



Advisory Council  
on International Affairs

# The necessity of global climate justice

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# Advisory Council on International Affairs



The Advisory Council on International Affairs (AIV) is an independent body which advises the Dutch government and parliament on foreign policy. The AIV provides advisory reports about international affairs both on its own initiative and on request. Its main areas of expertise are European cooperation, development cooperation, human rights and security policy. The AIV focuses on strategic dilemmas and draws attention to new policy matters with a view to the longer term. It produces independent, carefully argued advisory reports that provide analysis and interpretation of current international developments and recommendations for Dutch foreign policy, and in this way contributes to political and public debate on matters of international significance.

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# Executive summary



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The constant stream of news reports on natural disasters in different countries underlines the fact that climate change is one of the greatest challenges the world is facing. Not all of these disasters can be attributed to climate change, but it is evident that there is a link. Besides the immediate impacts, authoritative international reports have pointed out that global warming also causes the gradual degradation of ecosystems and reduction in agricultural yields, threatening the livelihoods of millions of people.

Despite rapidly growing investments in sustainability, global climate action to achieve the goals of the Paris Agreement is falling short. Lack of climate justice is an important and underestimated factor in this inadequate response. This advisory report seeks to further define the concept of climate justice, which it regards as an essential prerequisite for achieving global climate ambitions. Countries with the greatest historical responsibility for climate change are not doing enough to reduce their own emissions in time to meet the global targets and do not pay sufficient attention to a fair distribution of the costs, internally and externally. Internationally, these countries are falling short in their support for developing countries, which have barely contributed to the problem, but are often most adversely affected.

This lack of climate justice undermines support for the policies that are needed to achieve the goals of the Paris Agreement. In several countries, there are signs of growing opposition to more stringent measures, such as taxes on polluting forms of production and consumption. Given their own challenges, low-income countries, in particular, prioritise other pressing issues, such as promoting food security and employment and improving infrastructure, access to electricity, education and healthcare, often in a context of growing political instability. They are unlikely to divert scarce resources away from these objectives and use them for long-term climate action instead. They simply do not have the financial capacity for the required investments in mitigation and adaptation.

It follows that climate injustice may, therefore, delay climate action and hold up major investments, for instance in renewable energy or the protection of crucial ecosystems. This would push the world closer to exceeding planetary boundaries and triggering climate tipping points.

Neglecting the issue of global climate justice also comes at the risk of growing inequality, poverty, instability and conflict, especially in vulnerable countries. This could trigger migratory flows, including towards Europe. Furthermore, failing states pose a threat to peace and security within Europe itself. They may provide countries like Russia an opportunity to exert greater influence, or turn into a safe haven for terrorist and criminal organisations. Therefore, a more effective policy on failing states and the factors that contribute to this fragility also demands more attention to climate justice.

Countries in the Global South increasingly accuse the European Union (EU) of climate hypocrisy. European countries still allow fossil investments in their own economies but object when poorer countries seek to exploit their local fossil fuel reserves in the interests of economic development. Further, the use of trade policy to prevent polluting imports from developing countries is often perceived, by them, as green protectionism. Failure to honour agreements on climate finance has also damaged the EU's credibility. Discontent on these issues undermines the broader relationship between the EU and the Global South, hampering the EU's ability to pursue other goals in the geopolitical arena.

The Dutch government has requested the Advisory Council on International Affairs (AIV) to advise on how the Netherlands could work towards a fair and just climate transition. Besides the general factors mentioned above, the Netherlands in particular has compelling reasons to invest in international



climate justice. The contribution of the Netherlands to historical carbon emissions is relatively large. Since the dawn of the Industrial Revolution, it has emitted more CO<sub>2</sub> than nearly all African countries combined, with a joint population exceeding one billion people. Currently, the average Dutch person emits 40 times more greenhouse gases than the average Tanzanian.

Moreover, as a low-lying delta, the Netherlands is relatively vulnerable to the long-term consequences of climate change. The Dutch economy is also heavily dependent on foreign trade, making it sensitive to climate disruption elsewhere. Finally, the Netherlands is an exceptionally wealthy country with the means available to make a substantial positive contribution.

### **Perspectives**

What would a global just transition look like? Given its many facets, no clear-cut definition is available. In its analysis, the AIV identifies six distinct perspectives for looking at a just transition:

1. planetary boundaries;
2. historical debt;
3. rights;
4. solidarity;
5. fair market;
6. development opportunities for the Global South.

Some of these overlap, while others may give rise to tensions and dilemmas. The world must remain within planetary boundaries, but not at the expense of poverty reduction and economic development in low-income countries. Rich countries have built up historical climate debt, but this does not mean that emerging economies do not need to take action. Concerns about poor working conditions and environmental damage caused by the extraction of critical minerals must be effectively addressed, but should not slow down the transition.

Against the backdrop of these perspectives, the AIV analyses a number of important domains of Dutch, European and international climate policy:

- (a) regulating the market;
- (b) influencing consumer behaviour;
- (c) green industrial policy;
- (d) international climate finance;
- (e) policy coherence.

With regard to (a) and (b), the AIV notes, in line with the Inter-ministerial Policy Review on Climate (2023), that Dutch and European climate policy is primarily based on voluntary action and price incentives. This often contributes to growing inequality and at the same time simply does not go fast enough. Clear and strict regulations to curb polluting sectors and activities may further speed up the transition and at the same time ensure more just outcomes.

More ambitious European industrial policy (c) is indispensable to proactively shape the new, green economy. In doing so, however, the implications for the Global South need to be considered much more carefully. Subsidies for green industrial sectors in the West, such as batteries or green steel, could undermine the emergence of these same sectors in the South and thus lead to an unequal global distribution of the benefits of the transition. In particular, the EU needs to consider the interests of people in low-income countries in its climate, trade and industrial policies.

At the same time, the green transition offers exceptional opportunities for many countries in the Global South because of the great potential for renewable energy and their reserves of the required

minerals, including for batteries. Without concerted efforts to facilitate this, however, the transition may lead to a geopolitical race for raw materials in the Global South, while neglecting the needs and opportunities for those economies. Seizing such opportunities requires effective green sectoral and industrial policies, for example around the processing of locally extracted critical raw materials or the manufacturing of solar panels. In recent decades, developing countries have often been discouraged from pursuing such sectoral and industrial policies. Especially now that industrial policy is back on the agenda in rich countries, it is important to change this attitude and actively seek to cooperate with the Global South in this area. This would also be an effective way of realising the aim of enhanced engagement with these countries, given that seizing the opportunities of the green transition is a key priority for many of them.

Climate finance (d) could play a role in this, but will need to improve in terms of both quantity and quality. Rich countries have pledged \$100 billion annually to support climate action in developing countries but have so far failed to deliver. Meanwhile, the needs have increased further still, including for climate damage compensation. Although the Netherlands may seem to be delivering its fair share, these resources come from the regular budget for development cooperation and do not constitute additional funding. Improving the quality of climate finance will require reform of the current fragmented, donor-driven model, which does not enable developing countries to effectively deploy funds to support national climate policies. Channelling a greater share of funding through country-driven partnerships could help. Also, a larger proportion should consist of public funds for climate adaptation, which should also be used more effectively to leverage the necessary private investments.

In terms of policy coherence (e), priority should be given to reducing the Netherlands' own contribution to climate change and minimising the negative impact of the Dutch economy on people and the environment elsewhere. The global footprint of the average Dutch person is difficult to reconcile with the aim of living within planetary boundaries. Reducing it will require integrated policy aimed at adjusting current production and consumption patterns, accompanied by limits on specific footprint indicators. It also demands ambitious national and EU due diligence legislation for corporate social responsibility.

### **Towards a *Just* Transition**

A lack of climate justice undermines support for ambitious climate policies worldwide. At the same time, concerns about the fairness of climate policy should not delay the transition, as this would lead to even more injustice being done. The challenge is to accelerate the transition in a way that is both effective and just.

This advisory report has three key messages. First, a globally just transition is in the Netherlands' own interest. Second, to make progress on this front, the Netherlands needs to step up climate efforts within its foreign and development policy, by investing more in dialogue and cooperation with the Global South, so as to provide effective support for developing countries. Third, international climate justice calls for faster reduction of the Netherlands' own emissions and of the broader global footprint of the Dutch economy.

Finally, the AIV considers it important to emphasise that international climate justice goes beyond redressing harm through compensating loss and damage. It is a forward-looking common agenda towards a more sustainable, fairer, safer and more prosperous world.

# Recommendations



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Additional efforts by the Netherlands to promote international climate justice are essential, both in its foreign and development policy, and in domestic policies aimed at the Dutch economy and society.

**With regard to foreign and development policy, the AIV makes the following recommendations.**

► Recommendation 1

**Recognise global climate justice as an essential prerequisite for a successful climate transition and communicate this message clearly, both nationally and internationally.**

Acknowledge that the Netherlands must take international and historical responsibility for a just transition and make explicit why this is also a matter of enlightened self-interest. Actively pursue principles of equity and justice as part and parcel of international climate policy and international negotiations, since they form an essential precondition for achieving the goals of the Paris Agreement. Integrating climate justice into foreign policy is also of key importance in the context of increasing geopolitical rivalries. Such an agenda strengthens relations with countries in the Global South and reduces the likelihood of political instability and conflict in the regions surrounding Europe.

► Recommendation 2

**Step up dialogue on climate justice with the Global South in multilateral cooperation forums and ensure that the interests of low-income countries are taken into account in coherent European climate policy from the outset.**

European climate policies, such as green industrial policy, the Carbon Border Adjustment Mechanism (CBAM), restrictions on fossil fuel investments abroad, and legislation on corporate social responsibility and combating deforestation, may have unintended negative consequences for productive sectors in the Global South. This increasingly results in frustration. The EU should seek much closer dialogue on these issues and introduce targeted accompanying policy measures. Within the EU, the Netherlands should call in particular for new, targeted support and transition programmes for countries negatively affected by the CBAM and anti-deforestation legislation.

► Recommendation 3

**Increase climate finance for low- and middle-income countries and make this, as internationally agreed, additional to regular development cooperation spending of 0.7% of gross national income.**

Ensure that at least half of climate finance is earmarked for adaptation, focusing on low-income countries.

At the international level, advocate:

- A new post-2025 climate finance goal with the aim of securing, from 2030 onwards, at least \$1 trillion a year in total external public and private funding for low- and lower-middle-income countries, in line with the report of the High-Level Expert Group on Climate Finance.
- The inclusion of rich non-Western countries, such as the Gulf States, in the group of official climate finance providers, so that they, too, set goals and report on their progress. These countries should increase their contribution to international climate finance.
- Greater use of other sources of funding, including international aviation and shipping taxes and debt swaps.





► Recommendation 4

**Use the Netherlands' influence within international financial institutions to call for reform of the global financial system, in line with the principles of climate justice as detailed in this report. Seek broad international coalitions for this purpose.**

The current system does not sufficiently serve the interests of developing countries. The countries most in need of climate investments have least access to them, because they have to pay higher interest rates on the international capital market.

In this context, strive for:

- Active involvement in the Bridgetown Initiative of the prime minister of Barbados, aimed at reforming the global system of development finance. Call for the issuance of additional Special Drawing Rights (SDRs) for climate investments, as well as for reform of the allocation mechanism so that developing countries receive a larger share of SDRs.
- Just outcomes of international carbon markets, which under the right conditions can lead to more sustainable investments in developing countries. At the international level, call for stricter regulation of this market to avoid greenwashing.

► Recommendation 5

**Facilitate green, inclusive sectoral and industrial policies in countries of the Global South, where possible and effective, and support this using targeted partnerships, for example as part of Team Europe Initiatives.**

Ensure that these partnerships work on the basis of locally defined priorities, which are often aimed at fostering green industrialisation and creating added value and jobs. Be prepared to look beyond Europe's short-term interests. For example, instead of importing raw materials for processing in Europe, invest in local processing of raw materials for the green transition, even if it is more expensive to do so. Make sure that these partnerships go further than individual investment projects, and also help strengthen the institutional framework for conducting local industrial policy and employee training. Invest in strengthening the expertise and capacities of relevant ministries in this area.

► Recommendation 6

**Following the example of existing Just Energy Transition Partnerships, take the lead in setting up a multi-donor partnership, focused on a specific climate-related challenge in one of the focus countries for Dutch foreign trade and development cooperation policy.**

This should set the stage for a broader reform of the way in which climate finance is organised. The main focus of Dutch climate finance should shift from myriad small development projects to more structural long-term programmes, based on local ownership and taking into account the impact on equity and justice.

**With regard to the Dutch economy and society, the AIV makes the following recommendations.**

► Recommendation 7

**Reduce the Netherlands' contribution to climate change as quickly as possible.**

This will leave a larger share of the remaining carbon budget for developing countries, which is needed for a just transition.

In this context, the Netherlands must:

- Step up emission reduction efforts as much as possible to reach the net-zero goal before 2050 and achieve at least 90% reduction from 1990 levels by 2040, in line with the recommendations of the European Scientific Advisory Board on Climate Change.
- Set a timeline for phasing out direct and indirect fossil subsidies.



► Recommendation 8

**Improve policy coherence to stop the Dutch economy negatively impacting people and the environment elsewhere.**

Work towards this by:

- Putting together a task force, involving at least the following ministries: Foreign Affairs, Agriculture, Nature & Food Quality, Economic Affairs & Climate Policy, Defence and Finance, with the specific remit of identifying measures to promote a global just transition, and reporting annually on its findings.
- Setting time-bound limits for reducing the Netherlands' global footprint in terms of greenhouse gases, land, water and biodiversity.
- Pushing for ambitious Dutch legislation on corporate social responsibility and forming coalitions in order to enshrine a similar level of ambition as quickly as possible in the proposed EU legislation in this area.

► Recommendation 9

**Invest in broad public support within the Netherlands for a just climate transition worldwide.**

Do this by holding businesses and civil society organisations to account. Make targeted efforts to strengthen public support by explicitly including the international dimension of climate justice in relevant debates, including in the context of the citizens' forum that has been established on climate and energy policy.





Residents of New Delhi make their way through a flooded street. This may become an increasingly common sight in cities in low- and middle-income countries, as urban infrastructure cannot cope with the increased rainfall intensity due to climate change.

# Triple climate inequality

## ▶ 1.1 The alarm bell

During its proceedings, the AIV spoke with Bijoy Chakraborty, president of the *Confederation of Indian Small Tea Growers Association*. He explained how the scorching heat of northern India has also reached the world-famous tea plantations in the highlands of Assam and Darjeeling, where afternoon temperatures now regularly reach 42°C or more. Besides taking a heavy toll on the tea plantations workers, the tea leaves simply shrivel and die off when exposed to such heat for days or weeks on end. Generally, the tea crop tolerates a maximum temperature of 35°C. The whole sector may become uprooted by climate change, with direct consequences for the hundreds of thousands of people who depend on it for their livelihoods. In the lower-lying areas of northern India and Pakistan, temperatures sometimes go as high as 50°C. Especially when combined with high humidity, this poses an acute public health threat. It literally causes people to collapse.<sup>1</sup> The urgency of climate change for both national and international policy is beyond doubt.

