

Climate change is now. The question is no longer whether human behavior is contributing to it, but how vast and irreversible the damages will be. Yet public awareness — and political focus on climate change issues and the need for mitigation — makes me believe there is still hope.

Climate change is by far the biggest environmental challenge facing the world, but meeting it is still possible. From the perspective of a Minister of Finance Norwegian policy is twofold. We have a long and successful experience with green taxation which alters national consumption in a more environmentally friendly way and gives incentives for technological innovation. However, climate change also requires an international strong, coherent, and sustainable response. We need an international emissions scheme with strong caps. We addressed this to some extent at the Bali climate talks in December. I will continue stressing these issues.

Taxes have been introduced in Norway to reduce environmentally harmful emissions to air and water, and to cut the amount of waste generated. The first tax with an explicit environmental purpose was levied on sulphur in mineral oil in 1971, and ours was one of the first countries to introduce a CO₂ tax. Today we have environmental taxes on emissions of climate gases, sulphur, NO_x, the final treatment of waste, chemicals that damage the environment and health, and on beverage packaging — and several other taxes are differentiated according to environmental standards. This has contributed both to emission reductions and to the development of new technology.

The present Government has introduced several new green taxes. We will continue this tax adjustment and offset the revenues from increases in environmental taxes by corresponding reductions in other direct and indirect ones. In Norway 5.5 per cent of central governmental tax revenue now comes from environmental and energy taxes — equivalent to 1.5 per cent of GDP in 2007 — among the highest in OECD countries. Through this means, we can maintain a high level of welfare, without increasing other taxes. Their main purpose is, and will always be, to reduce environmentally harmful consumption and production. However, it is no disadvantage that they raise income, as well as improving the environment.

As Minister of Finance I also coordinate the Government's work on sustainable development. Caring for our common resources through environmental policies is not a contradiction of sustained economic and social development but a precondition for it. Mitigation, including its costs and consequences for the economy, needs to colour all political decisions.

Norway strongly advocates the polluter pays principle. Through economic policy instruments like green taxes and emissions permits, we make pollution costly and emissions reductions economically desirable. More than 75 per cent of our national climate emissions are regulated either by taxes or permits. A tax works like a price on emissions and gives the polluter an incentive to reduce emissions as long as the reduction costs are lower. The reductions are thus made as inexpensively as possible, and incentives are created to achieve them where the cost to the economy is the lowest, allowing us to get the most out of the resources spent. Cost-effective policies thus give countries room to undertake more ambitious international commitments.

A permit-trading system works in a similar way, but here the price is determined in a market. Emitters who can reduce emissions at relatively low costs, do so and sell permits as long as the market price exceeds these costs. Conversely, emitters who have large mitigation costs will buy permits as long as the market price is below the price of reductions. About 40 per cent of Norway's emissions of greenhouse gases will be covered by this system.

An efficient system requires allowances to be allocated to create incentives for emission reductions. This takes place when the total amount of permits is sufficiently below the current level of emissions. In Norway permits are allocated to represent a level 20 per cent below the total emissions from for



entities regulated under the system. Only 30 per cent of the allowances will be allocated free of charge. This will contribute both to higher prices and to real emission reductions.

Carbon markets are key tools for reducing global greenhouse gas emissions cost-effectively and so I am pleased that the number of permit trading systems and their coverage is increasing.

We believe that the EU Emissions Trading System could be a very good starting point for a global system, and are eager to participate in the effort to expand it to cover more countries and more sectors. The essence of an international system with tradable permits is to give all countries the same incentive to

Producers should pay

by Kristin Halvorsen

reduce emissions. Each country should then pass on the abatement costs to domestic emitters. Through this, both producers and consumers of their products will be encouraged to contribute to reduced emissions. A global market price on greenhouse gas emissions will induce countries, businesses and individuals to invest in low-carbon assets and push the world towards a more sustainable path.

A global system of equitably distributed national quotas will generate a demand for permits from developed countries, and in this way become a means of transferring resources from richer countries to emerging economies and developing countries. Developing economies have a right to develop, and they should be given strong incentives and high rewards for growing in a

climate-friendly manner. Such a regime will generate more mitigation per dollar as well as substantial resource transfers to developing countries to be used for adaptation, reforestation, and investments in sustainable technology.

A well functioning international permit trading system will provide the worldwide private sector with strong and much-needed incentives for cutting emissions. The business world knows that a tighter cap on greenhouse gas emissions will lead to increased permit prices. Expectations of higher costs linked to emissions will thus immediately influence business decisions. For this to have the maximum impact, it is imperative that as soon as possible everyone perceives an effective global agreement as the credible long term solution. 