

U.S. Climate Policy: Toward a Sensible Center

June 25, 2004

Excerpt: James Wolfensohn, President, The World Bank Group

MS. CLAUSSEN: I just want to tell you how we're going to do the rest of the day here. Both Jim Wolfensohn and Congressman Gilchrest are here, so we're going to go with Jim Wolfensohn, the President of the World Bank, first, whom Strobe will introduce. And then Congressman Gilchrest will end the program as soon as we've been through Q&A with Wolfensohn.

MR. TALBOTT: Good morning, everybody. It's a special honor and pleasure for me to have a chance to welcome Jim Wolfensohn back to premises that he knows very well. Jim is not just a frequent guest here at Brookings, but he is in a very real sense a proprietor of this place, which is to say, my boss. He is a loyal and long-serving member of our Board of Trustees, and I might add on a personal note that he has been especially helpful to me over the two years that I have been here.

I think everybody knows that Jim came to the presidency of the World Bank after what could be called a Renaissance career, not just as a financier but as a cellist and as an Olympic fencer, which I think is actually pretty good training for the time that he's had in Washington, although I think fencing foils are a little too genteel an instrument. The weapon of choice here in Washington is more the stiletto and the poleax. But in any event, Jim has done very well in all of the frays.

In his eight years at the World Bank, he has intensified and made much more effective the focus of that institution on the reduction of poverty, on the promotion of good governance, on the promotion of civil society, and on making sure that issues of gender and culture and youth are all very much on the economic as well as the social agenda. He has also been a real leader in the battles against corruption and HIV/AIDS.

As for the issue of this conference, Jim has done a great deal to make sure that the Bank, governments, other international financial institutions are acting on the recognition that economic development must be environmentally sustainable and that climate change, unless it is addressed, is going to have a disproportionate impact on poorer and developing nations.

He has been a strong supporter of the goals of the Kyoto Protocol and also of the Carbon Fund. He has been a spokesman in articles that have appeared recently, as far-flung as China and France, and in speeches that he has given, including to the United Nations General Assembly, for the proposition that world leaders need to give much more priority to meeting the challenge of climate change.

So, Jim, help us out on an issue where you've already helped the world.

[Applause.]

MR. WOLFENSOHN: Well, thank you very much indeed, Strobe, for that introduction. The difference between fencing and Washington is that in fencing your opponent is in front of you.

[Laughter.]

MR. WOLFENSOHN: And there are rules, which don't seem to apply in this city. But thank you for the introduction and also for the leadership that you have shown in this institution.

I am not his boss. I am an emeritus trustee. I'm finding that I'm getting so old in relation both to Brookings and to the environment. I was with Maurice Strong in Stockholm at the beginning of the environmental international activities when we first started to talk about emissions and climate change, and so I come here in front of you as an almost antediluvian representative, but one who has the privilege of representing an institution where we take this issue very, very seriously, and where I'm delighted to have the chance to remind you of the issues that relate to development.

All of you I think know that the Bank is concerned with the five billion people in the world out of six that are in developing countries that have roughly 20 percent of the wealth compared to the 80 percent of the rich countries. You're aware that in the next 25 years, as the world grows from six billion to eight billion, and in 25 years' time we'll have seven billion out of eight billion in developing countries; roughly 50 million only will be added to the rich world. And 50 years hence, it will be eight billion out of nine. So at least we have a growing market in the work of the Bank, but also some growing problems and also, of course, growing opportunities.

During that time, just to give you the economic base, it is likely, as we project, that instead of six to seven trillion dollars a year of income in a global income stream of \$34 or \$35 trillion, roughly 20 percent of the share of global GDP by 2050 will be 40 percent. And on sort of 3-percent growth figures averaged up to 2050, we will at that stage have a \$150 trillion global economy. And you'll have \$60 trillion in the developing world, up eight times, if you like, from what it is today.

And the reason I'm giving you these statistics is that as you get economic activity, so you get use of energy; and as you get economic activity related to proliferation of people, and a new issue which is that you'll have in that same period of the next 25 years when you have growth of two billion, two billion more people moving into cities and towns, where you will have tremendous additional pressure on both the environment and on energy needs, that is the environment in which we are looking at the question of climate change and sustainable development. It is not static, and the growth is all in terms of people in the developing world. And so you need to have that in the back of your minds as you listen to what I'm trying to assert now, which is that the issue of climate change has a disproportionate effect on those people who are vulnerable and who are in the developing countries that we represent.

I think it's not necessary for me to tell you how much of the GHGs have come from the rich world. It is most of them. I don't need to give you the background of Kyoto or the debates that have taken place because I understand that that was more than adequately covered yesterday, and you know about it, anyway.

