

Remarks by Sir Nicholas Stern, Delhi Sustainable Development Summit – 3 February 2006

Panel Session on “The Climate Change – MDG Nexus”

Panellists Dr Klaus S Lackner, Ewing-Worzel Professor of Geophysics, Earth & Environment Engineering, Columbia University, USA
Dr Hoesung Lee, President, Council on Energy and Environment, Korea
Dr Richard KL Sandor, The Chicago Climate Exchange, USA
Sir Nicholas Stern, Head Stern Review on Economics of Climate Change, Head of the UK Government Economic Service
Mr Ashok Alexander, Director-India, Bill & Melinda Gates Foundation
Dr Neil A Leary, Science Director, Assessments of Impacts and Adaptations to Climate Change, USA.

Opening remarks

Thank you Chairman and thank you to Dr. Pachauri and all at TERI for organising this important gathering. Let me say a word or two on the perspectives I will try to bring to the question of the relation between climate change and the Millennium Development Goals (MDGs), and then say how I think we should interpret the question.

During the 40 years I have been working on development, my work has focussed on India, China and Africa. And my work on India has included following the village of Palanpur in Uttar Pradesh for more than 30 years. Indeed while I was Chief Economist of the World Bank from 2000-2003, I tried continually to ask myself how our actions might be seen from a village like Palanpur. Most of last year was spent writing the report of the Commission for Africa, a continent which has seen severe difficulty over the past 30 years, much of it concerned with environmental difficulties.

Since the autumn I have been leading a review for the UK Government on the economics of climate change. The review will report to the Chancellor and Prime Minister in Autumn 2006.

As you know, economists are a sceptical lot. Having done a great deal of work on economic policy I am not, I hope, immune from that scepticism. But in the past six months I have looked closely at the evidence for climate change and it is absolutely clear both that it is a very serious issue and that it requires strong and urgent action.

We are talking today about the relation between climate change and the MDGs. Climate change is relentless and severe, but slow relative to the MDG timescale of 2015. The broader question is the relation between climate change and development, with the MDGs defining the key elements of development policy.

With these perspectives and with this interpretation of the question let me make five points on the “Climate Change – MDG Nexus”.

I. Climate change, development and the key elements of MDGs

The first MDG, MDG1, concerns income poverty. Climate will change affect agricultural output, will be disruptive to economic life generally via floods, inundations, storms, droughts and water stress, and will cause dislocation and migration of populations. It can undermine attempts to raise the levels of income, as well as creating greater uncertainty and insecurity about future income.

MDG2, concerns education . The link from climate change to education is probably less strong than that to income or health; but dislocation or disruption to income and health can in turn dislocate or disrupt education. There is, on the other hand, a strong potential effect of education on climate change in terms of changing the understanding and preferences of people with respect to the environment in both rich and poor nations.

MDG3, Gender. Women and girls are hit still harder than men or boys by water shortage, disease and dislocation. It is usually girls that are the last in the queue for health services and girls who have to spend more time looking for water in face of water stress.

MDGs 4, 5 and 6 concern health for children, maternal health, mortality and HIV/AIDS. Dislocation and falls in income can have very powerful effects on health status, access to income and the spread of infectious disease.

MDG 7 concerns the environment. Climate change is clearly of the essence here.

There can be no doubt that climate change is a severe impediment to development on all the dimensions of MDGs 1 to 7.

II. The last MDG, number 8: international collaboration

Let me treat this MDG separately as it is at the heart of our story of combating climate change.

Climate change is global in both its origins and its effects. A serious response requires international collective action. And any successful strategy on mitigation must involve both rich and developing countries: rich countries have been the source of more than 70% of the emissions over past 50 years; but within 20 years developing countries will account for more than 70% of the forecast growth in emissions over the next 20 years. Given that many countries must agree to act together, it is crucial to have a common understanding of the effects on growth and welfare of participant countries both of different strategies for mitigation and of strategies for dealing with impact and adaptation. Most of the focus of international discussion has been on mitigation. In this part of the story the international community has been laying foundations in a serious way for more than 15 years through the Intergovernmental Panel on Climate Change and the United Nations Framework Convention on Climate Change. This is the right type of collaboration but we are not seeing action on a scale commensurate with the task. It is time to raise our game to different level.

