

## USS - Universities Superannuation Scheme – July 2001

### Climate Change, A Risk Management Challenge for Institutional Investors

#### *“Beyond Kyoto - Contraction and Convergence” pp 28 29*

It is important to recognise that any agreement can be only the first step in what will be a major journey. It is clear that even if the Kyoto targets are met, global emissions will continue to rise because of rapidly rising emissions in the developing world. Substantial further steps will have to be taken to curb emissions globally. Such cuts will inevitably begin to involve poor countries and at the same time rich countries are likely to have to commit too much more serious emission reductions themselves. As a result further emission reduction agreements are likely covering the period 2012-20 and beyond.

Indeed, the IPCC in its first assessment reports in 1990 recommended emissions cuts of at least 60% to stabilise CO<sub>2</sub> concentrations at 1990 levels and thereby be likely to avoid serious climate disruption. Its subsequent reports have not altered this position.

In the longer term, 'Contraction and Convergence' (C&C) is likely to become increasingly supported as a policy option. C&C was initially advocated by a small UK think tank, the Global Commons Institute ([www.gci.org.uk](http://www.gci.org.uk)), but has since gained widespread and authoritative support, including that of some poor country governments and also the recent Royal Commission on Environmental Pollution report which recommended that, 'the government should press for a future global climate agreement based on the contraction and convergence approach'.

Under C&C, the right to emit greenhouse gases would be apportioned on a per capita basis from a given date. The total amount of emissions would be constrained and would fall steeply until it reached a level considered safe. Since the majority of the world's population lives in the developing world, while per capita emissions are much higher in the industrialised world, rich countries would need to find ways to reduce their emissions - **contraction** - by finding efficiencies or renewable energy sources in the next few decades, or pay handsomely for the privilege of continuing to use fossil fuels. In this way they could approach equal per capita emissions to those in other countries - **convergence**.

Ironically, while C&C offers a more robust framework than that outlined by Kyoto, and addresses the issue of equity, it also meets the fundamental objection of the US in that it also requires commitments from the developing world. As a global operational framework it also avoids many of the technical problems of Kyoto (such as defining baselines for emissions trading in countries not subject to an overall target, or the extent of international emissions trading that is permissible). However, much will depend on the detail. Done well, C&C could provide a framework for a genuine, equitable, long-term solution to climate change, which reduces political risks and provides businesses and investors with the sort of predictable framework they prefer. But if agreement is hard to reach, C&C might serve to highlight injustices and end up exacerbating tensions. For example, some campaigners have argued for a third 'C': 'compensation' from the rich world for using up the climate's absorptive capacity. Whilst this claim is understandable, such a development could well become an emotive issue that could make agreement far harder to reach.