

## The State of climate-related negotiations: modest steps in the right direction\*

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As climate monitoring organizations report that 2015 is set to break global surface temperature records over land and sea, this December ministers will convene in two separate meetings that will be crucial for managing climate risks: one in Paris: COP21 under the auspices of the UNFCCC to finalize an agreement for the period after 2020, in part as a successor to the Kyoto protocol, the other in Nairobi: tenth ministerial of the WTO where an agreement to liberalize trade on Environmental Goods should be agreed upon. This column reports on progress to date, arguing that small significant, but yet insufficient steps, in the right direction, are taking place.



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Up until the launch of the Doha Round, the Climate Change and Trade Regimes evolved separately through stand-alone negotiations, and they remain separate independent institutions. Linkages between climate and trade were not recognized explicitly in negotiations under the auspices of the United Nations Framework Convention on Climate (UNFCCC) until COP13 when 'trade and finance' became one of the four pillars of the 2007 'Bali road map.' Bali called for negotiation of the second Kyoto Protocol (KP) commitment protocol to be complete in Copenhagen in 2009 and launched negotiation of an agreement involving all countries, thus signaling the possibility for evolution of the Common But Differentiated Responsibilities (CBDR). Instead, Copenhagen dealt a deathblow to the KP top-down approach and the emergence of a mosaic world (Flannery (2014)). The bottom-up approach in the mosaic world encourages participation by all nations that will be essential for long-term effort. However, as argued in this column, just as the top-down approach cannot force effort on unwilling nations, so too voluntary contributions appear unlikely to produce aggregate outcomes aligned with ambitious long-term goals of keeping the increase in temperature to 2°C.

Climate is progressively occupying center stage in the architecture on global economic policy but fears continue to grow that the climate and trade regimes are on a collision course. Challenge arises from the likelihood that competitiveness differences between those with strong climate policy regimes and those without them will result in 'carbon leakage' and free-riding as the architecture of the climate regime evolves. Domestic considerations to protect labor and energy-intensive, trade-exposed industries place strong pressure on politicians to restrict trade based on climate policy. Nonetheless, a well-functioning, open trade regime is an essential pillar for a successful climate regime, especially to facilitate the development and diffusion of climate-friendly goods and technologies.

## ▶ Time is running out for the 2°C goal

The UNFCCC (1994) contains as its ultimate objective stabilization of atmospheric greenhouse gas (GHG) concentrations at a level that prevents dangerous human-induced climate change. As we now know, for carbon dioxide, stabilization requires that net emissions must fall to zero, and the ultimate concentration depends on the cumulative release of CO<sub>2</sub> since preindustrial times. Over time a number of criteria have been proposed as objectives to move towards that goal, e.g. a year for global emissions to peak (and then decline), a level for emissions in a particular year (e.g. 50 percent of 1990 emissions by 2050), and recently the G8 goal of zero net emissions by 2020.

For the past several years the UNFCCC has focused attention on a goal to limit global temperature rise to 2°C. As reported in the IPCC 5th assessment report, a 50 percent chance of meeting this target would correspond to a cumulative release of roughly 1,000 gigatonnes of carbon (GtC) emitted as CO<sub>2</sub>, of which the world has already emitted more than 700 GtC, and, today, emissions are growing at ~2 percent per year. To get an idea of the challenge to stabilize emissions in the atmosphere: starting now, if growth could be immediately halted and then emissions decreased at a constant rate, the 2°C goal could be reached with a yearly reduction of 4.4 percent per year. If the world waits to start until 2020 (2030), the effort would be 5.3 percent (25.5 percent) per annum (Stocker (forthcoming)). Such sustained rates are outside historical experience, even for individual nations.

While such budgets may be an excellent tool for analysis and discussion, negotiators have not embraced them. In fact emphasis on budgets tends to focus political attention on what may be the most difficult challenges: burden sharing, financial transfers and compliance, rather than on creating positive momentum through meaningful actions now.

## ► Towards a post 2020 Climate Agreement

With little time remaining, climate negotiators confront a disorganized text that is far too long and replete with proposals that cross red lines for major players. Nonetheless, political leaders express confidence that a deal is achievable.

Unlike the task of Kyoto—producing politically feasible mitigation targets for developed nations—the post 2020 agreement covers (at least) six themes: mitigation for all nations, adaptation, finance, technology transfer, capacity building and transparency. Overshadowing all remains the question of how the principle of common but differentiated responsibilities (CBDR) will manifest throughout the agreement, e.g. from mitigation to reporting and review to finance.

A brief survey of major issues:

**Mitigation:** Nothing more strongly signals the UNFCCC’s transition to a bottom-up process than the decision to convey proposed actions in advance through INDCs (Intended Nationally Determined Contributions). INDCs essentially remove bargaining over mitigation from the immediate negotiation—though perhaps ongoing discussions, even after Paris, may affect final proposals. Importantly, they shift the burden of defining CBDR—for mitigation—to nations themselves, asking them to self-declare why their INDC is appropriate and ambitious, according to their national circumstances. By late July, twenty nations and the EU (covering 28 member states) had submitted INDCs. Submissions vary in scope, content and timing, making comparisons difficult (Aldy and Pizer 2015a, 2015b).

**Adaptation, Loss and Damage:** Previous UNFCCC decisions place adaptation on an equal footing with mitigation. They call for nations to develop adaptation plans and for aid to apply equally to mitigation and adaptation. However, process and procedures remain unclear both to raise and disburse funds. Compensation for loss and damage has become a major stumbling block: one with strong sup-

port from developing nations and resistance from developed nations. Discussions have not at all addressed the thorny issue of “attribution” of specific natural events or incremental damages to human-induced climate change.