III. Growth and climate change

All countries, rich and poor, are concerned to understand the link between climate change, and measures to influence it, and growth. Past analyses have focussed on the implications of different patterns and rates of growth for emissions. Growth itself has been exogenous and portrayed using different scenarios. But countries in considering their participation in international action will want to understand (i) the implications of different possible mitigation strategies for growth and (ii) the implications of climate change, and in particular of weak action on mitigation, for growth. These are key issues for countries not yet committed to targets, including the USA, India and China.

IV. What are mechanisms and magnitudes for (i) and (ii)?

In examining the implications of mitigation for growth the central issues will be finance and costs and the impact on competitiveness. We need to understand both for an overall global picture and for circumstances country by country. Let me focus on the extra costs for developing countries of moving strongly towards a lower carbon economy. If, for example, 15% of the approximately \$2 trillion p.a. total investment in developing countries was strongly carbon relevant and the extra cost of a major reduction or elimination of carbon in these sectors were 15% of investment then the extra cost to developing countries would be of the order of \$45 billion p.a. Now this is clearly a very crude, back-of-the-envelope approach and we require much more detailed analysis but it does illustrate orders of magnitude. And it is not out of line with preliminary assessments being made in the IEA and the World Bank. Developing countries are unlikely to be ready to fund such sums internally and they are too large to come from development and aid funds.

This calculation tells us that we have to be thinking of a Clean Development Mechanism (CDM) that is capable of operating on a far bigger scale than the half a billion dollars a year we see now. And if the CDM is to work on the scale and over the time period necessary to support the long-term investments associated with energy, then we have to look at how the “demand side” can be made sufficiently strong to finance the flows to developing countries. This means an expansion in scale and lengthening of term for the European Union Emissions Trading Scheme, and the bringing in of other rich countries.

Essentially private sector transfers under such schemes from rich to poor countries will be the fundamental source of finance for the transition to low carbon economies in the developing world. Joint development of the know-how for the relevant investments will also be key to a successful strategy. So too would be energy efficiency.

For rich countries, the need to maintain growth whilst reducing carbon will be a different story, in the sense that action would not be financed by external transfers. It

would be focussed on energy efficiency and innovation backed by the right level of incentives to reduce carbon, be energy efficient and to develop technology. Such actions could unleash a wave of technical progress which could be very productive. Similar processes would apply in developing countries too. These are some of the issues which we hope to examine in the review I am leading.

The impact of climate change on prospects for growth will be of particular severity for developing countries. Indeed we are already seeing some of the implications in changing rainfall patterns from South America to Africa to India and China. Consequences, which will vary widely between different areas of the world, include floods, droughts, storms, water stress and so on. Africa is under particular threat. Strategies for economic development, and their finance, must take the role of climate change into account. And rich countries are far from immune to these threats. Some degree of change is already inevitable, since mitigation strategies will have little impact on the climate change that is already on the way for the next 20 or 30 years.

V. Impacts and Adaptation

My final point is to emphasise what I have just said on impact and adaptation. In my view international discussion have devoted too little attention to dealing with the consequences of climate change that are already inevitable. Let me be clear, this is not a contest between mitigation and adaptation. I have spent most of my discussion on raising our game on the former. But I do feel that as an international community we have underplayed the implications of impacts and adaptation, particularly for developing countries.

Our response here should be integrated into strategies for investment and development rather than separated from them. There is a great deal we can do to make infrastructure more robust to the changing climate and its implications for extreme events. We can strengthen our response to disasters. And we can develop international public goods such as new varieties and know how for climate-resistant crops.

In conclusion let me stress that climate change is a problem whose severity and urgency is becoming ever more apparent. The causes and impacts are global and of concern all of us. But the good news is that there is a great deal we can do at reasonable cost to move strongly towards a low carbon economy and avoid the real dangers of business-as-usual. We must analyse the problem in terms of international collective action, pay attention to the concern of all participants, fashion the right incentives, take account of the uncertainties and raise our game. To do this we must construct a careful and shared evidence base which can underpin both our discussions and our actions.