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FOREIGN POLICY

State of Play of the International Climate Negotiations: How to Bridge the Remaining Gaps?

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The stakes were high after the fifteenth session of the United Nations's (UN) Conference of the Parties (COP) in Copenhagen last December 2009. The UN process was in bad shape and trust among the parties was lacking. Expectations for the next UN COP in Cancun last December 2010 were therefore at rock bottom. Rather than the all-or-nothing approach that proved inefficient in Copenhagen, the European Union (EU) envisaged the Cancun summit with a stepwise approach. The aim was to reach a balanced package capturing progress made thus far and allowing for concrete action. These expectations were broadly met as the agreement reached in Cancun – approved by all parties but Bolivia – laid the groundwork for concrete action against climate change at the international level.

Although we are back on track, the Cancun agreement falls far from a comprehensive and legally-binding agreement that includes all major emitters. Important stumbling blocks remain, making the conclusion of such an agreement at the next COP in Durban at the end of 2011 unlikely. What is likely though is that international efforts will be increasingly driven by a bottom-up approach from the private sector, concerned citizens and committed governments.

Before laying out a number of recommendations for the Trio Presidency, the positive outcomes of the Cancun UN summit and the remaining important gaps to the conclusion of a comprehensive global climate agreement will be examined.

The positive outcomes of the Cancun UN summit

Given the low expectations, the agreement reached in Cancun was hailed by many as a success. Although the achievements are relatively modest, they appear to have revived faith in the multilateral UN process, while formally recognising the political guidance of the Copenhagen Accord.

A shared vision for long-term cooperative action has been adopted, writing a new chapter in history of international climate action. Besides the formal recognition of the objective to maintain the rise in global temperature below 2°C above pre-industrial levels, parties have also recognised that the current national emission reduction pledges need to be significantly scaled-up to achieve this goal. While mitigation is paramount, adaptation to the impact of climate change was identified as equally important. The impact of global warming has already occurred in a number of countries and will continue in the years ahead, even under the most optimistic scenario. Climate change has also been recognised as one of the greatest challenges of our time. This challenge will require a paradigm shift towards a low-carbon society, offering substantial opportunities.

The Cancun agreement also elaborated on most of the key issues of climate negotiations, including:

- The development of two slightly different systems for the measurement, reporting and verification (MRV) of emissions reduction for developed and developing countries. MRV is very important; not only does it serve the international community to track countries' compliance with their pledges, but also it allows national decision makers to track progress, prioritise correctly and verify the return on their investments.
- The establishment of a Green Climate Fund (GCF) to help developing countries finance the fight against climate change in the long-run.
- A strategy to Reduce Emissions from Deforestation and Forest Degradation (REDD).
- An Adaptation Framework.
- A technology transfer mechanism between developed and developing countries.
- Capacity-building in developing-countries.

These achievements lay the groundwork for further action. In preparation of the next UN summit in Durban, a number of technical issues will have to be resolved, especially on the climate governance system. Besides, the decisions reached have so far failed to resolve key issues, addressed here-under, that could yet prove to be stumbling blocks to the achievement of a global climate agreement.

What commitments can we expect?

The question of the national emission reduction commitments is intimately linked to the legally-binding nature of the agreement. So far, the commitments are not binding under international law, leaving the most contentious issue of legal form unanswered.

The existing legally binding agreement, namely the Kyoto Protocol, expires in 2012 and the question of whether it should be prolonged for a second commitment period has divided the international community. Developing countries, including emerging economies like China and India, insist on a second round of the Kyoto Protocol under which they do not have binding emissions reduction commitments that could hamper their economic development. The EU, Japan, Australia, Russia, and Canada support the establishment of a new legally-binding agreement, taking into account the positive elements of the Protocol. However, the United States (US), which never ratified the Protocol, is not ready to approve any legally-binding agreement unless major economies, such as China and India, are also included.

