

After Paris: Review and Credibility

based on ongoing research

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Basic Principles of Negotiations

❖ I'm willing to contribute *if* you contribute

- “conditional on...”
- ...if I trust that you will...

Revisions and Renegotiations

- Offers (to contribute) are largest if they can be conditional on whether others *also* contribute more
 - Negotiating conditional offers are time-consuming/costly
 - Furthermore: A series of short-term commitment periods lead to hold-up/under-investments in “green” technology
- ❖ Solutions:
- Revised pledges/commitments should be “automatic” or according to pre-specified formulas (as in international trade)
 - The default should be very ambitious and long-lasting commitments (i.e: renegotiate to weaker commitments)

Sanctions

- Prisoner dilemma: I contribute if you contribute
- This requires that I trust that you will
- Trade sanctions (for non-compliance) may establish such trust, even if they are never used in equilibrium
- Trade sanctions may also be necessary to motivate compliance and to ensure participation
- Can be framed positively as MFN (“most favored nation” status for participants/compliers)

Tropical deforestation

- Deforestation is a major contributor to CO₂
- It also leads to loss of biodiversity and culture
- ❖ At the same time, reducing deforestation in the tropics may be one of the most cost-effective climate change policies
- It is urgently needed to credit reduced deforestation:
 - Owners log today if they anticipate expropriation or low demand tomorrow
 - Owners *conserve* today if they expect compensation in the future

Global Demand = Global Supply

- If Paris works, regulating supply has no consequence
- If Paris might fail, regulating supply \approx insurance
- Large upside – no downside (to regulate supply in addition)

- Incentives to cheat/defect are also smaller when p is high
- Regulating both sides of the market stabilizes p : “fair”?
- A supply-side policy (contributing to a larger p) is easier to agree on among exporters (middle east)

- Can OPEC contribute to this task (and thus to climate)?