

CLIMATE SUMMIT IN BALI: START OF A HURDLE RACE UNTIL COPENHAGEN

EVALUATION OF THE CONFERENCE RESULTS

Christoph Bals



Brief Summary

On the one hand, the UN Climate Conference in Bali (December 2007) has initiated negotiations that should result in an international UN climate treaty by 2009. Negotiations are structured in four major building blocks: 1. Mitigation of greenhouse gas emissions, 2. Adaptation to climate change, 3. Technology transfer, 4. Financing climate and forest protection and adaptation. On the other hand, the conference has demonstrated that there are still major obstacles to overcome on the way to an agreement that will actually induce a turnaround in global climate policy within the next decade. Much more political will be needed to seriously address critical issues - from traffic to coal. It is unlikely that this can be achieved without the valuable contributions of an active civil society.

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1 Summary

Considering the outcome of the climate conference in Bali there is good reason to assume that, by the end of 2009, a new global agreement on climate protection for the time after 2012, i.e. following the expiration of the Kyoto Protocol's first commitment period, will be in effect.

This agreement should consist of four major negotiation tracks:

- ◆ One track dealing with mitigation of greenhouse gas emissions, including the advancement of emission trading and instruments promoting international forest protection.
- ◆ A second track dealing with the provision of support for particularly affected regions and states in their efforts to adapt to the unavoidable consequences of climate change.
- ◆ A third one should result in regulations and incentives for providing the necessary technologies that facilitate mitigation and adaptation. This negotiation package reaches far beyond what was understood by the term technology transfer up to now.
- ◆ And a fourth one aiming at developing new and innovative mechanisms to finance technologies, adaptation and forest protection.

1.1 *Bali's positive results*

In addition to the already existing Ad Hoc Working Group (AWG) that deals with the advancement of the Kyoto Protocol another Ad Hoc Group was created.¹ The Kyoto Protocol had been prepared by an Ad Hoc Group (AGBM, Ad Hoc Group on the Berlin Mandate) as well.

Already in spring 2008, these two negotiation groups will meet for the first time - supposedly in Ghana. From now on the pace of negotiations will considerably increase. In future, the number of annual negotiation rounds will be doubled from two to four. This means that the necessary negotiations towards an effective and comprehensive post 2012 agreement involving all of the relevant actors can actually start with the required intensity.

The benchmark target of global climate protection efforts that is to be reached within the next 24 months was publicly communicated by the international community (only the United States disagreed), however, it is not yet accepted as a binding commitment: In order to limit damages caused by climate change, emission reductions in industrial countries by 25 to 40 percent as compared to 1990 must be achieved. On a global scale, the peak of emissions must be reached within the next 10 to 15 years – followed by an immediate decline that leads to reductions of more than 50 percent until 2050. By referring to the IPCC report the negotiation process was put on a scientifically sound base.

¹ It will probably be one of the key challenges for the upcoming climate conference (2008) in Poland to unite these two working groups.

1.2 The drawbacks of the Bali results

Despite the conference's dramatic last couple of hours which finally paved the way for the future negotiation process one must not oversee the shortcomings of the results. Although climate change has never before been so prominently placed on the agenda worldwide, the international community failed to define a clear direction regarding contents and explicit specifications of future negotiations. Instead, compromises - even concerning central questions - open the door for whatever interpretation is favored by different interest groups. Thus, neither the objective to limit global warming to less than two degree celsius above preindustrial levels nor a range for absolute emission reduction targets were bindingly accepted. The determination of legally binding commitments will now be subject of further discussions in the initiated negotiation process, as well as obligatory measures for adaptation, technological cooperation and financing - not more and not less than that. Enormous hurdles need to be overcome in all of these areas to finally pass a legally binding international agreement on obligatory actions in 2009. This framework must seriously and not just rhetorically combat global climate change. The danger that the US government may organise the Major Emitters Meetings with the largest industrial countries and emerging economies with intent to undermine the UN process in its effort to establish binding targets has been mitigated but not yet averted. Regarding the UN process it is therefore important to work out a balanced, equitable and comprehensive package for further decisions by policy makers. There is no doubt that Bali was just the starting point for this "hurdle race" - with Copenhagen in 2009 being the finish line.

1.3 The political will must continue to grow worldwide

After the take-off in Bali it becomes more and more visible that the obstacles in front of us are really high.

Central decision makers such as the governments of the USA, Canada, Russia and Japan are far from supporting the necessary decisions. By ratifying the Kyoto Protocol parallel to the negotiations in Bali Australia's new government has demonstrated its determination to contribute more constructively than its predecessor. However, it is not yet clear whether Australia as a major coal exporting nation will eventually commit to the required large-scale CO₂ reductions. To achieve this goal political will has to grow tremendously in 2008 and 2009. In the USA, and probably in Canada as well, elections will take place that could send important signals in this regard. India's position will be easier to assess as soon as the government will have passed its strategy on climate change within the following months. Hopefully Japan's G8 presidency and the G8 summit in Japan from July 7th to 9th will help to create enough public and international pressure to finally make the ministry of economy and technology give up its resistance to constructive climate politics. This way - similar to the developments in the EU under the German G8 presidency - constructive forces in Japan's government could become superior.