Global warming, linked to many of these changes, is just one of an interconnected set of environmental challenges that the world is facing. The Stockholm Resilience Centre coordinates extensive research on nine planetary boundaries, including climate change, biodiversity loss, water scarcity and chemical pollution. According to this research, the world is set to breach most of them, putting the very future of humanity at stake, as we depend on the planet to provide us with the basic needs for our existence: the air we breathe, the water we drink and the food we eat.

In the words of Antonio Guterres, Secretary-General of the United Nations (UN), the world is “on a highway to climate hell with our foot still on the accelerator.”<sup>2</sup> The goal of limiting global warming to 1.5°C, as set out in the 2015 Paris Agreement, is increasingly getting out of sight. Even though our planet has warmed by ‘only’ 1.1°C until now, the consequences are already clearly visible. They are also profoundly unjust. The communities and countries that have contributed least to climate change are suffering its worst consequences, while they have least access to the financial and other resources needed to cope with them.

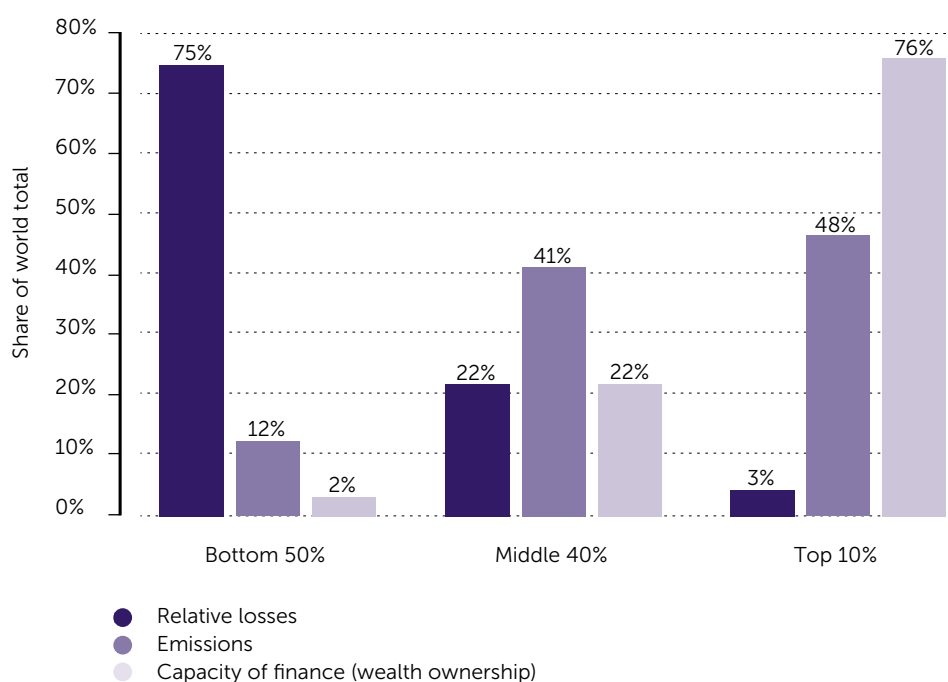
The challenge facing the world is not new. The Netherlands’ policy note on development cooperation from September 1990, called *Een wereld van verschil (A world of difference)*, opens with a quote from the Indonesian politician, intellectual and diplomat Soedjatmoko:

“Development assistance is not a question of charity, but is everybody’s problem. It concerns the maintenance of the ecological life support systems for the human species and the governability of the human community. It is therefore no more a utopian vision, but a practical necessity. It is a problem of humankind’s general preparation for life in the 21st century. And we know, or at least suspect, how unprepared we all are for that future.”<sup>3</sup>

This first chapter shows that more than 30 years later, despite multiple initiatives, such preparation is still lacking.

## ▶ 1.2 Triple inequality: causes, consequences and solutions

Calculations by the *World Inequality Lab* show that the richest 10 per cent of the world's population is responsible for almost half of greenhouse gas emissions, but suffers only 3 per cent of the damage in relative terms (see Figure 1). The poorest 50 per cent, meanwhile, account for 12 per cent of emissions, yet bear 75 per cent of the relative costs, while this group has virtually no access to the resources needed to invest in mitigation and adaptation. This implies a triple inequality: in causes, consequences, and access to solutions.<sup>4</sup>

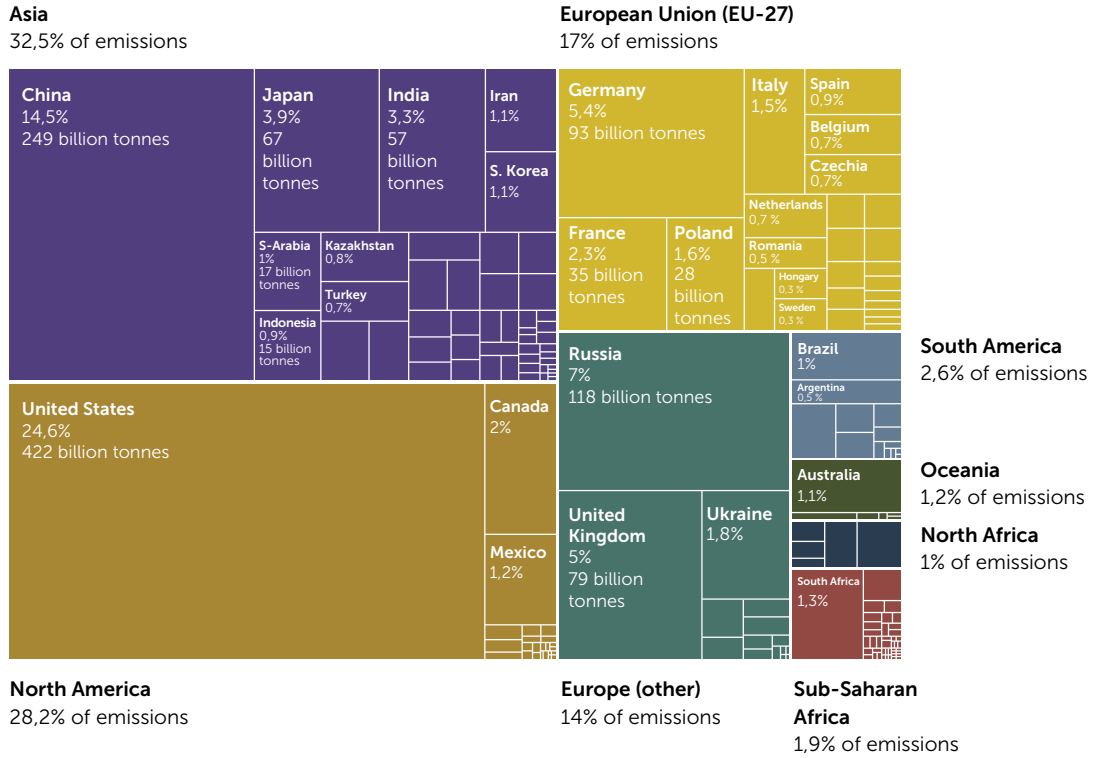


**Figure 1.** Global climate inequality: relative income loss due to climate change, vs. emissions and capacity to finance, as a percentage of the total.<sup>5</sup>

### Causes

The rich and industrialised countries have played a major role in the origin and intensification of climate change. Europe (including Russia) and North America, home to 1.1 billion people (14 per cent of the world's population), are responsible for 59 per cent of historical CO<sub>2</sub> emissions. The 46 least developed countries, also home to 1.1 billion people, are responsible for less than 3 per cent.<sup>6</sup> As a small country, the Netherlands contributed disproportionately, with 0.7 per cent of historical global CO<sub>2</sub> emissions. This is more than the historical emissions of all countries in Sub-Saharan Africa (excluding South Africa) put together (0.6 per cent; see Figure 2).

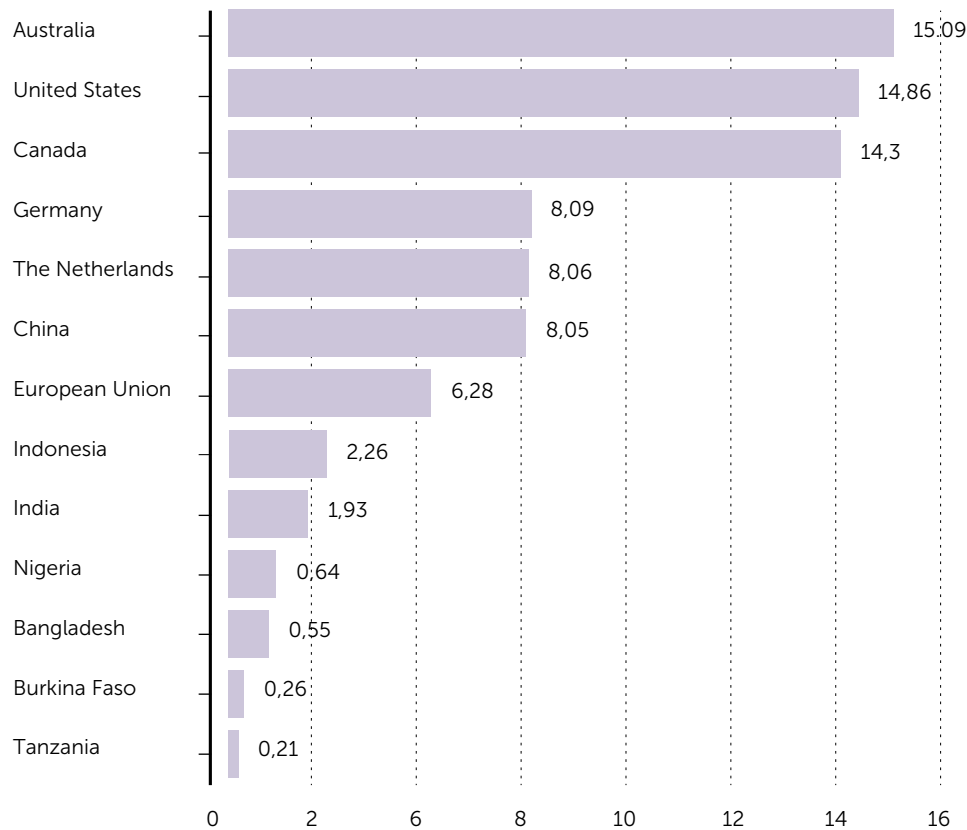
Even today, emissions are unevenly distributed. By January 8th, the average inhabitant of a rich country has already emitted as much as the average inhabitant of a low-income country will emit in the entire year.<sup>7</sup> In 2021, Dutch emissions were higher than those of the largest African country, Nigeria, home to more than 200 million people.<sup>8</sup> In that same year, the average Dutch citizen emitted more than 12 times as much as the average Nigerian and almost 40 times as much as the average Tanzanian (Figure 3).



**Figure 2.** Cumulative CO<sub>2</sub> emissions, 1750-2021. Fossil emissions are shown, which includes emissions from energy and industry. Land-use change is not included.<sup>9</sup>



In recent decades, emissions inequality within countries and regions has also grown sharply. In Europe, the per capita emissions of the top 10 per cent largest emitters are six times higher than those of the bottom 50 per cent. In East Asia, they are even 14 times higher. It is the global elite, especially in the West but increasingly also in emerging economies, that contributes disproportionately. Since 1990, the top 1 per cent of global emitters has been responsible for 23 per cent of the growth in emissions; more than the bottom 50 per cent combined.<sup>10</sup>



**Figure 3.** CO<sub>2</sub> emissions per capita (tonnes), 2021<sup>11</sup>

### Consequences

Climate change can be directly linked to the increase in the frequency and intensity of extreme weather events.<sup>12</sup> The consequences are felt throughout the world, but are greater in those regions that were already warmer to begin with and where many low- and middle-income countries are located. The Horn of Africa, for instance, has been grappling with the largest drought on record, resulting in the loss of food crops and the decimation of livestock, which is the main asset in many communities. The cyclones that batter Mozambique on a yearly basis are becoming increasingly severe. In 2019, cyclone Idai devastated Beira, the country's second largest city, causing \$3 billion in damage, equivalent to 20 per cent of Mozambique's gross domestic product (GDP). A third of Pakistan was submerged as a result of the 2022 floods, destroying the homes, fields and businesses of tens of millions of people.

Besides these acute disasters, the gradual effects of global warming also hit developing countries the hardest. Agricultural productivity is up to 30 per cent lower in many African, Asian and Latin American countries than could have been the case without climate change.<sup>13</sup> The risk of serious diseases, such as malaria, has increased more in Africa than in Europe and North America, as a result of climate change. World Health Organisation models indicate that climate change could lead to 250,000 additional deaths per year by 2050, with more than half of these occurring in Africa.<sup>14</sup>

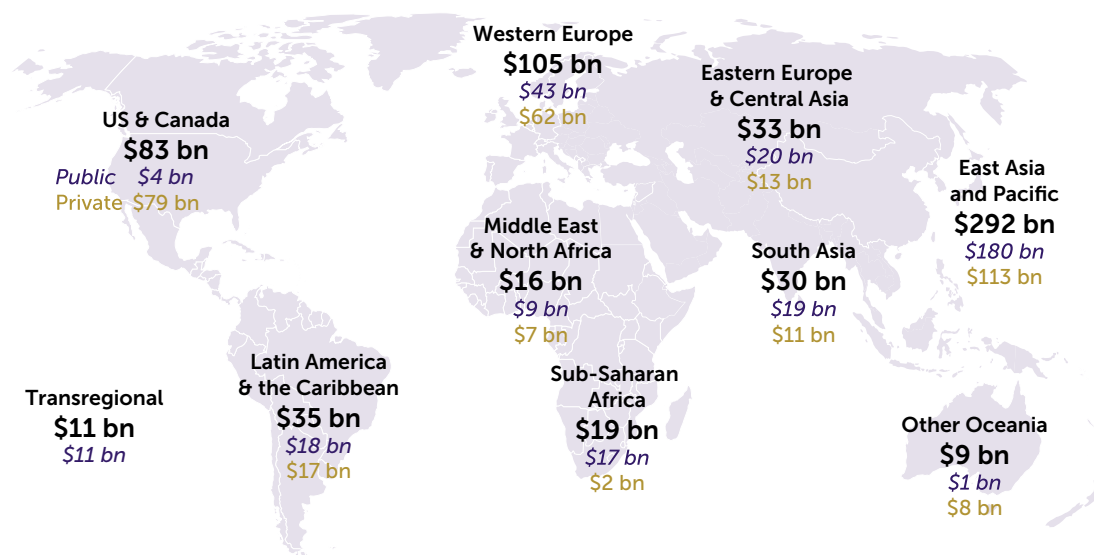
### Access to Solutions

Developing countries lack sufficient financial resources to invest in mitigation (greening the economy), adaptation (adapting to the inevitable consequences of climate change) and compensation for climate damages and stranded assets. The limited domestic tax base does not allow for large-scale public climate spending. Access to international capital markets is limited by high interest rates and growing

debt. The result is a highly unequal distribution of global climate investments. Of the \$632 billion in global annual climate spending and investment in 2019-2020, only about 10 per cent took place in Africa, the Middle East and South Asia, in several respects the most climate-vulnerable regions of the world and together accounting for almost half of the global population.<sup>15</sup> Africa accounts for less than 2 per cent of global renewable energy investment (Figure 5), and the trend in recent years is one of further inequality. Per capita investment in renewable energy in Africa fell from \$6 in 2015 to \$3 in 2021, 41 times lower than in Europe.<sup>16</sup> Funding for climate adaptation in Africa is around \$11 billion a year, less than a quarter of what is needed.<sup>17</sup>

The most vulnerable countries are unable to protect their populations from current and future impacts of climate change. This is problematic from a moral point of view, but also unwise from a global economic perspective. In coastal cities, the cost of good investments in adaptation is one-tenth the cost of no action, because the damage that gets prevented is so large.<sup>18</sup> In addition, developing countries are falling behind in the new green economy due to their lack of access to capital. The distribution of investments in solar energy provides a good example. In the Netherlands, partly due to tax benefits, the installed capacity of solar panels has grown very rapidly in recent years, reaching 22 gigawatts (GW), which is more than double that on the entire African continent, where the installed capacity amounts to 12 GW, including the large solar parks in Morocco and Egypt.<sup>19</sup> This is remarkable considering the fact that the higher number of average daily sunlight hours in Africa means that solar panels there may achieve higher efficiency. Furthermore, local energy needs are not currently being met, as some 600 million Africans still do not have access to electricity, while the households and businesses that do connect to the grid frequently experience power cuts due to insufficient energy availability.

