



Time for Decisions: The Climate Train Picks up Steam for Copenhagen

Christoph Bals, Larissa Neubauer

February 2009

The following chapter was written by the organization Germanwatch as a contribution to the German edition of the Worldwatch Report "State of the World 2009" launched on April 28th, 2009, in Berlin.

Germanwatch, a Bonn and Berlin based development and environmental NGO, has been a partner of the Worldwatch Institute for many years.

From the beginning, Germanwatch has been deeply involved in the UN climate negotiations.

In cooperation with the Heinrich-Boell-Foundation, Germanwatch is the co-editor of Worldwatch's annual "State of the World" report in Germany.

Christoph Bals serves as the Executive Director of Policy at Germanwatch from 2005

Larissa Neubauer is the Press Officer at Germanwatch



GERMANWATCH

BONN OFFICE:

DR. WERNER-SCHUSTER-HAUS

BERLIN OFFICE:

KAISERSTR. 201

VOSSSTR. 1

D-53113 BONN

D-10117 BERLIN

TEL.: +49 (0)228 / 60 492 - 0

TEL.: +49 (0)30 / 28 88 356 - 0

E-MAIL: INFO@GERMANWATCH.ORG WWW.GERMANWATCH.ORG

BANK FÜR SOZIALWIRTSCHAFT AG BLZ 100 205 00 KTO 32 123 00

FAX: -19

FAX: - 1

Time for Decisions: The Climate Train Picks Up Steam for Copenhagen

Christoph Bals, Larissa Neubauer¹

February 2009

For climate politics, 2009 will be a year setting the switches for our future course. The prelude was given by the UN climate summit, which took place in Poznan shortly before the end of last year. There, the international "climate train" reached its minimum goals, creating the *formal* preconditions for the achievement of an ambitious post-2012 global deal twelve months later in Copenhagen. At the same time, it became clear that central players lack the political will to actually achieve this kind of wide-reaching international deal.

However, the US administration has sent a different signal in the first weeks of its time in office. One should be curious to see how much dynamic will unfold from the US this year. Particularly interesting is an initiative for an ambitious roadmap for the USA and China for national and international climate protection, launched by the US energy minister (himself of Chinese descent) before his appointment.² It would be a piece of staircase wit for history, if the EU got weak knees in the fight against climate change now, and became dependent on these two countries for renewable energies and energy efficient technology, instead of joining in and creating this new dynamic.

Given the positions and personnel of the new US as well Chinese governments, both of which are recognizing more and more the risks of climate change, it no longer seems impossible that the USA, China and the EU, alone or in consultation with each other, could present a really ambitious climate plan, with a willingness for serious climate protection action "at home", and a large-scale cooperation, as well as strategic inputs, i.e. offer of support and cooperation, for the international climate negotiations.

The UN climate negotiations need this kind of impulse; as this chapter demonstrates, outlining the current situation in the negotiations and giving, furthermore, a perspective on the steps, which still need to be taken on the way to Copenhagen.

The state of affairs at the UN negotiations after the Climate Summit in Poznan

It became particularly clear at the UN climate summit in Poland that many industrialized countries remain unwilling to seriously negotiate on the reduction of their emissions between

¹ We would like to thank in particular Jan Burck, Kristin Gerber, Sven Harmeling, Gerold Kier, Klaus Milke, Cheng Qian, Udo Simonis, Thomas Spencer, Manfred Treber and Hendrik Vygen for their constructive comments on drafts of this paper and Thomas Spencer for the translation.

² Asia Society, Pew Center, Center on U.S.-China Relations, January 2009: Common Challenge, Collaborative Response, A Roadmap for U.S.-China Cooperation on Energy and Climate Change; January 2009.

24-40 percent by 2020 compared to 1990. This range reflects the recommendations of the International Panel on Climate Change (IPCC) in order to keep a global temperature rise to less than 2°C above pre-industrial levels. In this regard, the EU, Norway and Switzerland were positive exceptions.

Apart from this, almost all industrialized countries lacked the willingness to enter into the necessary scale of financial and technology cooperation with the countries of the South. This is, however, absolutely crucial, as the mandate of the Climate Conference in Bali tied the scale of climate protection activities in emerging economies and developing countries to the extent of this cooperation. Again, Norway and Switzerland formed the exception to this rule, while the EU on the other hand had too little to offer in this regard.

The difficult negotiations on financing climate change thus threw their first shadows over the future process. The developing countries did not succeed in pushing through negotiations on additional financing for the adaptation fund for the period up to 2012.³ When monetized, this fund will support the developing countries in adapting to the unavoidable consequences of climate change. Likewise, they failed to anchor in the closing statement 'a willingness to negotiate' on a large-scale finance mechanism for the period after 2012. Many developing countries expressed their massive disappointment that their efforts were blocked by industrialized nations:

"I must say this is one of the saddest moments I have witnessed in all these years", said Prodipto Ghosh, negotiator for India for 12 years. He further criticized "the refusal of some parties to experience a minuscule loss of profits from trading in carbon at a time when climate change is stripping the poor of their homes, hearts and their meagre loaves of bread." However, it has to be said that weaknesses in the strategic approach of developing countries and emerging economies contributed to the failure of this first attempt. These were so obvious that many observers suspected that the strategy was deliberately aimed at failure in order to be able to crank up the pressure on this negotiating theme before the decisive summit in Copenhagen.

However, there were certain steps forward in the area of adaptation. The adaptation fund was made 'ready for work'. This is an extremely innovative fund, both concerning its governance structure, where developing countries have a majority of votes, its financing system through a levy on the CDM – the first environmental levy ever - and the allocation of funds, whereby developing countries have direct access, being able to apply for funding without having to go through an international agency. It is currently provided with relatively little money, but many observers expect it to set a crucial precedent for a much larger-scale finance architecture in the Copenhagen agreement. There was also agreement on the fund's legal form.