Repositioning of Japan?

On January 6th, an interesting article was published in Asahi Shimbun, one of Japan's major national newspapers. The following translation, prepared by Kyoko Kawasaka, a Japanese NGO representative in Bali, shows that Japanese NGOs in Bali succeeded in imposing pressure upon their government and that this pressure is even increased by the

Japanese G8 presidency starting with the new year. The speech of Japan's prime minister Fukuda at the World Economic Forum in Davos will be another important signal regarding Japan's future position.

"According to the article, Japanese government was really shocked by the reaction from Environmental NGOs in Bali on its draft COP decision proposal, especially on its ambiguous positions on the targets.

And after "the Bali Shock", at the Four Minister's Meeting on December 27th [2007], Mr. Fukuda (PM), Mr. Kamoshita (Minister of Environment), Mr. Komura (Minister of Foreign Affairs), Mr. Amari (Minister of Economic, Trade and Industry) and Mr. Machimura (Chief Cabinet Secretary) discussed about the basic policy for G8 summit, which PM Fukuda would present at Davos.

Mr. Kamoshita (Minister of Environment) told PM Fukuda, "are we letting the world to see Japan as a nation to blocking to have the targets to for 2020?" by showing a full-page ad of Avaaz.org in Jakarta Post. "How about proposing numerical target of Japan?", Mr. Machimura (Chief Cabinet Secretary) followed. And Mr. Komura (Minister of Foreign Affairs) took sides with him. Mr. Amari (Minister of Economic, Trade and Industry) who is vigorless about setting numerical target left the room without clarifying his position on the matter. After the meeting, the prime minister office shifted toward to present numerical target. ..."

It is not sure whether the term "numerical target" means the same as national absolute reduction target (the so-called QELROS) or whether it refers to intensity targets, i.e. targets regarding CO₂ emissions per output unit. In any case, the article points out the extent to which those political forces in the Japanese government that support a more constructive and progressive position benefit from international pressure.

1.4 Germany: Reconcile aspiration and reality of climate policy

With regard to Germany, the government's climate protection program that was presented at the beginning of December needs to be positively acknowledged. However, the program is not free from weaknesses. The important transport sector is almost completely excluded. Hence, company car privileges are not abolished, a general speed limit is not introduced, and the introduced rule on the labeling of fuel consumption is misleading. There is a lack of new measures to strengthen more climate friendly ways of transportation such as public transport and biking. The proposal of the EU Commission to reduce CO₂ emissions of cars is seen as an attack on German automobile industry and therefore rejected by the German government. At the same time, bigger and heavier cars keep on overcompensating the achieved efficiency gains and no solution to this problem has yet been suggested. The German government moreover significantly weakened the quite progressive suggestions of the EU parliament that were made at the meeting of environment ministers on December 20, 2007, concerning the inclusion of aviation. It is time for Germany to finally develop a strategy for its (passenger and goods) transportation system that ensures climate friendly mobility – for ecological as well as for economic reasons.

Furthermore, the government's energy policy is not yet consistent with its climate targets. In case that the plans of various decision makers to build 20 coal-fired power plants will

actually be realised, the aspired medium-term targets become unachievable considering the fact that these powerplants will stay in use for about 40 years.

In addition, the government lacks of courage to carry forward the social and ecological tax reform (addressing those areas that are not covered by emission trading). Taking the next steps in this matter is necessary and reasonable. In times of high unemployment worldwide a reform of this kind would provide incentives for crating new jobs and it would facilitate the much needed enhancement of energy and resource productivity.

These points require a review of the German climate strategy. Aspiration and reality need to be reconciled. Otherwise Germany's role as a forerunner in the field of climate policy will not be sustainable.

1.5 Creating international momentum through an international push-and-pull strategy

All countries, particularly the industrial nations, are asked to get active now and not wait for the outcome of negotiations in December 2009. National strategies for climate protection need to be developed or advanced immediately and they need to aim at complying with the two degree limit. Policy makers need to develop the necessary framework for accelerating the implementation of renewable energies and technologies promoting energy efficiency. Industry and financial markets need to follow this motto: Directing investors' money into high-emission alternatives means not capitalising on the economic opportunities that the current global political situation offers. Only a few days after the conference in Bali oil prices jumped up to more than 100 dollar per barrel for the first time. Facing energy prices of this scale and considering the decisions made in Bali to continue international climate protection with even more ambitious targets after 2012 there is no reason anymore for being hesitant to invest accordingly. In fact, investment in energy efficiency and renewable energy will pay off much faster than anyone would have expected only a few years ago.