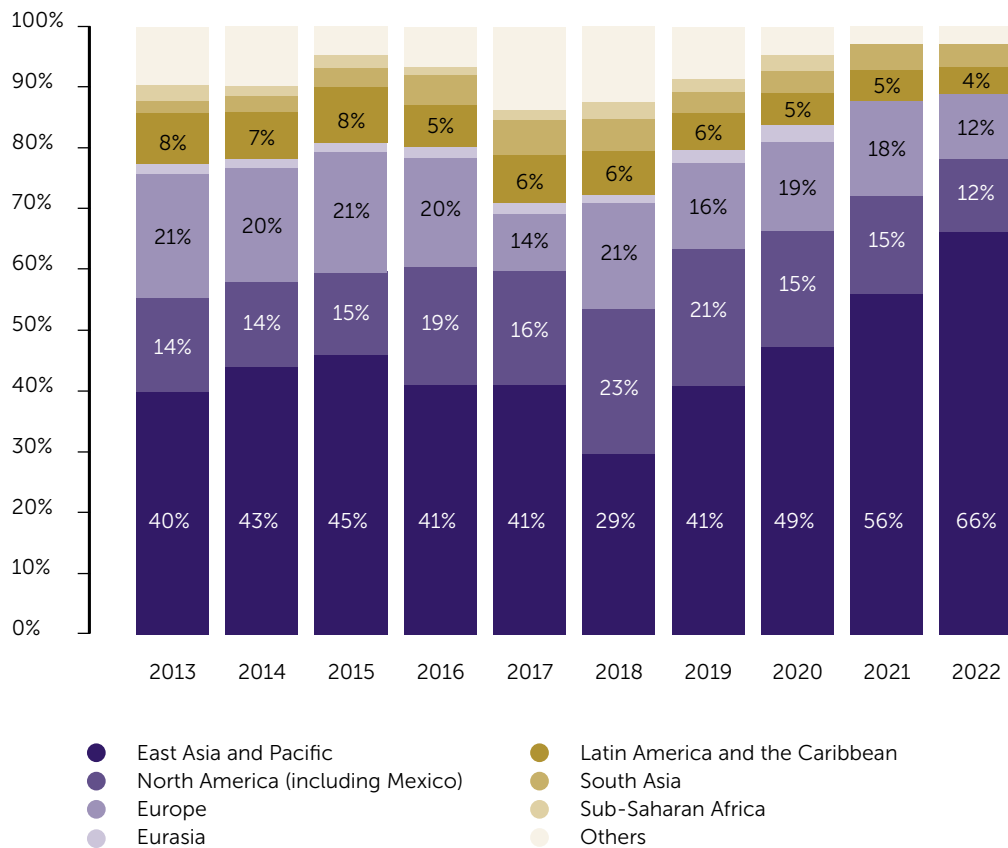
The lack of access to capital for green investments also puts Africa at risk of structurally falling behind on the path towards the global economy of the future. Without comprehensive investments, for instance, the continent will continue to act as a source of raw materials for the transition, while



**Figure 4.** Destination of climate-related investments, 2019-2020<sup>20</sup> (Note: blue / italic figures refer to public investments, orange figures refer to private investments.)



more profitable economic activities, such as battery production, develop elsewhere. There is a risk that the new focus by major geopolitical powers on the security of supply of critical minerals for their own transition could result in a new form of neo-colonial economic relations.



**Figure 5.** Renewable energy investments by region, 2013-2022<sup>21</sup>

### ► 1.3 International climate policy

As early as 1972, a group of scientists, politicians and investors (the 'Club of Rome') sounded the alarm, in the *Limits to Growth* report.<sup>22</sup> The report covered industrial pollution, population growth and natural resource depletion, among other issues, but it also contained evidence that greenhouse gas emissions could trigger climate change. Since then, evidence on the causes and consequences of climate change and ecosystem destruction has accumulated. The number of authoritative reports and studies with alarming messages backed by scientific evidence is overwhelming. The solutions are also known, including a rapid reduction of emissions. Many policy initiatives have been developed in recent decades to put this into practice.

The 1992 *Rio Earth Summit* resulted in three major legally binding agreements: the UN Climate Convention<sup>23</sup>, the Biodiversity Convention<sup>24</sup> and the UN Convention on Desertification.<sup>25</sup> This was followed in 1997 by the Kyoto Protocol, with emission reduction targets for rich countries, and later on the 2015 Paris Climate Agreement. Although the richest countries were very slow in reducing their emissions during the 1990s and 2000s, there has been encouraging progress more recently, such as the rapid increase in renewable energy investments. The European Green Deal represents an ambitious and comprehensive package to reach net zero by 2050. The United States has also

committed to net zero, and the 2022 Inflation Reduction Act (IRA) mobilises significant resources to make it happen. China, while rightly challenged on its continued reliance on coal, is also by far the largest investor in renewable energy. The global energy transition finally seems to be gaining momentum.<sup>26</sup>

At the same time, scientists have been pointing out for decades that emissions constitute only one piece of a larger puzzle, which requires an integrated approach. Climate cannot be decoupled from the protection of biodiversity and ecosystems. Similarly, the state of the planet cannot be separated from human health and well-being. This integrated way of thinking was adopted by the international community and found its way into Agenda 2030 and the adoption of the Sustainable Development Goals (SDGs). While implementation remains a major concern, the political will is encouraging. The Bonn Challenge on ecosystem restoration, for instance, has been signed by a large number of countries. The Montreal Biodiversity Agreement of December 2022 and the agreement on a convention to protect the oceans reached in March 2023 also underline the ability of the international community to work together, even in a time of geopolitical tensions.

Right from the early days of international climate policy in the 1990s, it has been recognised that rich and industrialised countries are mainly responsible for the climate problem. This led to the core principle of *Common But Differentiated Responsibilities* (CBDR) being placed at the heart of international climate treaties, under which Annex 1 Parties to the UNFCCC<sup>27</sup> must reduce their emissions more and faster than others. In addition, the Paris Agreement stipulates that rich countries provide \$100 billion per year in climate finance for developing countries. In this sense, important principles for a just transition have partially been included in international climate policy.

### **Insufficient action**

Despite the wealth of knowledge on the problem and widespread agreement on the need to reduce emissions, global action is still falling short. A poignant example is that global fossil fuel subsidies still amount to hundreds of billions of dollars a year,<sup>28</sup> while the \$100 billion target for climate finance for developing countries has not been met. Moreover, the sum of all national emission reduction targets falls short of the common goal of limiting global warming, and many of the SDGs are not on track, while 2030 is fast approaching.

Even though the window is tightening fast, the goals to achieve a fair and sustainable world are within reach. Estimates of the total annual investment needs for the SDG agenda, combining public and private investment, converge around \$4-6 trillion a year.<sup>29 30</sup> A very large sum, but by no means impossible, considering that it amounts to 5 to 7 per cent of global GDP. Furthermore, the response to the COVID pandemic demonstrated what is possible in terms of financial clout when there is a shared sense of urgency. Within a year, governments around the world had mobilized US\$16.7 trillion in fiscal COVID support.<sup>31</sup> In the case of climate change, it would concern a sensible long-term investment, whereby governments provide financial and regulatory clarity for all stakeholders in the climate transition.

Why, then, is it proving to be so difficult to organise action at the required scale on climate change and the broader SDG agenda? The answer can be summarised as the lack of purposeful, collective and long-term leadership for a complex systemic transition. Key aspects of this are:

- Vested interests blocking climate policy implementation.
- A sense of powerlessness, because the transition is complex and success depends on the action of other (larger) players.
- The problem of collective action: waiting for others to act.
- The lack of attempts at comprehensive and fundamental changes to unsustainable patterns of production and consumption, creating mistrust around individual measures: why should we be the first to act?

- Too little clear regulation and long-term certainty for private and public actors and too little balance between market-based mechanisms and regulation.
- Increasingly tense geopolitical context and stronger competition between countries and blocs, which comes at the expense of international cooperation.



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### **An unfair interaction**

Besides the lack of effective leadership in the context of these factors, injustice within climate policies that are being implemented is also an important underlying factor for the slow pace of progress. The Scientific Council for Government Policy (WRR) published a report in 2023 on climate justice in the Dutch context.<sup>33</sup> It warns about the lack of attention to distributive justice in climate policy. Additional taxes on polluting products affect the lowest income groups the most, while many climate subsidies, such as those for electric vehicles, tend to benefit the higher income groups. This, the WRR warns, undermines support for climate policy.

Although there is broad support for ambitious climate policies in most European countries, there are some recent signs visible of an opposing trend. The sense of urgency seems to be fading away here and there, despite the increasing frequency of climate disasters. For instance, Germany, France and the Netherlands have opposed more ambitious climate or biodiversity plans from the European Commission at various times over the past year. In the UK, the proposed extension of a low-emission zone to the outskirts of London led to resistance. Opponents point in particular to the fairness aspect that poorer families with older and more polluting cars are particularly affected by the measure.

The concern is that this may create a dangerous dynamic. Lack of fairness in climate policy undermines support for the ambitious policies that are needed to achieve the climate goals, which in turn will have unjust outcomes.

### **No running away**

The disruptive impacts of climate change elsewhere in the world will also be felt in countries like the Netherlands.

First, there is the security dimension. According to most analysts, the relationships between climate change and conflict are not straightforward, but certainly of growing importance. In 2010, several major wheat-producing regions, including in Russia and China, experienced extreme weather conditions, which led to a doubling of wheat prices on the world market between June 2010 and February 2011. Although the reasons for the wave of protests that rocked the Arab world in the spring of 2011 are multifaceted, the sudden wheat price hike certainly played a catalytic role.

In Syria, this was compounded by a local climate crisis. Between 2007 and 2010, the country was hit by the worst drought on record, resulting in widespread crop failures. For 1 million Syrians, this meant a relapse into severe food insecurity and extreme poverty, fuelling internal migration and social unrest. Climate change made a drought of this magnitude two to three times more likely.<sup>34</sup>

As in Syria, the various conflicts in the Sahel are rooted in historical, political and institutional factors. Climate change has played a catalysing role in this region too, as drought contributed to instability by fuelling local conflicts over increasingly scarce resources such as water and land where livestock can graze. The policies pursued by local governments in response to these challenges have largely been perceived as ineffective by most of the population.

Such conflicts in countries not far from Europe's borders also pose a risk to Dutch and European security. They can become breeding grounds and hideouts for terrorist organisations, criminal networks and drug cartels. In addition, conflict can be a major driver of refugee flows towards Europe. Empirical research of data on asylum applications, climate and conflict confirms that climatic



conditions play a role as explanatory factor for asylum applications by influencing the severity of drought and the likelihood of armed conflict.<sup>35</sup>

However, there is also a more direct link between climate change and Dutch security interests. The collapse of crucial ecosystems elsewhere can set in motion vicious cycles that lead to the crossing of tipping points with consequences that even a rich country like the Netherlands cannot cope with, such as a substantial rise in sea levels.<sup>36</sup> The global biodiversity crisis also deserves more attention in this respect. The Dasgupta Review, a prominent 2021 report prepared at the request of the UK government, warns that the biodiversity crisis threatens the functioning of the entire global economy, including crucial food chains. It also poses a security risk for a rich country like the UK.<sup>37</sup> The tropical rainforest, in particular, plays a crucial role in carbon storage and regulation of global temperatures. President Bolsonaro's reign in Brazil has shown how dangerous it can be when support for conservation crumbles in countries with crucial ecosystems. In that respect, too, global climate justice is in the Dutch interest.

It is against this background that the AIV seeks to answer the questions raised by the Dutch Ministry of Foreign Affairs on how foreign trade and development cooperation policy can work towards an effective and equitable climate transition worldwide. The AIV believes that answers are only possible in the light of a broader analysis that takes the global and interconnected nature of climate change as its starting point. Chapter 2 will first explore different perspectives on the concept of a just transition. Using these perspectives, Chapters 3 to 7 will analyse different aspects of climate policy from a global perspective.



# Perspectives on a Just Transition

## ► 2.1 What is just and fair?

The term Just Transition has its origins in the US labour movement in the 1990s, formulated from the concern that phasing out polluting industries would lead to fewer jobs and weaker bargaining power for labour unions. Over time, the term became much broader in scope: a general shift towards a more social, equal, healthy and ecologically sustainable economy.<sup>38</sup> Usage of the term has really taken off in recent years, including from the perspective of the Global South.<sup>39</sup>

The literature distinguishes different forms of justice, including distributive justice about the distribution of costs and benefits; procedural justice about the way decisions are made; and restorative justice about recognising injustices already done and repairing the harm.<sup>40</sup>

The WRR report on climate justice, mentioned above, focuses on distributive and procedural justice. Without defining what an equitable distribution of climate costs would entail, the WRR report identifies 10 different principles that could help in doing so, derived from political philosophy and ethics. Some principles are based on the idea of the greatest benefit, others on individual rights and freedoms, still others on carrying capacity and solidarity and a final group on contribution and benefit. The WRR argues that we should not aim at adopting one overall perspective, as there is no such thing as the gold standard in this context. For each policy initiative, stakeholders need to consider beforehand which equity principles they want to pursue, and then apply, embed and evaluate them.