Moreover, there were very constructive suggestions for risk management and international insurance models for those particularly vulnerable to climate change. The model of the

³ The Bali Mandate concerns the period before and after 2012. This should make it possible to begin immediately with both climate protection and adaptation, instead of delaying serious action until 2013. At the same time, early measures should serve in building trust in the process of negotiating and then ratifying a new agreement.

Munich Climate Insurance Initiative (MCII)⁴ envisages, on the one hand, insurance for developing countries against large-scale weather damages, financed by nations responsible for climate change; and on the other hand, support for micro-insurance and similar instruments. This concept was reflected in the assembly text put together by the chairs, which itself will build the basis for future negotiation texts.

This is also true of a joint submission by Germanwatch, "Bread for the World" and CARE on a human rights-based approach to adaptation, using the procedural and legal aspects of the human right to food and water, in order to keep adaptation activities focused on the particularly vulnerable, without including an additional element of conditionality to adaptation support.

Despite these successes the fact is: the international climate train is not on the right track, lacking the necessary speed and scale of ambition. This could certainly change if the USA, China, and the EU, but also Australia and others, actually organize a 'green new deal' to save the economy and the climate. Massive investments in energy efficiency, renewable energies, and their necessary infrastructure could deliver a threefold dividend. Firstly, they are very labour intensive, creating jobs and spurring the economy. Secondly, money saved from the oil, gas and coal bill can be invested more rationally for the benefit of the economy and the climate. Thirdly, this would be the beginning of the age of serious climate protection. If, however, these hundreds of millions of Euros (and Dollars, and Chinese Renminbi Yan) are invested not *for* but rather *against* climate protection, the climate train perhaps may have left the rails. As these words are being written, there are indications that at least in the USA and China some elements of the necessary restructuring are contained in the stimulus packages.

Apart from this, it is of special importance that industrialized countries engage massively in large-scale finance and technology cooperation. Without this, there will never be a groundbreaking agreement between emerging economies and developing countries. Limiting the global temperature increase to as far below 2°C as possible would become practically unachievable.

The Parties Still Lack a "Shared Vision"

We are still far from developing a "Shared Vision" on the new agreement's ambition and architecture, or its elements designed in a way to trigger positive feed-back impulses towards implementation.

With the debate on greenhouse gas reductions targets, it is increasingly encouraging that more and more nations support the 2°C limit: next to its already well-known supporters - the EU, Norway, Iceland, African Nations and Chile - the Alliance of Small Island States (AOSIS) is campaigning for a far more ambitious goal of 1.5 degrees; for understandable reasons too, given their special vulnerability. The Least Developed Countries (LDCs) are currently discussing whether they will join in demanding a 1.5 degree limit to climate change; in the meantime they support a position "below two degrees". The IPCC's Chairman, Rajendra Pachauri, argued in his speech at the Poznan summit's opening ceremony that a 2°C limit would not be enough to avoid dangerous climate change. And for the first time, at a

⁴ Germanwatch's Political Director, Christoph Bals, is the deputy chairman of the initiative.

much-applauded appearance in Poznan, Al Gore publicly threw his support behind a 350ppm⁵ goal which would also aim towards limiting temperature rise to approximately 1.5 degrees.

On the last day of the conference, the global youth representatives presented a pledge signed by 80 countries stating that "the survival of every country is not negotiable", i.e. we must make our global climate targets ambitious enough to ensure the survival of all nations and all peoples. With current emissions development, this is an extremely ambitious position; however, with the current speed of sea level rise several dozen small island states would disappear in the coming decades.

The leading role of ever more developing countries in pushing for a very strong global target shows their frustration at, firstly, the reluctant attitude of industrialized countries, but secondly also at the reserved behaviour of the large emerging economies (particularly India, partly China) regarding the setting of their own reduction goals.⁶

The current emissions trends show that in the last several years greenhouse gas emissions have clearly accelerated. Without a dramatic political correction we cannot expect that the peak of global emissions will be reached by 2020 and that a stark reduction will occur thereafter. No country is presently on the necessary emissions path. This is why the first three places of the Climate Protection Index⁷, presented by Germanwatch in Poznan, remained open. Due to the economic crisis we can probably expect a temporary collapse in emissions levels. However, this will not last; and secondly, this is not exactly the low-carbon model of prosperity which motivates us to climate protection.

The First Negotiating Track in the UN Convention Framework

The UN climate negotiations are presently taking place along two tracks. On the one hand, we are dealing with the extension of the Kyoto Protocol into a second commitment period after 2012. The second, more significant track, aims at further concretizing the Framework Convention on Climate Change, which was created in 1992. This double structure has three main reasons:

Firstly, the USA was the only industrialized country not to ratify the Kyoto Protocol, and hence they can't negotiate formally in the "Kyoto track". Secondly, much of the long-negotiated Kyoto architecture with its binding reduction targets for developed countries - furnished with harder targets - should continue after 2012. Thirdly, the emerging economies do not want to negotiate their "action plans" under the second commitment period of the Kyoto Protocol. From the outset they want to make clear that they do not wish to deal in binding, economy-wide reduction targets.

⁵ Stabilizing the atmospheric concentration of emissions at a maximum of 350 ppm (ppm = parts per million)

⁶ This also means: the position that the (emissions-) richest developing countries accept the largest obligations among the developing countries is not a consensus position. This could have consequences for the negotiation strategy.

