The Major Elements for a Global Climate Strategy Beyond 2012

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Introduction

The current negotiations on a future climate regime still have a missing centerpiece: All nations have to jointly address climate change, in order to respond to this global challenge. And, therefore, we need to identify the best architecture for agreement among the different nations to do it. This is what is usually called the future global climate regime. The principal challenge for the future climate regime is to identify the nature and level of commitment that will provide sufficient incentives for all parties, especially the largest emitters, to join a global agreement and achieve sufficient reductions in GHG emissions so that we comply with art. 2 of the UN Framework Convention on Climate Change, that is, "To stabilize GHG concentrations at a level that would prevent dangerous anthropogenic interference with the climate system… allow ecosystems to adapt… food production is not threatened… enable economic development…".

Dialogue of the key international partners to explore global climate strategies is already being conducted in various international forums: formally under the UNFCCC, but also within the G8 and other multilateral and bilateral meetings. Identification, analysis and proposal of alternatives are also taking place, with support by industrial or financial institutions, in high-quality workshops run by universities and NGOs. The Madrid Forum has adopted as its starting point the valuable knowledge that has been already gathered by some of these previous meetings and related publications (see http://www.iit.upcomillas.es/gcs2012/ for some of these documents).

This paper presents the major items identified by one of these dialogues, the one held in the Forum for Global Climate Strategies Beyond 2012, which took place in Madrid in April 11-13th, 2007, organized by the Florence School of Regulation and Universidad Pontificia Comillas. The purpose of the Forum has been to facilitate an exchange of views among the major stakeholders on the general nature and scope of both long- and short-term international climate change actions, in order to contribute to the identification of a suitable consensus about the best possible global climate regime, to be agreed as soon as possible. Participants of the Forum included policy makers, academics, think tanks & NGOs, industrial companies and financial institutions.

A Framework for a Global Agreement

Top-down and Bottom-up Approaches

Although top-down are usually confronted with bottom-up approaches as alternative ways of achieving an agreement, the common view of the Forum is that they should be combined.

A top-down agreement is still required, and still attainable. It is required because countries need a common long-term aim, both for policy and market reasons. And it is still attainable because, in spite of the many difficulties which Kyoto has met when trying to distribute mitigation efforts among countries, there are still many grounds for an agreement on other issues: for example, energy efficiency promotion policies can more easily be accepted as a basic component of the future climate regime. Adaptation will draw developing countries to search for common schemes. And finally, the fact is that nobody wants to stay out of a global agreement: as was reminded in the introduction of the Forum, there have been instances in recent history, such as the Marshall Plan or the NATO, when agreements were signed based on name calling or public shaming, and in spite of the lack of a feasible economic consensus point.

However, as said before, this top-down approach should not preclude other bottom-up, fragmented markets or systems. A climate agreement should provide a common framework, but unity of action does not necessarily imply unanimity. The future agreement should be flexible enough to accomodate diverse national and regional circumstances. The post-2012 regime should/will be more differentiated than hitherto, and this points directly to decentralized systems. In fact, it is very possible that mitigation efforts should have to be dealt with by this type of agreements.

Bottom-up approaches present many advantages: they allow for variable

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geometries of participation, they better allow for the incorporation of domestic policies, and finally, they are much easier to negotiate.

However, these decentralized approaches require some degree of coordination in order to be fair and effective, since they imply more avenues for participation. Although the issue of competitiveness may have been overplayed, there is still the need to ensure a minimum integrity and fairness of the contributions to such a fragmented regime. The key issues here are accountability and comparability of efforts: Comparability of methods and measurements, a common metric which may run across the different agreements; and transparency, monitoring and accountability of what is being done.

The Need for Targets

The question of whether there have to be targets or not associated to a global climate regime is usually a very controversial one, and this was reflected by the lengthy discussions held in the Forum around this issue, and the diversity of viewpoints that were presented, which are summarized below:

- Targets are good benchmarks against which to measure progress and success. Targets help to know whether we are moving in the right direction. Given the need for comparability of efforts and accountability implied in the most plausible agreement framework, targets are a must.
- However, these advantages of targets are realized even if they are non-binding. So setting a target does not necessarily imply that it has to be enforced, what, as we all know, is strongly contested by many developing countries. Moreover, negotiation of concentration targets in the long term might be divisive and detrimental, given the scientific uncertainties linking emissions and impacts.
- Therefore, assuming that binding and non-binding commitments may co-exist, and the large differences between countries, an expected scenario would consist of different groups of countries with different commitments, set up jointly or by national governments, perhaps subject to some coordination scheme, which may later on get linked.
- This should not prevent that, at least within the developed countries, this target setting is carried out according to the comparability of efforts previously mentioned and that the commitments are mandatory.

