

SMOKESCREEN IN SIGHT... A motorcyclist passes through a polluted highway in Shanghai. —AFP

## EU's emissions challenge

### TECH-TALK

**Other parts of the world are adopting limits on greenhouse gases far more slowly than Europe would like**

James Kanter

Ships and planes that belch greenhouse gases in Asia and North America could affect the climate in Europe as severely as in some other parts of the world.

So does that give the European Union the right to regulate the emissions from airlines and ships using its ports and airports?

The answer may partly rest on a lawsuit brought by the industry group Air Transport Association of America and by three major airlines – United and Continental, which merged last year, and American.

The airlines filed their case in late 2009, at the High Court in London, against the extension of the EU Emissions Trading System to most international flights landing in and taking off from European airports. The British court then referred the case nearly a year ago to the European Court of Justice in Luxembourg for a preliminary ruling.

Any verdict in favour of the airlines, which claim that the move by the EU breaches international conventions and laws, has the potential to undermine the initiative because EU regulators and European airlines say participation by foreign carriers, is critical.

The US airlines still are waiting for a hearing date. Even so, a verdict could come before the end of this year – and before the regulation takes effect, on Jan. 1, 2012. Air China, China Southern and China Eastern have also threatened to file a lawsuit against the system, according to a report on Chinese state television.

In an emission trading system, the authorities set limits on greenhouse gases and then allow companies to buy and sell permits corresponding to their emissions. Advocates say such systems are the cheapest and most effective ways to control the gases in advanced economies and the best way to encourage innovative technologies, like cleaner engines and alternative fuels. The European system already applies to about 11,000 power plants and factories. But

the system has had a rocky ride since trading began six years ago, including extreme volatility, tax fraud, the recycling of used credits and suspicions of profiteering. The European Commission, the EU executive, had to shut down part of the system in January after a series of online attacks resulting in the theft of permits worth millions of euros. Since then, more security measures have been introduced.

A more fundamental problem for the EU system is that other parts of the world are adopting formal limits on greenhouse gases far more slowly than Europe would like. That has prompted European companies to complain about stiffer international competition from foreign-based manufacturers that face fewer environmental constraints. That has also increased the pressure on the Union to find ways to share the burden of cutting emissions more widely, by making other significant polluters like airlines and shippers participate.

Within Europe, the airlines that could be affected the most are low-cost carriers, according to a report last month by the rating agency Standard & Poor's.

Standard & Poor's said airlines like British Airways and Lufthansa that charge premium fares should find it easier than the low-cost carriers, where price is a more sensitive factor, to pass on extra costs onto passengers in the form of slightly higher ticket prices.

The rating agency also said that airlines flying short-haul routes are less fuel-efficient than long-haul carriers because of more frequent takeoffs, when a large amount of fuel is burned, generating more emissions and demand for permits.

In some respects, international shipping raises even more vexing questions for regulators contemplating emissions trading. Ship owners could easily swap the nationalities of their vessels, potentially making it complicated to keep track of some ships, like chartered vessels, that have used EU ports. Shippers also could make the process of determining how much to charge more challenging by using polluting vessels to deposit cargoes just outside EU waters and then using much cleaner vessels or alternative modes of transport to make the journey into the Union.

Another issue bedeviling shipping regulation is that developing countries like Liberia and Panama, where many vessels are registered, oppose some of the measures that would raise costs on what they regard as an important industry.

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## Courting the next generation

### DEBATE

**Instead of having real and genuine partners on the ground, we are now left to fantasise about a different screenplay in the erupting Arab states**

Daniel Levin



It has been painful to watch the anguished contortions of Western governments in their deliberations on whether and for how long to send armed forces to Libya and other countries that are currently on fire. Modern-day Cassandras question the necessity, feasibility, affordability and political expediency of a military intervention. Of course, the fact that some of today's enemies were yesterday's friends – consider the CIA's close cooperation with Colonel Gaddafi's intelligence service to obtain information on Al Qaeda's North African operations – muddled the discussions, as did a Cold War-like friend and foe mindset that makes the distinction between action in Libya and inaction in Bahrain

seem somewhat arbitrary and self-serving. While it is silly to expect the Western powers to ignore their Realpolitik imperatives, there is one insidious and particularly vexing argument that seems to find its way into every debate on whether to push for regime change when civilians are being massacred. It is the magical argument of a power vacuum that would follow the ouster of the current strongmen, usually embellished by dramatic references to some apocalyptic tribal Armageddon. This power vacuum myth is based on the perverse logic that it would be perilous to remove a tyrant who for decades suppressed the development of civil society and independent institutions, because the very lack of civil society and independent institutions would be awfully destabilising once the tyrant was gone.