⁷ www.germanwatch.org/ccpi

Only when the negotiating position of the new US-administration is known, one will be able to assess whether there is still a chance of concluding *one* agreement in Copenhagen, or whether there will be *two* interlinked agreements.

The negotiations in the Framework Convention are divided into four negotiating "blocks", alongside the attempt to work out a "shared vision". The first of the four negotiating blocks concerns primarily the USA's reduction target as well as the commitments to climate action by emerging economies. In these negotiations there have been some positive signals. The emerging economies and developing countries should accept in Copenhagen measurable, reportable and verifiable commitments to climate protection activities.

An increasing number of developing countries have announced their own targets or willingness to make substantial contributions. The announcements and activities of South Africa, China⁸, Mexico, but also those of Papua New Guinea, Costa Rica, and South Korea, are of particular weight in this regard.

However, as it was agreed at the Climate Summit in Bali, the scale of promised climate protection activities by emerging economies ultimately depends on the ambition with which industrialized countries commit themselves to likewise measurable, reportable, and verifiable finance and technology cooperation with the emerging economies and developing countries.

The new instrument to slow deforestation in the tropics (REDD)⁹ is being negotiated in the first negotiating block, "mitigation" as well.

Although the public discourse in industrialized countries is dominated by the negotiations on climate protection *targets*, the second negotiating block, adaptation, has developed to a pillar of almost equal importance. Here, a large-scale program to support those countries most vulnerable to climate change is planned, so that they can adapt to the gravest consequences of climate change. These activities should be primarily financed by the industrialized countries.

The third negotiating block in this working group under the Convention aims to structure the large-scale technology cooperation between industrialized and developing countries. Thereby it deals with the financing of climate action and forest protection, as well as adaptation and technology cooperation.

Up until the conference in Copenhagen in December 2009, a series of negotiations will prepare all of the central elements of the treaty. Therefore, it is crucially important that the Chairs of the negotiations have a strong mandate and are recognized by the countries. In the Convention working group, the previous Co-Chair, Michael Cutajar, will now be the Chair for the next twelve months. The former Executive Secretary of the UN climate secretariat is one of the best climate diplomats and seems to be exactly the right person for this crucial post. The previous chair, Luis Machado, will now be his deputy.

⁸ On new developments within the Chinese climate policy compare the Germanwatch discussion paper "A Portrait of China's Climate Policy", <http://www.germanwatch.org/klima/chin10e.htm>

⁹ Reducing Emissions from Deforestation and Degradation

The Kyoto Working Group: The Climate Train for the Industrialized Countries is slowing down

A second negotiating track exists alongside the Convention working group: the Kyoto working group is negotiating on a second commitment period for the Kyoto Protocol. Within this framework there has been discussion on drastically increasing the industrial countries' emissions reduction targets for the time beyond 2012.¹⁰ The further development of the hitherto project-based emissions trading mechanism with emerging economies and developing countries is also being negotiated in this track. The Kyoto working group has not yet succeeded in choosing a new Chair – for now, Harald Dovland from Norway will remain Chair.

Although the Kyoto track achieved its minimum goal with a vague negotiation mandate, many negotiators were nonetheless disappointed. "It seems as though preparations were underway here for the great escape from Copenhagen", said the Chinese negotiator disgustedly at the end of the Poznan negotiations in the AWG-KP. Important industrialized countries - Canada, Japan, Russia, Australia - tried to duck out of committing themselves to the necessary ambitious targets (at least 25-40 percent for industrialized countries by 2020 compared to 1990 levels). The AWG-KP merely succeeded in copying the wording of the Bali Summit referring to the relevant IPCC text. Thus, the chance remains, that serious targets will be negotiated. But it is still not clear if it actually happens.

During the negotiations Australia also announced its target spectrum. Australia accepted a 5 percent reduction target by 2020 (compared to 2000) and is, in the context of an international agreement including the USA, prepared to ramp this target up to 15 percent. Thereby it is far from the necessary targets¹¹, and, moreover, said absolutely nothing about financing climate protection in the emerging economies and developing countries.

The new President Barack Obama announced for the USA¹² a return of their emissions to 1990 levels by 2020. This is no small amount, given the fact that the USA's emissions have risen almost 20 percent since 1990. Yet all too many industrialized countries are now hiding behind this zero-percent-target (compared to 1990).

In its energy and climate package approved in December 2008, the EU affirmed its target of a 30 percent reduction by 2020 compared to 1990, in the event of an international agreement. The EU accepted a 20 percent reduction commitment regardless of the outcome from Copenhagen – since December this is a legally binding commitment for the EU. This is the most ambitious target of any industrialized country worldwide – Norway and Switzerland also support this goal. However, the 30 percent EU goal - even if all other industrialized

¹⁰ The US targets need to be negotiated within the other track (AWG-LCA), since they never ratified the Kyoto Protocol. But their targets need to be "comparable" to those of the other industrialized countries.

¹¹ 25-40 percent reductions by 2020 compared to 1990, the overwhelming majority must be achieved domestically.

¹² Although the US targets are negotiated within the Convention Framework, since the US is not a party of the Kyoto Protocol, they have been included here to make them more comparable to other industrialized countries.

countries accepted this target- is not ambitious enough to remain under the two-degree limit the EU set itself.¹³ More than 50 percent of the emissions reductions can be achieved through project-based emissions trading in emerging economies and developing countries. To remain under the danger zone, i.e. the two degree limit, climate protection in emerging economies must occur, however, *in addition to action in industrialized countries, and not instead*. Moreover, the EU package creates incentives for the building of new coal power plants. These would stand in the way of the far more ambitious post-2020 reductions targets necessary for the pathway to stay below a global warming of two-degrees.