The interplay between two developments will be able to create the necessary momentum for comprehensive and cooperative global climate protection. First, an international climate policy that obliges everyone (in the sense of a pull strategy). And second – without waiting for the first one – the initiatives of a possibly large number of countries heading towards innovative energy and transport systems and thereby demonstrating that a new model of prosperity can be based on renewable energy and energy efficiency (in the sense of a push strategy). The future UN agreement as well as the emerging international network of emission trading systems will play major roles in the implementation of the the pull strategy. With respect to the push strategy several factors are of great importance: first, laws such as the energy feed-in law and top-runner-programs, second, a World Bank reform and third, bilateral and multilateral approaches.

Many observers worldwide expect from the EU and particularly from Germany to not only verbally take on leadership in this push-and-pull strategy. The EU is moreover predestined to play this role since the two upcoming climate conferences will be hosted by EU member countries, namely Poland (December 2008, Poznan) and Denmark (December 2009, Copenhagen). According to Ivo de Boer, general secretary of the UN climate secretary, negotiations in Poland will likely be focused on technology and financing: "I don't think we'll have anything concluded by Poland. In this process, nothing will be agreed until everything is agreed. By the time we all leave Poland, we can have a much

clearer understanding of what needs to happen in the areas of technology and finance. That I think will be critical."²

1.6 The evolvement of political will requires pressure from civil society

It is unlikely that the necessary political will evolve in Germany or anywhere else in the world without having civil society significantly increase pressure on decision makers. It needs to become visible that EU citizens refuse to continue building their prosperity model on the backs of those people who are most affected by the destabilisation of climate – and even the weakest among them.

Every planned coal-fired power plant, every new airport, every new factory producing off-road vehicles gives reason to protest.

Purchasing a car, a heating system or an electrical device as well as renovating the house offer the opportunity to stand up for climate protection.

Every election may be turned into a popular vote for better climate policy.

² Darren Samuelsohn, CLIMATE: G8 summit seen as likely venue for deal on emissions goal, in Greenwire, 8.1.08

2 Evaluation of the results in detail

In the run-up to Bali Germanwatch had insisted on measuring the conference results and the initiated negotiation process against different criteria.³ In the following we will compare Bali's outcome with Germanwatch's expectations prior to the conference.

***Expectation 1:** Climate Effectiveness – the negotiations should focus on keeping global warming below two degrees celsius. From Germanwatch's point of view this means in particular to reach the peak of global emissions between 2015 and 2020. By 2050 reductions of 50 to 85 per cent need to be achieved.*

***Expectation 2:** In order to accomplish the global mitigation target the negotiation process needs to result in reduction obligations for industrialised countries of 30 to 40 per cent by 2020 (as compared to 1990).*

The results of Bali

Contrary to what was reported in large parts of the media, on the convention track⁴, it was not agreed on a publicly visible benchmark for the success of negotiations that adequately reflects what needs to be done. However, this was achieved regarding the negotiations on the further commitments of industrialised countries under the Kyoto Protocol. The Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG) that was implemented two years ago points out in its final document from Bali that the avoidance of serious damages requires to reduce emissions in industrial countries by 25 to 40 percent until 2020 as compared to 1990. Furthermore it is stated that *global* greenhouse gas emissions (i.e. including the emerging market economies) need to peak within the next 10 to 15 years and drop significantly afterwards so that by 2050 emissions will be at least halved as compared to the level in 2000. These targets were derived from the IPCC scenario assuming an increase in global temperature of 2 to 2.4°C above preindustrial levels. The IPCC also emphasizes that in addition to the mentioned range of reduction in industrialised countries it is necessary to engage emerging nations in climate protection.⁵ It is therefore remarkable that emissions in emerging economies are explicitly included into the two mitigation objectives that were mentioned before (to decrease substantially below 50 percent and to reach the peak of emissions within 20 to 15 years). Being parties to the Kyoto Protocol these countries have also agreed to make these objectives the yardstick for future negotiations – however, they have not yet accepted them as binding commitments. The respective phrase in the final document has

³ See Germanwatch Briefing Paper "Climate Summit in Bali: Starting Point for Decisive Steps towards a low-emission model of prosperity?" <http://www.germanwatch.org/klima/bali07e.htm>

⁴ The negotiations on this issue led to the formation of a coalition between the Least Developed Countries, AOSIS, and the EU with the goal to oblige industrialised countries to reduce emissions by 25 to 40 percent until 2020. This proposal was rejected by the USA and Japan. China, India and Malaysia were very hesitant at the beginning to include references to the IPCC's Fourth Assessment Report since they considered some studies and assessments of developing countries cited by the IPCC to be inadequate.