Especially in countries with which the West has maintained diplomatic or even friendly relations, this line of reasoning is tremendously cynical. Not a week goes by without new initiatives sprouting in the halls of State Department and foreign ministries, which proclaim ambitious goals such as institution building, capacity development or the promotion of civil society. They all claim to nurture the next generation of leaders and viable political alternatives by championing a "stakeholder society." If even a fraction of these lofty initiatives had been successful, we would not be confronted with a dearth of leadership substitutes, conveniently mischaracterised as a power vacuum to justify

nonintervention. For years, my Egyptian friend Ahmed, an economics professor and political agnostic, has been telling me how he and his colleagues in academia are routinely shut out of reform initiatives of foreign development agencies: "They always come with grand announcements, but in the end it is always the same well-connected and usually unqualified cast of characters who gets to participate, especially if the initiatives involve fancy trips to Washington, London or Paris." Rather than create goodwill, these initiatives generate resentment and alienate those they were supposed to help, as Ahmed laments: "Foreign experts are given sweetheart contracts with public funds so that they can import their own flawed models, while ignoring local expertise and the diverse fabric of our society. It's insulting, and what's worse, it's stupid."

Instead of having real and genuine partners on the ground, we are now left to fantasise about a different screenplay in the erupting Arab states, if only these initiatives had focused more on real and effective empowerment and skills transfer to broader parts of society, and less on self-cannibalising conferences and symposia to which just the same privileged class has access. With all the brilliance and wisdom that reigns in foreign service and development agencies, surely it might be possible to incorporate programmes that reach a broader segment of society and its informal leaders. This "day-after generation," as Ahmed calls it, is craving real support and recognition, and it is in dire need of all forms of state governance tools to rebuild these ravaged countries.

One thing this next generation of leaders does not need is outside sympathy and sentimental encouragement to fight for freedom, as Ahmed notes acerbically: "The West loves to cheer us on, but instead of empowering us with the ability to contribute to our nations, everyone comes here with fancy rhetoric and hollow initiatives that accomplish nothing other than delivering more perks to those in power. At least don't patronize us by romanticising our uprisings." Ahmed bristles at the many initiatives still pouring in that keep recycling the same buzzwords such as capacity development and entrepreneurship, with fancy labels like excellence, good governance and leadership sprinkled in for good measure. "The problem is that these initiatives don't reach us," Ahmed adds, "and therefore they affect neither our lives nor the negative way we perceive the US and the West. When these regimes fall, as they all do sooner or later, we are suddenly everyone's darling, but it is too little too late, because the relationships were not established years ago, when it would have mattered. When I teach my students game theory, I use these initiatives to illustrate a zero-sum game." Quite an accolade, and how sad, really, given all the resources put into these efforts and all the noise they make.

Daniel Levin is a member of the Board of the Liechtenstein Foundation for State Governance

## Pakistan's convulsed fiscal deficit

### ISSUES

**A key reason for a culture hostile to revenue collection is the lack of equity in the tax regime**

Dr Maleeha Lodhi



The Pakistan government still lacks a credible action plan to control the nation's budget deficit. It has balked from taking tough decisions that can confront the scale of the fiscal problem and resorted instead to temporary, stopgap measures that do little to address the underlying causes.

The situation may aggravate due to a confluence of two new factors. Together they indicate that in the absence of reform the fiscal deficit could grow even larger in the foreseeable future because these developments have underlying structural characteristics.

The Governor of Pakistan's State Bank has sounded a timely warning about the first of these trends in a Reuters interview earlier this month. The erudite governor said he was worried by a "structural shift" of incomes towards the non-tax paying or lightly taxed sectors from tax paying ones. This shift of incomes especially to the agriculture sector, he said, means that the tax to GDP ratio is "structurally destined to hover at lower levels".

Pakistan has one of the lowest tax to GDP ratios in the world and Shahid Kardar's prognosis suggests that additional structural factors will further fuel the fiscal deficit crisis. He reiterated the call to broaden the tax base and address this structural shift in the next budget.

At a time of severe economic hardship for much of urban Pakistan and for the industrial and manufacturing sector, the agricultural economy has – in spite of the 2010 floods – benefited

from higher global commodity prices and domestic support prices which together have shifted the terms of trade in favour of the untaxed agriculture sector. Agriculture accounts for 22 per cent of GDP but contributes little more than one per cent of all revenue. The rise in international commodity prices and the government's setting of procurement prices well above their import parity price in the past two years has led to an increase in farm incomes. But this has not been accompanied by any commensurate obligation to pay tax.

A GST has formally been in place for 20 years but its fiscal impact has been greatly diluted by many exemptions. Add to this the rampant evasion of income tax by the services sector and its successful effort to thwart a value added tax and an even more dismal picture emerges. The net result is what Governor Kardar has drawn attention to – a structural shift within the economy with serious fiscal implications.

As Mr. Kardar has alluded, if the two sectors that contribute 74 per cent of GDP have seen incomes grow but remain largely outside the tax net, it is hard to see how the tax to GDP ratio can improve. Without fundamental reforms and a tax regime that is fair and

equitable, the tax to GDP ratio cannot much exceed 10 percent.

