**THE G 20 AND THE ‘POSITIVE PRICING’ OF CARBON REDUCTION**

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The 450ppm/2 degree paradigm will not be achieved in the present global economic/financial context both indifferent and ineffective to deal with the huge climate crisis challenging humanity in the 21st Century. Most governments struggle with large debts and persistent deficits, their resources are limited. There are no big scale mechanisms or adequate incentives to mobilize capitals for productive low carbon investments from the huge amount available in the global financial markets. De-carbonization demands strong upfront and slower return financing that is hard to obtain under current financial system criteria, more prone to speculative stakes.

The pricing of carbon for taxation purposes makes a lot of sense but faces internal political resistance in most countries and enough to keep it blocked in the consensus dependent UNFCCC. It is an uphill battle that will eventually be won but will have to be fought internally in each and every country, one by one, since taxation systems are national. ‘Positive pricing’ of carbon reduction is a parallel and complementary approach. Politically it is carrots rather than sticks. It is based upon the recognition of the social and economic value of carbon reduction and envisions mechanisms to make it a convertible financial value. It is basically a reward for duly certified mitigation that does not replace carbon taxation but can complement it offering a different path for a same purpose.

Brazil has submitted to the UNFCCC, in the COP 20, in Lima, in 2014, a proposal to recognize “**the social and economic value of emissions reduction and the need to consider them as units of convertible financial value.”** This was meant to be an initial step towards the creation of this new instrument for financing transition to low carbon economies. The rational for carbon reduction being source of true value –not a ‘bitcoin’ kind of device-- is based upon quantifying the loss inflicted to the global economy by climate change. In the Stern Report it has been estimated as at least 5% of the global GDP. Of course there can be various ways of calculating this (the report itself considers figures from 5% to 20% of the global GDP). Nevertheless, a consensual quantification can be agreed upon diplomatically. Once this is established officially the economic value of a ton of carbon equivalent reduction can be priced. Mechanisms and criteria will be established enabling this ‘positive pricing’ to operate as a tool to boost mitigation investments and help achieve more ambitious results that simply cannot be met though the classic command & control mechanisms.

The Brazilian proposal in Lima was a first step: the recognition, in principle, that carbon reduction equals social and economic value. The proposition ended not being included on that occasion but remains on the table. This acknowledgment, once approved in the UNFCCC, will have important consequences. The mechanisms for its implementation will demand further research, lots of theoretical and practical work and political/diplomatic resolve in a post-Paris agenda.

Translating this eventual UNFCCC recognition into workable financial tools will need a different kind of forum, most likely the G 20. The governments of the largest economies, articulated to central banks, Bretton Woods institutions and the new multilateral Asian and BRICs based development banks, should establish guaranties for these carbon reduction assets and eventually create an institution or fund for this purpose. This will enable a subsequent mobilization of resources from the private financial system. It can also produce positive macro economic repercussions by offering a productive low carbon framework for the quantitative easing operations of the kind being currently implemented by the European Central Bank.

There are several possible mechanisms for the implementation of positive pricing of carbon reduction.We have acknowledged with great interest ideas developed by professors Jean Charles Hourcade, Michel Alietta, Baptiste Perrissin-Fabert who are working on innovative path that has recently been supported by the French *Comissariat General à la Strategie et à la Prospective*. Avoiding detailed explanations, at this time, let us just imagine: a group of willing governments provides guaranties for a specific quantity of carbon reduction assets. Bank loans for duly certified carbon reduction projects can be reimbursed up to 10% in “carbon reduction certificates”. These certificates are handed to the suggested institution that cashes them in --thus becoming a sort of “Fort Knox of carbon reduction certificates”-- and pays back the banks in their currencies.

The willing governments offer guaranties for theses certificates and eventually use carbon taxation to cover their exposure. This new value, covering up to 10% of these carbon reduction investments, can become a tipping point for low carbon finance. Along with carbon markets and carbon taxation positive pricing of carbon reduction will help establish a more stimulating worldwide financial environment for a new era of low carbon economies and a path to net zero emissions in the second half of the Century. It is quite obvious, at this time that the UNFCCC process by itself will not be able to ‘bridge the gap’ and that the G 20 for quite obvious reasons should became the main decision making instance for this and other economic components of a “low carbon Bretton Woods”, of sorts, reflecting geopolitical realities quite different from the original one, at the end of World War II.