⁵ This aspect needs to be taken into account when discussing the share of reductions in industrialised countries that can be accomplished through CDM certificates. If the two degree limit is taken seriously it is definitely necessary to enhance climate protection in emerging economies in addition to the required reductions in industrialised countries. However, the CDM in its current form entails that all of the efforts made reduce efforts made in industrialised countries. This trade-off is not compatible with the two degree limit.

aroused high expectations and therefore put the Kyoto parties under enormous pressure. Considering the previous course of negotiations, it was rather unexpected that even countries like Canada, Australia and Russia, as well as the major emerging nations, which up to that point demonstrated a quite negative attitude, eventually approved this phrase in the conference's final meeting. It is important to note that this is not yet equal to a legal codification of the according objectives which still need to be distributed equitably among the countries. Nevertheless, the level of aspiration for the next two years is hereby defined. It may be expected that the Japanese host of the G8 summit 2008 intends to debate the issue with the major industrial nations and the five most important emerging economies in order to achieve a preliminary decision on the determination of a global reduction target until 2050 and the timing for the peak of global emissions.⁶

In contrary to what was achieved in the decision paper concerning the Kyoto parties, it was not possible to include a similar reference to the most ambitious IPCC scenario in the final document concerning the members of the framework convention. The convention was also ratified by the United States. Although the cooperation between developing countries and emerging nations (G77 plus China) and the EU proves more and more to be a success in the negotiations, the current U.S. administration impeded the determination of such a far-reaching target. In fact, the most ambitious IPCC scenario is only one of several scenarios that is referred to in a footnote of the final document. At least it is stated that obligations should be "comparable" for all industrialised countries. Consequently, the document passed in the Kyoto track and the commitment to agree on "deep cuts" also define a level of aspiration for the USA. Yet again, this is only a political and rather flexible agreement with no legal status. In the worst case, this wording might even induce Kyoto countries to claim that they are not willing to do anything more than the U.S. government, thereby initiating a downwards adjustment of ambition.

Need for action: The key task in the next two years will be to turn the reduction ranges that were accepted as a yardstick for negotiations by the Kyoto parties into legally binding targets for industrialised countries and according obligations for emerging economies. Individual countries then need to decide on concrete measures to reach these ambitious goals. Germany, whose performance will be measured against more stringent criteria since up to now the country was able to benefit from the consequences of the fall of the wall, will have to realise a reduction of 40 to 50 percent compared to 1990 until 2020. (A certain share of the reductions can be realised through international emission trading or the Clean Development Mechanism - CDM.) All governments are urgently asked to start immediately with the implementation of their respective plans for action and not to wait until 2009.

⁶ Darren Samuelsohn, CLIMATE: G8 summit seen as likely venue for deal on emissions goal, in Greenwire, 8.1.08;

***Expectation 3:** A negotiation process that enables the determination of comparable targets (quantified reduction targets) for the non-Kyoto country USA, just like for all other industrialised countries.*

The results of Bali:

It can be considered an accomplishment that the Bali Action Plan (BAP)⁷ requires that the obligations of all industrialised countries should be "comparable" (BAP 1bi). However, the BAP also requires the consideration of specific national circumstances in this context which might serve as a loophole. In any case, the term "comparable" leaves some room for interpretation.

It was moreover determined that "measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives" (BAP 1bi) should be agreed on. Thereby it is not yet guaranteed that the U.S. government will accept any binding mitigation targets, in fact, it seems unlikely that a turnaround of this sort will occur under the current administration. However, by the end of 2009, it may be possible to reach an agreement with the new government. It should be noted that the phrase which says that technology may be considered under or outside the convention is ambivalent. On the one hand this wording allows to include the activities of a future U.S. government (assuming compliance with the respective criteria) in case that a new agreement might not be ratified with the required two-thirds majority. On the other hand, there is the risk that the convention might lose more and more of its power due to the fact that an increasing number of activities take place outside of it.

It was not possible to achieve more than that with the current government. Still, it is interesting that some observers of the U.S. delegation indicated that the U.S. chief negotiator, Paula Dobriansky, unlike the White House, was ready to accept the start of negotiations on binding targets for the USA. It will be exciting to observe these internal dynamics in the coming months.

Need for action: It will be crucial for the overall architecture of the treaty to soon reach consensus with the new U.S. government regarding serious reduction commitments for the USA. In principle, this seems to be feasible with several of the potential candidates running for presidency – with all of the Democrats and particularly McCain among the Republicans. However, it may be considered a severe obstacle that some of the potential candidates expect China and India to accept targets that are similar to those of the USA. Climate policy is primarily regarded from an industrial perspective. But for the emerging economies this way of treating the unequal equally means entering the dreaded scenario of "climate apartheid"⁸: Although per capita emissions in the USA are about five times as high as in China and almost 20 times as high as in India these countries would be assigned almost identical reduction targets. These equity related questions will be one of the major issues on which the realisation of a pathbreaking post 2012 framework will depend.