Understandably, the representative of the G77 and China cried out at the beginning of the high level segment: "If Europe sends a signal that they can make their targets only in prosperous times, what should the rest of the world say?"

Thus the climate train, in the context of the negotiations on the Kyoto Protocol, is stuck for now in the "Valley of Death". That comes, however, as no surprise. There may only be movement in this debate once the new US-administration has determined its negotiation strategy. Previously, all potential blockers will be hiding behind the US administration's broad back.

It could be that by the time this book goes to print there will be a new premier in Canada, as the current Stephen Harper is again fighting a crisis within his government. A possible change of government in Canada could unleash a really new, constructive dynamic there. As in Germany, a former minister of the environment could become the new head of state.

However: it will require enormous public pressure in all industrialized countries and happy fortuities with possible changes of government in Canada and Japan in the next few months, for the climate change train to actually pick up the necessary steam.

The winds of change coming from the US will be decisive, however. It would guarantee a breakthrough if the USA, the EU and China together took ambitious steps for their domestic climate protection and concluded a wide-reaching cooperation before Copenhagen. It is pleasing to see that some in the US consider this kind of approach.

Possible bump in the road to Copenhagen: Differences in the Strategy for Reducing Deforestation.

In the months before Poznan there was much dynamic in the debate on REDD, i.e. reducing emissions from deforestation and degradation. In 2004 emissions from the forest sector made up, according to the IPCC's fourth assessment report, 17.4 percent of total global anthropogenic emissions. The true value could be, however, even higher. This number only refers to 2004, and there are often variations in the rate of deforestation from year to year. Furthermore, new studies from Australia show that the IPCC accounting guidelines can

¹³ If the EU were to fulfil a 30 percent goal *domestically*, and to co-finance the necessary transformation in emerging economies additionally, this goal could just be sufficient. Firstly, however, it is still not clear whether the EU actually wants to ramp up the 20 percent reduction to 30 percent. Secondly, the EU wants to achieve a good half of its goal through emissions trading measures in the developing countries. The necessary climate action in these countries must take place additionally to the 30 percent goal of the industrialized countries, not instead of it.

significantly underestimate forest carbon¹⁴, although these results cannot be easily transferred to the global scale.

An effective mechanism for REDD is one of the most important building blocks for our ability to actually stabilize climate change well below 2 degrees. However - and many are trying to camouflage this primarily for obvious economic interests - there exists potential in REDD to change the whole climate agreement into an ineffective pseudo-treaty.

This can occur if the accounting rules don't reflect 'what the atmosphere really sees'. And this is by no means sure, as the Kyoto Protocol's accounting rules for forest protection in industrialized countries leave significant loopholes open. For example, according to the accounting rules, industrialized countries do not have to account for the emissions when natural forests are converted into plantations. This is despite the fact that plantations sequester up to 80 percent less CO₂ than natural forests (and contain much less biodiversity) – but on paper the emissions from plantation conversion are not registered. Not to mention that plantations are much less resistant to extreme weather events and the consequences of climate change. Brazil expresses the problem concisely: "You in the industrialized countries have given yourselves lousy rules for forest protection, and now you want perfect rules for REDD for us in developing countries". It is clear that only when the rules for the forest sector in developed countries are improved we can hope to get a serious forest protection mechanism in developing countries.

There exists the risk that these accounting rules (or rules for systematic non-accounting) will migrate to the new mechanism for REDD currently being negotiated. If this happens this kind of loophole will undermine the incentive to avoid *real emissions* from deforestation. Simultaneously it will set an *incentive* (!) to reduce biodiversity. This kind of strategy could be successful on paper, while at the same time undermining all efforts to limit climate change to less than two degrees. To illustrate this with an example: if Indonesia were to convert a further 10 percent of its forest area into palm oil plantations, this could release 4.3 billion tons of *unaccounted* CO₂ emissions into the atmosphere. This is equivalent to roughly a 25 percent reduction target by 2020 for *all the industrialized countries*. On paper it would say: zero emissions from the conversion to plantations.

Thus, a central requirement must be: both under the Kyoto-Protocol's rules for industrialized countries and under new rules for REDD all emissions from the forest sector must be fully and immediately accounted for.

The second big risk with REDD is the inclusion of REDD in the emissions trading scheme to offset the reduction targets of industrialized countries. Then, however, the rainforest will be protected *instead* of implementing climate protection in the industrialized and developing countries. More forest protection would mean more coal power plants. What we need, however, is more forest protection *and* more climate protection.

It should come as no surprise if politicians announce at the end of 2009: we have actually pushed through ambitious targets to fight climate change (25-40 percent in the industrialized countries), *and* we also have a fine instrument for forest protection - *and* it will be all cheaper than we thought. If this means, however, that REDD is included in the emissions trading scheme to offset a target for industrialized countries of 30 percent or less, it would be an utter

¹⁴ See Mackey et al 2008: Green Carbon, Part 1. ANA, Canberra.

sell-out for the global climate. The explanation is simple. Even if starting today hardly any more trees were uprooted, greenhouse gas emissions would have to be reduced drastically and quickly. If, however, forest protection delivers the smoke-screen, behind which business as usual continues in the energy and industry sector, then we are leading ourselves with certainty by the hand to a temperature rise of *far more than two degrees*. Still worse, we would lock ourselves for decades into a high emissions pathway: in the coming years, according to current planning, a huge number of coal power plants will be built, emitting enormous quantities of greenhouse gases for more than 40 years. And because these will be built before 2020, CCS technology would not be able to change much. This technology will be technically scalable only around 2020. Even then it could be that it will be implemented only for newly built power plants – given the very high costs, it remains in question whether existing plants would be retrofitted.