From a global perspective, a number of elements are inextricably linked to the concept of Just Transition. The first is the principle of 'Leave No One Behind', embedded in the SDG agenda, with gender equality being of particular importance. In addition, local communities must be at the heart of the transition to a sustainable future. A transition imposed from above that is not based on the wishes and interests of communities is not just or equitable. Finally, social justice and poverty reduction are central pillars. The climate transition must not come at the expense of poverty reduction and reducing the already high level of inequality in the world.

Even with these key principles as a starting point, there are many ways of looking at just transition at the global level. It is useful, therefore, to distinguish the following six perspectives, which start from different actors and disciplines. The perspectives are not separate and have a certain degree of overlap. There are also strong connections with the ten political-philosophical principles from the WRR report, such as a focus on (human) rights, solidarity and (environmental) benefit. Guiding a just transition does not require the selection of one particular perspective, but rather the recognition that the various perspectives co-exist.

## ► 2.2 Six perspectives on a global just transition

1. **Planetary boundaries perspective.** The currently dominant economic model, based on growth and (over)exploitation of natural resources, is unsustainable and unjust towards local communities around the world, future generations and other species living on the planet.<sup>41</sup>

This perspective puts ecology at the centre and leads to the idea that dominant production and consumption patterns must change to halt species extinction and reduce the pressure exerted on natural ecosystems. Our actions today will affect the lives of future generations. Continuing unsustainable activities for the sake of consumption in the here and now is unfair to those who will not even have the opportunity to do so but will suffer the consequences. Particularly in rich countries, polluting parts of the economy will need to be reduced in size.

2. **Historical debt perspective.** The rich countries of today are responsible for most of the historical greenhouse gas emissions. It is fair that they bear the greatest burden of emission reductions, leaving a larger share of the remaining carbon budget for countries with low historical contributions. The debt perspective focuses on the country level and suggests that rich countries should support developing countries on mitigation and pay for adaptation and damages, starting by honouring existing commitments. This perspective thus incorporates not only distributive but also restorative justice. Actual compensation by rich countries for the entire historical overshoot of their fair share of the carbon budget could reach almost \$6 trillion a year.<sup>42</sup> Adding up all emissions from the beginning of the industrial revolution is sometimes seen as incorrect, because their impact on the climate was unknown at the time. However, almost half of rich countries' historical emissions date from after 1990, when evidence of the major risks was already available. Countries' historical climate debt is not static, but constantly evolving. China's emissions have increased so much over the past two decades that that country, too, is starting to accumulate climate debt.<sup>43</sup>
3. **Rights perspective.** Climate change threatens the human rights of current and future generations and disproportionately affects particular groups, such as women, children, migrants and indigenous peoples. At the same time, efforts against climate change can also lead to human rights violations, for example around the large-scale extraction of the minerals needed for renewable energy. States have a positive obligation to promote a clean, healthy and sustainable environment. They must offer protection against climate damage and ensure that response measures meet human rights standards, while promoting social justice and equity. This rights-based approach thus requires ambitious climate policies to ensure the rights of current and future generations, while respecting traditional knowledge systems and cultures. This perspective puts individual human beings at the centre, but the legal framework can also be applied to non-human species and ecosystems. In 2008, Ecuador was the first country to include rights for nature in its constitution. Since then, more countries have come to recognise rights for nature in general, or for specific ecosystems.
4. **Solidarity perspective.** The climate transition is taking place in a world of great inequality. The richest 1 per cent of the world owns 45 per cent of the total wealth, while the poorest half owns only 0.75 per cent.<sup>44</sup> At the same time, it is the very richest group, with the resources to protect themselves from the negative impacts of climate change, which has contributed most to the climate problem and continues to do so. A person from the top 1 per cent largest emitters in the world, a group that largely overlaps with the richest people, emits 72 times more greenhouse gases than the average person from the bottom 50 per cent. The solidarity required in this context, on moral grounds, does not come about naturally. From this perspective, therefore, a just transition demands increased taxes on the most wealthy and restrictions on the most polluting forms of luxury consumption. Redistribution of wealth is thus seen as essential to enable developing countries to respond to climate change, with a particular focus on supporting disadvantaged groups, including women, youth, people in extreme poverty and indigenous communities.
5. **Fair market perspective.** In a globalised economy, climate policy affects competitiveness, which calls for a perspective focused on companies. In the European case, for instance, imports from countries with less ambitious climate policies may distort competition and lead to job losses.



From this perspective, there is a need to correct for differences in climate policy to restore the level playing field. An example of how the EU wants to put this into practice is the introduction of the carbon import tariff (CBAM)<sup>45</sup>. In theory, a level playing field provides fair opportunities for all. In practice, it does not always work that way. Companies in developing countries have less access to subsidies, technology and infrastructure than their competitors in rich countries, which puts them at a disadvantage when it comes to investing in sustainability. Multinationals benefit from economies of scale and other advantages over local SMEs. With large differences in starting position and broader context, a level playing field does not yet lead to a fair contest. The challenge is not so much to keep the playing field level, but to create a fair playing field that facilitates sustainable entrepreneurship with fair outcomes. This requires a much more active role of government than just that of a referee guarding the level playing field.

6. **Developmentalist perspective.** Many countries in the Global South, especially low-income countries, still have a long way to go to eradicate poverty and achieve the SDGs. Sustainable economic development and industrialisation are essential for this. In many developing countries, growth in recent decades has depended on the export of raw materials and has been accompanied by de-industrialisation and rising inequality.<sup>46</sup> A green investment agenda offers a new opportunity to stimulate structural economic transformation and job creation. Africa, for example, has huge renewable energy potential. Moreover, much of the reserves of critical minerals that will be needed for the green transition worldwide are located in the Global South, offering opportunities for local value addition. Consider, for instance, the production of batteries for electric vehicles. Without a dedicated and proactive green industrial policy in the South, however, most of the benefits of the new green economy will be appropriated, yet again, by the West, especially if Western trade and industrial policies do not take into account their negative impacts on industries in the Global South. A just transition also means sharing the benefits of the transition in a fair way.

### ► 2.3 A just transition at a time of geopolitical tensions

The geopolitical environment has deteriorated in recent years, a development reinforced and accelerated by the Russian invasion of Ukraine and its economic consequences. This could lead to a stronger focus on short-term national interests at the expense of international cooperation on long-term collective issues such as climate change. Increasingly, the climate transition is also viewed in the light of geopolitical competition.

This is most clearly visible around access to key raw materials and technologies for the green transition. As a result of the Russian invasion, Europe in particular has experienced how dangerous energy dependence on potential rivals can be, given the consequences for the import of Russian gas.

This has drawn attention to a potentially similar level of dependence on China for key enablers of renewable energy, such as solar panels, wind turbines and batteries. There is growing concern in the EU and the United States (US), for instance, that China has gained better access to critical minerals for the green transition, such as cobalt, copper and nickel, through diplomatic and financial manoeuvres in Africa, Asia and Latin America. In addition, the country ships far more of these minerals back to China for further processing than it needs in order to meet its own demand. Thus, Western economies have become dependent for crucial sectors of the economy on raw materials processed in China that were extracted elsewhere. Recent developments underline the risks: in response to Western restrictions on high-technology exports to China, Beijing imposed export restrictions on gallium and germanium, two minerals of which China dominates the global market. In this geopolitical dynamic, access to critical raw materials has risen quickly on lists of key foreign policy priorities around the world.

With the major powers increasingly driven by geopolitical motivations, the question arises as to what this means for a just transition for the Global South. The previous era of great geopolitical competition, the Cold War, had mainly negative consequences for many countries in the South as they became the battleground for the interests of the great powers. Another scenario is also conceivable, however. In the emerging multipolar order, countries in the Global South are increasingly managing to leverage their strategic position, notably by providing or withholding access to resources, markets and political support in international institutions.<sup>47</sup>

### **Southern concerns over EU climate policy**

In this context, it is all the more important that European policymakers recognise that certain aspects of EU climate policy provoke irritation and frustration among partners in the Global South. The widely shared analysis that the current international order fails to address their climate concerns in an effective and equitable manner feeds into wider discontent with slow progress on other multilateral dossiers and may lead to increasingly widespread resentment with the Western-dominated world order. In this sense, ensuring a just transition, and explicitly including climate justice in initiatives for enhanced engagement with the Global South, is also a matter of geopolitical importance for Europe. This requires, first of all, serious dialogue and negotiation on the concerns of the Global South regarding the current design of international climate policy, while at the same time taking into account the great diversity of this group, which includes both upper-middle-income and the world's poorest countries. The following three topics deserve special attention.

First, there is irritation regarding the agreement reached at the 2021 Conference of Parties (COP) in Glasgow on ending public support for foreign fossil fuel investments. Many in the Global South regard this as climate hypocrisy, as articulated by political leaders from Senegal, Malawi and Nigeria, among others. They argue that African countries still need fossil investments, especially in natural gas, to boost electricity generation for households and industry.<sup>48</sup> They also see exploiting their own fossil reserves as an opportunity to generate much-needed revenue to invest in inclusive development and poverty reduction. It is perceived as grossly unfair that Western countries, which have taken far too little climate action themselves in recent decades, are now blocking capital flows for such investments in developing economies, while continuing to allow fossil investments at home.<sup>49</sup> This sentiment was reinforced by the European response to the energy price shock caused by the Russian invasion. Europe seemed more focused on securing gas supplies from new sources at higher prices than on reducing its demand for gas. This tempted international gas traders to break open long-term supply contracts with developing countries, even if it meant paying penalties, to sell the gas on the much more lucrative European market instead.<sup>50</sup>

A second concern relates to trade policy and perceived green protectionism resulting from stricter environmental standards for European imports from developing countries. The CBAM, for example, could lead to a contraction of Africa's GDP by 0.9 per cent, or \$25 billion, almost the same amount the continent receives in climate finance.<sup>51</sup> The impact varies widely from country to country. Mozambique, which depends on aluminium supplies to the EU for 20 per cent of its export earnings, which will be covered by the CBAM, could see its GDP fall by as much as 3 per cent. Similar concerns have been expressed regarding the EU's new anti-deforestation regulation, which bans imports of coffee, cocoa and palm oil, among others products, from recently deforested areas. Malaysia and Indonesia have expressed their irritation with this measure in strong terms, arguing that it will hurt their small-scale farmers in particular.<sup>52</sup>

A third major source of frustration in the Global South has to do with broken promises on climate finance. Low-income countries in particular do not have sufficient funds for the investments needed to cope with the effects of climate change. That is why the Paris Agreement included a commitment by rich countries to support developing countries, with at least \$100 billion a year from 2020 onwards. Official figures, compiled by the Organisation for Economic Cooperation and Development (OECD),



show that only \$83.3 billion was made available in 2020. Not only are the amounts inadequate, but the fragmented and donor-driven way in which climate finance is designed often leaves developing countries unable to use it effectively for structural investments in climate mitigation and adaptation.

Moreover, most of the available funds are provided as part of already existing commitments for development cooperation, as opposed to the expectation of additional money to deal with climate change. This is another source of frustration, especially among low-income countries. After all, climate change is only one of many challenges they are facing. Improving health, education, food security, access to energy, infrastructure and eradicating extreme poverty are by no means less important. Without additionality of climate finance, Western donors' increasing focus on climate comes at the expense of those other goals. It is from this perspective that developing countries questioned the proposal by Western countries to anchor climate change much more centrally in the mission of the World Bank.<sup>53</sup> Thus, the broken promise on climate finance is leading to discord and has eroded developing countries' trust in their Western partners.<sup>54</sup>

In conclusion, there are multiple perspectives on a just transition, some of which overlap while others may lead to trade-offs. Against this backdrop, European thinking and action should focus on the need to protect the health of the planet and the rights of all its inhabitants. At the same time, much more attention should be paid to the unjust consequences for the Global South of climate change itself as well as of the transition. These consequences will also affect Europe.

Each of the following five chapters outlines a category of policy options for putting this into practice, followed by a brief description of relevant Dutch and European policies in the area concerned and analysis of possible gaps and shortcomings.



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# Regulating the market

## ▶ 3.1 From GDP growth to broad prosperity

It is increasingly recognised that the current economic model is reaching its limits and will not lead to a just transition. This has prompted the debate between supporters of the degrowth movement and eco-modernists advocating green growth. The degrowthers argue that economic growth is fundamentally linked to increased use of natural resources, which in their view is incompatible with respecting planetary boundaries.<sup>55</sup> Furthermore, degrowth argues that growth in a capitalist system is inherently linked to exploitation, which is currently taking place mainly in the Global South.

Most authors advocating green growth accept that the current model is fundamentally unsustainable. In recent decades, the relative role of the market has come to dominate, leading to a sharp increase in emissions, unsustainable use of vital natural resources such as water, destruction of ecosystems and growing inequality. They argue for a different kind of growth, with a much more proactive role for government in pursuing sustainable development. They do emphasise that the economy does need overall growth to maintain the welfare state, fund public services and invest in the green technology and infrastructure needed for the transition.<sup>56</sup>

The AIV does not take a position in this debate, but believes that important elements of both schools of thought will be needed. This is in line with a growing consensus that a paradigmatic shift is needed, from a focus on GDP growth to broad welfare and well-being, for current and future generations, linked to the SDG agenda. That shift is accompanied by a reinterpretation of the concept of value, moving beyond financial value to include social equity, ecology, biodiversity and inclusion. Putting this into practice calls for policy measures to influence or, where necessary, further steer the market on the supply side.



## ▶ 3.2 Market rules

The market can be an efficient tool for climate action, but will not automatically take on this role when left to its own devices. Different forms of government intervention are needed to steer the market, for instance by setting limits or pricing externalities such as carbon emissions. Broadly speaking, we can distinguish the following market-based climate interventions, ranging from heavy government intervention to lighter forms of market regulation. All measures have potential pitfalls regarding a just transition.

### **Ban on polluting production methods or products**

Governments can mandate that the most polluting and exploitative economic activities be stopped, phased out or reformed. To some extent, this is already happening. Coal-fired power plants for electricity and heat production are being phased out in many countries, including the Netherlands. From 2035, the EU is introducing a ban on the sale of new cars with internal combustion engines, although Germany inserted a last-minute loophole to allow synthetic fuels. Eco-design rules mandating longer product lifetime, higher energy efficiency or the use of recyclable materials for consumer products such as refrigerators also fall into this category. Despite recent initiatives in this direction, there is still ample room to expand and accelerate the use of such policy instruments, for instance when it comes to curbing short-haul flights or carbon-intensive ways of producing steel and plastics.

This type of policy may have unfair consequences, for instance when alternatives are much more expensive and thus out of reach for lower-income households. The geographic regions dependent on polluting sectors, such as coal mining, and the workers employed there, are also likely to be negatively affected. Within the EU, the Just Transition Mechanism has been introduced, which seeks to release around €55 billion over a seven-year period to support regions such as southern Poland, where coal-mining plays an important role in the local economy.<sup>57</sup> Coal workers in non-European countries such as South Africa or India have much less access to support mechanisms.