The Institutional Framework

There was some discussion about the appropriate institutional framework under which the future climate regime should be placed. Given the general guidelines for the agreement presented before, there is a need for an effective coordinating agent at the global scale. And there is also a need for that institution to be solid, so that people will trust it (and firms will have the required investment certainty). It was recognized that such a solid institution does not exist for Kyoto, so it will probably have to be built anew.

Regarding the role of the Kyoto Protocol and the UNFCCC, it was argued that, since there may be more than one agreement under the latter, it might be better to move the market mechanisms under the UNFCCC rather than keeping them under Kyoto.

Of course, Kyoto presents several weaknesses and shortcomings. But it would be foolish not to build on the existing experience, on what we have learned.

Finally, regarding the participation of countries, it was remarked that differences both within Annex I and non-Annex I countries are becoming more prominent, so it would possibly be helpful to create differentiated groups within them.

The Contribution from Developed and Developing Countries

It has become clear that developed countries have to lead this process. Although many developing countries are already acting, historical responsibility, financial and technical capacity still pertains to developed countries.

But developing countries have to be incorporated in a global climate regime, and must play a larger role in it. Both more players, and more efforts, are required from these countries. However, this will require better understanding and attending to their needs.

First, it has to be acknowledged the right of developing countries to pursue further development. This development is an opportunity to create a more sustainable society, it allows developing countries to adapt better to the threats of climate change, as well as to help mitigating it. Therefore, it is important to pose the correct question: to look for complementarity between development and climate change policies. With the financial and technical support of developed countries, developing countries should change as soon as possible their development patterns, avoiding business-as-usual scenarios, and head-

ing for a more sustainable growth, which will also make them more resilient against climate change impacts. More specifically, there has to be integration between energy security, development and climate policies.

Second, but not less important, is the need to mainstream and scale up adaptation efforts. Adaptation poses huge challenges, but it has to be included into an eventual agreement if a larger contribution from developing countries is expected.

Finally, there is a large need for financing this contribution, as a part of the developed countries leadership. Many parties have expressed the need to upscale the financial effort, by ensuring additional funds, and to correct the existing imbalance between mitigation and adaptation also in terms of financing. Financing mitigation efforts and technology transfer seems to be possible, provided the regulatory framework is set adequately, so the challenge lies on financing the integration of climate policies within sustainable development ones, and the adaptation efforts. A sensitive issue is to avoid the perception that financing climate change activities detract funds from the current or future estimated financial effort for international cooperation for development.

Provided these needs are taken care of, developing countries should be ready to take their part in mitigation efforts. In fact, some developing countries are already willing to discuss voluntary commitments. As mentioned before, a new annex would be needed for a meaningful participation of these countries in the process. It is critical and necessary, although difficult, to differentiate the G77, to allow those countries ready to take voluntary pledges to do so.

The Elements for the Agreement

Going beyond the general framework for agreement, the Forum also touched upon the major elements which should be contained within. These elements are: adaptation, market mechanisms, technology, and deforestation.

Adaptation

Adaptation has been placed in first place since it was generally acknowledged that there has been a wide imbalance between mitigation and adaptation, and that this imbalance should be corrected, especially if developing countries are to be taken onboard. Therefore, adaptation should come to the forefront in the future climate regime negotiations. Future agreements should give equal weight to adaptation and mitigation. This would also help acknowledge that many developing countries are already working in this field.

Market Mechanisms for Mitigation

Market mechanisms are very powerful instruments for achieving environmental, energy and development objectives, as has been shown in many countries. Therefore, they should also constitute a fundamental pillar for a future climate regime. This does not mean, however, that all countries should be forced into them, since there are very different conditions even within developed countries. Therefore, they should remain a voluntary option, and what should be ensured is the appropriate transfer of information and experience from those countries who have applied them to those willing to consider them.

