Northwestern Kellogg | Dispute Resolution Research Center

Climate Club

General Information

By Valentin Ade, Philip Grech, and Aimee Lace,
in official partnership with UNITAR.

General Information

Introduction

The concept of climate clubs has been championed by notable scholars. For example, William Nordhaus, winner of the 2018 Nobel Prize in economics for his work on climate change, has advocated for these types of programs. Climate clubs consist of countries that jointly agree on terms of several measures:

- a carbon price (e.g., imposed as a domestic tax)
- a level of Research & Development (R&D) investments into climate-friendly technology
- tariffs on countries that are not members of the club (a tariff is a tax on an imported good or service)
- punitive measures for club members who fail to create or maintain these measures.

With millions of people expected to die from climate change during the coming decades[1], decreasing carbon dioxide (CO_2) emissions may be one of humankind's biggest challenges of the 21st century. A central goal of Climate Clubs is to counteract the problem of climate free riding. This type of free riding occurs when only some countries carry the costs for climate change mitigation while all countries benefit. This free riding disincentivizes CO_2-reducing countries to continue to mitigate their emissions, thereby impeding the effectiveness of voluntary climate agreements such as the Kyoto Protocol or the Paris Agreement (e.g., Nordhaus, 2015[2]; Almer & Winkler, 2017[3]). Due to the tariffs and punitive measures, climate clubs make free riding less attractive and thereby create incentives for all countries to reduce their emissions.

If set up in the right way, climate clubs complement the United Nations Framework Convention on Climate Change (Widerberg & Stenson, 2013[4]; Obergassel, Wang-Helmreich, & Hermwille, 2020[5]). There is a current debate whether tariffs associated with climate clubs could be brought in line with the anti-tariff regulations of the World Trade Organization. However, this negotiation assumes that all legal issues concerning climate club tariffs have been resolved.

Ideas related to climate clubs are also discussed outside of academia. For instance, in the Neue Zürcher Zeitung newspaper, the Board of Directors Chairman of the bank UBS, Axel Weber[6], was reported embracing the idea. Addressing the aforementioned taxation framework, punitive measures, and tariffs, he wrote that the "financial sector is ready and has the necessary know-how to support policy makers in establishing such mechanisms" (Weber, 2020).

Task and Goal

Today's summit has the goal of establishing a climate club. Each country sends several team members to negotiate on its behalf. You are one of the team members of one of six countries at today's summit.

In addition to these general instructions, you will receive confidential role information. You should work with your team members to negotiate the best deal possible according to your mandate.

---

[1] https://www.who.int/heli/risks/climate/climatechange/en/
[2] Nordhaus, W. (2015). Climate clubs: Overcoming free-riding in international climate policy. *American Economic Review*, *105*(4), 1339-70.
[3] Almer, C., & Winkler, R. (2017). Analyzing the effectiveness of international environmental policies: The case of the Kyoto Protocol. *Journal of Environmental Economics and Management*, *82*, 125-151.
[4] Widerberg, O., & Stenson, D. E. (2013). Climate clubs and the UNFCCC. *FORES Study*, *3*, 1-52.
[5] Obergassel, W., Wang-Helmreich, H., & Hermwille, L. (2020). *A sectoral perspective on climate clubs*. European Commission Report: https://epub.wupperinst.org/frontdoor/deliver/index/docId/7547/file/7547_Climate_Clubs.pdf
[6] Weber, Axel (2020, August 08). *Nur ein Preis für Treibhausgasemissionen kann die globale Erwärmung bremsen*. Retrieved from https://www.nzz.ch/meinung/globale-erwaermung-bremsen-treibhausgasemissionen-muessen-kosten-ld.1566237 (accessed September 13, 2021).

©2021 Dispute Resolution Research Center (DRRC), Kellogg School of Management, Northwestern University. All rights reserved.

DRRC teaching materials are protected by copyright law. DRRC requires a per person royalty for use of its exercises. Each purchase of an exercise authorizes copying or electronic distribution of that exercise equal to the quantity purchased.