### **Pricing greenhouse gas emissions**

A tax on carbon emissions encourages manufacturers to invest in cleaner technologies. The EU opted for the Emissions Trading System (ETS), a cap-and-trade scheme in the form of a joint and annually decreasing ceiling on overall greenhouse gas emissions. Companies must acquire emission allowances, which are expected to become more expensive with time, as the ceiling declines. Companies thus have an incentive to invest in existing green alternatives. Polluting sectors where such alternatives are not yet available can purchase allowances to off-set their unavoidable emissions in the short term, but also have an incentive to invest in green innovation, as they are faced by the prospect of a further declining ceiling in the near future. The ETS can be an effective way of sharing the collective responsibility for reducing emissions. A potential downside is that accelerated emission reductions in one sector may lead to reduced pressure on other sectors, as it leads to the availability of more allowances on the market.<sup>58</sup> The system therefore only works with an ambitious and declining ceiling set through government policy, which is further tightened if necessary.

The ETS only covers the European market, which means that it may put European companies at a disadvantage vis-à-vis their competitors from third countries, leading some to argue that it is not in line with a fair market perspective. For this reason, free emission allowances were allocated to internationally competitive sectors, which came to undermine the proper functioning of the ETS. To correct this situation, the EU is introducing CBAM from 2026: a tax on imports of carbon-intensive products. On the one hand, this is an elegant way to reconcile ambitious climate policies with a level playing field. On the other hand, as we saw in Chapter 2, CBAM may in turn have unfair implications for industries in the Global South that lack the resources to be able to invest in greener production. This could lead to further de-industrialisation and would be unfair from a developmentalist perspective.

The ETS only puts a cap on emissions from European production sites, but not on emissions elsewhere in the value chain, during raw material extraction in other countries or international transport. Extending ETS to other geographical regions, or to the entire supply chain, including the production and processing of intermediate goods (so-called Scope 3 emissions<sup>59</sup>), could be a way to make companies invest more in the sustainability of their entire supply chain. By providing additional allowances to poorer countries in a geographically expanded ETS, the system could be brought in line with the fair market perspective. Businesses in those countries could then either choose a more gradual emission reduction path or sell the extra allowances they do not need on the market, providing additional funds for investment in new technology. This was also done for Eastern European countries in the ETS.

### **Subsidies**

Governments can grant subsidies for the development or application of clean technologies. Many European countries introduced extensive subsidy schemes for renewable energy production. Some of these subsidies are now being phased out again, as technological developments accelerated to such an extent that, in many cases, solar and wind energy have become cheaper than fossil energy.

Even today, however, with the effects of climate change increasingly evident, governments around the world are still providing more subsidies to fossil fuels than to renewable energy. The International

Energy Agency (IEA) estimates that global fossil subsidies increased to nearly \$1.1 trillion in 2022, which is more than double the average annual level during 2015-19. This is partially due to higher energy prices following the Russian invasion.<sup>60</sup> But even in 2021, global fossil fuel subsidies, worth \$528 billion, were above the average level of the pre-COVID years.

It must be pointed out that calculating fossil fuel subsidies is no easy task. When petrol is directly subsidised at the pump, as happens in some countries, it may be clearly reflected in the government budget. Certainly in rich countries, however, this form of subsidy is no longer very common (the 2022 energy subsidies were an exception). More often, the use of fossil fuels is subsidised indirectly through public infrastructure investments or through favourable loans and tax breaks for fossil-intensive production processes.<sup>61</sup>

### **Regulation of voluntary carbon markets and offsets**

The Paris Agreement allows countries to achieve part of their emission reduction targets elsewhere in the world. This provision, Article 6, builds on previous arrangements, such as the *Clean Development Mechanism* of the Kyoto Protocol and the REDD+ (*Reduced Emissions from Deforestation in Developing Countries*) scheme. The *Carbon Offsetting and Reduction Scheme for International Aviation*, adopted in 2016, also fits into this category of climate policy instruments.

In addition, many individual companies wanting to reduce their footprint further than they are legally obliged to, sometimes to enhance their green image, choose to offset part of their emissions by purchasing voluntary carbon credits that correspond to emission reductions elsewhere. These market mechanisms can lead to significant capital flows to climate projects in the Global South, contributing to a just transition from a developmentalist perspective. There are concerns, however, about the integrity of the credits themselves, the market and the claims.<sup>62</sup> For example, there are reports of communities being driven off their land to make way for forests that can then generate carbon credits for others to buy. Stronger regulation of these markets is much needed to ensure a just transition.



## ► 3.3 Current policy

The overall goal of Dutch climate policy is to achieve 60 per cent emission reduction by 2030 compared to 1990 levels, and net zero by 2050. This is in line with the EU targets drawn up on the basis of the Paris Agreement's overall goals. However, a recent report by the European Scientific Advisory Board on Climate Change emphasises that merely achieving the net zero goal in 2050 is insufficient. It is also about the path towards it. In order not to use an unfair share of the remaining carbon budget, the advisory board recommends that European emissions be reduced by 90-95 per cent as early as 2040.<sup>63</sup> For the Netherlands, according to research by the New Climate Institute, an emission reduction pathway in line with the principle of Common But Differentiated Responsibilities would require a further acceleration so as to achieve net zero well before 2050.<sup>64</sup>

A recent Inter-ministerial Policy Review on Dutch climate policy, conducted by civil servants, underlines that even the existing targets will not be met without additional policies.<sup>65</sup> The same study concludes that current policies are to a large extent based on subsidies and voluntary adjustments, and calls for consideration of additional normative measures, such as on livestock reduction, stricter sustainability standards in the food sector, mandatory recycling in plastics production and mandatory installation of solar panels on suitable rooftops. Further expansion of the ETS product scope and the possible introduction of a national emissions ceiling that decreases faster than the European one could also help achieve the targets.

# Influencing consumer behaviour

Companies in the industrial, agricultural and services sectors cause a significant share of greenhouse gas emissions and pressure on the environment. Such pollution can to a certain extent be addressed by market regulation. Ultimately, however, companies only exist because there are consumers buying their products. Excessive consumption in rich countries, and increasingly by elites in emerging markets, contributes substantially to crossing planetary boundaries and erodes the space for inclusive growth in the Global South. What are the tools to facilitate more sustainable consumption patterns?

## ► 4.1 Price adjustments

### **Taxes**

By internalising social and environmental costs in product prices, consumers are made to factor these hidden costs into their economic decision-making. This is already being done, for example, through taxes on alcohol and tobacco and excise duties on petrol and diesel. These measures could be extended to a generally applicable carbon tax. Another way to promote this would be to expand the use of True Pricing, which includes social and environmental costs that are usually ignored.<sup>66</sup> In the case of Bangladeshi garments, for instance, applying True Pricing would raise the price by taking into account excessive water usage in cotton cultivation and the underpaid factory labour during garment manufacturing.

The use of taxes and true pricing can be a very effective tool to reduce harmful and unfair economic activities and, as such, contribute significantly to a just transition. There are also important caveats, however. Higher prices affect lower-income groups more than high-income groups, so that the burden of behavioural adjustment falls mainly on the shoulders of low-income groups. This can be perceived as unfair and generate opposition to the transition. Europe experienced this in 2018 when a fuel tax increase announced by President Macron led to large-scale 'yellow vest' protests across France. For a just transition, the taxation of polluting products and services should be accompanied by targeted fiscal policies to compensate low-income groups. It is also worth pointing out that higher prices for polluting products do not guarantee that emission reduction targets will be achieved, as rich consumers can choose to continue their existing consumption patterns at the higher price.

### **Subsidies**

The use of subsidies for more sustainable consumption can be an effective tool to accelerate the transition, but also may have important just transition implications at the sectoral level. A well-known example concerns the subsidies for the purchase of electric vehicles, which tend to benefit the better-off who can afford to buy a relatively expensive car in the first place. Subsidies for public transport should therefore play an important role in a just transition to sustainable mobility.

The removal of fossil fuel subsidies, while desirable from a just transition perspective, can also be perceived as unfair and provoke protests. Many politicians in the Global South can relate to this. There, subsidy reduction is usually not related to climate change concerns, but an attempt to rationalise public spending so as to leave more funds available for investment in public services such as health and education. Frequently, however, these subsidy reduction initiatives lead to popular revolt. President Goodluck Jonathan of Nigeria, for instance, was forced to backtrack on the reduction of fossil subsidies in 2012 when it sparked large-scale protests throughout the country.

The relationship between fossil subsidies and inequality is somewhat paradoxical in many countries. On the one hand, a substantial share of the total subsidy ends up with high-income groups, who have large private vehicles and use them frequently.<sup>67</sup> In relative terms, however, it is often the lower-middle-income earners who benefit the most. They feel the effects of subsidy cuts much more strongly, as costs for (public) transport represent a much larger share of their disposable income.<sup>68</sup> Successful examples of subsidy reform in the Global South, such as in Indonesia in 2015, were often accompanied by the introduction of well-implemented, targeted cash transfer programmes to compensate lower income groups for higher fossil fuel prices.<sup>69</sup>

The international community could do much more to reduce global fossil subsidies by providing structural support to social assistance programmes in the Global South that are coupled with fossil fuel subsidy reform efforts (also see the AIV report on Social Protection in Africa).<sup>70</sup>

### Consumer culture

Besides paying more attention to equity aspects within policies aimed at more sustainable consumption, there could also be more focus on promoting a gradual change of overall consumer culture. The advertising sector, a large and growing industry, plays an important role in this respect. Many Big Tech companies, now among the largest in the world, derive most of their revenues from digital advertisements targeted at the level of individual consumers. Based on extensive information about individuals' browsing and clicking behaviour on the internet, algorithms are used to determine which advertisement to show at what time, in order to capitalise on latent demand.<sup>71</sup> Similar to what was done in the past for tobacco, governments might consider introducing policies aimed at reducing advertising when it encourages polluting forms of consumption.

#### ► 4.2 Current policy

Although pricing policies are being used in the Netherlands to influence consumer behaviour, there is room for additional use of this policy tool. The government could be more proactive in supporting True Pricing, starting with its own purchases, which could result in considerable environmental gains. At the same time, not enough attention is being paid to ensuring equity in consumer-oriented policies. Environmental taxes and subsidies often end up having a regressive impact. For example, the WRR notes that a major Dutch subsidy scheme for making homes more sustainable is difficult to access for low-income households without own access to capital, leaving them without subsidies and higher energy bills.<sup>72</sup>



# Conducting green sectoral and industrial policy

Industrial policy was out of fashion in the Western world for decades, but has recently made a remarkable comeback (see also the AIV report on Smart industrial policy.)<sup>73</sup> In principle, this appears to be good news for a just transition. Adjusting market incentives through generic policies such as market regulation, general taxes, subsidies and emission caps is not enough to organise the transformation that is needed. There are simply too many coordination problems for the market to solve. Moreover, the market does not automatically lead to outcomes in the public interest.

As Italian economist Mariana Mazzucato argues, the challenges facing the world require a new approach to economics.<sup>74</sup> Policy should no longer be limited to indirectly adjusting market outcomes through tinkering at the edges, but instead seek to pro-actively shape the market and economy at the core: from market fixing to market shaping.<sup>75</sup>

Smart industrial policy can play a key role in this respect. There are many different forms of industrial policy. A useful distinction can be made between horizontal and vertical approaches, with the former indicating relatively generic interventions, while the latter concerns sector- or even firm-specific policies.<sup>76</sup> Another form of targeted industrial policy may involve supporting certain geographical clusters of activity. Targeted investments in innovation, technology and infrastructure also form an important part of industrial policy initiatives. The term green industrial policy has been on the rise in recent years, denoting a more active role for government in making existing industries more sustainable and encouraging and shaping new green economic industries. Industrial policy need not focus exclusively on the industrial sector. In certain cases, sector-specific and strategic action by government in the energy, agricultural or services sectors can also be classified as smart industrial policy. Finally, industrial policy is often linked with trade policy, such as measures to protect infant industries from foreign competition that would stifle their further development.

The common denominator of the different approaches is that industrial policy indicates a relatively proactive and strategic role for the government in the economy.

## ► 5.1 Industrial policy in major economies

All of the world's major economies, the US, the EU and China, are increasingly pursuing green industrial policies. The IRA, for example, provides hundreds of billions of dollars in support for green investments in the US. The European Green Deal Industrial Plan does not provide the same level of subsidies as the IRA, but does propose a relaxation of state aid rules. The CBAM can also be seen as part of the broader European green industrial policy. China, meanwhile, has been pursuing an ambitious industrial policy for decades.

Industrial policy in major economies can have important implications for a just transition. Domestically, it offers governments an opportunity to increase their influence over the private sector. In exchange for support through industrial policy, they can set conditions to steer private investment decisions towards fairer and more sustainable outcomes, not only in terms of environmental footprint, but also on social dimensions such as pay gaps between executives and average workers. Such conditions were also attached to government support during COVID. On the other hand,

industrial policy also carries the risk of political capture, whereby businesses use their political connections to gain better access to public support and protection, which would be contrary to a just transition.

As for global effects, industrial policies in large economies can scale up new technologies and move them along a learning curve, lowering their costs, which ultimately benefits the rest of the world. Solar panel technology first benefited from Germany's incipient industrial policy in the 2000s, was then picked up by some pioneering Chinese entrepreneurs, and later taken to the next level by ambitious Chinese policies.<sup>77</sup>

However, there are also significant risks regarding a global just transition. First, industrial policy is costly and its efficiency can be questioned, especially when different economies engage in a subsidy race, seeking to outbid each other. In addition, the industrial policy revival in large economies, primarily aimed at advancing their own national economic interests, may perpetuate traditional economic relations with developing countries. The latter would then continue to act mainly as suppliers of raw materials, while most of the value addition is appropriated by downstream actors elsewhere. China's relatively offensive industrial policy is an important factor in explaining China's dominance in value addition around many key minerals imported from elsewhere, including from Africa.

Today, the US and the EU are also pursuing industrial policies aimed, in part, at encouraging a higher share of the processing of raw materials to be carried out in their own economies. The US is doing this through the extensive subsidies of the IRA, which has led EU leaders to open a negotiating front to improve access to IRA benefits for European companies, so as to prevent them from moving to the US. The same potentially negative consequences, however, threaten industries in the Global South, but they do not have the same bargaining power. On the European side, the proposal for the Critical Raw Materials Act contains provisions that 40 per cent of the processing of key minerals must take place within the EU (so-called local content requirements). This could undermine African ambitions and efforts for more local value addition.<sup>78</sup>

As underlined by economist Joseph Stiglitz, there is also a somewhat bitter irony in these developments. For decades, developing countries themselves have been actively discouraged from pursuing exactly this kind of proactive industrial policy, by the very same rich countries that have now rediscovered its use.<sup>79</sup> Sectoral and industrial policies can play a positive role, but only when external costs and risks are taken into consideration, and when developing countries are also provided the opportunity and the policy space to develop such initiatives.