Although the EU favours the conclusion of a new legally-binding agreement, it has also shown willingness to commit for a second round of the Kyoto Protocol since October 2010. It argues that if we do not have a replacement, we should take care to not throw out what we have. In Cancun, Japan, Russia and Canada made it clear that they would not sign up for this as long as the two biggest emitters – namely the US and China – are not willing to commit to the Protocol. The EU's support of the Protocol is therefore of very little value. This key issue was left up in the air in Cancun, but it seems clear that there will be no successor to the Kyoto Protocol by the end of 2012.

So far, no agreement has been reached on an ambitious global target of emission reduction. The International Panel on Climate Change (IPCC) recommends reducing global emissions by 50-80% by 2050 compared to 1990 levels, with developed countries needing to reduce emissions by 80-95% by 2050. Since the Copenhagen UN summit, many countries – among which the biggest developed and developing economies – have agreed to reduce their emissions by 2020. However, it is estimated that current pledges put the world on a path for a global warming of 3.5°C by 2100. Yet, significant risks are now associated with a global temperature rise of 2°C, hence the important call from more than 100 countries to consider holding the raise in global temperature to 1.5°C.

As the top-down approach of legally-binding reduction targets is breaking down, a new bottom-up approach is emerging. Efforts are increasingly driven by the private sector, concerned citizens and committed governments. A green gold rush to seize the enormous opportunities offered by the necessity of building a sustainable low-carbon economy has started. This challenge is no longer simply perceived as environmental, it also represents a huge potential for competitiveness, job creation and economic growth. All large economies like China, Japan, the US and the EU are embracing the race to compete in the research, development and deployment of new green technologies. In order to do so, the EU has adopted a Strategic Energy Technology Plan (SET-Plan). However, China has recently overtaken the EU in green technology investment. National and local policy change will therefore increasingly lead rather than follow international efforts. Over time, a well-designed international agreement remains nevertheless central to provide certainty in order to encourage and accelerate domestic action. Without certainty at the international level, investors will continue to be cautious about investments in green technologies.

Although the EU has one of the world's most ambitious emissions reduction target, it is increasingly obvious that the 20% emissions reduction target by 2020 is insufficient in several respects. Not only is it inconsistent with the 2°C target, but also with the need to capture the opportunity that the transition towards a low-carbon society represents. Moreover, the Emissions Trading Scheme (ETS), the cornerstone of the EU's climate policy, suffers from a lack of ambition demonstrated by the 20% target, wich prevents the emergence of a consistent carbon price.

How to finance climate action?

Ensuring the necessary financing to address climate change is another difficult and highly political issue for climate negotiations. Given their economic capabilities and their historical responsibility for global warming, developed countries are expected to bear the majority of costs associated with global climate action. As such, an agreement on climate financing is crucial for building trust between developed and developing countries.

In Cancun, developed countries confirmed their commitments made one year earlier in Copenhagen to provide funding to support mitigation and adaptation activities in developing countries. They committed to jointly mobilise $100 billion annually by 2020 from both public and private sources (long-term financing). In addition, they have pledged new and additional resources amounting to $30 billion for the 2010-2012 period (fast-start financing), balanced between adaptation and mitigation, and prioritised for the most vulnerable developing countries. Developed countries are invited to submit to the UN Framework Convention on Climate Change (UNFCCC) secretariat an annual report on resources provided and on access to fast-start financing from mid-2011. The EU's report on fast-start financing in 2010 already shows its commitment to transparency.[1]

The Cancun agreement also set the framework of climate financing governance by establishing a Green Climate Fund as well as an assisting committee, called Standing Committee, under the UN's COP. A significant share of funding for mitigation and adaptation should flow through the fund. Currently, only about 10% of climate financing has flowed towards adaptation. Since the Cancun agreement requires a balanced allocation between adaptation and mitigation, a percentage much closer to 50% would be appropriate. The Green Climate Fund should therefore address this adaptation gap. The fund will be governed by a board of 24 members comprising an equal number of members from developed and developing countries. It will have the World Bank as interim trustee. A Transitional Committee will be in charge of recommending a proposal to the next COP in Durban for the design of the Fund. With regard to the Standing Committee, it will assist the COP in terms of improving coherence and coordination in the delivery, rationalisation, mobilisation of resources and MRV of support provided. These functions need to be further defined though.