But from the point of view of the developing countries, these are countries which are marginal where a substantial portion of the poor are in rural areas, and

where issues like deforestation, like changing weather patterns that cause for less than optimum usage of land, and indeed degradation of land, where air pollution has a significant impact on people, and where also the biodiversity is really significantly affected, not just for the developing countries but for the world itself, that we necessarily are quite concerned about the impact of climate change on these vulnerable people.

I think you also know that there are many parts of the world in which the actual level of the countries themselves are being challenged. For those of you that have been in the Maldives or in Bangladesh, you will know that the issue of climate change in those countries is not just a question of increase or decrease of standard of living; it is a question of whether you have somewhere to live at all.

My son, who is a film maker, has just come back from Alaska, tells me that he's just seen in Eskimo village in Alaska that, as they are also affected by it, some of those villages are already sustaining the same sort of thing in our own country as our citizens are being moved because of climate change.

So we have the issue in the developing countries of physical existence in some of the countries, in the low-lying and in the island states, but we have more particularly the issue of economic activity and distortions of economic activity brought about by changes in weather patterns and brought about by changes in water flows and brought about by the immediate impact that this has on the whole economic environment in which people live.

This is dramatic in many of the countries, and for those of you that have traveled and have seen the degradation in land and the acute difficulty that this faces people with in terms of land use, you will understand that for us the question of climate change is not a theoretical question. It's one that is of immediate and huge impact in terms of the developing world.

I participated in a Security Council meeting on some aspects of this, and as you know, some people have said that this is as big an issue for the developing world as are some of the more physical threats, be they terror or wars. And I actually believe this. It's very hard to put a number on it, what a two- or three-degree variation or a three-degree variation would lead to in terms of loss of GDP. About the only statistic that Bob Watson can give me--and they're usually pretty wild statistics that Bob Watson does give me. But he tells me that it should be between 2 and 9 percent of GDP. Well, that's a pretty good range. But even a 2-percent variation in GDP per annum in countries of the type that we're talking about is huge. And in some countries, there is no doubt that the impact of climate change is quite, quite dramatic.

What is it that we can do about it? Well, it's clear that the wealthy countries, again, as I think you discussed yesterday, can do quite a lot in terms of conservation and in terms of better policy and in terms of research. Funnily enough, after four or five aborted attempts to meet, I met this morning one on one with Spencer Abraham by accident. And I'm quite happy now, if you like, to make Spencer's speech to you that he gave to you yesterday, because I got it this morning.

[Laughter.]

MR. WOLFENSOHN: About what it is that we should do in terms of massive research and quantum change, in addition to work on renewables and work on better policies. And so why don't you take it that I understand what he said and I'll just make it again.

But how we can do that and how quickly we can do that is, of course, a big issue. We would love to have a hydrogen solution. We would love to have a fusion solution. We would love to have atomic energy that is safe. But I think at the moment what we're looking at in terms of developing countries which are endowed significantly with coal and, to some degree, with oil and gas is that, looking forward in the countries in which we're operating, for the foreseeable future the issue that's going to be facing us is the issue of hydrocarbons. We'd love to have gas. We all know that that would be better. And in the recent report of extractive industries that Mr. Salim gave, he is recommending that the Bank should get out of coal and oil and that we should put our efforts into renewables. And I have over the last months paid a lot of attention to the renewables issues. And we've had reports on everything from solar to wind to geothermal to tidal. And I've been out to see these things.

But the bottom line is that currently that's 2 percent of global energy supply-- 2 percent. And if we could take it to 3 or to 4 or to 5--and 5 is already beyond the range that anybody has projected over the next 15 to 20 years--that would be a great thing to do. And we propose to get into doing that. But the issue for us does not seem that renewables is the immediate answer at any rate. And to that extent, I think what Spencer Abraham said is right. There is a need for technology.

But I think what we are looking for in the countries in which we're operating and are proposing in the rich world is that all the science and technologies should proceed at as tough a pace and as vigorous a pace as is possible to bring about a breakthrough, because clearly a breakthrough would be wonderful; but that in the meantime, what we need to do is to try and modify policies, try and save as much energy usage as we possibly can, and try and clean up the act in terms of carbon.

We have one other problem, which is this, which is somewhere around a couple billion people, 300 million either way, don't have any energy at the present time at all. And so poor people themselves constitute an issue in terms of deforestation. Because if you have no energy, you go out and cut down the nearest tree, and that is bad for the environment. It's also bad economically because it's wasting the time of people. And then the women are also burning biomass, and we estimate that a couple of million of them are killing each other themselves every year because of disease that comes from inhalation of the noxious fumes and things that go along with the burning of biomass in a small space.

