



**The distinct roles of international coordination
and domestic policies
and their respective impact on (transition) costs**

Renaud Crassous
CIRED

crassous@centre-cired.fr

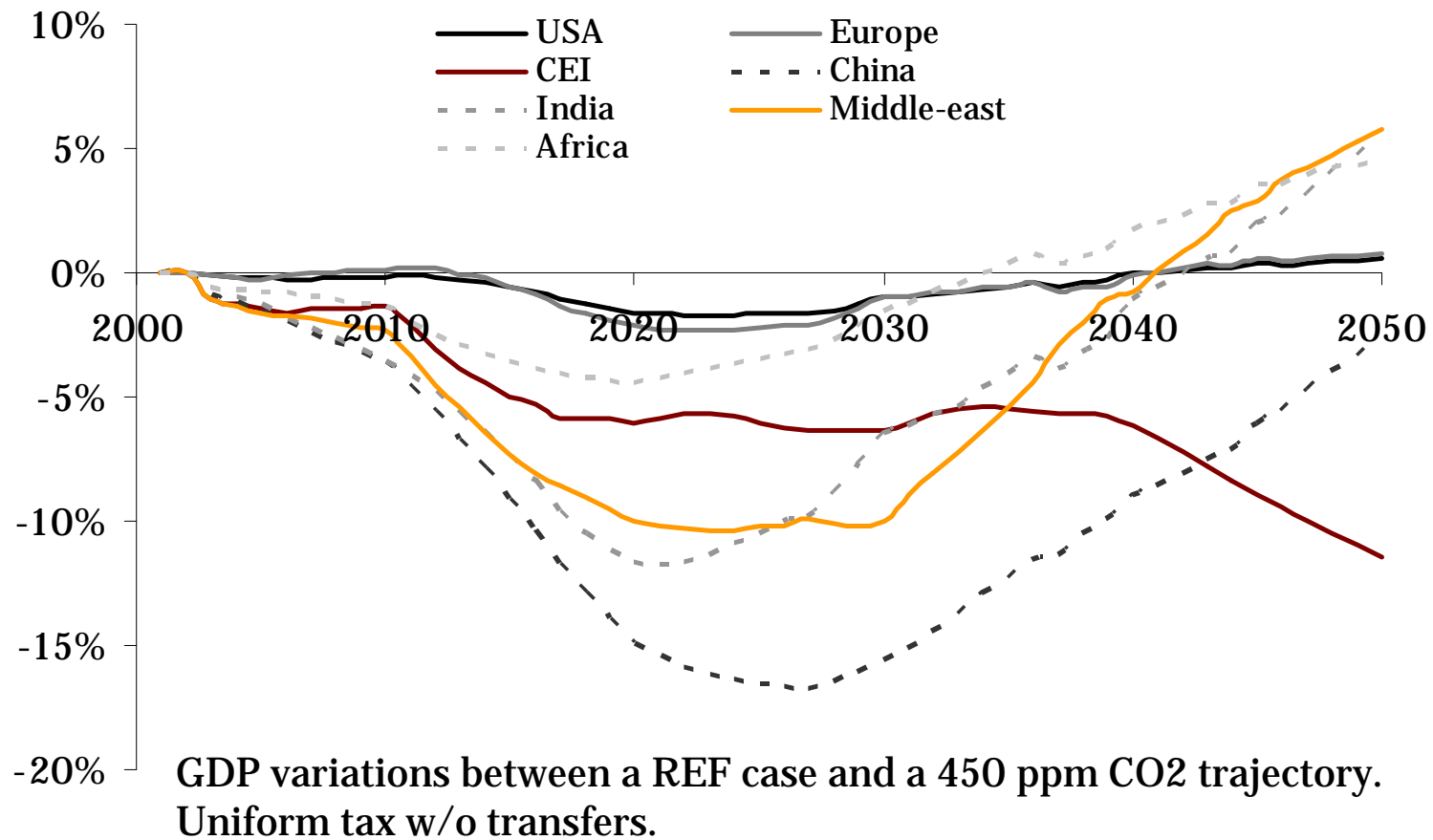
International Workshop
'How can climate policy models shape real decisions?'
25th March 2009

What happens with climate policy applied to our imperfect economies?

