
Response to Henning Huenteler: Use Climate Funds to Deal With Consequences



By [Theo Vermaelen](#) , INSEAD Professor of Finance

The amount of money needed to comply with Paris Agreement would be better spent on funds that will alleviate climate change damage.

I would like to start by thanking Henning Huenteler for his [thoughtful response](#) to my blog post [“Trump’s Climate Policy is based on Cost-Benefit Analysis”](#). In his retort, Huenteler suggests that my commentary in support of U.S. President Donald Trump’s withdrawal from the Paris Agreement overstates the costs of complying with it and ignores the risks of withdrawing from it. He argues that it was a mistake for Trump to withdraw from the accord.

On the contrary, I believe some of my earlier arguments may have even understated the true costs of complying with the agreement. Furthermore, with regard to risks, I would argue that the current and very costly approach to preventing climate change needs to be rethought. The massive costs being funnelled into climate change prevention might be better spent in

mitigating its effects, for instance, since current Paris pledges are unlikely to keep global temperatures from increasing beyond 2 degrees Celsius.

First argument - costs

As I pointed out in the article, any forecasts about long term (over the next 100 years) macroeconomic consequences are highly uncertain. Indeed, according to Bloomberg New Energy Finance, in order to meet the Paris Climate Goal we will need to **spend US\$12.7 trillion** on green energy facilities by 2100. It is difficult to believe that this energy revolution would occur without subsidies and government mandates. The whole idea of the Paris Agreement is to encourage/force consumers to use unreliable and costly alternative energy, such as wind and solar power and to discourage reliance on fossil fuel energy. The benefit to society is supposed to be the reduction in cost from an externality: global warming. If the energy revolution were a result of free market forces, we would not need a Paris Agreement.

Moreover, after the 2009 Cancun climate conference, industrialised countries committed to provide funds rising to US\$100 billion per year to finance projects in developing countries and a significant fraction of these funds are supposed to be raised by the Green Climate Fund (GCF). At long term interest rates of 2 percent, a payment of US\$100 billion per year means a commitment of US\$5 trillion. Although some of this financing is supposed to come from private sources, it seems reasonable to assume that a significant chunk of this money will come from European taxpayers, now that the U.S. has pulled out. To put things in perspective, currently the aggregate EU debt is **12.3 trillion euros**.

Now, unless I have been missing something, I have not seen any announcement from European politicians that says: “Dear voters, we just added trillions of euros to our government debt to comply with the Paris Agreement. This means that most of us are now in violation of that other famous treaty, the Maastricht Treaty. As a result, we are entering a new round of austerity and higher taxes.” Perhaps the politicians did not make this announcement because they don’t intend to pay. This is just window dressing for voters to show that politicians “do something about climate change”, which goes back to my third point (hypocrisy). This view is currently shared by many developing countries who claim developed countries have not met their **commitments**. They expected US\$100 billion in new money

but a chunk of the current commitment, which stands at US\$60 billion, is in the form of development aid. If it takes seven years to raise US\$60 billion, it seems unlikely the promise of US\$100 billion per year will be respected.

The fact that many executives in the oil and gas industry support the treaty is not surprising as many have diversified into green energy. And everyone likes subsidies, so it's not surprising that currently there are a lot of jobs created in a subsidised industry. The issue is whether this is economically sustainable in the long run without subsidies and government policies.

Second argument - benefits

Huenteler argues that spending trillions of dollars to reduce global warming by 0.9 degrees Celsius, and still living in a world with catastrophic warming of 3.3 degrees is worth it. I guess that's a matter of opinion and I can't really argue about opinions. I think we should think outside the box and deal with climate change the way we deal with other disasters such as earthquakes. We don't spend money to prevent earthquakes: we build up reserves to deal with the consequences. If the seas are rising, you build dams or help people to move away from Miami Beach. Putting up reserves to insure against climate-driven disasters would have broad agreement from everyone, including those who don't believe that global warming is a major problem. If there is global warming damage, we spend money to deal with it. If the sceptics are right and there is no catastrophic global warming, future generations will get a huge tax break in 2100. I understand that such an approach is politically impossible today given that European politicians would never accept that signing the Paris Agreement was a mistake. It would also face huge resistance from the green energy industry, which obviously benefits from "building the bridge even if the bridge is too short".

Third argument - hypocrisy

Lastly, Huenteler argues that all other institutions such as the NATO, the World Trade Organisation and others are making promises they don't intend to keep. So, Trump may as well join another one. During his recent trip to Europe, Trump blamed the allies for not living up to their NATO commitments. Perhaps he has a different opinion about whether hypocrisy should be the generally accepted principle of global organisations. Also, the idea that Trump would become more widely accepted as a "leader" by signing the Paris Agreement is an illusion. The fact is that most Europeans [hate President Trump](#) for so many other reasons, so at the margin, his

European or global approval ratings will not be affected by signing the Paris Agreement.

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