It should be mentioned as a side note here that with a temperature rise of more than three degrees the risk increases drastically that large parts of the Amazon Rainforest will collapse. This shows the contrariness of a strategy to *replace* climate protection with forest protection, gambling with both the climate and the forest.

Whoever rejects the inclusion of forest protection in emissions trading must make sure that we succeed in getting another finance mechanism with sufficient funds. Thereby, the necessary funds can certainly come from the emissions trading scheme – as long as this doesn't replace other climate action. The revenues from the auctioning of emissions rights and/or a levy from international aviation and maritime transport are potential sources of funds.

It was clear, however, that the big question of the inclusion of REDD in the emissions trading scheme would remain on ice in Poznan. This will be decided upon only in Copenhagen. The goal of Poznan was, however, the clarification of crucial principles for forest protection. This goal was not achieved. Moreover, it was a great disappointment that the negotiations did not succeed in anchoring rules for the protection of biodiversity in the final text in Poznan. And spontaneous demonstrations broke out as the attempt to anchor the rights of indigenous peoples in the text failed. According to previous experience, cooperation with the indigenous peoples is a fundamental prerequisite for the effective protection of tropical forests.

Despite Progress on Details, a Growing Gulf in the Implementation of Adaptation to Climate Change

The developing countries are affected the most by climate change - the fourth edition of the Climate Risk Index¹⁵, presented by Germanwatch at Poznan, illustrates this particularly clearly. The climate summit in Copenhagen will strive for agreement on industrialized countries' support for adaptation to climate change in the most vulnerable developing countries. In Poznan, this topic stood on the agenda in both negotiation tracks and the results thereof were mixed. The biggest success was an agreement bringing the Kyoto Protocol's adaptation fund closer to its full operationalization. After day-long negotiations dealing

¹⁵ www.germanwatch.org/crri

primarily with legal questions, it was determined to give the fund's executive board additional "legal capacities", so that it can directly conclude contracts with developing countries, so that these don't always have to apply for money through institutions like the World Bank or other development banks. Developing countries lobbied strongly for the practical implementation of "direct access"¹⁶, first decided upon in the Bali Action Plan. However, there are still several questions to clarify here. For observers there was food for thought, in so far as the negotiations were obviously characterized by insufficient communication between parties (e.g. between the constructive countries of the G77 and China as well as the EU), as was reported from different sides. Given the challenges we still face, this was a warning signal. In addition to the negotiations, the important actors must consult intensively with each other, in order to avoid unnecessary frictions.

After many years of negotiations, important decisions were reached on the adaptation fund in Poznan. For example, for the first time in the history of the Convention/Kyoto process it was determined that developing countries must provide for the needs of the most vulnerable people in their countries when submitting projects to the adaptation fund. This must now be more concretely institutionalized. If all goes well, the first projects could be accepted by this innovative fund before Copenhagen.

A pleasing dynamic was also seen in the workshop on new insurance mechanisms. Financed by the countries causing climate change, these could cover the consequences of large-scale weather catastrophes. Debate on a climate insurance facility supporting the establishment and financing of climate-focused micro-insurance and other insurance products in developing countries stirred up keen interest at the conference.

There was, however, less progress in other negotiating issues on adaptation in the Kyoto Protocol track. There were very interesting documents on the table, but the negotiations broke down and were deferred until June 2009. We will see if more dynamic arises then. Given the ever stronger consequences of climate change, a much more comprehensive, post-2012 cooperation and financing mechanism for adaptation strategies must be agreed upon in Copenhagen – and much more generous support must be given to those countries most affected by climate change, beginning straight after Copenhagen.

Conflict in Technology and Finance Cooperation

As expected, technology and finance cooperation became, the biggest point of conflict at the Poznan summit.

At the end of 2007, the emerging economies succeeded in Bali in coupling the level of ambition in climate mitigation in their own country to corresponding technology and finance cooperation with industrialized countries. That means: no large-scale technology cooperation, no ambitious climate activities by emerging economies. But also the other way round: no will to undertake ambitious climate activities, no large-scale technology cooperation. The EU also arrived with a very measly conceptualization in the technology area, falling well below the expectations of the emerging economies and developing countries. By reading the EU

¹⁶ Direct access means that an organisation from developing countries can directly apply for money without having to go through an international agency (UNDP, Development Bank or similar).

submission¹⁷ one believes that the EU wants to carry out technology cooperation mostly *bilateral* and within *old* tracks.

The group of developing countries and the emerging economies (G77 and China) is pushing for *new, additional and multilateral* structures and institutions in the framework of the climate convention, which legally obligate those who cause climate change. They expect that new, annual financial flows in the range of 0.5 to 1 percent of the industrialized countries' GDP, additional to developing aid, will be made available for climate protection (some 200-400 billion US dollars). Many emerging economies (particularly South Africa, China, Mexico) are making it clear that they are prepared to undertake wide-reaching climate protection activities *if* the corresponding finance and technology cooperation is implemented. However, they are prepared to discuss binding country-wide limits or reduction targets only for the period after 2020.

In the discussion in industrialized countries - both in the USA, the EU and Japan - the most pressing question is: how can climate targets and obligations be as binding as possible and forced upon the emerging economies. Promises for finance on climate protection, REDD and adaptation have been hitherto blocked. On the one hand, ministers of the economy are hitting the brake whenever the economy, according to the polluter pays principle (auctioning of emissions rights, levies), is called upon to pick up the bill; on the other hand, finance ministers hit the brake whenever public money is expected to be put on the table. Both in Obama's climate plans in the USA and in those of the EU the issue of large-scale finance and technology cooperation has played a subordinate role when they are called on to do more than lay out the red carpet for their own economy and its exports.