⁷ Decision -/CP.13, http://unfccc.int/files/meetings/cop_13/application/pdf/cp_bali_act_p.pdf

⁸ See section 3.2 of the Germanwatch briefing paper "Climate Summit in Bali: Starting Point for Decisive Steps towards a low-emission model of prosperity?" <http://www.germanwatch.org/klima/bali07e.htm>.

Expectation 4: *The agreement should be **comprehensive**, i.e. it should include all relevant and methodologically sound includable sinks (avoided deforestation), emissions from air and maritime traffic as well as incentives for avoided deforestation on a national level.*

The results of Bali:

The inclusion of avoided deforestation in developing countries in the Bali Action Plan can be considered a success. First of all, the implementation of pilot projects was supported. Moreover there will be negotiations dealing with new policies and financial incentives for the time after 2012. It may be a threat to the architecture of a post 2012 treaty that the promotion of afforestation was included as well. If programs to promote afforestation were supported through CO₂ incentive mechanisms, industrial monocultures with severe effects on biodiversity, soil and groundwater contamination might be the consequence.

Unfortunately, the Bali Action Plan does not include an explicit mandate for negotiations on the limitation of emissions from international aviation and ship traffic. At least, a rather general phrase about "cooperative sectoral approaches and sector-specific actions" (BAP 1biv) allows for indirectly integrating these sectors into the development of a concrete work program. Additionally, after decades of standstill there were two signs that give hope for a possible progress regarding the issue of aviation, the one sector with the strongest growth in greenhouse gas emissions. First, a workshop that was organised by Norway outside of the UN process (and therefore excluding countries constantly blocking progress) has illustrated that methodological problems related to the inclusion of aviation are quite easy to solve.⁹ Second, the U.S. delegation communicated in informal talks that they see aviation next to the forest sector as a possible pilot sector for sectoral agreements. At first glance this appears quite positive. Nevertheless, as long as no details are known, it is important to consider that this approach might have been put up for discussion simply to impede discussions on the integration of international flights leaving from and arriving in the EU into the European emissions trading scheme.

Need for action: First of all it is very important to closely observe and assess pilot projects to avoid deforestation. The biodiversity conference that will take place in May 2008 in Bonn (9th UN Convention on Biological Diversity) needs to define requirements for all climate related incentive programs with regards to biodiversity and soil quality.

In the upcoming negotiations incentives for avoided deforestation should be strictly separated from measures to promote afforestation since the challenges and requirements concerning social and ecological integrity must be very different. Otherwise there is a risk that instead of protecting the rainforest, the creation of large-scale industrial monocultures is promoted. This would also lower worldwide acceptance of the future climate treaty.

On EU level the key task in the next few weeks will be to decide on the integration of aviation – including international flights arriving at and leaving from the EU – in the European emissions trading scheme. Unfortunately, on December 20, 2007, the environment ministers have significantly weakened the EU parliament's proposal in this matter. It is important for the progress of the international debate that the EU parliament puts

⁹ See "Bunker fuels: It's time to act" in: ECO Bali Issue No. 9, <http://www.climate-network.org/eco/bali-ecos/ECOCop13n09.pdf>

through its agenda in the upcoming discussions - even against the resistance of the German government.

The next step will then be to arrange bilateral talks with representatives from countries depending on tourism and emerging economies about measures that help to increase acceptance. (For example that a certain share of certificates from CDM projects realised in these countries would contribute to target achievement.)

Moreover, it needs to be clarified bilaterally with the U.S. government what they expect from a sectoral agreement on international aviation. Only in case that this proposal will not turn out to be an attempt to impede the inclusion of international flights in the European emissions trading scheme this might be an interesting point to discuss at the Major Emitters Meetings (MEM) that will be organised by the U.S. government.

***Expectation 5:** Introduction of serious negotiations about the "fair share" of newly industrialising countries.*

The results of Bali:

It can be considered one of the most positive surprises that occurred in Bali that not only countries like South Africa, Mexico and Brazil, which have been promoting the acceptance of climate protection efforts in emerging economies for quite a while already, but also China and even India expressed their support. With a changed mandate on the last two decisive days of the conference, India had finally given up resistance. In the Bali Action Plan these countries assert their intention to engage in measurable, reportable and verifiable mitigation measures at home. These efforts shall be "supported and enabled" (BAP, 1bii) by equally measurable and verifiable actions concerning technology cooperation, financing and capacity building undertaken by industrialised countries. It was indicated that the emerging economies would have been willing to accept an even stronger wording if in turn U.S. government had only committed to ambitiously quantified reduction targets. One can hope that the phrase "supported and enabled" is not interpreted in the sense that all of the emerging economies' "homework" should to be financed by the industrialised countries. On the other hand it becomes obvious that a new and pathbreaking framework will only be achievable if industrialised countries offer financial and technological cooperation on much larger scale.

