

be much like the oil market.¹⁴ The world could experience a situation of 'atmosphere peonage' (with southern countries selling their permits to breath at very low price, in order to pay for their debt), or, on the contrary, the constitution of a strong oligopolistic market controlled by two 'Saudi Arabia of permits': India and China. Up to now, all this is no more than fancy economics, since obviously, by the time of the 1992 Rio Conference, humankind was not ready for such a sophisticated enclosure process.

The Debate on Ecotax

It is not sufficient to distribute permits between nations and fix with them the collective target of GHG-sustainable development: how could states induce the population of their own nation to restrict their emissions?

Here we enter the debate 'target policy vs instrument policy'. Policies presented in the previous paragraphs are target policies: the CSE distribution of permits fixes a target-amount for each nation, the WRI implies a general and common target for a rate of reduction. Yet the CSE proposal includes also *instruments*: a market for permits, a levy (a world ecotax) on the excess. That was precisely its constructivist weakness: the negotiation and, worse, the implementation of instruments, imply that the capacity to control and regulate is given to some international body. The very technical capacity to measure the effective emissions country by country is questionable. A body that could organize the market, implement and redistribute the levy, would have to be a real world government....

On the contrary, it seems that a *subsidiarity principle* could be easier to implement: once the world community has agreed upon a target (differentiated or not according to countries), it would be the responsibility of national states to choose their own instruments. If we accept this subsidiarity divide, it seems that a target policy, possibly mitigated with the tradeable permits instrument, is more suitable at the international level (because agents – the states – are tailored to negotiate on norms and quantities, and because they are few enough to organize a market for permits). On the contrary, tax instruments are more suitable at national level, because here the agents – firms and households – are so heterogenous that no market could be organized, and so numerous that no control could be organized on real emissions.¹⁵ But things are not so simple.

On the one hand, in a globalized economy, instrument policy cannot and should not be under the discretionary sovereignty of governments. Neither norms nor ecotaxes nor subsidies are neutral *vis-à-vis* competitiveness. Either they hinder competitiveness and are rejected by business lobbies, or they foster competitiveness, and are subject to contests at the GATT. And precisely, a market-oriented Uruguay Round was negotiated in parallel with the Rio Conference.

On the other hand, instrument policies may be negotiated at an international level *without* an agreement on the target, and in the

ignorance of what should be the target, hence how far one is from the target.¹⁶ Instrument policies seem in line with the precaution principle: we don't know if they are really necessary and sufficient, but if (later) they appear to have been necessary (sufficient or not) then it was a step in the right direction, and if they appear to have been unnecessary, they may have been useful in some other respect (this last argument indicates the possibility of 'no-regret' strategies).

Thus, concrete diplomacy is likely to wind up as some policy mix of targets and instruments at national *and* international level. The capacity of leadership consists, for a single country or group of countries, to propose such an international regime, both suitable for its own internal policy and acceptable by others in the name of general interest. The Rooseveltian New Deal (between capital and labour) was the expression of this kind of 'hegemony': it was both an internal 'grand compromise', and it was a model for all nations, fostered by the victory over Nazism and by the Marshall and MacArthur plans (Lipietz 1992b).

The only real attempt to reach the hegemony across the UNCED process came from the European Community. The Rooseveltian ambition of the EC (labelled 'the *Environment Imperative*') was explicitly expressed in the *EC Report to UNCED*, and the challenge was presented in a report of the DG XI (the 'Ministry of Environment' of EC) to the Commission (the Government of EC), later adopted by the Commission itself and then presented as a *Communication to the European Council*:

*With the completion of the internal Market, the European Community will be the biggest economic/trading partner in the world with the potential to exercise an important level of moral, economic and political influence and authority. As such the Community owes it to both present and future generations to put its own house in order and to provide both leadership and example to developed and developing countries alike in relation to protection of the environment and the sustainable use of natural resources (...). The willingness of the Community to fulfill its responsibilities offers an important opportunity to fill a current vacuum in global foreign policy and a catalytic role in regard to the Global Climate Convention to be adopted at the UNCED Earth Summit in June 1992.*¹⁷

Concretely, the deal was many-sided.

1. Rejecting the 'comprehensive approach' of US Administration, the report focused on carbon dioxide.
2. The developed countries would commit themselves to reverse the

¹⁶ In the perfect world of General Equilibrium, there is a duality between instrument and targets, as implied in the Nordhaus curve, Fig 1.

¹⁷ 'Community Strategy to limit Carbon Dioxide emissions and to improve energy efficiency', communication from the Commission to the Council, SEC(91) 1744 final, Brussels, 14 October 1991, mimeo. (The Council is the assembly of EC members-governments, which acts as a legislative body for the European Community).