1. Council of The European Union, Report, "EU Fast start finance Report for Cancun", ECOFIN 686, 15889/10, 9 November 2010, available at: http://register.consilium.europa.eu/pdf/en/10/st15/st15889.en10.pdf

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So far, it is unclear how scaled-up, new and additional funding will be raised to mobilise $100 billion per year. The agreement stipulates that the money will come from various sources, public and private, multilateral and bilateral, including alternative sources. The report of the High Level Advisory Group on Climate Change Financing, mandated by the UN Secretary-General to study the contribution of potential sources of revenue towards meeting this goal, provides an important input.[2] The practical proposals set out in this report include interesting innovative sources to be considered, such as taxes on international aviation and shipping or a Financial Transaction Tax.

The bulk of climate finance will come from the private sector, particularly through market-based mechanisms. To date, the Clean Development Mechanism (CDM) has been the main source of mitigation finance for developing countries. This mechanism, by which developed countries can compensate their domestic emissions by investing in cost-effective emission reduction projects in developing countries, must be part of the post-Kyoto architecture, albeit in an improved form. Several design and operational shortcomings regarding environmental integrity, economic efficiency, geographical balance and procedural complexity need to be addressed. Nevertheless, as a technology transfer mechanism towards developing countries, the CDM has achieved progress as it was agreed to include carbon capture and storage technologies into the mechanism.

Another open issue for the next summit in Durban is the development of new sectoral carbon market crediting mechanisms. After 2012, these sectoral carbon markets should be phased in for more economically advanced developing countries. They should allow these countries to scale up private investments in accordance with their climate priorities. These voluntary carbon markets could become important in key sectors such as forestry where emissions can be reduced at reasonable costs. Before REDD can be linked to carbon markets, some important issues must be addressed though.

International public funding will be of particular importance for adaptation and capacity building. However, given the tightening of government budgets coming out of the economic recession, scaling up public finance will be difficult. In the EU, the revenue of the auctioned allowances from the ETS was envisaged as one of the major sources to mobilise climate finance. However, given that the carbon-price is likely to remain low in the next years with the current 20% emission reduction target and that Member States are likely to allocate only a small percentage of auctioning proceeds to finance climate action, it is clear that scaling up public finance in the EU will not be easy. Besides, developing countries fear that public funding results in recycled funds. Being classified as Official Development Assistance, climate finance may divert funds normally dedicated to development aid programmes. Yet, the Cancun

2. United Nations, "Secretary-General's High-level Advisory Group on Climate Change Financing", Report, 5 November 2010, available at: http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF_Final_Report.pdf

agreement states that the funds shall be new and additional. However, the definition of “new and additional” funds constitutes a big political discussion with no clear way out.

Recommendations for the Trio Presidency

The state of climate negotiations has clearly improved since Copenhagen. However, in light of the significant remaining gaps, it will be difficult to pave the way towards a legally-binding framework. In order to be successful, the EU will have to show continued leadership by endorsing the following recommendations:

Provide a clear signal domestically

- Create an ambitious roadmap towards the reduction of EU emissions by 80-95% by 2050 in order to seize the *substantial opportunities* offered by the necessary *shift towards a low-carbon society* to tackle climate change required by the Cancun agreement. In order to do so, the EU should move quickly from a 20% to a 30% emissions reduction target by 2020. It is clear that the 20% target is not consistent with the 2°C global target, the need of a consistent carbon-price in the EU ETS and the EU international finance obligations. Besides, intermediate targets in 2030 and 2040 should also be determined.
- Commit to the full decarbonisation of the power sector by 2050.
- Improve the efficiency and effectiveness of the SET-Plan in order to accelerate the research, development and deployment of cost-effective low-carbon technologies. This will require an increased contribution for the SET-Plan in the next EU Multiannual Financial Framework, involving a political commitment from the EU.

Maintain a stepwise approach internationally

- Continue its stepwise approach consisting in capturing progress made thus far and working concretely through issues one by one.
- Focus more on building bilateral climate partnerships with strategic partners (for example, China, India and South Africa) on the basis of a carrots and sticks approach.
- Reflect on sources for long-term finance and ensure the best use of EU fast-start finance, while maintaining efforts of transparency.

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