergovernmental Panel on Climate Change. The four successive IPCC’s reports provided the scientific basis for governments to negotiate the UN Framework Convention on Climate Change, signed in Rio de Janeiro in 1992 and its famous Kyoto Protocol of 1997.

It was the latter that set the foundations for a new market on carbon reduction certificates. Without the binding commitment to limit emissions to quantifiable goals on the part of some significant polluters – unfortunately not the main culprits – nothing could have been achieved. The following step was to understand that, from the point of view of economic efficiency, it makes sense to encourage emissions reductions wherever they are cheapest and then to build a new market on the cost difference. This is, by the way, the rationale for the Clean Development Mechanism and joint implementation.

As we move on towards replacing Kyoto with something better, hopefully it will be possible to agree on much more stringent goals and to

bring aboard all major polluters, including the USA, China, India, Brazil, Indonesia, Australia. At this point, it will be important to reach agreement on a common global carbon price and to give assurances that the price will not collapse in the future.

Success in this endeavor will create sizable new markets in low-carbon energy technologies and other low-carbon goods and services. The Stern Review estimates that those markets could be worth at least \$500bn per year by 2050 or even more. To this half a trillion dollar a year, one should add gains derived from reforming inefficient energy systems, and from removing distorting energy subsidies, on which governments currently spend around \$250bn a year.

This is the reason why a strong action to reduce emissions will prove the best pro-growth strategy for the longer term. Creating price signals for new low-carbon markets and technologies is the best assurance that there will be no need to choose between mitigating climate change and promoting growth and development for all.

The pro-growth approach can work. The best proof is to be found in the most successful experience so far in solving a global problem in the atmosphere: the fight against ozone layer destruction. A couple of weeks ago, the 19th Meeting of the Contracting Parties to the Montreal Protocol reached the historic decision to anticipate the phasing out of HCFCs because of their damaging impact on the climate.

Twenty years ago, when the Protocol was established, no one was able to foresee that it would not only deal effectively with CFCs, the major obstacle then, but with HCFCs, their replacement, as well. The key to success was the availability of the technological solutions, the provision of \$2bn to help poor countries to cope with the transition and, last but not least, the enlightened self-interest of the chemical industry itself.

Climate change is an incomparably more complex problem. Some of the conditions to repeat here the ozone layer success are not in place yet but never before was there such an overwhelming support for decisive action as now. The Peace Nobel Prize award for IPCC and Albert Gore is just the last in a series of signs in that direction.

The chemical industry has been instrumental in some of the best examples of successful cooperation between the public and the private spheres to overcome severe environmental challenges. Besides the Montreal Protocol, this was also the case with the agreement about hazardous waste and with the Responsible Care Program, today adopted in 52 countries. Brazil is an active player in Responsible Care through the chemical industry association ABIQUIM.

A remarkable Brazilian environmentalist, the former Minister for the Environment and the Amazon and my admired friend, Henrique Brandão Cavalcanti, was, from 2000 to 2003, the Chairman of the International

Forum on Chemical Safety (IFCS), to whose initiative we owe the adoption of the Strategic Approach to Chemicals Management Program (SACM), strongly endorsed by UNEP.

The chemical industry encompasses such key sectors for modern life as fertilizers, pesticides, pharmaceutical drugs, the whole family of petrochemicals and plastics, just to mention a few. It is hard to think of any possible solution for environmental evils that will not depend on a crucial contribution from the chemical industry.

This is particularly true about the Brazilian industry pioneering role in biomass, first as a source of an alternative and renewable fuel and now as a promising green raw material for petrochemicals and plastics.

It is high time for the international community to pay attention to South America and Brazil as true environmental powers. The presence here of the largest tropical rain forest, of one of the richest reservoirs of fresh water and biodiversity in the world, of a relatively clean energy matrix and the longest and most successful experience with green fuels entitle and qualify this nation and continent or, if you wish, this nation-continent, to play a proactive and enlightened role in the search for a solution to the challenge the world is facing.

Global warming is, indeed, not only one of the major threats but the mother of all global threats to human civilization, to life as we know it and to the planet itself. After the danger of a nuclear cataclysm during the Cold War period, it is certainly the closer we came to the risk of self-destruction, of a collective suicide.

Back in 1973, Arnold Toynbee wrote in his *Mankind and Mother Earth* that at this point in History, we, human beings would be tempted to envy social insects conditioned by Nature to cooperate in a large scale. In contrast to ants, man is not an inherently psychosomatic social organism. He possesses conscience and reason; thus, he has the capacity and the duty to choose between evil and good.

More than two centuries before, Dr. Samuel Johnson had remarked in a more casual mood: “Depend upon it, Sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully”.

“What is the good of it”, cynics would say, “If it does not help him to find a safe way out of the death row?” Well, Ladies and Gentlemen, do not kid yourselves; we already are in the death row. Will our minds concentrate in such a wonderful way as to save us from the gallows?