Need for action: Currently, the U.S. government's attitude towards both their own minimal commitments as well as what they expect from emerging economies is appalling this country group. This situation should be seen as an opportunity by the EU that could now push for a common position with the emerging nations, also by intensifying bilateral cooperation. An important point will be to agree on the design of an organisational framework for technology cooperation and financing that effectively prevents the construction of new coal-fired power plants without CCS. Initiatives of this kind might create the basis for taking on a leading role in future negotiations.

Expectation 6: *Consideration of equity issues – the process should aim at creating a global climate partnership¹⁰. "Common but differentiated responsibilities and respective capabilities" is one of the basic principles of the Framework Convention on Climate Change. The principle concerns both emission mitigation and adaptation issues. It is important that the introduction of equal per capita emission rights by the middle of the century serves as a long-term objective.*

The results of Bali:

It was stated that the shared long-term vision and the long-term mitigation objectives should be in compliance with the principle of "common but differentiated responsibilities and respective capabilities" (BAP, 1a). Particularly the U.S. government insisted on adding that social and economic circumstances and other relevant factors also need to be taken into consideration.

Equal emission rights per capita did not play any role in the negotiations. However, the Indian delegation thought about introducing this claim to the debate. And implicitly, the convergence of per capita emissions until 2050 functions as an important yardstick in the evaluation of a fair agreement. Because after all, any possible approach must be considered equitable by emerging economies and developing countries, otherwise it will be impossible to reach a satisfying agreement by 2009.

Need for action: The close and constructive cooperation between the EU, major emerging economies, and Least Developed Countries that evolved in Bali needs to be continued and advanced. This coalition might serve as an important strategic pillar in the construction of a far-reaching post 2012 framework. The following elements seem to be of particular importance:

- Regarding the ambition of climate protection targets, the findings of the IPCC provide the yardstick against which a successful agreement must be measured.
- It was interesting that, with reference to the IPCC, the group of newly industrialising and developing countries (G77 and China) pointed out that an extension of the international carbon market as well as significant financial and technological assistance provided by the industrial nations is required to realise the great transformation of global economy in an efficient and equitable way. The Stern Report¹¹ also supports this claim.

The strategy of the developing countries and emerging economies, notably China, in the SB meetings was obviously built on these two IPCC-based statements.

- Moreover a comprehensive approach requires to significantly enhance support for adaptation in the most affected regions and states on a much larger scale. The Least Developed Countries and the Small Island States (AOSIS) expect massive support for their adaptation efforts since they face the most severe consequences of climate change without having markedly contributed to the growth in global emissions. On the other hand, they support a strategy that considers substantial reduction and limitation of emissions in industrialised and newly industrialising countries to be the primary and most urgent step towards successful adaptation.
- All objectives need to be consistent with an emissions path that envisages the convergence of equal emission rights per capita by the middle of the century.

¹⁰ See section 3.3 of the Germanwatch briefing paper "Climate Summit in Bali: Starting Point for Decisive Steps towards a low-emission model of prosperity?" <http://www.germanwatch.org/klima/bali07e.htm>.

¹¹ http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/

These elements represent cornerstones of a new framework that the EU should build on. This construction process must be initiated in bilateral and multilateral cooperation with developing countries and emerging economies.

***Expectation 7:** Scale of adaptation: We need a new dimension of financing for adaptation to climate change and for providing security for the most affected people. Many decision-makers in industrialised countries have not yet realised that a successful agreement requires their commitment to substantial financial contributions in the area of adaptation.*

***Expectation 8:** The climate regime should be established as a self-financing system with combined incentives for mitigation and adaptation.*

The results of Bali:

Many interventions in Bali have shown that already today a large number of countries are strongly affected by the adverse consequences of global climate change and that they will have to cope with severe risks in the future.¹² Taking these facts into account the Bali conference has clearly demonstrated that without the willingness of the industrialised countries to offer massive support to the most affected states and regions for their adaptation measures it will not be possible to pass the necessary far-reaching framework by 2009.

In Bali the extensively discussed decision on the creation of an adaptation fund was finally passed. Although the fund is still far from reaching its necessary size, it is one of the conference's central results. The fund has some very innovative features, for example, it mobilises capital through the CDM levy which is the first international environmental levy at all. Therefore it represents a first concrete building block to construct the innovative financial architecture of an international climate regime. Approaches of this kind are necessary to cope with the enormous financial challenges posed by the requirements of mitigation and adaptation.

