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From Tons to Investment: Linking Climate Change and Investment Treaties

Dr. Jessica F. Green

Professor, Political Science and School of Environment

University of Toronto

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Outline

- Shifting the frame on global climate policy: Why we need to focus on regulating finance instead of tons of GHGs
- With financing comes responsibility: How investments can be risky climate business
- Out of sight, **not** out of mind: How investments can affect domestic climate pledges

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From tons to money

- UNFCCC Approach: Accounting, measurement, trading of **tons** of GHGs
- PROBLEMS with this approach
  - Measuring GHGs is difficult, susceptible to gaming
  - Political debates thus revert to how to measure and trade, rather than the **causes** of emissions.
  - Many policies focused on tons (such as net zero) have not moved the needle on decarbonization; for others it is too soon to tell.

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From tons to money

- Focus on how **money** is regulated and flow of money through the economy
- Money is causally prior to tons.
- Money is much easier to measure and harder to game
- A focus on money gets to the crux of the political conflicts that underlie climate policy.
- This is likely a bigger political lift, but has the potential to be a more powerful lever.
  - International Monetary Fund estimates 2020 total fossil-fuel subsidies at $5.9 trillion, or almost 7% of GDP.[1]
  - Phasing out fossil fuels subsidies could reduce emissions by 10% **in the next decade.**[2]

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Risky Business

- Treaties help enable investments, and the wrong investments will lose value in a decarbonizing world.
- As countries and firms ratchet up their climate policies, fossil-based assets will lose value.[3]
- And owners will try to claim financial losses due to climate policy.[4]

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Out of sight, not out of mind

- Investment treaties help structure incentives for foreign investment
- Moving money abroad changes the *locus* of emissions, but not their financial origins.
- Ultimately, emissions are attached to the state which financed the emissions-generating activities – and **that affects domestic Paris pledges**.
  - An effective tool for Paris alignment is to curtail financing emissions abroad.

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Is there good news?

- Risky investments can generate political incentives for first movers.
- Forward looking actors are divesting now and / or reinvesting in climate-**positive** assets to avoid future costs of regulation or the risks of stranded assets.
- There's a clear economic (and therefore political) incentive to shift investments early – before competitors, and before treaty reforms.
- But investment-driven action can help, but **it must be driven by government policy.**

THANK YOU

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Prof. Jessica F. Green

https://green.faculty.politics.utoronto.ca/

@greenprofgreen

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