A key reason for a culture hostile to revenue collection is the lack of equity in the tax regime with the burden falling disproportionately on the same people. To inject equity into the system the agriculture and services sector must be brought fully into the tax net.

The federal government has been additionally burdened with rising security related expenditures and a growing debt burden, whose servicing is now absorbing over 45 per cent of its share of tax revenues. The situation has been worsened by its inability to downsize government, cut back huge subsidies on energy, and stop the hemorrhaging of public sector enterprises by their restructuring and eventual privatisation.

Unless a bold policy plan is devised to deal with the structural sources of the runaway budget deficit the country's economic future will be imperiled by an unsustainable and serious fiscal situation being compounded now by emerging trends and more enduring unresolved issues.

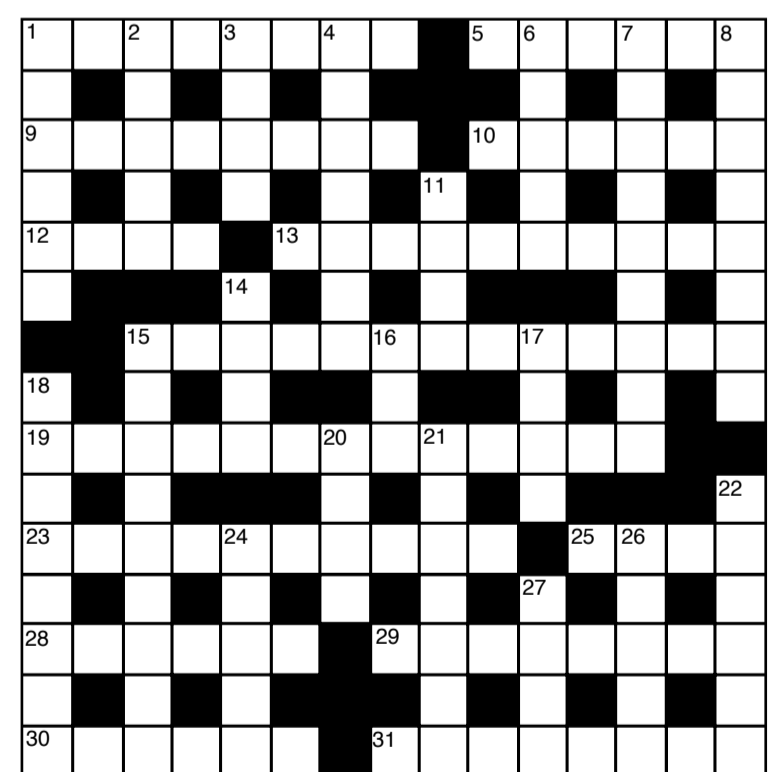
Dr Maleeha Lodhi served as Pakistan's ambassador to the United States and the United Kingdom



IS IT BULLISH... A bourses dealer reports back the trend to his clients. —AFP

## CRYPTIC CROSSWORD

No 13811



### ACROSS

- 1 Exercises power in America after newspapers (5-3)
- 5 A fraction of stature, top to bottom (6)
- 9 Many go bonkers following second marriage custom (8)
- 10 Harris returned home for old coin (6)
- 12 In his work he may use a chunk of Rochefort (4)
- 13 Duty nurse trained with director as stand-in actor (10)
- 15 Where every element is nearly predictable (about 10) (8,5)
- 19 Papers for one stranded abroad touring strange city (8,5)
- 23 A question to a sailor: 'What's bluishgreen?' (10)
- 25 Dental examination? (4)
- 28 Tension in spine damaged part of foot (6)
- 29 Its name changes at speed of light, subject to meaning (8)
- 30 Push board round harbour (6)
- 31 Sexy, small and no use otherwise to you and me (8)

### DOWN

- 1 Big road's purplishpink at the edges; it's the stone (6)
- 2 Bond's selected by him, Eric's mate (5)
- 3 Mensa geniuses welcome this knowledgeable person (4)
- 4 Pepper's prepared first and cooked on time (7)
- 6 Turns over slide that needs fixing (5)
- 7 Somehow a shrub concealed that French weapon of old (9)
- 8 One with yen to dip into hebe perhaps (5,3)
- 11 Has it been caught by canny E. Tibetans? (4)
- 14 Extreme left-winger overturned legal infringement (4)
- 15 Forerunner comes up again in two rivers (9)
- 16 At regular intervals Derry doesn't serve alcohol (3)
- 17 I ignored Italian city's performance (4)
- 18 New boxer's fist's bandaged — he's in the last round (8)
- 20 Some ground with fruit growing up one's missed (4)
- 21 Gather in very small space in cold unit (7)
- 22 Lousy ship cuts... (6)
- 24 ... runs into Middle Eastern set unfortunately (5)
- 26 Secret Romans' clothing recalling former style (5)
- 27 Criminals are behind these watering holes (4)