‘Most models use a global **least cost approach** to mitigation portfolios and with universal emissions trading, assuming **transparent markets**, **no transaction cost**, and thus **perfect implementation** of mitigation measures throughout the 21st century.’

(AR4 WGIII SPM Box 3)

In Imacsim-R, any stringent emission constraint leads to high transition costs



Why such a transitional slowdown ?

- Ambitious
- Inertia and 'lock-in' effects
- Imperfect foresight
- Perverse effects on terms of trade and exchange rates
- Price-only policies (no infrastructure policy, no spatial planning)

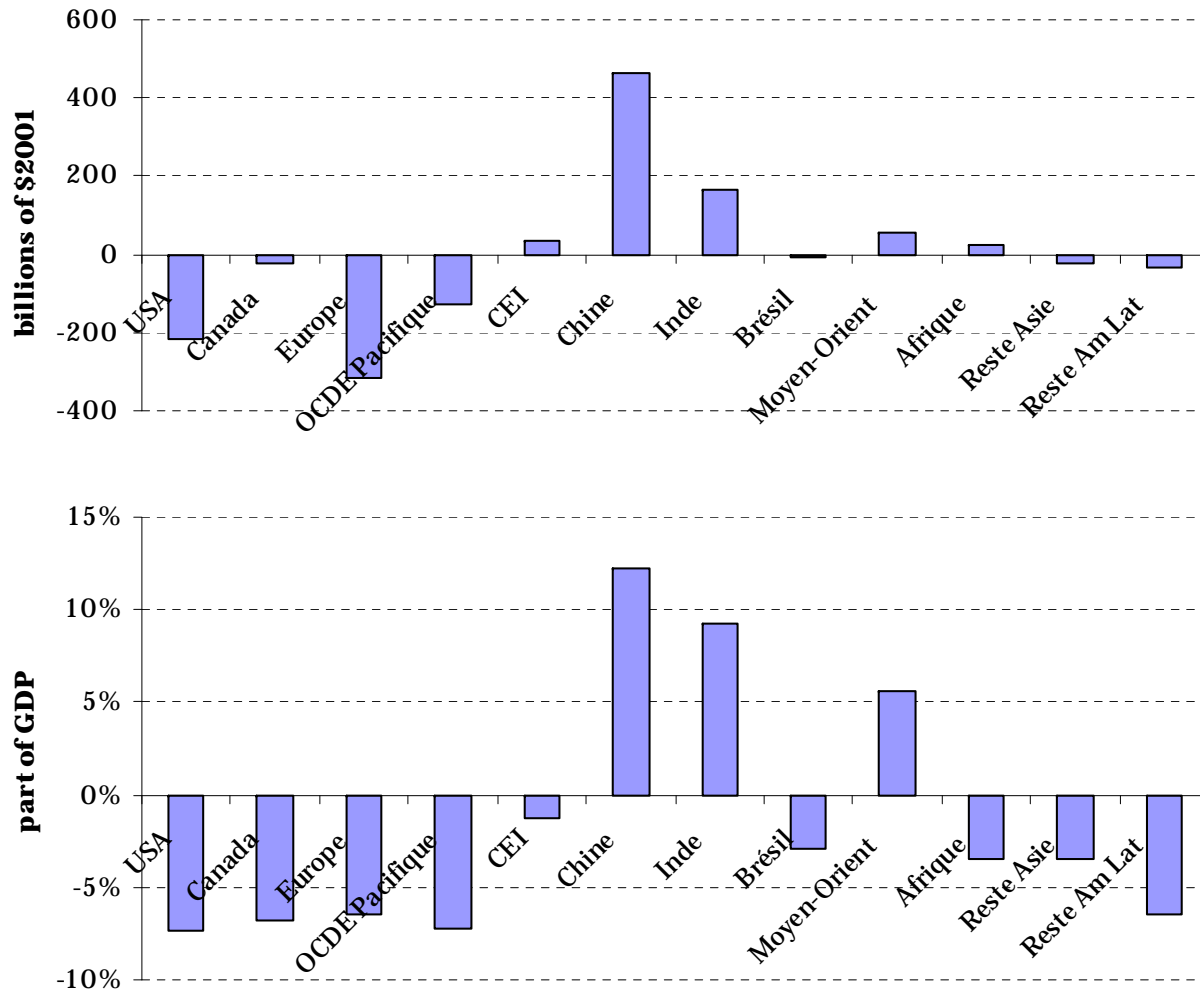
What solutions?