Of course, in this kind of positioning tactical considerations play an important role. One doesn't want to lay one's trumps on the table without knowing what one will get from the others in exchange. It would be, however, infelicitous for the negotiations if block-building along the North-South line occurs. It would be more appropriate if leadership coalitions came together to overcome these 'iron curtains'. In principle, the way for a constructive solution is obvious.

Industrialized countries must accept that they have deposited by far the most greenhouse gases into the atmosphere, that they lead in many technologies, and that they thus have an enormous responsibility for technology and finance cooperation. For this we need a *combination of much increased bilateral activities as well as the establishment of new structures at the UNFCCC level*.

The emerging economies and developing countries must develop their demands further: depending on the region (e.g., emerging economies or LDCs) and area of activity (mitigation, forest protection, adaptation) we are dealing with *very different combinations of international and public support with national incentive structures, which together and on a great scale should redirect or unleash private streams of finance and investment*. Moreover, developing countries need to show a willingness to negotiate on reducing their emissions below the

¹⁷ SUBMISSION BY FRANCE ON BEHALF OF THE EUROPEAN COMMUNITY AND ITS MEMBER STATES on Enhanced action on technology development and transfer to support action on mitigation and adaptation supported by Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey, Paris, 14 November 2008.

business as usual path, by committing themselves to ambitious action plans supported by the international community.

However, it would be naive to overlook the conflicts of interest standing in the way of this kind of solution. Industrialized countries want to accelerate and increase the export of *their* technologies to emerging economies. They expect huge growth and new markets for their innovative industries. The emerging economies on the other hand want to use the technology cooperation to gain the knowledge for their own companies to produce and market these technologies themselves.

Theoretically, it shouldn't be too difficult to navigate between these different interests. If we actually get an ambitious agreement, the technology revolution will come hot on its heels. The whole energy, transport and building sectors in industrialized and emerging economies will have to be reformed on short notice. This can only succeed if both the actors of the emerging economies and those of industrialized countries make their own contributions and fairly reap their own rewards. The big question is, however, how can technology cooperation, a massive 'joint venture', be organized such that both sides will benefit from it?

This kind of international joint venture could be organized along the outlines suggested by the following questions:

- 1) What are the national legislation acts promising success in bringing forward energy efficiency and renewable energies in emerging economies?
- 2) What are the national legislation acts promising success in bringing forward the millennium development goals in the LDCs and build up the corresponding capacities, without thereby giving development a push along a path leading to ever more emissions?
- 3) How can these pieces of national legislation be best supported and co-financed by the international community?
- 4) How can we take consideration of the fact that, seen relatively, considerably more public money is needed in the LDCs than in emerging economies in order to mobilize private capital?
- 5) Which investments in infrastructure are necessary to move the path quickly away from emissions-intensive and risky technologies?
- 6) Which hurdles do we have to overcome for each individual technology in order to bring them quickly and at scale into the market?
- 7) How can these hurdles be overcome so that:
 - a) quick entry into the market is ensured?
 - b) capacity is fostered for the swift and broad deployment in the relevant countries of these technologies?
 - c) innovative companies from industrialized countries benefit from this?

An important factor for the success of Copenhagen is whether it successfully frames the technology revolution, such that it is perceived as a joint chance and not as a competition threat.

Open Questions in – up to now project-based – Emissions Trading with Developing Countries

The so-called clean development mechanism (CDM) allows industrialized countries to achieve a part of their emissions reductions target through projects in developing countries. When an industrialized country finances a windmill in India, it can add the reduction achieved to its own targets. In correspondence, companies or countries, which buy these reduction certificates, have to do less domestically. Because this was not a topic of discussion in Poznan, the following months will see negotiations on the big open questions that still remain.

In the climate and energy packet, the EU had concluded that the industry and energy branches can fulfil half of their emissions reduction obligations through CDM certificates – member states themselves are allowed to fulfil more than half via this means. Thus the questions on the agenda for the next few months are even more important:

How can it be guaranteed that the climate protection projects overseas are actually additional, i.e. that they wouldn't take place without the CDM? Otherwise, there will be less domestic climate action, although there are no additional climate actions in developing countries.

How can the conflict of interest be resolved whereby the organizations certifying the reductions are financed by the project developers, who have a strong interest in receiving as many certificates as possible?

How can it be ensured that nuclear power, CCS or reduced deforestation are not rewarded by the CDM? As was shown above, REDD should be financed by another financing mechanism not by integration in emissions trading. CCS seems a necessity to coal countries like China, India, or South America, in order to be able to achieve serious climate goals. Yet emissions trading cannot generate a secure incentive for retrofitting, nor would it make sense to position CCS – a transition technology – against the transformation to the age of solar power and energy efficiency. But it is true here as well: we need CCS as a complement, not replacement, to the rapid expansion of renewable energies.

How can the CDM be enhanced from bureaucratic, project-based approaches to sectoral or policy-based approaches – e.g. the co-financing of renewable energy laws?

Beyond these technical questions, there remain two big strategic questions:

Firstly, the industrialized countries are insisting that developing countries finance cheap climate measures themselves. Through CDM – which has been constructed as a mechanism to seek out the cheapest climate measures – the industrialized countries would reap this "low hanging fruit". In the future, the instrument must be designed in a way that it concentrates on the middle-cost measures.