## ► 5.2 Industrial policy in the Global South

Sustainable and inclusive economic development requires a transformation from low-productivity to high-productivity economic activities, using a strategic and coherent combination of market forces and government action. Industrial policy has played a key role in the economic development and structural transformation of many countries, with South Korea and Taiwan standing out as particularly successful examples. Today, lower- and middle-income countries face the dual challenge of promoting structural transformation from low- to high-productivity sectors while at the same time making their economies more green and sustainable.

There is good reason to believe that addressing the latter challenge could give a big boost to the former. For example, the African continent has huge potential for renewable energy and green hydrogen production. The final declaration of the 2023 African Climate Summit, the Nairobi Declaration, highlights above all else this opportunity-driven perspective on the green transition, with a call for green industrialisation and expansion of renewable energy from 56 GW in 2022 to 300 GW



by 2030.<sup>80</sup> This ambitious green investment agenda can provide a unique opportunity for structural transformation and job creation.<sup>81</sup>

Since clean energy is, for now at least, more expensive to transport than fossil fuels, the transition may well enable a fundamental change in the global economy, as it becomes more efficient to locate energy-intensive industries closer to the new sources of renewable energy.<sup>82</sup> This provides additional opportunities for African initiative and leadership.

These opportunities also exist in relation to natural resources. Despite efforts by the major powers to attract more value-adding investments to their shores, the fact remains that many of the key minerals for the green transition are located in the Global South. If African countries are given the opportunity, enabled and supported to develop and implement their own 'smart industrial policies', then the global green transition could offer great opportunities for driving inclusive economic transformation and job creation in Africa. That would be a major contribution towards a just transition from the fair market and developmentalist perspectives. For instance, the African continent has direct access to practically all the raw materials needed to produce batteries, a key enabler for the global economy of the future.

Considering the high priority given by countries in the Global South to the green economic development agenda, Dutch or European cooperation with them in the area of green industrial policy can be an effective way to give concrete follow-up to the ambition for enhanced engagement with new partners. It is well-suited to the kind of equal partnerships, based on complementary and shared interests, which the AIV called for in a previous advisory brief.<sup>83</sup> Such a partnership around industrial policy should not be limited to facilitating individual investment projects. For structural impact, it is important to strengthen institutional frameworks for local industrial policy, for example by investing in the capacity of ministries of economy or environment in the countries in question.

In doing so, it is important to recognise that it is not straightforward to develop and implement effective industrial policy in low- and middle-income countries while avoiding the pitfalls of waste and corruption.<sup>84</sup> If industrial policy is not geared towards sustainable and inclusive outcomes, it may actually encourage further inequality. This should be all the more reason, however, to support good and inclusive forms of industrial policy. Lessons can also be learnt from existing examples on which to build further (see box on green industrial policy in Morocco). For smart and effective industrial policy it is important, for instance, to actively involve a wide range of stakeholders from the private sector and civil society.

### ► 5.3 Current policy

The renewed European green industrial policy can contribute to an inclusive transition, but also runs the risk of reinforcing inequalities, both within Europe and beyond. It is important to increase the potential positive effects and prevent or mitigate the adverse effects. The positive impact could be much greater if industrial policy gets more strongly oriented towards solving societal and, especially, global challenges. The Dutch mission-driven innovation policy still falls short in this respect, as it is predominantly focused on solving national challenges without integrating the international context and global challenges and opportunities.<sup>85</sup>

There is another important caveat. Too little attention is being paid to the impact of European industrial and trade policies on sustainable economic transformation in the Global South. The CBAM is a case in point. While exemptions or compensation for the poorest countries were initially considered, such options have been discarded. Southern industries without access to capital markets, let alone green subsidies, will struggle to green their production and maintain access to the European market.



### Green industrial policy in Morocco<sup>86</sup>

Morocco has succeeded in supporting economic growth in recent years through targeted industrial policies at sector and company level. Strategic coordination between different actors has been essential to attract and channel investments to selected key sectors, while ensuring policy continuity based on a clear vision of current and future industrial development. Instead of relying solely on tax breaks to attract private investment (a route often followed in other countries), the Moroccan government has instead also relied on instruments such as local content requirements and targeted public-private investments in research and skills development.

Morocco has also placed special emphasis on sustainability, for instance around renewable energy. The largest concentrated solar power plant in the world is located in Morocco (the *Noor Ouarzazate Solar Power Station*, a 580 MW installation). The country is positioning itself as a future producer and exporter of green hydrogen and a future hub for renewable energy. It also has ambitions to become a world leader in the production of sustainable, fossil-free fertiliser using green hydrogen.

Although there is still a long way to go with many potential pitfalls, Morocco has shown that proactive industrial policy can be effective in middle-income countries today, with broad and inclusive outcomes such as the creation of good jobs. Moreover, by further engaging various stakeholders, it can help contribute towards a broader social contract.

It is encouraging to see European policymakers increasingly advocating local value addition to raw materials in developing countries. The new Dutch Africa Strategy, in line with the AIV advisory brief on Africa, puts emphasis on win-win partnerships around sustainable economic cooperation and downstream processing in Africa. German Chancellor Scholz recently said in a speech in the European Parliament that fair trade means processing raw materials in the countries where they are extracted.<sup>87</sup> However, it remains to be seen to what extent concrete actions, instruments, investments and structural partnerships will be designed and implemented to put these intentions into practice.

The Dutch national raw materials strategy pays little to no attention to increased value addition in resource-rich developing countries, which is a missed opportunity. A Dutch non-paper<sup>88</sup> on the external dimension of the European Critical Raw Materials Act offers more starting points, recognising the importance of sufficient policy space to stimulate local value addition and advocating European strategic raw material partnerships. The precise way in which these partnerships should take shape remains unclear, however.

The current Team Europe Initiatives, as well as the Global Gateway, are still too disjointed to effectively support southern partners with inclusive and smart industrial policies. Moreover, to a significant extent they constitute an amalgamation of various pre-existing activities and investments by EU member states and the European Commission.<sup>89</sup> It is also remarkable that the term industrial policy is not used at all when European policymakers talk about the challenges facing countries in the Global South, while even the Netherlands, traditionally sceptical of industrial policy, now has a 'strategic green industrial policy'<sup>90</sup> This is an inconsistency that needs to be rectified. Providing support for a coherent and effective industrial policy in the Global South, essential for a just transition, starts with recognising its relevance.

This also requires a change to the extensive system of Dutch trade and investment treaties, to make them better aligned with a global just transition and the need for smart sectoral and industrial policies.<sup>91</sup> This realignment should reduce the negative consequences of such treaties for local development. The US mining multinational Newmont, for instance, used a Dutch investment treaty with Indonesia to challenge legislation aimed at increased processing of locally extracted copper, to benefit the Indonesian economy.<sup>92</sup> Similarly, European governments are still actively pursuing, within the World Trade Organisation, rules to discourage the use of local content requirements by developing country governments.<sup>93</sup>



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# Providing climate finance

The domestic tax base of many developing countries is insufficient to finance the investments that are needed in the context of climate change. International climate finance from rich countries to low- and middle-income countries is therefore essential to address the climate crisis in a global and equitable manner. It concerns funds for investments in reducing or preventing emissions (mitigation); for investment in adjusting to the inevitable consequences of climate change (adaptation); and compensation for damages suffered.

## ▶ 6.1 Volume

A recent *High-Level Expert Group*, led by Vera Songwe, former undersecretary-general of the United Nations, estimated that developing countries (not including China) will need US\$ 2.4 trillion in annual climate spending by 2030, through a combination of public and private investments.<sup>94</sup> A significant part of this is expected to come from domestic sources, such as tax revenues and domestic capital markets, especially in middle-income countries. Domestic sources alone, however, will not be nearly enough. The 'Songwe Panel' estimates that developing countries will need around US\$1 trillion a year in external financing from 2030 onwards, which is ten times the existing commitment in the Paris Agreement of providing US\$ 100 billion of climate finance per year.

To further put the US\$ 1 trillion figure in perspective, it is more than total climate-related investments around the world today, which were estimated at US\$ 632 billion in 2019-2020. These investments are distributed very unevenly, with Africa, the Middle East and South Asia together accounting for only about 10 per cent. The distribution is also skewed in another dimension. More than 90 per cent of all climate spending is on mitigation, while investment in adaptation is lagging behind. The latter is especially important for low-income countries and poor households, which hardly have any emissions to reduce but do need to adapt to climate change. According to the UN, developing countries will need between US\$ 160 billion and US\$ 340 billion a year for adaptation by 2030, while current investments do not even surpass US\$ 30 billion a year and the Glasgow Declaration of COP-26 foresees an increase to only US\$ 40 billion by 2025.<sup>95</sup> The shortfall in investment will lead to additional damage in the coming decades. The UN Secretary-General calls for half of all climate funding to be earmarked for adaptation.

### **Target missed**

It is clear that the need for international climate finance for developing countries is many times higher than the US\$ 100 billion a year from the Paris Agreement. Yet, rich countries have failed to even deliver on that commitment. OECD figures show that official climate finance for developing countries stalled at US\$ 83.3 billion by 2020.<sup>96</sup> In several respects, however, that represents an overestimate of the actual climate finance available, which Oxfam estimates to have been US\$ 24.5 billion in 2020.<sup>97</sup> Most of the difference can be explained by two factors.

First, the OECD itself notes that 72 per cent of reported climate finance consists of loans, not grants. Many donors count the nominal value of such loans rather than the grant equivalent that indicates the real benefit to recipient countries. Oxfam estimates that the grant equivalent represents less than half of officially reported climate finance. Many climate-vulnerable countries already face problems of debt sustainability. Increasing their debt burden by meeting climate finance obligations through loans is not in line with a just transition from the historical debt and developmentalist perspectives.

A second reason has to do with overestimating the climate relevance of expenditures that are counted towards climate finance. Most rich countries use the Rio Marker system, through which projects with climate mitigation or adaptation as their main objective are eligible for Rio Marker 2, and may then be included at 100 per cent of their value. Projects where climate is only one of the objectives, but not the main one, may be included for a certain percentage of their value, which most countries have set at 40 per cent. However, this means that as climate considerations become better integrated into other development projects (through mainstreaming), 40 per cent of all development finance would almost automatically be classified as climate finance. Oxfam notes that the climate relevance of projects is often overestimated and concludes that actual climate finance is at least 30 per cent lower than reported, for this reason.

### **Additionality**

Even if the US\$ 100 billion target were to be met, there is another issue concerning the amount of climate finance, in terms of its relation to *Official Development Assistance (ODA)*. The 2009 Copenhagen Accord, which underpinned the US\$ 100 billion pledge, refers to "new and additional" funding.<sup>98</sup> Article 9 of the 2015 Paris Agreement states that climate finance "should represent a progression beyond previous efforts".<sup>99</sup> In the Global South this was interpreted to mean that the US\$ 100 billion would come on top of regular and ongoing development funding. However, that is not what happened.<sup>100</sup> Public climate finance now represents a third of stagnating ODA budgets rather than new and additional resources.<sup>101</sup> To a significant extent, therefore, climate finance mainly represents a new label on pre-existing funds.

Especially for low-income countries, this is a major source of concern. Climate change, while a major threat, is only one among many priorities and challenges they are facing. In a politically unstable country, where conflict may be lurking, with poor public services in education and health, high poverty and unemployment, crumbling infrastructure and high debts to pay off, politics is all about survival. In such a context, greening the economy or investing in nature conservation are not the issues that top the list of priorities.<sup>102</sup>

### **Private money**

Private finance can also make an important contribution to climate finance. As the immense needs started becoming clear, some pinned their hopes on mobilising large-scale private capital flows to developing countries. This was captured in the narrative '*from billions to trillions*', which does raise some questions. First, the mobilised private finance is mainly directed towards mitigation projects in middle-income countries, because they have a relatively strong business case. However, the much-needed investments in adaptation in low-income countries usually have little or no expected return.<sup>103</sup> For those purposes, a different mix of public and private funds will be required, to ensure that the most vulnerable are served.

Second, the *billions to trillions* narrative simply has not delivered.<sup>104</sup> The efforts of rich countries to mobilise private capital that can be counted towards official climate finance resulted in only US\$ 13 billion of investment in 2020. As described in Chapter 2, private financing for renewable energy largely bypasses developing countries. Africa received only 2 per cent of global renewable energy investment, despite the need and potential. A major reason is that investors perceive high risks there, leading to higher interest rates that turn investment projects unprofitable. Although it is true that the risks in developing countries are higher than elsewhere, there is also something else at play. Research by the United Nations Development Programme shows that credit rating agencies systematically overestimate investment risks in Africa.<sup>105</sup> This may have caused African countries to miss out on almost US\$ 75 billion a year through lower investment and higher interest payments.

## ▶ 6.2 Quality



Improving the quality of climate finance deserves more attention. In the 2000s, there was strong global interest in the aid effectiveness agenda resulting in the 2005 Paris Declaration on Aid Effectiveness and the 2011 Partnership Agreement of Busan, which emphasised key principles such as local ownership, donor harmonisation, predictability and transparency. Unfortunately, analysis by the Centre for Global Development shows that these principles have largely been neglected in the way global climate finance has been designed and implemented.<sup>106</sup>

First, it finds that the actual disbursement of climate finance relative to approved funding is more erratic and unpredictable than for other types of development finance.

Second, fragmentation is a major obstacle to effectiveness. The number of different providers of climate finance is increasing, while the average project size decreased by 30 per cent between 2015 and 2020. The average size of adaptation projects was only US\$ 670 thousand. Besides higher transaction costs, the fragmentation of climate finance also makes it difficult for climate-vulnerable countries to finance and implement large-scale coordinated programmes needed for transformational impact.<sup>107</sup>

A third important issue concerns ownership by recipient countries. Very little climate finance is provided through government budgets in developing countries. The vast share is spent through individual projects, which can lead to a fragmented approach that ignores government systems and prevents countries from coherently implementing their national climate plans in the context of the Paris Agreement. Furthermore, project-based climate finance is not well-suited to building the state capacity needed to implement the kind of industrial policies that could play a key role for sustainable development (see section 5.2). There is strong evidence that mechanisms such as budget support and sector-wide approaches could improve donor coordination and increase the impact of development finance in certain contexts.<sup>108</sup> The same is true for climate finance.



### **Just Energy Transition Partnerships: a new approach?**

A potential new model for international climate cooperation was launched at COP-26 in Glasgow in 2021, in the form of Just Energy Transition Partnerships (JETP). This is essentially a government-led multi-stakeholder partnership to attract and coordinate country-level climate finance for a specific subset of climate-related goals. The first JETP was with South Africa, aimed at reducing its dependence on coal in an inclusive and equitable manner, particularly for the regions and communities heavily dependent on coal for employment and income. The JETP with South Africa aims to mobilise US\$ 8.5 billion and is being headed, along with South Africa, by a group of rich countries. There are some legitimate concerns and criticisms regarding specific details of the JETP with South Africa. Most of the funding, for instance, still consists of loans. Also, there could have been more focus on involving local civil society organisations right from the beginning.

