

'India should reduce demand for fossil fuel and not restrict production'

With the US and China, the world's top polluters, recently signing an agreement to reduce carbon emissions by 2025 and 2030, respectively, all eyes are on India at the Conference of the Parties to the United Nations Framework on Climate Change, being held in Lima, Peru from December 1 to 12. It is a precursor to the conference in Paris late next year, where a universal agreement is expected. David Nelson, senior director at the San Francisco-based Climate Policy Initiative, a research and advisory organisation funded by billionaire George Soros, tells G Seetharaman by email how India should proceed on its climate change efforts and what it stands to gain. Excerpts:

Suresh Prabhu, a cabinet minister, recently said being aligned with China on climate change negotiations has hurt India's interests. His argument is that since China is ahead of India on several economic and social parameters, India cannot be expected to have a similar response to climate change as China. Do you agree?

In some ways India's situation is similar to China's, while in others, it is not. India can select the areas where it should align with China, defining its own position by looking to see what it can contribute based upon its own economic conditions, resources, and goals. India's specific situation will determine the path it should take towards a low-carbon economy. For instance, our analysis with the Indian School of Business shows that the high cost of debt is the biggest barrier to India achieving its renewable energy goals. Reducing the cost of loans and extending their tenor can cut the cost of renewable energy in India by up to 25%.

Can India show the way for other emerging economies by setting a carbon emissions target for 2030 like China? At the same time, can its economy afford it?

Our most recent analysis shows that with the right policies, India's transition to a low-carbon energy system could free up significant financial

capacity over the next 20 years. In our modelling of India's transition from oil to low-carbon transport according to the 2^o scenario [target to limit global warming above pre-industrial levels] described by the International Energy Agency, India could save \$600 billion, using a combination of innovation and demand reduction policies. This is money that could be used to further India's development and economic goals.

There has been a lot of debate over the principle of 'common but differentiated responsibilities', which has come to the rescue of developing countries in climate change talks. Is that an impediment in getting developing countries to committing to cut carbon emissions?

The main impediment to nations making a serious commitment to cutting carbon emissions is their lack of understanding of ways to meet growth and climate goals simultaneously. Some nations are already on this path. Our work in Brazil and Indonesia, for example, supports policymakers' strategy to improve productivity while protecting forest assets. As our analysis demonstrates, developing and emerging countries that are net oil consumers, such as India and China, also have much to gain by transitioning away from oil together with other net oil consumers.

As you mention in one of your reports, governments control 70% of oil and gas production and 60% of coal production, so reducing these means a huge loss in revenues. How do you get the governments to see the benefits of reducing carbon emissions?

Governments do own most of fossil fuel assets globally, but they also have the policy tools to manage the cost of transitioning to a low-carbon economy, and in fact can create a net benefit from such transitions. Our analysis indicates that policies that reduce demand are more effective in doing so, rather than policies that restrict production. Restricting production merely creates economic distortions that benefit producers, while restricting demand, along with innovation, can lead to economic benefits.

"The high cost of debt is the biggest barrier to India achieving its renewable energy goals"

In general, emerging economies tend to subsidise consumer demand, especially when they are resource-rich, which means they under-invest in energy efficiency and miss out on the economic benefits of transition. India, being a net importer of oil and coal, can enjoy double benefits from a transition to a low-carbon economy if it focuses on demand reduction – it will benefit from a stronger balance of payments in addition to financial savings. These additional resources can then be invested in energy or carbon efficiency or other development goals.

The report talks about how the benefits of a low-carbon future more than offset the losses from reducing fossil fuel production, but only in the long-run. Does this make it difficult to convince governments, which are worried about the electoral impact of job losses and falling income?

If there are benefits in the future, governments may need to borrow from that future income to support the transition to a low-carbon economy that also creates better jobs. Depending on how policies interact, transitioning to a low-carbon economy can lead to higher employment and income, but there will be a shift in value and the transition will have to be managed. Some jobs will disappear, but new ones will emerge. Some assets will lose value, others will gain. The government plays an important role in minimising the pain, and maximising the gain, that can come from such a transition. ■