Secondly, climate protection can only be achieved at the scale necessary to avoid dangerous climate change when both industrialized countries and emerging economies undertake very serious action. Until now, the CDM was designed to make climate action possible *either* in developing countries *or* in industrialized countries. In the future, CDM should be developed as an incentive for additional climate action. There are two possible outlines. On the one hand, a developing country will say: I will reduce my emissions in this

sector well below the level to be expected. If I do more than this, I receive the rest financed through the new CDM mechanism. On the other hand, there is also the discounting option: two tons of reductions in a developing country can count as only one ton in a developed country.

A Financing Mechanism for Technology Cooperation, Adaptation and Reduced Deforestation

It seems crucial to concentrate on a large-scale and effective finance mechanism for adaptation in the most vulnerable countries as well as reduced deforestation, in order to thus focus the political debate. We must succeed in enforcing a really serious finance instrument and at the same time not creating a finance architecture that is too complex.

The auctioning of emissions rights in countries with reduction targets - as was brought into play by Norway - offers itself as a new kind of instrument. Countries would no longer get, unlike in the Kyoto Protocol's first commitment period, all their emissions rights for free, but would rather have to pay for a portion thereof or purchase by auction. An alternative would be that the industrialized countries would buy their emissions rights at a fixed price.

The logical complement to this step would be a levy or auction of emissions rights in international marine and aviation, as these sectors are excluded from national budgets. After 2012, they should not get another free climate-political 'get out of jail free card' for a second time after Kyoto and despite their importance for climate change.

A Comprehensive Strategy to Pick up Steam through the Valley of Death

It is to be expected that – as is normal at this kind of negotiations – a good part of the train ride in the coming months will be through the "valley of death". Governments take extreme positions in order to get the most for their own country at the end. Worries will spread that the climate train could go off the rails. The sluggish negotiations in Poznan gave a fore-taste of this phase. NGOs must break this cynical still-stand with loud public protests. For the international process it is essential to develop an *internal* as well as *external* strategy to bridge the valley of death.

Internal Strategy

The internal strategy consists of building "coalitions of the willing" to break from cover and tackle taboos at different levels. It is important that in the next few months a progressive 'green group' is formed, in which a few industrialized countries (e.g. Norway, the EU, and Switzerland), a few emerging economies (Mexico, South Africa, Korea, China) as well as representatives of the small island states and LDCs cooperate. It is crucial that the USA, the EU and China cooperate and announce their intention to drive the process of a "great transformation" forward.

As these lines are being written it remains unclear to what extent the USA will return to the international climate debate as a constructive force. Will this happen at a special summit for Heads of State called by UN Secretary General Ban Ki Moon? This could trigger the necessary momentum for the negotiation dynamics.

External Strategy

The external strategy focuses on building the necessary framework outside the UN for a breakthrough in Copenhagen.

- The central question is: will the huge stimulus packages which are currently being resolved worldwide be used as a chance to fight climate change - or will infrastructure and technologies be supported which enwall us further in the fossil era?
- A closely related question: will the USA, the EU and China, as the three largest emitters in the world, present – possibly in consultation – ambitious climate plans? These should at first demonstrate their readiness for domestic implementation, in coherence with the stimulus packages; second, demonstrate readiness for large-scale technology cooperation concerning energy efficiency, renewable energies, and CCS, and third, should galvanize the UN climate negotiations. A part of the plans should show what they are ready to do regardless of the outcome of Copenhagen; the other part should show what they are prepared to do in addition within the framework of an ambitious Copenhagen agreement.
- A central switch in the track to Copenhagen will be how seriously the new US administration pushes their domestic climate strategy. The announcement of an 80 percent reduction goal by 2050 (compared to 1990), stronger legislation on energy efficiency for cars, an emissions trading scheme with stepwise stronger targets, as well as a range of "green" elements in the USA's economic plan give hope that a fully new dynamic will arise here. In addition, the personnel responsible for the new American climate policy in the different departments give hope for a new approach in the USA's climate policy.
- Climate change must be an issue for all world leaders. Copenhagen can only be a success by remaining constantly a key issue at all meetings at the level of the Heads of State and Government for the coming 12 months. The UN Secretary General Ban-Ki Moon wants to call two meetings of the world leaders to address climate change. The Obama team wants to continue the major emitters meeting initiative. It would make sense to rework this so that the particularly vulnerable countries (AOSIS, LDCs) are represented. The G8 summit in 2009 - because of its unreliable host, Berlusconi - provides only a very small chance for constructive work. On 12 December 2008 before the resolution of the EU climate package, Berlusconi expressed very clearly what he thinks about climate change: "It is absurd, in times of a crisis to speak about CO₂ emissions - that is like someone with pneumonia thinking about getting a perm". Peter Höppe from the Munich Re Group commented aptly on 14 December: "Climate change is more like cancer. If one doesn't do anything in time, it becomes unmanageable".

- It is emerging that at the middle of 2009 an international report on climate change as an enormous security risk will be published. Together with the Stern Report, which portrayed the economic necessity of climate protection, the clear geopolitical necessity can increase the pressure for serious action. As suggested by the Maldives, the UN Security Council should also, before Copenhagen, meet on this issue to increase pressure on the negotiations in Copenhagen.
- It is important that parts of the economy, which would profit from the technological revolution, organize themselves and put up their hand loudly. They can only invest if the political signals, i.e. policies, are long, loud and legal¹⁸.

In many of the most important countries and regions, elections will occur before Copenhagen (e.g. Germany, Japan, EU Parliament, India...). It is important that we succeed in forcing parties to make ambitious election promises on climate action and in organizing the appropriate public pressure.

The EU's policy is becoming ever more ambivalent. In March 2007, it was leading the way for an international strategy to avert dangerous climate change; now there is one retreat after another. While the EU commission's proposal for a European stimulus package contains clear approaches for the necessary transformation, these are rudimentarily reflected in most of the national packages – in Germany too.

