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Designing Effective Climate Change Mechanisms for Developing Countries

Principal Investigator: Andrew Keeler

Climate change is widely recognized as one of humankind's greatest challenges in the 21st century. If left unchecked, rising temperatures caused by greenhouse gas emissions could seriously harm economies, societies and ecosystems around the world.

The 1997 Kyoto Protocol was the first attempt to limit greenhouse gas emissions. Industrialized nations agreed to reduce emissions by 5.2 percent through methods like trading, joint implementation, and the Clean Development Mechanism, though which developed countries invest in projects that reduce emissions in developing countries.

Though a significant first step, the Kyoto Protocol is not sufficient for the long-term task ahead. The United States never ratified Kyoto, while China and India were not required to reduce emissions. Because the first phase of Kyoto is set to expire in 2012, policy makers are debating what to do next. Developed countries point to the rapidly growing greenhouse gas emissions from developing countries, while poor countries point to the North's history of emissions and their own need for economic development.

Keeler and his co-author, Mershon associate Alex Thompson, hope to help bridge the gap between developed and developing nations through their work on resource transfers and greenhouse gas offsets. Their paper, "Industrialized-Country Mitigation Policy and Resource Transfers to Developing Countries: Improving and Expanding Greenhouse Gas Offsets," is part of the Harvard Project on International Climate Agreements.

Keeler and Thompson argue that while offsets can offer a viable path toward reconciling the interests of developed and developing countries, realizing this potential will require changes to the Clean Development Mechanism. Key recommendations include:

- *Place less emphasis on strict ton-for-ton accounting and more emphasis on evidence of productive steps to reduce greenhouse gas emissions.* Though designed to protect the integrity of



Andrew Keeler

Professor of Public Policy
John Glenn School of
Public Affairs
The Ohio State University

trading programs, strict accounting rules have increased transaction costs and limited the utility of the mechanism.

- *Make a significant share of industrialized country commitments achievable through offset payments to developing countries.* Even if developed countries met only 10 percent of emissions targets through offsets, it would greatly expand resources to support action in developing countries.
- *Sell a portion of offset credits up front and put the proceeds in a fund that makes investments in projects throughout the developing world.* This would create greater flexibility to support large-scale projects and increase geographic diversity while reducing transaction costs and risk.
- *Focus negotiations on specific issues to be worked out.* These include criteria for eligible activities, requirements for documentation, mechanisms for adjustment, criteria for distribution of funds, and set-asides for particular types of projects.
- *Clearly delineate tasks to new and existing institutions.* Give the World Bank and the Climate Secretariat in Bonn lead roles in implementing the new offsets program and sharing information, create a committee to oversee it, and designate an informal group of international organization officials to address conflicts.

Keeler and Thompson's paper will be published along with 27 other invited research projects in *Post-Kyoto International Climate Policy: Summary for Policymakers*, edited by Joseph E. Aldy and Robert N. Stavins (Cambridge University Press, 2009).

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1501 Neil Ave.

Columbus, OH 43201

Phone: 614.292.1681

Fax: 614.292.2407

Email: mershoncenter@osu.edu