The future management of the adaptation fund was one of the most critical points to debate. The "Adaptation Fund Board" will be given authority in all major issues.¹³ The Global Environment Facility (GEF) that administers the already existing funds under the framework convention will function as a secretary to support the Board in its work. Hence, the GEF is given significantly less authority than it was initially striving for. This restriction in power was an important precondition for the group of the G77 plus China to finally accept the GEF's role as a secretary. Moreover the fund's executive board will not meet in Washington, where the headquarters of the GEF are located, but it will use the UN climate secretary's facilities in Bonn. Furthermore, the Least Developed Countries have accomplished various negotiation goals regarding the fund: They are a fully accepted member of the fund's Governance Body and Bangladesh was elected first to take

¹² See also the results of the Climate Risk Index published by Germanwatch, <http://www.germanwatch.org/klima/crri.htm>

¹³ The fund will be managed by an executive board comprising a total of 16 members whereof the majority will be representatives of developing countries. The executive board will be supported by a secretariate residing at the GEF. The World Bank will function as an interim trustee; it will be in charge of creating a trust that will hold the proceeds from the sale of emission certificates that are provided for the AF. The executive board will start working in spring 2008 already. The board's members and their substitutes are nominated by governments.

this position. The implementation of a fast-track process was accepted and direct access to the fund was provided.

The adaptation fund may have a much more meaningful role in the future. This is conveyed by a negotiation paper on the Review of the Kyoto Protocol due at the next climate summit in Poland (December 2008) passed at the Bali conference. In this context it will be negotiated whether the international environmental levy that is currently charged for project based emissions trading with developing countries (CDM) will be extended to also include the Joint Implementation mechanism and transactions on the international carbon market. This measure alone would multiply the financial resources of the fund. And assuming that, as required, reduction targets will become even more stringent this amount would significantly increase.

Moreover the Bali Action Plan suggests the need for assisting the most vulnerable countries in their adaptation efforts through "innovative means of funding" (BAP, 1e, iii). Questions concerning the access to "adequate, predictable and sustainable financial resources"¹⁴ as well as the exploration of new and additional financial resources will be debated in the following two years.

All in all, the issue of financing for adaptation is part of the agenda for the upcoming negotiations so that the required results may be achieved by 2009. However, there are some more hurdles to pass on the way to Copenhagen.

Need for action: Over the next months efforts must be focused on investigating new and innovative financial mechanisms that are able to generate the required means for funding adaptation measures, technologies, and forest protection. It is crucial for the success of a new and progressive framework that these funds are generated by instruments which promote climate protection. This has two important advantages. First of all, it furthers the implementation of the polluter-pays principle and secondly, it has some beneficial strategic implications for the upcoming negotiations. The necessary funding for adaptation, technology and forest protection will only be generated if the emerging economies and developing countries commit themselves to really ambitious mitigation objectives. This linkage may strengthen the evolving coalition of developing countries and progressive industrial nations that benefits both groups equally. This way the climate regime can become a self-financing system.

Expectation 9: *Innovative instruments to spread risks among industrialised countries and emerging economies (e.g. through co-financing of insurance instruments).*

The results of Bali:

The Bali Action Plan has bravely taken the first steps towards the deployment of new instruments for adaptation and risk distribution. "Means to incentivize the implementation of adaptation actions" as well as "risk management and risk reduction strategies, including risk sharing and transfer mechanisms such as insurance" (BAP, ci and cii) are explicitly put up for discussion. Speaking in the name of the Munich Climate Insurance Initiative (MCII) a Germanwatch representative has made an intervention when the Nairobi

¹⁴ It is particularly remarkable that for the first time a strong coalition between the Least Developed Countries and the AOSIS countries was noticeable in the negotiations. It was this country group that finally put through this phrase within the group of the developing and newly industrialising countries and in the decisive negotiations with the "Friends of the President".

work program on the consequences, vulnerability and adaptation (NWP) was discussed in the plenary.¹⁵ This track of negotiations may indeed open doors for the introduction of innovative instruments that facilitate risk sharing among industrialised countries and emerging economies. Options of operationalising the polluter-pays principle may be explored in order to financially assist the affected people in developing countries. Moreover, it offers the opportunity to mobilise capital on private financial markets as a complement for public funding. In addition to that, innovative financial flows may now come into play since the technology track of negotiations explicitly includes adaptation technologies. In the best case these mechanisms may even induce the creation of incentive based systems for adaptation in the developing and newly industrialising countries. However, it is the details that eventually decide on failure or success of the approach.

Need for action: In cooperation with relevant players (inter alia MCII, WFO) pilot projects should be launched soon. The major players and interested governments should come up with concrete proposals to feed in the negotiations within the next couple of months.