So we are dealing not just with the theory, we're dealing with the actuality of poverty, which itself is a degrader of the environment and in a curious way, unfortunately, impacts forestry and impacts the environment in which we live. And so for us, getting electricity or getting some form of power to a poor community is in itself an advantage even if it is brought by coal-fired plants.

Now, this leads, of course, to the question of cleaning up and the advances that we can make on the use of coal and oil in the generation of electricity. And there the need to clean up the plants and the work that I think many are doing, including the Department of Energy in this country, to try and get clean coal is a parallel activity that we hope must continue as we move forward in terms of our efforts in developing countries.

But the notion that any report or any admonition by rich countries to poor countries that they should not use the coal reserves that they have is sheer fantasy. It's not going to happen. It might be wonderful and it might be a great thing in terms of the environment, but our clients say to us, look, you rich guys created this problem. You are profligate in the use of your energy. You too burn these fuels, and now you're telling us, as we move, as I remind you, from \$7 trillion to \$50 trillion in terms of economic activity, that we can't do that, and that we are the ones that have to solve the problem, while you have no policy, while you're profligate, and while you're not spending your money adequately on trying to clean up the act of how we generate electricity; and we would love to have hydrogen and we would love to have fusion and we would love to have all these great things that we're talking about, but don't put it on us. And we'd also love to have renewables, and we will use renewables, but there is a cost factor. And we're more than happy to try and deal with it, but please, please, please, if we're going to use renewables, bring down the cost and bring it to a point that it can be attractive to us, because, remember, we're poor, we're not rich. And that is what we face every day when we go out and try and do the work that we're doing.

So I was anxious to come when I was asked because I think the issue of developing country confrontation with the question of climate change is, first of all, very real. And this is the group that is most vulnerable, particularly to changes in temperature and water supply. It leads to the unfortunate result that the arid and semiarid areas typically get worse and, therefore, affect the production of agricultural products. It leads to questions of distortions in the developing countries which are vulnerable and where the poorest people find that their economic activity is most influenced, and where we face the huge challenge of bringing clean water to the one and a half to two billion people that don't have clean water, sanitation to the two billion or so that don't have sanitation, where it leads us to try and deal with waterborne diseases which are affected by climate change, and where the developing countries are saying to us, For God's sake, help us, but we're not the cause of this problem. We are contributing to it, but we need a better partnership and a better policy with the rich countries.

This is where we're at in the debate, and speaking on behalf of the five billion, it's not such an arrogant or distorted request to be making. So they're looking for research, they're looking for better policies, and they're looking for partnership. And they're doing it from a point of view that reflects their vulnerability. But what they're not looking for are lectures on don't use coal and don't use oil and don't use your natural resources. And they react rather badly to these sorts of suggestions.

So in the middle of all this, we're trying to weave a path which allows for the best use of renewables, which allows for appropriate partnerships on the

extraction of minerals and oil and coal. We are looking to try and find the best ways to use renewables at some moderate cost. But the bottom line for us is that this is a huge question in the issue of development. I think it is less felt than it should be in most sectors of the community, though I'm sure in this room you understand it. It is a real crisis for developing countries. The issue of climate change affects them more than it does us. It is more than an inconvenience on holidays or on change of climate. It is a question of existence. And I'm very grateful that this group and Pew are anxious to keep our attention focused on this subject because there is no way that we can reach the Millennial Goals for poverty or for development without addressing the question of climate change and the environment.

This is not a fringe issue for us. This is a central and, frankly, less understood issue than it should be. And for those reasons, I'm very glad to have been invited here to remind you of things that you probably already know, but it makes me feel better to tell you.

So thank you very much.

[Applause.]

MR. WOLFENSOHN: There's a very strange-looking fellow in the front row there. Peter?

QUESTIONER: How are you?

MR. WOLFENSOHN: Good.

QUESTIONER: There's no reason you should know, Jim, but I'm now working for Environmental Defense in New York.

MR. WOLFENSOHN: Oh, fantastic.

QUESTIONER: And I'm afraid I want to put to you one of those terrible "I would have thought" questions.

MR. WOLFENSOHN: Please.

QUESTIONER: I watched from some distance the Bank struggling with the Salim issues, and I hear in your own words the alternatives, simplifying a little, invest in renewables versus invest in hydrocarbons. And what I would have thought is that there is a clearer long-term path, since you head one of the few institutions in the world that can think in terms of decades, which is a tremendous advantage in these issues because climate is an issue of decades, and we do have a window with some latitude, which will someday seem very precious to us.