¹⁴ In fact, there is a difference: the level of the levy is an upper limit to the price of tradeable permits, for any country may prefer to pay the levy instead of buying permits.

¹⁵ On the tax vs tradeable permits, see Hourcade et Baron (1992), Godard (1992).

growth of their CO₂ emissions, so that the level in the year 2000 would be back to that of 1990.

3. The developing countries would be free to increase their emissions of CO₂ as they grew, provided that they would commit themselves to increase their CO₂ and energy-efficiency.
4. In order to reach their target, the developed countries would introduce a carbon-energy ecotax. This ecotax would be levied at the national level, it would be budget-neutral (compensated by reductions in other taxes). But the level of the tax would be internationally coordinated, and would progressively reach the level of US\$10 per equivalent of a barrel of oil.
5. The tax would be differentiated according to the CO₂-efficiency of the energy system: five dollars for any energy (including CO₂-clean ones: nuclear, hydrolic), plus an amount dependent on the CO₂ emissions: lower for natural gas than for oil, higher for carbon.
6. In addition, research and development of CO₂-efficient technologies would be subsidized.
7. Technological and financial transfers would help the South to match.

The three first points of the deal represent the 'target' part of the mix. They are in line with the South's objections to an early implementation of the precaution principle (and thus to meet Agarwal's goal, if by different means).

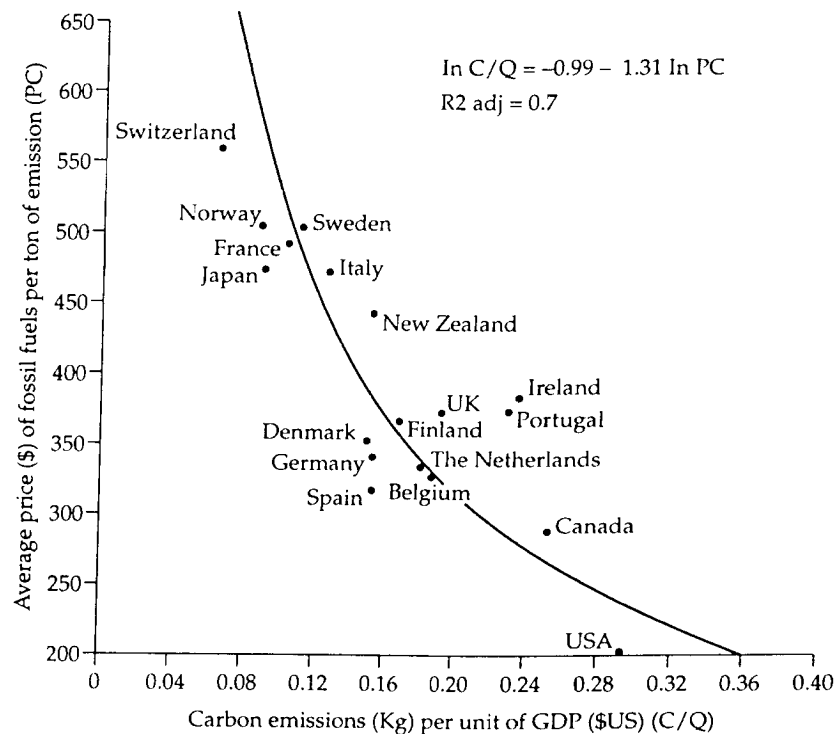
The last four points represent the 'instrument' set. The level of tax in year 2000 seems to be approximately in accordance with the emission target, considering the expected level of increase in GDP and the price-emissions relationship of the Nordhaus curve. The budget-neutrality is in line with the anti-tax bias of the late eighties, the uniformity of the rate of tax in industrialized countries is in line with the Uruguay Round spirit (admitting that less developed countries deserve a privilege) and the choice of a tax as the instrument is probably the most cost-effective. Moreover, the level proposed for the tax makes it a real incentive for economic agents, since it is verified that real differences on price have a serious effect on CO₂ emission (Figure 7.5).

Point five reflects the fear that a shift from fossil energies would increase nuclear energy.¹⁸ Moreover, it induces a shift *between* fossile energies towards the cleanest ones. Points six and seven take into account the importance given to the autonomous increase in energy efficiency, especially in the South (Goldemberg et al 1987).

NOT TO CONCLUDE

In sum, the *European Commission Communication to the Council* represented probably the best obtainable compromise between North and South, about one year before the Rio Conference. More precisely, it implied an alliance

¹⁸ It may also reflect a compromise between Germany (relying heavily on carbon for its energy production) and France (relying heavily on nuclear plants). Yet the German-French summit of May 29-30 1991 agreed upon a pure CO₂-tax.