Nevertheless, the AIV considers it an interesting model, provided that lessons are systematically drawn for further improvement. JETPs allow for a more programmatic and structural approach to climate action, with greater potential for transformative impact than the current project-based model. Moreover, JETPs could prove to be a more effective mechanism for mobilising private finance than current efforts by donors and multilateral development banks, which are too much focused on de-risking individual investment projects, without paying attention to the broader context of the specific sector and country in which those investments are to be promoted.

Following South Africa, a new JETP was launched in November 2022 with Indonesia, another large emerging economy with significant fossil fuel dependence. It would be worth exploring potential JETPs with poorer developing countries, especially in Africa.<sup>109</sup> In that context, it could also be interesting to explore the use of JETP-like mechanisms for other climate-related challenges facing developing countries, such as adaptation or biodiversity protection.

## ▶ 6.3 New sources of finance



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The financial needs in developing countries are enormous. Although public climate finance from rich countries needs to be increased significantly, it is clear that this alone will not come close to the amounts that are needed. It is therefore essential to also tap into new and innovative sources of finance.

### **Expanding the donor base**

The US\$ 100 billion climate finance pledge was made within the UNFCCC framework and its country categorisation, whereby Annex 1 countries (the rich industrialised countries) are expected to provide climate finance to non-annex countries. While this approach made sense in the early 1990s, it is only fair that countries that have seen their per capita income and emissions increase significantly since then should also start contributing to climate finance. This issue has become a recurring obstacle in international climate negotiations.

The Overseas Development Institute has analysed which countries can reasonably be expected to contribute, by calculating a fair share based on GDP, population size and cumulative emissions since 1990.<sup>110</sup> It concludes that Singapore, Qatar, Israel, Brunei, Kuwait, South Korea and the United Arab Emirates should be the first new additions to the donor list, followed by Saudi Arabia, among others. Since several Gulf Cooperation Council members are on this list, the 2023 COP in Dubai would be a good opportunity to put pressure on these countries to take responsibility. China is not on the list of potential contributors because of its relatively small GDP per capita. But given the size of China's economy and emissions, it should still be urged to do more. Further greening of the Belt and Road Initiative could play a role in this.<sup>111</sup>

Another relevant finding of the ODI analysis is that the United States is almost by itself responsible for the collective failure to meet the US\$ 100 billion target. The US wealth, historical emissions and size of the economy would justify a contribution of over 40 per cent towards the collective target, but in reality it only managed US \$2.3 billion in climate finance in 2020. Although the Biden administration has taken some steps, they do not yet take the US even close to its calculated fair share. Since the failure to meet the collective target reflects negatively on the entire Western world, European countries should put more pressure on their US allies to substantially increase their climate finance.



### **Income from specific taxes**

There are several proposals for new targeted taxes to provide the financial resources needed to invest in a just transition.<sup>112</sup> For example, a global climate tax on international aviation and shipping could raise US\$ 132-392 billion annually. Second, the OECD proposal for global reforms to the way in which multinational corporations are taxed could lead to significant additional revenues. There are concerns, however, that the current version of the reforms would not give low and middle-income countries fair taxing rights, as multinationals' home countries would have the first right to apply the new tax. It is important to address these concerns and further strengthen and adjust the OECD proposals.

### **Debt-for-climate swaps**

Recent interest rate hikes have exacerbated global debt distress. According to the International Monetary Fund (IMF), 34 of the 59 developing countries most vulnerable to climate change are at high risk of a fiscal crisis, which also affects their ability to finance climate action.<sup>113</sup> Zambia and Ghana, for example, have to spend 25 per cent of their tax revenues on debt repayment.<sup>114</sup>

So-called debt-for-climate swaps could provide additional fiscal space by offering debt relief in exchange for a commitment to invest in adaptation-related infrastructure or the protection of biodiversity, such as forests or coral reefs. The use of such swaps dates back to a 1987 agreement with Bolivia, later followed by countries such as Costa Rica, the Philippines, Barbados, Seychelles and Belize. So far, the overall use of such swaps is relatively limited in scope. Put together, all

140 agreements since 1987 do not exceed US\$ 3.8 billion,<sup>115</sup> which is little when considering that developing countries currently spend more than US\$ 300 billion a year on servicing their debts.<sup>116</sup>



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There is plenty of potential for more use of this instrument. In May 2023, the largest debt-for-nature swap to date was announced, with Ecuador, converting a US\$1.6 billion debt into a US\$ 656 million impact loan and committing the Ecuadorian government to invest US\$ 332 million in protecting the Galapagos Islands over the next 20 years, in collaboration with local communities, while additional resources were allocated to a fund for future conservation of the islands.<sup>117</sup>

Based on the experience of previous deals, it should be explored whether such debt swaps could be applied more widely, provided that their use does not come at the expense of traditional debt relief or new concessional climate finance. It should be seen as a complementary source of financing for specific situations, especially with regard to biodiversity conservation, where other alternatives fall short.

### **Bridgetown initiative and Special Drawing Rights**

The Bridgetown Initiative, led by the Prime Minister of Barbados, Mia Mottley, concerns a proposal aimed at fundamental reform of the global system of development finance, which is gaining traction. The original initiative, launched in September 2022, rests on three main pillars:<sup>118</sup>

1. Provide emergency liquidity to prevent the developing countries' debt crisis from spiralling out of control.
2. Expand multilateral loans to governments on concessional terms by US\$ 1 trillion to address systemic problems at the heart of current crises.
3. Activate private savings and capital for climate mitigation, adaptation and damage repair.

The use of Special Drawing Rights plays a key role in the detailed proposals underlying these pillars. SDRs, managed by the IMF, were once created as a crisis response mechanism to replenish reserves, stabilise currencies and provide liquidity in times of crisis. Although a new issuance of US\$ 650 billion of SDRs was agreed in response to the COVID pandemic, they are distributed based on each country's quota share in the IMF, meaning that African countries received only 5 per cent.<sup>119 120</sup>



SDRs could be an effective way to create additional funding for urgent climate action, but this only makes sense if the current design is made more fair and inclusive. In the wake of the Bridgetown Initiative, there are growing voices calling for a more fundamental overhaul of the SDR system, providing for the regular issuance of new SDRs with a fairer distribution mechanism while also strengthening its climate aspects.<sup>121</sup>

## **► 6.4 Current policy**

Within Europe, the Netherlands has been a relatively good performer when it comes to climate finance commitments. With 1.4 billion euros in climate finance in 2022 and the ambition to increase it to 1.8 billion euros by 2025, the Netherlands is largely delivering its fair share, although questions can be raised about the climate relevance of some projects and the split between public and private funding.<sup>122</sup> Moreover, the Netherlands stands out for its almost exclusive use of grants, while other countries such as France, Germany and Japan mainly offer loans.<sup>123</sup>

However, Dutch climate finance comes at the expense of regular development cooperation, and is therefore not additional. All climate funding for low- and middle-income countries is counted towards the agreement to set aside 0.7 per cent of gross national income (GNI) for ODA. This is undesirable given the initial pledge on additionality and the expectations it created. Moreover, even when including climate finance, the Netherlands has moved further away from the 0.7 per cent



commitment: ODA spending fell from 0.81 per cent of GNI in 2010 to 0.52 per cent in 2021. Since then, the percentage has been on the rise again, but this is partly due to aid to Ukraine and higher in-donor refugee costs for assisting refugees in the Netherlands.

The quality of Dutch climate finance is another issue that deserves more attention. Like Dutch development cooperation in general, its climate finance is fragmented. There are few comprehensive, long-term structural programmes to support developing countries in implementing their locally designed national climate plans. Moreover, Dutch ODA, including climate finance, largely bypasses governments in recipient countries and there is little support for building capacity within the state apparatus.<sup>124</sup> The 2023 OECD Peer Review report on Dutch development cooperation notes that the Netherlands hardly cooperates with governments in partner countries.<sup>125</sup> The OECD also points out that Dutch development cooperation is relatively centralised in the ministry in The Hague, with a relatively small role for embassies at country level, which poses a risk to strong ownership and effectiveness.

An intelligent combination of trade and development cooperation can make a meaningful contribution to promoting green investments in partner countries. The 'combination countries approach', targeting 14 mainly middle-income countries where aid and trade should come together at sector level, provides a framework for this. However, actually mobilising private green investment in developing countries also requires a different attitude towards financial risk. For example, recent comparative research on bilateral development banks shows that the risk level of the Dutch development bank FMO's investments appears to be lower than what can reasonably be expected of a development bank. According to this research, all development banks, including FMO, have room to increase risk levels without resorting to new capital injections or external concessional donor funds.<sup>126</sup> Higher risk appetite by public development banks, for instance through more equity investments and softer loan conditions, is essential to enable more transformative private investments in those countries and sectors where the market is reluctant to invest.

Increasing the contribution of the private sector also requires an approach that goes far beyond supporting individual investment projects. While the 'combination country approach' can provide opportunities for more context-specificity, lasting impact requires more dedicated efforts at establishing synergy between aid and trade, in line with a recent evaluation report by the Policy and Operations Evaluation Department (IOB) of the Ministry of Foreign Affairs.<sup>127 128</sup> Targeted investment promotion needs to be embedded in a framework of sectoral support at country level, involving and supporting national and local governments, civil society organisations and knowledge institutions from the country concerned. Set-up in that way, there could be parallels with the JETP-approach discussed earlier. The Netherlands could take the lead in setting up an ambitious, multi-year Just Transition Partnership in one of its 'combination countries', in close cooperation with the government in question, focusing on a specific climate-related challenge.



# Promoting policy coherence

The European economy is closely connected to the rest of the world through international trade, including the import of a wide variety of products from developing countries. Overall, this is positive as it provides Europe's trade partners with economic opportunities for increased income and employment. There are also adverse consequences, however. European supply chains are still too often associated with pollution, deforestation, poor working conditions or forced displacement of communities. Such impacts of Dutch and European policies are not coherent with development policy objectives or the achievement of the SDGs. The extensive system of international human rights treaties and the recent recognition by the UN General Assembly of the right to a clean, healthy and sustainable environment as a universal human right provide a solid framework to promote policy coherence.<sup>129</sup>

## ► 7.1 Negative impacts abroad of the Dutch economy

### **Living beyond our means**

For a relatively small country, the Netherlands exerts considerable pressure on global ecosystems. According to the Netherlands Environmental Assessment Agency (PBL), its per capita greenhouse gas emissions are 28 per cent higher than the EU average.<sup>130</sup> Part of the Dutch greenhouse gas footprint takes place outside the Netherlands, related to emissions associated with the production of imported goods and services that are consumed by Dutch households or used as intermediate goods by Dutch companies. PBL distinguishes between the greenhouse gas footprint within the Netherlands, the total footprint associated with Dutch consumption and the total footprint linked to Dutch production. The first two decreased by about 10 per cent between 2010 and 2018. Over the same period, the production-related greenhouse gas footprint actually increased by 5 per cent.<sup>131</sup> It is also notable that total emissions for Dutch consumption and production are 45 per cent and 100 per cent higher than emissions within the Netherlands, respectively.<sup>132</sup> This shows that the Dutch economy is partly dependent on emissions elsewhere; emissions that are not included in its own emission reduction targets.

The Dutch economy is also dependent on land use elsewhere. In 2017, the land footprint of Dutch consumption was equal to three times the Dutch territory.<sup>133</sup> This is on account of the land use outside the Netherlands that is required for different types of imported products, including food, animal fodder, paper and wood. The relatively large land footprint, compared to its own territory, is partly due to the Netherlands' high population density. In per capita terms, the Dutch land footprint is comparable to the global average, despite its relatively high level of per capita consumption. This can be explained in part by the fact that a considerable share of Dutch food consumption is supplied from production systems with high yields and, therefore, relatively low land use.<sup>134</sup> This notwithstanding, the global land footprint is too high for a healthy planet. Land use elsewhere, for the purpose of Dutch consumption and production, leads to loss of biodiversity, for instance through deforestation and land degradation. Moreover, the Dutch land footprint is not going down. Between 2010 and 2018, land use for Dutch consumption increased by 5 per cent, and for production by 18 per cent.<sup>135</sup>

### **The dark side of the energy transition**

Accelerating the energy transition is essential to stay within planetary limits. At the same time, the material footprint and environmental damage associated with the mining of key minerals for the green transition will be significant. The IEA expects demand for lithium to increase by more than 40 times over the next two decades, and demand for graphite, cobalt and nickel by 25 times.<sup>136</sup>

This raises dilemmas. The mining necessary for the transition will have to be adequately financed, but at the same time will need to be as environmentally friendly as possible and meet social standards. Unfortunately, this is not yet sufficiently the case. One example is nickel mining in Papua New Guinea, essential for the production of batteries for electric cars. The nickel-bearing rock formations in the densely forested interior contain less than 1 per cent nickel, which means that extracting it requires clearing huge tracts of biodiversity-rich land to excavate all the rock. It is then transported 134 kilometres to the coast, where the nickel is separated from the rock, while all the remains are dumped into the ocean as waste, destroying marine ecosystems and threatening the health and livelihoods of local communities.<sup>137</sup>

Another example concerns lithium mining in Chile, from the brine waters of the salt flats on the Atacama Plateau, which leads to depletion of local water resources and chemical pollution, harming local communities and ecosystems.<sup>138</sup> Cobalt mining in the Democratic Republic of Congo (DRC) has been associated with inhuman and dangerous working conditions, child labour, extremely low wages and large-scale corruption.<sup>139</sup> It is essential, therefore, to work on global value chains that meet environmental and social conditions for a just climate transition.

## ► 7.2 Preventing damage

### ***Do no harm***

Damage to people and the environment being inflicted within supply chains tied to Dutch economic activities is not coherent with the goals of Dutch development policy, and not in line with a just transition. What can be done to prevent this and to promote policy coherence?

Within the EU, companies are forced or encouraged to reduce their footprint through various policy instruments, but the footprint outside Europe's borders still receives little attention from policymakers, even though its impact may often be greater. Reducing the global footprint is mostly left to individual companies through voluntary carbon markets (see section 3.2) and guidelines.<sup>140</sup> With stronger regulation, such voluntary mechanisms could yield positive results, but more coercive policies will be needed for the laggards, who will not act on their own initiative. Geographic expansion of emissions trading could be an option, but is difficult and time-consuming to achieve. For faster results, EU member states could require companies within their borders to document their global footprint and then develop specific plans to reduce it. This would also be in line with the drive for greater European strategic autonomy, as it would reduce Europe's dependence on the exploitation of external human and natural resources. The EU's Regulation on deforestation-free products is a good example, as it bans the import of products from recently deforested areas for a number of value chains, including cocoa, coffee, palm oil and soy, and thus aims to reduce the biodiversity footprint of the European economy.<sup>141</sup>

Besides policy tools on specific footprints, there is also scope to generally strengthen respect for and adherence to principles of climate justice all throughout the supply chain, through legislation on international corporate social responsibility. The European Parliament recently approved a draft EU directive on due diligence for corporate sustainability. It is important that the Netherlands and other EU member states agree to strong European legislation while simultaneously introducing national-level legislation as soon as possible.