Access DRRC materials at www.DRRCexercises.com Contact DRRC at drrc@kellogg.northwestern.edu

Countries

There are six countries invited to today's summit:

1. Big Country has the largest territory, the largest population, and the strongest military of all the involved countries. It also has the highest absolute volume of CO_2 emissions and above average levels per capita when compared internationally.
2. Developing Country used to be one of the poorest countries in the world but now has an improved education system, a leaner bureaucracy, and a young and ambitious population. In 30-40 years, it could become one of the wealthiest countries in the world. Compared to other countries, it currently has below average CO_2 emissions per capita.
3. Coal Country has an economy that is heavily dependent on its huge coal deposits, which are expected to provide energy for another 150 years. Coal miners are often seen as national heroes and a symbol of the "good old days." The per-capita CO_2 emissions are well above the international average.
4. Island Country is the most at-risk from the catastrophic impacts of climate change. Due to rising sea levels, 85% of its comparably small population may need to resettle abroad by 2070. Despite a significant increase in per-capita CO_2 emissions over the last 10 years, the country's emission level is still below the international average.
5. Green Country is a wealthy, progressive, sustainability-oriented nation of proud tree-huggers. Despite its name, values, and a decline in per-capita CO_2 emissions, its emissions are still well above the international average. Among the reasons for this is the country's high-energy consumption due to cold climate and the fact that wealthy people tend to live in larger houses and travel more. Also, Green Country has a history of being a coal country: between 1800 and 1980, it burned its now-depleted fossil resources. While becoming wealthy, it had the highest per-capita CO_2 emissions globally.
6. Divided Country is experiencing a culture war and deep partisan division between its various political factions. Due to this tumultuous socio-political situation, representatives appear unsure about their exact mandate on climate change. It has an average level of per-capita CO_2 emissions.

Today's agenda

The number of rounds in this summit will depend on if and when a resolution draft is passed (please see more details below). Each round concludes with an official meeting of all countries' representatives (the "plenary session"). The overall agenda is outlined below.

<u>Initial Round</u>

Step 1: Preparation phase (45 minutes). Each country gathers their team members to prepare for the upcoming summit. They decide on their negotiation strategy, tactics, and roles of their team members. This includes deciding who will be the representative at the plenary session and drafting the speech that this representative will give (see Step 3 below).

Step 2: Plenary session (10 minutes). One representative from each country attends the plenary session in an active role. The other team members of each country attend the plenary session as observers.

- Green Country is the chaircountry, and the Green Country representative serves as the chairperson and proposes the resolution draft outlined below (see Resolution Draft A).
- The chairperson then invites the representatives of all six countries (including themselves) to make their declarations and conduct the procedural vote. If the procedural vote results in another round, the chairperson then also leads the vote for the new chaircountry.
    - Declaration of commitment: Representatives can declare their intention to "commit" or "not commit" to the resolution draft proposed by the current chairperson. A declaration of commitment entails that the representative's country: a) supports the draft in its entirety, and b) is obliged to join the club that may be created by this draft (whether the club is created depends on the outcome of the procedural vote).
    - Procedural vote: All countries vote if they want to finalize the summit with the current draft ("finalize") or conduct one more round ("improve").
        - In order to finalize, at least five representatives need to vote "finalize". If that occurs, all of the countries whose representatives have declared their intention "commit" on the current resolution draft are obliged to create and join a club based on the current resolution draft. This also means that countries whose representatives declared "commit" and then voted "improve" are obliged to join the club.
        - If at least two representatives vote "improve", the current resolution draft is rejected and the declarations of commitment of the present round lose their legal value. Then all of the current

representatives will vote in order to determine which new country will develop the next draft and chair the next voting round ("chaircountry vote"). The current chaircountry can single-handedly decide on the rules of the chaircountry vote. However, the current chaircountry cannot be elected chaircountry a second time in a row.

Step 3: Speeches (12 minutes): each of the six representatives gets two minutes of speaking time (moderated by the chairperson of this round).

Step 4: Negotiation and drafting phase (45 minutes).

Subsequent Rounds

Steps 2-4 are repeated until at least five representatives vote "finalize" during the plenary session (see Step 2) or until the allotted time runs out. If at least five representatives vote "finalize", each representative will receive one minute of speaking time before the summit ends (moderated by the current chairperson).

Resolution Draft A

Green Country proposes the following resolution:

- Carbon tax (imposed as a domestic tax in each country that is a member of the club): €300 per ton of carbon dioxide (CO_2)
- Level of R&D investments into climate-friendly technology (measured per country as percentage of GDP).: 5%
- Tariffs on countries that do not take part in the club ("non-member countries"): 4% on all goods and services
- Punitive measures for club members who fail to act by the club rules: non-compliant members shall be expelled from the club for two years. During this time, products and services from these countries shall be subject to an additional tariff of 1% (which needs to be paid in addition to the normal tariff of goods and services applied to non-member countries).