I would have thought it would have been possible to define the road forward as not renewables versus fossils, but as--and since the Bank must invest in energy, since energy is so much part of economic development, one way or another you must be in the energy business. I would have thought the way to define the way forward is that the Bank will invest in energy where that is decoupled from carbon. We've done it with SO₂. We have decoupled the generation of energy and the growth of economies from the growth in emissions of SO₂. We did it a while ago in many parts of the world. We decoupled the production of gasoline from lead in gasoline. And by defining it that way, it makes it more likely that the developing world will not have to go through the long industrial winter, or summer, if you wish, that the North went through. It

will certainly take you through the path of clean coal, and it will in some cases take you through a path which may be more expensive coal.

But I would have thought that would be a defensible, long-term, strategic economic goal and would sort out some of the nearer-term agonizing issues.

MR. WOLFENSOHN: Well, long term, I would agree with that as a statement of policy when you give me an answer to economic clean coal. The reason--first of all, we have just come out with a draft answer, actually, to the Salim report, which has a lot that's very good in it. And I remind you that the Salim report deals not only with the issue of emissions, it deals also with the question of how energy companies should operate in developing countries in terms of affecting the rights of people, in terms of ensuring that affected peoples get some share of the income, issues of transparency, all of which we have, I think, now have gotten considerable agreement on. So before I get to the question of emissions, there is a whole series of stuff that we have agreed on with the Salim report.

What Salim asked was for us to pull out completely of the coal and oil business, and we're not very much in them, anyway. But the reason that we believe we should stay in is that we frankly think that when we're in, we get better developments that are more equitable and much more favorable to the environment than when we're not. And that's very clear because we insist on environmental impact statements, we insist on dealing with the questions of every aspect of environment, as well as now human rights and the rights of indigenous people and local communities. And for that reason alone, I am anxious to stay in because if we pull out, we cannot influence the major companies in terms of the way in which they do their job in extraction.

I have just recently have been in the Niger delta, where if you put a question of "I would have hoped," I would have hoped that the Niger delta might have been a better form of development in terms of the environment, in terms of the people. So what we're trying to do is to deal with that issue.

Now, what we're certainly not doing is promoting the use of power plants that put out emissions. Within the framework of existing technology, we'll always opt for the cleanest technology. And we seek to insist on the cleaner technology. In fact, we've closed down quite a lot of plants and we've closed down quite a lot of mines in India because of the emissions and because of the environmental impact.

But although it's a long-term goal to only act in those cases where there are no emissions, it is not currently either technically or economically possible. And so while not promoting the use of coal for poor emission standards, quite the contrary, the use of coal only where you can use the maximum of current technology. We're sort of waiting for technology to catch up with us. And at the same time, we're putting--have agreed to put everything that we can, both ourselves and in bringing together some sort of global communion, on the question of renewables.

That's where we're at at the moment, but there is a 30-day comment period and an e-mail address, and we'd love to get your views, Peter. And I'll send you a copy of the report. And, frankly, if you think we've got it wrong, I'd welcome

your comments. But we're trying at the moment to meet a short-term reality within the framework of a long-term objective, which is the one that you enunciated.

MR. TALBOTT: One more, Jim?

MR. WOLFENSOHN: Yes. Why don't you pick it. The lady at the back I think was first.

MR. TALBOTT: Just one second to get a microphone.

QUESTIONER: Hi. Carla (?) University, New York. I was wondering if you could give us an idea of to what extent the monetization of environmental benefits around carbon, such as, for example, reinvestment of GHG credits or CDM projects, could impact the overall internal rate of returns of these projects of renewables and make it more appealing.

MR. WOLFENSOHN: Well, we started, as you know, one of the first Carbon Funds, and it's moving very well. And I think in that context, we have been pretty constructive in terms of dealing with the question of carbon emissions and trying to get the benefits at the same time to flow to developing countries. We will continue to do that. I now see that there are others who are inventing the same thing, and I think--my hope is that there will be many, many people who deal with the question.

There's no doubt that it can add to the economics in developing countries and it could also allow the rich countries and people in it to salve their conscience a bit by trading in carbon certificates. So our hope is that there will be a win-win in both the rich countries and in the developing countries. And we have been really thrilled by the reaction to the Carbon Fund that we started. We were sort of a voice in the wilderness three years ago, but now I have to say we are being well supported, and a number of commercial institutions are now setting up to trade in carbon certificates and other forms of carbon financing, which has an ultimate benefit for developing countries.

Thank you all very much.

[Applause.]