### **Doing good**

While stronger '*do no harm*' regulations are essential for a just transition, they also give rise to concerns, underlining once again the complexity of the transition. Developments in the right direction at the macro level may still have unfair effects in specific places and contexts. For instance, a strong focus on not violating rights through a '*do no harm*' approach may have unintended consequences for

the Global South. For example, progress on certified sustainable palm oil has unintentionally led to the exclusion of small palm oil farmers in Southeast Asia. By 2021, more than 90 per cent of European palm oil imports were certified as sustainable, for example through the Roundtable on Sustainable Palm Oil. However, this is mainly supplied by large multinationals that can meet sustainability and traceability requirements. Small farmers have not been able to take advantage of this opportunity and are effectively restricted in their access to the EU market.<sup>142</sup> The regulation on deforestation-free products could further restrict their access. It would be important to carry out impact assessments that describe the consequences of such measures for developing countries.

A similar example concerns cobalt production in the DRC. In the years after 2010, more awareness started to emerge about the conditions under which cobalt is being mined by small-scale local miners, thanks to reports by civil society organisations. However, this also had unintended consequences. Executives of car companies saw the huge reputational risks and concluded that the quick and easy solution was to stop buying, to the extent possible, from small-scale miners, or even in the DRC altogether. A head of procurement at a major car brand argued that "no one wants to touch artisanal mining with a bargepole".<sup>143</sup> One response was that they started buying more cobalt from large multinational mining companies that guarantee not to buy cobalt on the market from small-scale miners, but rather extract it at fenced-off sites to which local Congolese miners have no access.

Thus, sustainable and fair value chains do not come about automatically by discouraging unsustainable activities; they must be built up step by step (*doing good*). Consider, for instance, investments to support producing countries and local SMEs in developing and applying sustainable production methods that meet both European requirements and local needs. Investing in the strengthening of local institutions for regulation and quality control could also help. Such investments in sustainable value chains are essential from an effectiveness point of view. Without closer cooperation with producing countries, stricter standards for the European market, by themselves, could merely result in a shift in trading patterns. In relation to deforestation, for example, products from established plantations would then all be directed towards the European market, while products from recently deforested areas could be exported to China, instead.<sup>144</sup>



### ► 7.3 Current policy

The recent Inter-ministerial Policy Review concludes, in line with PBL publications, that Dutch climate targets cannot be separated from the global challenge of staying within planetary boundaries and that the global footprint of the Dutch economy, in per capita terms, is too high.<sup>145</sup>

In 2019, the Dutch government announced its intention to halve the ecological footprint by 2050. The concept of the ecological footprint was developed by the Global Footprint Network, an independent think tank. The measure is expressed in global hectares and includes not only land use for the production of food and other consumer goods, but also the virtual forest area that would be needed to absorb all CO<sub>2</sub> emissions. The latter represents more than half of the Netherlands' ecological footprint.<sup>146</sup> Therefore, reducing the impact of the Dutch economy to within safe and equitable planetary boundaries requires not only reducing the overall ecological footprint, but also setting limits for reducing the Netherlands' specific land, water and biodiversity footprints. Since the October 2022 international climate strategy lacks specific measures in that respect, it would be recommendable to formulate such targets and create means for implementation.

Clear and measurable indicators are also important as part of the overall effort to promote policy coherence for development. The Netherlands is one of the few countries with a special action plan in this area.<sup>147</sup> However, most indicators within the theme of climate change are formulated at the level of policy inputs and outputs, not at the level of results and impacts. Furthermore, efforts to reduce

the negative impact of the Dutch economy on people and the environment elsewhere are still too much limited to the domain of the Ministry of Foreign Affairs. A more holistic approach is needed, with stronger involvement of the ministries of Agriculture, Nature and Food Quality, Economic Affairs and Climate Policy, Defence and Finance.

Reducing the Dutch footprint requires additional efforts not only from the government and firms, but from the whole of society. It is therefore important to invest in broad public support for a globally just climate transition, and actively involve citizens in policy developments in this area. The recently established citizens' forum on climate and energy policy could play a role in this.<sup>148</sup> Given the global nature of the climate challenge, described in this report, it would be advisable to include aspects of international climate justice in the scope of the citizens' forum.



Contents



# Epilogue

At its core, this report is about policies on climate change and global impacts and solutions, a topic with an endless number of aspects.

A key message, however, is that current climate policies are far from just and equitable from an international perspective. The societies that have contributed least to climate change are hit hardest by its consequences. At the same time, they have the least access to financial resources to be able to protect themselves and to invest in the green economy of the future. Similarly, within societies, the most vulnerable groups are the most affected by climate change and the worst placed to defend themselves against it.

This injustice is a major cause of the slow pace of the global transition to net zero, through two mechanisms. On the one hand, the lack of equity undermines support for ambitious climate policies. On the other, it means that developing countries and low-income groups do not have sufficient opportunity to invest in net zero and adapt to the consequences of climate change.

Promoting climate justice is complex and can give rise to dilemmas, because different perspectives on a just transition do not necessarily all lead to the same conclusion on each specific policy question. In addition, well-intentioned policy initiatives can, in turn, lead to unjust outcomes. Examples include the carbon import tax or the deforestation regulation. Dealing with these dilemmas requires the ability to meaningfully engage with different perspectives and conduct sincere dialogue, always looking for ways to improve policies and make them as equitable as possible.

The scale and complexity of the climate challenge facing the world should not be underestimated. At the same time, there is ample reason for optimism. Despite legitimate concerns about the slow pace, the green transition is beginning to gain momentum in more and more countries and climate justice is rising on the international agenda. Further accelerating this process through dedicated action on climate justice also offers many new perspectives and opportunities. In rich countries, it supports the shift towards a society where broad prosperity takes centre stage. For low- and middle-income countries, a just transition represents a prime opportunity for sustainable economic development. Climate justice, therefore, forms a concrete and necessary agenda towards a more sustainable, fair, secure and prosperous future.





Climate adaptation from above: by using floating vegetable gardens, farmers in Bangladesh reduce their vulnerability to the increased risk of flooding due to climate change.

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- <sup>118</sup> Barbados Ministry of Foreign Affairs and Foreign Trade (2022). *The 2022 Bridgetown initiative*.
- <sup>119</sup> M. Alemayehou & D. McNair (2023). *Big returns: How Europe can respond to the climate crisis and build goodwill in the Global South*. ECFR Blog, 6 June 2023. European Council on Foreign Relations.
- <sup>120</sup> A number of rich countries, including the Netherlands, have decided to reallocate some of their unused SDRs from the last issuance, up to a total of \$100 billion in SDRs. However, European countries doing so are currently only allowed by the European Central Bank to pass on SDRs to the IMF, not directly to developing countries or (regional) development banks, which could use them much more effectively and attract additional funding. Moreover, even after being passed on, hundreds of billions of SDRs in the possession of rich countries remain unused. (See Alemayehou & McNair (2023), endnote 116).
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- <sup>123</sup> Oxfam (2023), see endnote 97.
- <sup>124</sup> J. Oppewal (2022). *Dutch Development Cooperation: 2022 and beyond*. The Broker, 15 November 2021.
- <sup>125</sup> OECD (2023). *OECD Development Co-operation Peer Reviews: Netherlands 2023*. OECD, 2 October 2023.
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- <sup>131</sup> Ibid. Table 3.5a, p.115.
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- <sup>141</sup> European Commission (2023). *Regulation on deforestation-free products*
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# Request for advice



Ministry of Foreign Affairs of the Netherlands

Prof. Bert Koenders  
Chair of the Advisory Council  
on International Affairs  
P.O. Box 20061  
2500 EB The Hague

Date: 14 September 2022  
Re: Request for advice on a fair and just transition

Dear Professor Koenders,

The government requests the AIV's advice on the following.

The achievement of the Sustainable Development Goals (SDGs) and the global climate and energy transition poses an unprecedented challenge to developing countries and their most vulnerable groups. As their partner in development, the Netherlands is working to promote an inclusive and sustainable transition and growth.

Steps to support developing countries in this process have already been taken bilaterally, within the EU, in our partnerships and in other multilateral forums. In its foreign trade and development policy document, the government identified actions that support a fair and just transition. It is crucial to scale up successful initiatives.

The government asks the AIV to address the following questions:

1. How can a fair and just climate transition be pursued effectively?
  - What themes should the Netherlands prioritise in the interests of promoting a fair and just transition in the global climate and energy agenda, ensuring that Dutch transition policy is coherent and offers clear added value for a fast and effective transition in developing countries and 'combination' countries?
  - What are the implications of this for the Dutch agenda for aid and trade, separately and in combination?
  - In this context, how can the Netherlands best mobilise private finance for sustainable, fair and inclusive growth and, in particular, the global adaptation goals?
  - What opportunities do the Team Europe initiatives offer the Netherlands?
2. The EU is striving for open strategic autonomy with regard to the supply of critical raw materials that are indispensable for the energy transition. How can we ensure that actions to achieve this:
  - do not come at the expense of rapid and effective sustainable growth in developing countries;<sup>1</sup>
  - do not compromise our goals for good governance.

The foreign trade and development cooperation policy document opts for a stronger focus on sustainability and digital transitions. In line with this it commits the Netherlands to additional investment in the coming years in the powerful combination of foreign trade and development aid.

In their responses to the policy document, several stakeholders indicated that a just transition (addressing issues such as inequality of opportunity, income insecurity, health and safety, quality

<sup>1</sup> By this we mean sustainable growth that also addresses foreign trade and development cooperation policy priorities, such as climate adaptation and mitigation, access to energy, water consumption, food security, biodiversity loss/deforestation, employment, women's rights, and security and the rule of law.



of work, voice and involvement) should take centre stage in order to ensure the fairness and sustainability of the twin transitions in low- and middle-income countries. The theme has a prominent position on the agenda of Southern partners. Knowledge partners including the UN Environment Programme (UNEP), the World Resources Institute (WRI) and PBL Netherlands Environmental Assessment Agency are focusing increasingly on transformative development, which comprises various aspects of a fair and just transition.

The Netherlands seeks to emphasise the importance of the pledge to 'leave no one behind' in the various climate transition pathways, to this end using Dutch expertise in a combined approach to development cooperation and trade. It is important that low- and middle-income countries have fair opportunities (finance, capacity and knowledge) for their green transition.

I look forward to receiving your advisory report, with particular focus on countries in Africa, in the first quarter of 2023.

### Explanatory notes

This advisory request concerns sustainable growth. In its work programme,<sup>2</sup> the AIV wrote: 'Sustainable growth: The world is confronted with major challenges when it comes to climate change, shortages of minable raw materials and clean water, and shrinking biodiversity. In Africa, parts of Asia and Latin America, governments lack the resources to take the measures that are needed. At the same time, growth is clearly necessary in these regions to give growing populations access to public services. The Netherlands cannot implement the transition to a circular economy on its own, and the question is how to involve the least developed economies. The Netherlands' current climate policy focuses mainly on implementing EU policy. The private sector is carrying out a number of initiatives in the area of green growth, standards have been developed for sustainable supply chains, and the importance of social and natural capital is acknowledged. Many NGOs are also active in this area. The central question of this advisory process is how growth can be sustainable in poorer countries and how the Netherlands can help promote sustainable growth.'

Developing countries are facing an enormous transition. Most wealthy countries and emerging markets seek to achieve net-zero emissions by 2050,<sup>3</sup> which will involve a global transformation of the energy supply, logistics systems, value chains and infrastructure. The European Commission's Green Deal includes a Just Transition Fund to support EU regions at risk of socioeconomic breakdown due to the emissions reduction process. These are generally regions that are dependent on extraction and production of fossil fuels, particularly coal. This EU policy may have a waterbed effect, a risk that should be addressed in the interests of policy coherence.

It is also desirable to adequately assess secondary effects on developing countries. Green transitions by Western countries potentially have negative socioeconomic effects in these countries, from loss of jobs and a deterioration of working conditions to macroeconomic stagnation. In some cases green transitions in the West could have negative ecological impacts if, for instance, they lead to increased pressure on resources and mining.

Moreover, climate change itself poses a burden for many countries in climate-vulnerable regions like North Africa/the Sahel, the Middle East and southern Africa. Rising temperatures, tropical storms, too much water or too little result in climate vulnerability. Countries respond by investing in agriculture, better water management, early warning systems for tropical storms, and resilient infrastructure with a smaller climate footprint. Financing such an enormous transition over the next 20 years should be done in a way that is fair and just, and therefore inclusive – creating local jobs and providing social safety nets for those whose current livelihoods may disappear in the transition.

Worldwide the funds available for mitigation far exceed the amount for adaptation, and the flow of funds to middle-income countries is much greater than to low-income countries. The challenge is

<sup>2</sup> [2022-2024 Work Programme of the Advisory Council on International Affairs](#) (in Dutch).

<sup>3</sup> (Source) Countries that account for 80% of global emissions have agreed to a long-term net-zero goal.

to mobilise private funding to achieve sustainable, fair and inclusive growth and, in particular, global goals on adaptation. Examples include financing water recycling, food security and resilient infrastructure.

However, this will not be enough in view of the enormity of the future challenges. The AIV is therefore requested to advise the government on how it can promote an effective, fair and just transition towards sustainable growth, and strike the right financial balance to strengthen economic growth, greening and inclusion.

Yours sincerely,

Liesje Schreinemacher  
Minister for Foreign Trade and Development Cooperation





# List of persons consulted

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# List of abbreviations

<b>AIV</b>	Advisory Council on International Affairs
<b>CBAM</b>	Carbon Border Adjustment Mechanism
<b>CBDR</b>	Common But Differentiated Responsibilities
<b>COP</b>	Conference of Parties
<b>DRC</b>	Democratic Republic of Congo
<b>ETS</b>	Emissions Trading System
<b>EU</b>	European Union
<b>GDP</b>	Gross domestic product
<b>GNI</b>	Gross national income
<b>IEA</b>	International Energy Agency
<b>IMF</b>	International Monetary Fund
<b>IRA</b>	Inflation Reduction Act
<b>JETP</b>	Just Energy Transition Partnership
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PBL</b>	Netherlands Environmental Assessment Agency
<b>REDD+</b>	Reduced Emissions from Deforestation in Developing countries
<b>SDG</b>	Sustainable Development Goals
<b>SDR</b>	Special Drawing Rights
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UN</b>	United Nations
<b>US</b>	United States
<b>WRR</b>	Scientific Council for Government Policy



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