***Expectation 10:** The necessary political framework must be perceived as "long, loud and legal"¹⁶ by the international carbon market and at the same time it needs to provide additional incentives to develop new technologies and significantly accelerate their implementation. Bali must clearly indicate to the financial market that continuance after 2012 is guaranteed with even more stringent targets and a far more noticeable CO₂ price signal.*

The results of Bali:

Bali has sent a clear signal to global capital markets: The international climate regime will not phase out when the first commitment period of the Kyoto Protocol expires. On the contrary, there is now good reason to believe that

- an international post 2012 framework will enter into force
- that it will include more stringent targets, and
- that the international carbon market will be expanded and that the CDM will be reviewed.

This outcome alone will influence the CO₂ price signal on financial markets since it significantly reduces uncertainties concerning the future of the carbon market. Nevertheless, an appropriate price signal requires a level of certainty that can only be provided by successful conclusion and ratification of a legally binding agreement including the necessary mitigation objectives.

Need for action: The investors' willingness to shift capital flows away from CO₂ intense investments is determined by two factors, namely risk and return. While emissions trading increases expected return from investment in low-carbon alternatives, additional financial instruments need to be introduced that help lowering the related risks. To this end policy-makers need to develop the required regulatory framework and development banks are asked to launch adequate funds that bear the risk and that are attractive for the private market.

¹⁵ Statement by Christoph Bals, 4 December 2007

¹⁶ see defra, dti, The Climate Group, UK Trade & Investment, 2006: An agenda for action across business and government; presentation

Expectation 11: A framework that enables a significant technological boost;

Expectation 12: Impulse for innovation and technology cooperation (South-South; North-South);

The results of Bali:

Bali revealed that technology transfer will be among the key topics of a future agreement. The issue used to be considered a rather dull and little innovative negotiation matter but it has significantly gained priority in the agenda of the emerging economies and the developing countries. This country group insisted on putting the issue on the agenda of the body that deals with implementation (SBI)¹⁷ rather than continuing to treat it as a matter of scientific and technological advice (SBSTA)¹⁸. Moreover, they accomplished that the promises made by industrialised countries concerning technology transfer (as well as adaptation assistance) should be measurable and verifiable in the future.

In addition to that a comprehensive work program regarding the improvement and extension of technological cooperation was developed. The innovative character of this approach is illustrated by the fact that the opportunities offered by the carbon markets should be taken into consideration. The GEF was asked to present a proposal for a strategic work program to improve technology cooperation among developing countries in May 2008. This program should not be restricted to technologies related to mitigation but should equally include technologies that facilitate adaptation.

Need for action: The negotiations on technology have gained momentum and this development is expected to continue over the months to come.

- First, the U.S. government plans to organise a series of five Major Emitters Meetings (MEM) before the G8 summit in Japan. The debates will focus on the issues of technologies and sectoral agreements. The responses of the invited industrial nations and emerging economies as well as the results of the conference in Bali made clear that the White House's strategy to impede the UN process¹⁹ and replace binding targets and agreements on technology with voluntary objectives has failed. The intent to reform the process so that at least under a new US government it may play a constructive role requires defining a row of process-related and principal criteria. For example, the implementation of the agreements needs to be monitored according to the criteria developed in the UN process. This measure promotes the seriousness of the arrangements and the integration into the UN process. It appears to be important to focus the debate on problem areas that partly complement the UNFCCC process (e.g. international standards for cars, competition for sustainable mobility solutions in megacities) and partly function as a preparation for it (e.g. sectoral agreements on aviation, funding solutions for low-emission and low-risk technologies). Particularly with regards to car traffic it may be interesting for the big industrialised countries and the emerging economies to agree on ambitious efficiency standards since all of the major markets for production and consumption will be at the table.
- Second, it is important that the planned renewable energy conference (March, USA, follow-up of the Renewables2004 and the summit on renewables in Beijing) stimu-

¹⁷ Subsidiary Body for Implementation

¹⁸ Subsidiary Body for Scientific and Technological Advice

¹⁹ To our knowledge, the White House still follows this strategy, even though it is now controversial among members of the US government

lates the global advancement of these technologies without neglecting the existing critical issues (e.g. relating to biofuels).

- Third, the EU and each of the major emerging economies need to identify the central needs for action regarding technology transfer so that the synergies between bilateral and multilateral approaches become apparant. Aside from the classical transfer of the technology itself it is equally necessary to provide the appropriate political framework that strongly promotes the launch of technologies for renewable energies and enhancement of energy efficiency in the markets. The German law on renewable energy (EEG) has already proved to be a succesful export good that can easily be reproduced.
- It also makes sense to investigate the needs for action regarding adaptation to the adverse effects of climate change in cooperation with the most vulnerable developing countries. Again, this is not only about providing the "hard" technologies but it involves the development of strategies on how marginalised and particularly affected people might benefit from protection measures such as early warning systems.

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