- Not to say that mitigation is too costly
- But to recognize there are domestic and international macro risks of a slowdown during the transition

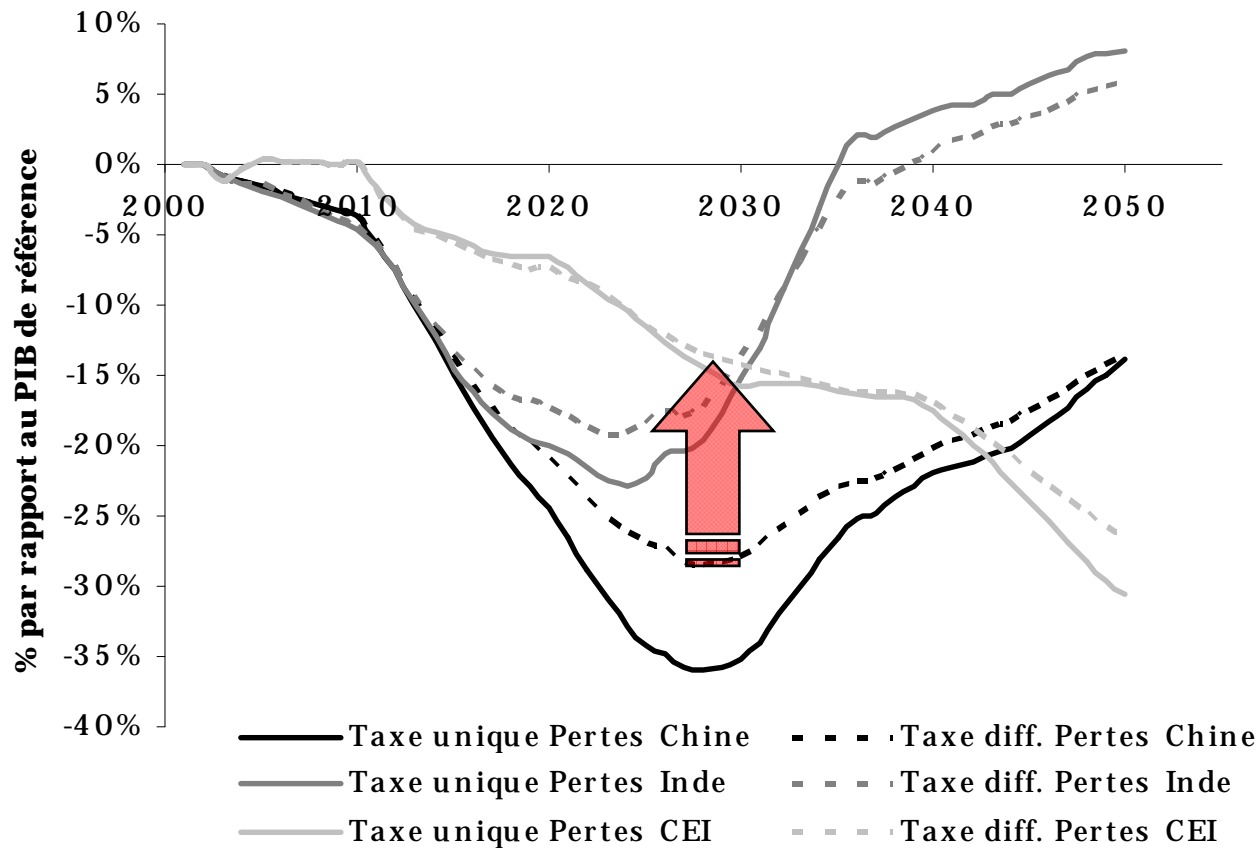
- Perfect foresight and retrofit
- + International Transfers

Transfers may appear prohibitive!

