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Paying for 'loss and damage'

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COP27 in Egypt made a breakthrough on 'loss and damage'. But how will paying for climate damage and losses work exactly?



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By VIKRAM KHANNA

WE now stand disabused of the notion that climate change is a distant way off.

The endless headlines spotlighting natural disasters in recent months have underscored how this is a here-and-now crisis with massive ramifications for humankind. And few countries will be spared.

Torrential monsoon rains, coupled with melting glaciers, submerged one-third of Pakistan's land in September. The calamity left 1,500 people dead, washed away homes, destroyed livestock and racked up damage worth US\$40bil (RM182.1bil). Worse, the Pakistan economy will suffer a further projected three percentage-point decline in gross domestic product growth in 2023.

Even tested systems are drowning in water. Great powers like China were not spared after floods ravaged cities and wreaked havoc on its mountainous countryside and busy cities during this year's monsoon.

Hurricane Ian tore through Florida and North and South Carolina in the United States in late September, with the devastation setting a new US\$100bil (RM455.3) global record for insurance claims for a natural disaster.

Worryingly, this partial list does not include droughts and other extreme weather mayhem. From January through September, there were 29 weather-related disasters - with losses of at least US\$1bil (RM4.5bil), according to insurance broker Aon, with the total economic cost still being counted. The estimate for 2021 was US\$329bil (RM1.5bil).

More valuable are the costs we cannot put figures to as climate change acidifies oceans, raises sea

levels, alters ecologies and generates more extreme weather events: the loss of lives, biodiversity, heritage and the dangers to health.

A 'here and now' crisis

But loss may finally be giving way to action. At the COP27 climate summit in Sharm El-Sheikh in Egypt, delegates agreed to include "loss and damage" on the agenda, recognising the unavoidable, destructive impact of climate change even with best-laid plans to cut greenhouse gases and adapt to a changed climate. (COP27 is the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change.)

This is a long time coming. The most vulnerable developing countries have demanded aid to cover permanent climate-related loss and repairable damage for more than 30 years. In 1991, the Alliance of Small Island States - a coalition of 39 low-lying coastal nations - called for help for countries most exposed to rising sea levels. But the proposal had little traction, with rich countries - responsible for the bulk of greenhouse gas emissions for the better part of three centuries - resisting the idea.

Hesitancy has continued swirling. At COP26 in Glasgow in 2021, rich countries pledged to start a two-year dialogue to discuss funding, but refused funding commitments. They feared opening themselves up to unlimited liabilities - even though the 2015 Paris Agreement on climate change stated that loss and damage would not involve compensation.

While true in a legal sense, the cold hard truth is that developed nations are some of the largest emitters, prospering through highly pollutive industrialisation. Yet it's poor countries, whose contributions to cumulative greenhouse gas emissions have been minuscule, which bear the brunt of destruction from climate-related natural disasters. It just doesn't seem fair.

Africa, which has 17% of the world's population, accounts for less than 4% of current global emissions. Understandably, poor countries believe - as Prime Minister Mia Mottley of Barbados pointed out at Sharm El-Sheikh - that they have "a moral and just cause".

Climate justice

At its core, loss and damage is about climate justice. This concept has been barely acknowledged in the climate debate, with scant mention.

The iconic 2015 Paris Agreement mentions the word "justice" only once in the preamble: "The Parties to this agreement ... noting the importance for some of the concept of 'climate justice' ... - making clear that justice does not have universal support.

But there is a budding change of heart. At the 2021 Glasgow summit, host Scotland committed US\$2.2mil (RM10mil) to loss and damage - a drop in the bucket, but symbolically important as the first actual commitment of funds.

At this year's COP27, president of the European Commission Ursula von der Leyen endorsed the idea of separate funding for poor nations affected by loss and damage. Austria, Belgium, Denmark, Germany and Ireland stepped forward with contributions.