**Finance:** Negotiations include four areas where developing nations seek assistance. They request financial aid to support their actions to mitigate and adapt to climate risks, and compensation both for the impacts on them from mitigation measures in developed countries and for damages from climate change. Arguments have been made that claims in each of these areas already amount to hundreds of billions of dollars per year, and that they will grow in the future.<sup>1</sup> While the public is aware of the debate surrounding finance for domestic action, they are largely unaware of the scale of aid under discussion. The pledge of 100 billion US\$ per year by 2020 seems both difficult to meet and far too little.

**Durable cycles:** Negotiators are discussing a durable framework for future commitments based on periodic cycles, perhaps at intervals of 5 or 10 years. A tension exists between providing credibility to plan and implement investments and other actions, favoring a longer cycle, or creating flexibility to ratchet up commitments more rapidly, which may favor shorter periods. Cycles will pose challenges for institutional linkages and timely availability of information (Flannery 2015), e.g. several nations call for the Intergovernmental Panel on Climate Change (IPCC) to provide assessments to inform periodic updates.

**Legal form and compliance:** Many nations call for an agreement that is legally binding in all aspects and with strong compliance provisions. For others, notably the United States, legal form and obligations could pose an insurmountable barrier to participation. In the US view, nations have an obligation to submit proposals and report progress but not to achieve outcomes. Starkly, the critical choice is between: commit and comply or pledge and report.

1. For mitigation alone, Jacoby et al. (2010) found that achieving the G8 goal to halve emissions by 2050 could require wealth transfers to developing nations of over 400 billion US\$ per year by 2020, rising to 3,000 billion US\$ per year by 2050.

The feasible deal in Paris looks to be modest, not consistent with the long-established narrative to avoid climate catastrophe by putting the world “on track” to limit warming to less than 2 (or 1.5)°C (Jacoby and Chen 2014). Only recently have political leaders sought to lower expectations. It may be too late. Forces that created powerful external pressure that led to the painfully visible, far reaching failure in Copenhagen only six years ago are rallying again, calling for a far more ambitious deal. Consequently, the achievable deal may prove to be unsatisfactory to many nations, advocacy groups, the media and public.

The package of results in Paris will set the stage for future steps. It will provide a new beginning for efforts before and after 2020. Hopefully, the Paris agreement will make the UNFCCC a more respected and effective institution for action on climate change.

### ► Towards a limited Environmental Goods Agreement (EGA)

Technology dissemination and cooperation required in the climate agreement for transformation to a low carbon society could be facilitated by success in the EGA. For example, comparing results from a number of modeling groups, McCollum, et al. (2014) conclude that transition to a low carbon economy globally could require approximately US\$1 trillion per year additional investments in energy alone through 2050.

In spite of a mandate to WTO members to progress on liberalizing trade in environmental goods and services at the Doha launch in 2001 (wasn't the Round called the 'round for Developing Countries and the Environment' when launched?), for a decade negotiations went nowhere (see Balineau and Melo (2013)). In July 2014, negotiations for a Plurilateral Agreement (PA) were launched by a group of 14 countries (now 17) under the ambit of the WTO, implying that, like the Information Technology Agreement (ITA), all negotiated reductions in trade barriers would be extended to other WTO members should a 'critical mass' be reached (i.e. an agreement among negotiating members). As

for the ITA--recently renewed with 200 products added to the list of zero tariff products--the EGA initially aimed for free trade in 'green goods and services'. However, from the start of the negotiations, it was decided to only cover reductions in tariffs on goods, with non-tariff barriers and environmental services off the negotiating agenda. This was regrettable as trade in Environmental Services (ESs) and trade in Environmental Goods (EGs) are complementary (trade in EGs often embodies trade in ESs with strong complementarities between the two). Moreover, estimates of trade barriers in ESs are much higher than those for EGs.

Taking account of tariff peaks among the negotiating groups, the tariff structure on the WTO list of EGs (411 products probably close to the extended list to be agreed upon this September), is only 3.4% percent with only two countries, China (11.5 percent) and Korea (5.8 percent) having average uniform tariff equivalents above 4 percent (Melo and Vijil (forthcoming)). Nor have the negotiations really tackled the issue of product classification to distinguish between energy efficient products and energy savings products, even though the International Energy Agency projects that up until 2050, both types of energy efficient products are projected to account for 38 percent of the cumulative emission reductions required to limit global warming to 2°C (Sugathan (2015)). In the end, this PA could well lead to a global treaty as in the case of the ITA recently renewed and it satisfies the MRV criterion since pledges will be fulfilled through the National Treatment and Non-discrimination that applies to all WTO members. An EGA that extends to a multilateral agreement would also give support to those who argue that an issue-specific 'club approach' to climate negotiations is the more promising route to build the climate architecture, although others, including many developing nations and businesses, are concerned that such clubs will heighten tensions across the board on fragile trade negotiations. Nonetheless not much change in behavior will have taken place (with the exception of China if tariffs are cut to zero) and if the elimination is immediate rather than scheduled over a 3 to 7 year horizon.

## ► Final thoughts

To sum up: even with anticipated progress in the EGA and a post 2020 Agreement, enormous challenges remain. Effective and efficient processes and policies will be essential, but even more, it seems that the world needs to benefit from availability of lower cost options that would lower barriers associated with competing priorities, competitiveness and cost necessary for the transformational change that is required. Even though sending a man on the moon did not require cooperation among nations, perhaps calling for a Global Apollo to limit climate change could be the best way to convey the urgency still facing us in developing an effective climate regime. Yet, even here differences of view exist on the best ways to proceed: via government directed programs of international cooperation with specific objectives, or by encouraging academic and private sector entrepreneurship and innovation across a broad portfolio of initiatives and disciplines.

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