Source: Godard, 1992

Figure 7.5 Carbon emissions and the price of energy

between the 'North-Do Something' group and the 'South-Do Something' group of nations, between Western Europe and Southern Asia. Yet this compromise failed.

The first reason is that it expresses an hegemonic regime which is still controversial. In fact, it expresses the ecological superiority of the technical paradigm of Japan and Northern Europe (Germany plus Scandinavia), that is the North-West of the BCL chart (Figure 7.2).¹⁹ But this superiority is not yet sufficient to result in a political leadership imposed on the US which would be a loser in this compromise.

Maybe a Euro-Japanese initiative for the implementation of an ecotax could have obliged the US to meet the challenge. But another reason of the failure was the inner weakness of the candidate to leadership: the European Community. In fact, the EC comprises a 'core' with advanced social and ecological compromises (the North of the continent) and an Atlantic and Mediterranean periphery, with 'flexible' capital-labour

¹⁹ In turn the superiority of this paradigm relies on a more efficient capital-labour compromise. See Lipietz (1992b and forthcoming).

relations and loose environmental regulations (Lipietz 1992a). Only the demographic weight of the core could impose the ecotax to the periphery. But in December 1991, the Maastricht meeting proposed a reform of the European constitution, increasing economic competition within Europe, but submitting ecological and social regulation to the rule of unanimity between governments. Thus, any single government was given a *veto* right on the ecotax. While some North European countries (in EC and in EFTA) had already engaged themselves in a unilateral implementation of a CO₂-energy ecotax, the United Kingdom and Spain did not hide their intention to practise ecological (and social) dumping.

In sum, the carbon-energy ecotax was the first victim of the Maastricht conference. The reaction of the Commissioner in charge of Environment, Carlos Ripa de Meana, was bitter. Next morning he stated to the French newspaper *Liberation* (10 December 1991):

Maastricht is a real treachery on environmental issues. We are going towards a two-speed environmental Europe. Environment policies, their costs, their regulation will differ according to country. That will be a big joke! We are preaching, we are making sermons on tropical rainforests, we cannot go to Rio with only words about the greenhouse effect!

Ripa de Meana's prophecy was to be fulfilled perfectly. In April 1992, the European Council failed to adopt the ecotax. In May, the International Negotiation Group on Climate Convention adopted an half-empty compromise. Combined with the failure of the biodiversity negotiation, it closed any possibility for the emergence of a strong 'Do Something' alliance on Rio: the Europe-India axis was broken, the Rio Conference turned out to be an ordinary North-South conflict, with a China-India-Malaysia axis petrified in an 'accusing' position.

Could we conclude that the Rio Conference and the whole negotiation on climate was a failure? Not really. In fact, the compromise was half full, and captured many southern requirements and European proposals. Refusing 'eco-colonialism', it was a step forward and a real commitment for the North:

- It was admitted that only carbon dioxide had to be controlled immediately. Southern rice and cows were given another chance.
- It was assessed that only developed countries had to make a first step: return by 2000 to a 'previous' level of emissions.²⁰
- The word 'previous' was associated with the year 1990 in another paragraph.

This subtle language (a masterpiece of former vice-general secretary of United Nations, Jean Ripert) allowed the United States to sign without really committing themselves, while Europe proclaimed that it considered 1990 as the benchmark for a programme of reduction.

²⁰ Technically, the committed countries were the ones signing and 'Annex I list'.

Where are we now? Not surprisingly, the ecotax is still not implemented in the post-Maastricht European Union. But negotiations are still advancing. Facing a general fiscal crisis (due to the German unification and the recession), the states in Europe are seeking new sources of revenues, as is the US. Tax on gas and ecotaxes are more and more appealing. Moreover, the December 1993 report by a group of economists headed by Edmond Malinvaud proposed the carbon-energy ecotax as a substitute to Social Security taxes levied on labour (Dreze et al 1994).

Thus, in the name of fighting unemployment through a decrease in labour cost, the ecotax is vindicated while governments increase taxes on gas. This implementation of the 'no-regret strategy' expresses the common wisdom that even if it may not be time to put a halt to the tide of cars in circulation and their CO₂ emissions, it may still be a good precaution not to foster it. In Hourcade's (1993) terms, the American way of life (Fordism) appears of 'contestable legitimacy'.²¹

Yet, the no-regret strategy, this weakest form of the precaution principle, ignores that it may be later than we think.

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²¹ Obviously a joke on the theory of 'contestable markets'.

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