Carbon Markets

Carbon markets have shown to be a very important driver for carbon mitigation. They are very flexible, and set a target per firm without the bureaucratic fuss. In addition, they produce a change in culture regarding carbon emissions that is very welcome.

The European Emissions Trading Scheme (ETS), in spite of some shortcomings, has provided a valuable experience for other carbon markets to be developed in the future, and has set a quiet example for the U.S. and others.

However, not all countries should be expected to consider carbon markets. Therefore, it is difficult to envisage a global carbon market, but rather it is expected that markets will develop bottom up, depending on the needs and circumstances of the different countries and regions. Later on, these markets might be linked through prices, as some authors have suggested.

Clean Development Mechanism

The second market mechanism discussed at the Forum was the Clean Development Mechanism (CDM). First, it was generally agreed that the CDM has helped build institutional capacity and technology knowledge. And this institutional aspect of the CDM is much more important for developing countries than the economic aspect.

However, it was also widely understood that the CDM should be thoroughly reconsidered, streamlined and scaled up. Indeed, the CDM was designed within a low-ambition Kyoto agreement. If a new, more ambitious agreement is expected beyond 2012, a new CDM is also warranted. In addition, it has to address sustainable development, which has not been the actual objective in many of the existing CDM projects.

Taxes

Many economists have proposed taxes as the best instrument for mitigating carbon emissions, but the fact is that they face great difficulties in practice, since they easily find political opposition. This is clearly the case in the European Union and the U.S.

Less direct forms of energy or carbon taxation, such as tolls in highways or stronger taxes for less efficient vehicles, may be a good option for mitigating emissions. However, the acquiescence of both the transport, finance and environment ministerial departments is typically difficult to achieve.

Technology Policies

In spite of all the attractiveness of market mechanisms for mitigating GHG emissions, the Forum acknowledged that they are not universally applicable. In addition, it was also recognized that carbon markets will not be able to achieve the required mitigation on their own. The price signal will not be enough, so we will need additional policies, mostly focused on technology development.

These policies will be different for different countries, and again will have to be integrated with national energy policies. More efforts should be devoted, of course, to R&D and innovation, but there was a consensus that the emphasis should be placed on technology deployment, in bringing existing clean technologies to the market in order to make a real contribution.

An important remark was that technology policies should be devised carefully so as not to pick winners in advance, but rather let the different technologies compete and show their advantages. However, it also was generally agreed that a certain focus should be placed on energy efficiency (including transport and energy demand management), renewable energies, and carbon sequestration and storage.

Actions to Reduce Deforestation

Avoiding deforestation is a very relevant issue for developing countries, and a real contributor for mitigating carbon emissions. Therefore, it should be placed higher in the carbon regime agenda.

However, what we find is that there are not enough incentives for avoiding deforestation, especially in developing countries, as shown by the high deforestation rate. In fact, some of the current energy policies conceived by developed countries for mitigating emissions (such as biofuels) are causing more deforestation, as forests are being cleared for new energy crops.

Clear incentives and targets should, therefore, be established, and deforestation should be incorporated on a relevant basis to a future climate regime. In fact, as some attendants pointed out, it may be the oil that lubricates the next agreement.

The Role of Private Entities and NGOs

Private entities and NGOs have a large role to play in future climate regime negotiations and implementation. It is increasingly recognized that companies must be the drivers of change (and of markets), and not governments. Many reasons were identified during the Forum:

- The private sector is essential to provide the large volume of investment in clean technologies and adaptation that will be needed in the short, medium and long term, with the financial entities making available the required funds as well as the instruments for risk hedging.
- Companies can use their know-how and innovation skills to design, structure and promote financial and technological ways to fight climate change.

Therefore, the future climate regime has to provide clear incentives for companies to participate. Strong signals (such as political commitments or targets) are needed to drive investment and technology in the desired directions.

Industry does not need certainty of carbon price (industry is used to managing risks), nor intergovernmental bodies trying to manage most technology transfers, climate policy divorced from energy and transport policy, nor money for potentially profitable activities (there is a lot of low-cost capital available, what is needed is to direct it correctly). What industry needs from governments is to set boundaries and guide markets and to establish a secure framework that allows profitable investments to occur, on

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