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A seismic policy shift needs to take place before the impending environmental crisis can be addressed. Negotiations have to target the ultimate polluter: the consumer, regardless where production of the goods or services take place. Such a policy would also be consistent with globalisation.

A signal has been received to initiate what could arguably turn out to be one of the most pitiless brawls about global burden sharing since the cycle of globalisation began in the late 1940s. At the heart of this envisaged quagmire is the question of who is going to fund the reduction of emissions of greenhouse gases now on the agenda for a host of meetings to find a replacement or amended extension to the Kyoto Protocol, expiring in 2012.

The 13th session of the United Nations Framework Convention on Climate Change (UNFCCC) Conference of Parties in Bali has opened a race geared to finish in Copenhagen at the end of 2009. Ratification and implementation, among a host of other commitments, make it imperative that a new regime comes to force before the end of 2009 to ensure that the world is not left without any international framework covering greenhouse gasses after 2012.

The Kyoto-protocol was forged in the mould of yesterday’s world - a world dominated by the nation-state and its pursuance of national interests. Quotas were specified for countries, albeit accompanied by a mechanism that allowed for the trading of certificates among nation-states. In principle, this should have lead to higher efficiency as those who were able to pay, could buy quotas from countries that did not require them.

The ostensible reality, in relative terms, was that rich nation-states had capital, while the poor and newly industrialised nation-states did not. Given such a schema, the end result was that established producers could purchase certificates to ‘monopolise’ production. Or in other words, instead of flexibility channeling production where it is most efficient, it may bring about a petrified production structure where producers in established industrial nation-states purchase certificates, in effect, crowding out their potential competitors in less developed countries.

This is probably one of the reasons that some of the rising nation-states such as China vigorously reject most of the proposals on the table, propounding that rich nation-states having enjoyed a free ride in their industrialisation process many years ago, should now bear the brunt of the burden of halting and hopefully reversing climate change.

Many industrialised nation-states may not necessarily reject that argument, but are tepid and disagreeable to the second proposition - that they assume the lion’s share of the burden in addressing climate change. These industrialised countries maintain that while they may have polluted the environment during their rise to power, the environment was not a problem then, as it is now. Today, emission levels have reached a stage where the problem is acute. And in the minds of the industrialised nation states – the rising economic powers are the culprits in chief.

The current dispute seems to overlook an analogous debate when environmental policies took off in some industrialised countries in the 1960s and 1970s. Then, consumers and industry were at each other’s throat, trying to shuffle the burden around hoping that the burden-sharing fight would lead to a stalemate so everybody could be left off cheaply in the short term.

The Gordian knot was cut in those days – well, more or less – by the PPP or the Polluter Pays Principle which stated that the ultimate polluter was neither industry nor the public, but the consumer. The implication of this principle, transferred from theory to practice, was a number of taxes and levies designed to be passed to the ultimate polluter. In many industrialised countries water levies, taxes on solid waste, petrol taxes, have been introduced. And apparently, it worked.

A dramatic qualitative improvement in environmental standards and energy efficiency is noticeable in countries such as Japan and many of the European countries, especially in Northern Europe. This marked improvement can only be ascribed to the change in price structure - one that penalises polluters and rewards less pollutive goods or production processes mainly by way of levies and subsidies.

This hard won experience informs that one can only go some way with declarations and regulation. In the final analysis, what matters is to make the ultimate polluter feel the pinch on his or her purse. Only through such an emotive is there any prospect of green house emissions falling.

As long as the discussion revolves around quotas or regulations allocated to nation-states, the chance for an effective agreement is remote. The circus of accusations and counter-accusations are likely to continue. Having committed themselves so clearly and in some cases unequivocally, to mutually incompatible policy positions, it is close to inconceivable that many countries will have a change of heart in the short to medium term on how to engender positive climate change.

A seismic policy shift needs to take place before the impending environmental crisis can be addressed. Negotiations have to target the ultimate polluter: the consumer. That will make it clear that it is not the producer in China, the US, Europe or Singapore that is ultimately responsible, but the consumer wherever he or she is. The burden has to be passed on to the consumer regardless of where production takes place. Such a policy, fully in accordance with national application of PPP, turns the sometimes almost theological arguments about national quotas into a mirage. It would also be consistent with globalisation.

Just follow this reasoning. Outsourcing from the US or Europe to China would cause Chinese emission levels to rise. Global production and consumption is unchanged, but with a system based upon national quotas, China would have to ‘pay’ more. But such a state of affairs makes no sense when the consumer in both cases plays the role of the polluter or emitter. The shift to a geographical place of production should only influence the distribution of the burden if outsourcing also connotes a shift from a less pollutive production process to a more pollutive one. A mechanism to that effect could be built into a PPP model.

Such a solution would understandably put the newly industrialising countries in a bizarre quandary. A national quota model places them between the devil and the deep blue sea. Either ways, they absorb the cost reflecting rising production and emission levels. Or, their refusal runs the risk that rich countries will move towards some kind of ‘coalition of the willing’ ready to impose levies. And even if the new industralising countries try to pass on the cost to the consumer by increasing prices, they might undermine their own competitiveness vis-à-vis the already industrialised countries.

All three options appear problematic hence the call to develop an agreement that paves the way for the international community to pass on the costs to the ultimate polluter/emitter, in such a way that does not distort competitive advantages and influence relative production costs.

If such a road is not found, two outcomes, both of which look rather unpalatable, may haunt the global economy. The first one is a complete break down, leaving an international agreement on climate change hanging in the air. The second is a mix of political compromises that will probably force a cost increase on rising nation-states, introducing global inflation as those nation-states increase their export prices. That would be the last thing the world needs now with high oil prices, a continually unfolding sub prime crisis and falling growth in the US. Rich countries should not forget that it is due to cheap production from countries like China that global inflation has been kept low for the last 15 years. If global inflation starts to go up at this junction, the world economy is likely to jump from the frying pan into the fire.

On balance, the conclusion of a successful climate change regime, measures to combat global warming and the reduction the emission of green house gases must not undermine growth. A plausible solution would be to hive off a portion of growth and turn it away from consumption to anti-pollution measures without distorting competitive advantages or undermining globalisation. The Polluter Pays Principle meets this requirement - what needs to be done now is to develop the magic formula to apply it on the global stage.

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