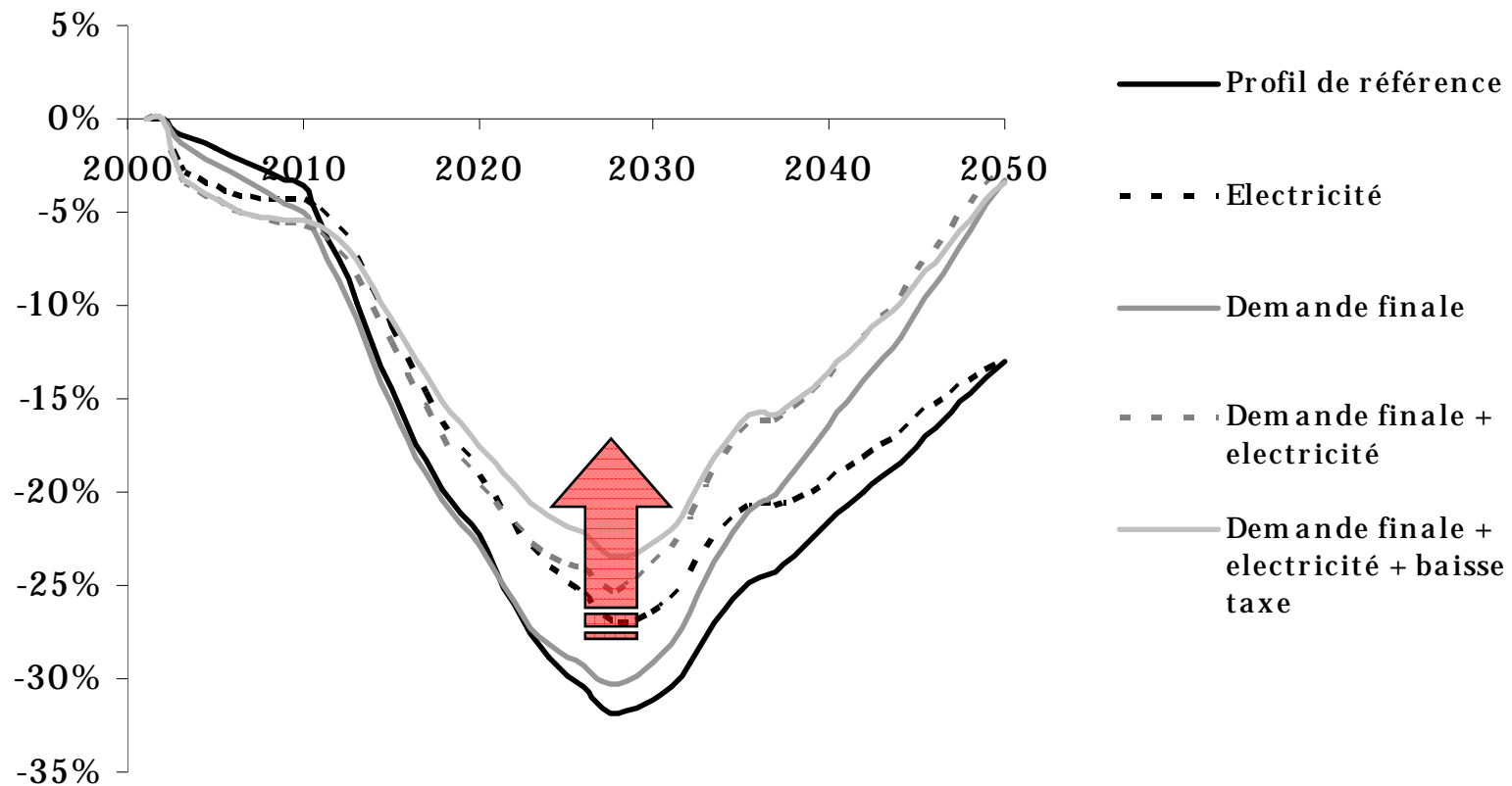
First-order transfers to equalize percent of losses - 2020



Differentiate price signals among countries ?



Adapt carbon price profiles to sector specificities?



What solutions?

- Lump-sum transfers are not likely to be the solution
- Most of the transition cost issue come from the nature of domestic policy and might be secured by domestic action, with a favorable international context

- Improve expectations and tackle inertia
- Internal compensations/differentiation among agents
- Fiscal reform (not only labor taxes but also X_{tax}/M_{tax})
- Set instruments to minimize the *risks* of costs

Challenges and necessary shifts

- Stop annoying policymakers with our first-best solutions -> Accept to compare some of the (infinite) possible second best solutions that works securely
- Begin to think and produce results in terms of robustness of outcome: What system improves the probability to reach a given target while securing costs?
- Be able to compare/synchronize efforts