The Energy and Climate Package agreed upon in December 2008 succeeded in avoiding a complete collapse of the EU climate policy, yet there were significant cutbacks in its effectiveness and ambition.

At the end of January the EU commission presented a draft for the negotiating strategy for the Copenhagen summit. As these lines are being written, member states are wrestling to "improve" (or weaken) this proposal. As relatively positive signals are coming from both China and the USA, the EU must approach these actors at the highest level in order to give the signal to break camp and get going.

The Political Goals for An Ambitious Treaty

In Poznan, it seemed that the international political will is insufficient to anchor the crucial climate-political goals in the concluding document in Copenhagen. With the financial and economic crisis this has not grown any easier, but at the same time new chances have arisen. We have to be prepared for the fact that Copenhagen will take place while global unemployment reaches a new peak. A really ambitious Copenhagen treaty will only have a chance if we succeed in understanding the necessary transformation of the building, energy and transport infrastructure as a chance for jobs and the economy, and at the same time for the global climate.

The new US administration is sending clear signals that it is serious with the necessary climate transformation. 80 years ago, the US was looking for a way out of the economic crisis

¹⁸ In this context, "loud" means "financially relevant" and "legal" means "legally binding"

with the "war economy". Why shouldn't it be the revolution into the solar energy age leading us out of this crisis? And this time, by *averting* huge-scale upheavals.

At the beginning of 2009, it is unlikely that German parties will bet on this chance during the election year. The new stimulus packages passed up to day also sound like a manifest for business as usual, and not like a first step for mankind into the future.

An ambitious climate treaty must reach the following goals:

- The **industrialized countries** must reduce their emissions by **25 to 40 percent by 2020 compared to 1990**. The vast majority of these reductions must be achieved domestically.
- **The peak of global emissions must be reached before 2020**, if we are to have any chance of avoiding dangerous climate change.
- In **emerging economies** there must be **a significant deviation from business as usual**. According to the best available studies,¹⁹ this means a deviation of 15-30 percent - parts of this must be externally co-financed.
- Ambitious climate action plans in emerging economies are tied to a comprehensive **finance and technology package**, financed by industrialized countries. This cooperation should proceed in part through the central mechanism in the framework of the UN Climate Convention, in part also bilaterally.
- Additionally, we need a plan to **stop deforestation and degradation in tropical forests**. This must be **additional** to the necessary climate protection in the industrialized countries and emerging economies and not instead of it. That means: the industrialized countries co-financing this action plan cannot reduce their own targets on account of this.
- Moreover, we need a comprehensive strategy to support the particularly vulnerable countries and regions with **adaptation to climate change**. Here we need significant financial means, and we must ensure that this is used to the benefit of the particularly vulnerable people and regions.
- It would make sense to complement the adaptation strategy with a **climate insurance mechanism**. On the one hand, this would cover damages in the most vulnerable countries arising from large-scale weather catastrophes, exceeding their ability to overcome the disaster. A precondition would be proof of an active adaptation strategy in each developing country. On the other hand, it would support developing countries to establish micro-insurance and other insurance products against climate change.

¹⁹ Michel den Elzen & Niklas Höhne, Reductions of greenhouse gas emissions in Annex I and non-Annex I countries for meeting concentration stabilisation targets, Climatic Change (2008) 91:249–274, DOI 10.1007/s10584-008-9484-z.

Conclusion

Within the UN negotiations we are currently heading towards a scenario, which will condemn current and future generations to unconscionable risks. However, there are new and very positive impulses – from the USA, South Africa, and increasingly China and the Least Developed Countries. Compared internationally, the EU climate package is very ambitious, but too little to achieve the climate goals it has set for itself. Without improvements it will join those positions paving the way for an unacceptable path to a temperature rise of much more than two degrees. Enormous risks will threaten the whole earth. And for many small island states the countdown to disappearance will begin. It would be a unique event in the history of mankind if this occurs before our eyes yet without any military intent.

The next months, with their many hours of climate negotiations and accompanying additional international high level meetings, must be used to achieve a path breaking treaty. This must be sufficiently concrete so that the ratification process can begin and be completed in time before 2013. The countries will not be ready to buy a pig in a poke. The agreement must thus be far more detailed than the Kyoto Protocol. Whether worldwide stimulus packages will be used to lead the climate turnaround will be an important pre-decision for a watershed agreement in Copenhagen.

After Copenhagen we must carefully weigh up the results of the agreement. In particular we must reform or form the institutions necessary, which can be developed to a really effective global environment organization, with the power to act and sanction as it may be needed.

We must also clarify which institutions could tackle the systemic risks, arising from climate change as well as reaction thereto, be it for financial markets, or for human, national and international security: the much-cited report of the former Chief Economist of the World Bank, Lord Nicholas Stern, has taught one thing: as soon as the current financial and economic crisis is surmounted, climate change could become the trigger for the next great financial and economic crisis. We are well advised to act decisively to guard against this.

Further information

More detailed background information and assessments by Germanwatch:

- Briefing Paper: Bali, Poznan, Copenhagen – Triple Jump Towards a new Quality of Climate Policy? (Feb. 2008)
www.germanwatch.org/klima/bapocoe.htm
- Briefing Paper: Climate change Adaptation in Poznan: moving forward on short and long-term action? (Nov. 2008)
www.germanwatch.org/klima/adpoz08e.htm
- Discussion Paper: Climate Insurance as part of a Post-Kyoto Adaptation Strategy (Oct. 2008)
www.germanwatch.org/klima/insur08.htm
- Germanwatch website on the climate summit
www.germanwatch.org/cop