But conspicuous by its absence from the list was the world's largest cumulative carbon emitter, the United States. Perhaps mindful of the fraught political process required to secure funding for such an outlay from the country's divided Congress, US climate envoy John Kerry confined himself to supporting further discussion on loss and damage but committed nothing.

Why have some rich countries changed their tune on funding loss and damage? Maybe with climate-related disasters having hit them, they have come to realise the shared nature of the threat and the tragedy of global commons.

Or maybe they recognise a key consequence of uncompensated climate-related damage long warned before: A surge of climate refugees heading to their shores from the Middle East, Africa and Central America.

Immigration can be a firecracker igniting policy innovation. Already, there are about three times more climate refugees than the number of people forced to flee armed conflicts, according to the Geneva-based research organisation Internal Displacement Monitoring Centre. And the number is forecast to rise to 200 million by 2050, from 30.7 million in 2020.

The third pillar of climate finance

While a financing mechanism for loss and damage has yet to be set up, the idea now at least has some support and more momentum. It will be the third pillar of climate finance to supplement funding for mitigation and adaptation.

Vulnerable countries, climate activists and NGOs have their wish lists on how such a mechanism should work. Its disbursements should be automatic, following incidences of climate-related loss and damage.

They should come primarily from countries that have contributed most to the climate crisis and the contributions should be mandated, not voluntary, ad hoc acts of charity.

The facility should be separate from humanitarian and development aid serving a different purpose. The amount pledged should also be in addition to the US\$100bil (RM455.4bil) in climate finance rich countries had promised to transfer to the developing world by 2020 as part of COP16 in 2009 - a pledge on which they have fallen far short.

Some funding can be routed through multilateral institutions like the International Monetary Fund (IMF) and the World Bank, as they raise their game on climate finance, but other sources of funding should also be explored.

Formidable obstacles

But the idea of a loss and damage facility faces formidable obstacles, even leaving aside political hurdles. Already, there is a lack of enthusiasm for existing global climate initiatives, particularly in the United States.

One issue will be determining what types of loss and damage the facility would cover and the extent to which they are caused by climate change. Many incidences of floods, for instance, are also the result of poor domestic policies, such as drainage channels being built over or the removal of mangroves, as well as deforestation and faulty land-use policies.

Air pollution can also be traced to generous fossil fuel subsidies, the absence of mitigating measures such as carbon taxes, stubble-burning - seen in the seasonal trans-boundary haze afflicting South-East

Asia - uncontrolled construction activities and poor vehicle emission standards.

Transfers may have to be conditional on the adoption of minimum standards of mitigation and adaptation. Opponents of a loss and damage facility after all would have powerful arguments to deny funding to countries guilty of such self-inflicted malpractices.

Standards and benchmarks must also be set, made transparent and be independently verifiable to pre-empt gaming, corruption and the diversion of funds to other uses, with transfers to be closely monitored.

Then there are issues around the form that loss and damage funding should take, and its sources. Rich countries rely mainly on insurance, but this works poorly in developing countries. Small farmers and coastal communities most at risk cannot afford the insurance premiums, which will increase as sea levels rise, together with other climate-related risks. More assets will become uninsurable.

Massive subsidies, or the regional pooling of premiums, including from people at lower risk, will be needed.

As for the sources of funding, the "polluter pays" principle suggests some innovative possibilities besides government transfers from rich countries. Among those possibilities mentioned by climate activists are a rollback of fossil fuel subsidies, a windfall tax on the profits of fossil fuel companies (which even US President Joe Biden has proposed), taxes on the extraction of fossil fuels, a levy on frequent fliers as well as taxes on shipping emissions.

An additional allocation of the IMF's currency, called special drawing rights, could also be made, with pots earmarked for loss and damage compensation.

The abundance of ideas is promising but the devil will be in the details.

The good news from COP27 is that there is, at last, some support for the idea of loss and damage funding, but we are still many steps away from creating an effective mechanism for this. - The Straits Times/Asia News Network

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