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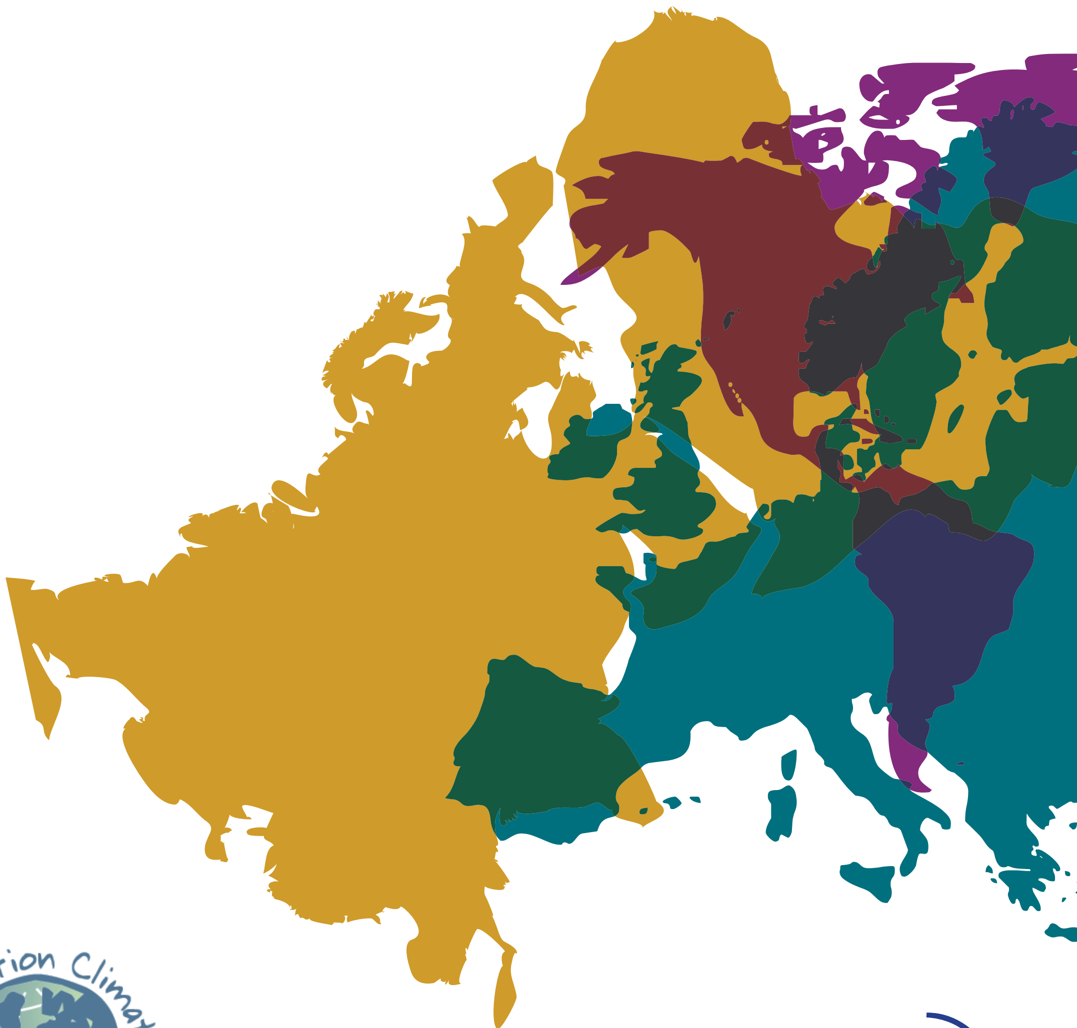
Fight against climate change: Equity at the heart of the post-2012 regime agreement?



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Introduction

2007 was a significant year for climate change on the international scene, with the publication of the fourth report by the Intergovernmental Panel on Climate Change (IPCC) and the awarding of the Nobel Prize to Al Gore and the IPCC experts. At the start of the United Nations Climate Change Conference in Bali (3 – 15 December 2007), the international community thus had big expectations concerning the political response to be made. The United Nations Climate Change Conference, which brought together the 13th Conference of the Parties to the Climate Change Convention (COP) and the 3rd Meeting of Parties to the Kyoto Protocol (CMP)[1], partially responded to these expectations, along with the adoption of a road map – the Bali Action Plan – for the signing of an agreement between now and the end of 2009 on the long-term multilateral climate regime (also called post-2012). This Conference also made it possible to consolidate the agenda of the ad hoc working group on the post-2012 future commitments by the industrialised countries signatory to the Protocol (AWG-KP).

Since Bali, three inter-session meetings have taken place as set in the Bali Action Plan and the programme of the ad hoc group on the commitments of the Annex 1 countries of the Kyoto Protocol. These meetings did not see noteworthy progress in defining the future agreement on climate.

On the road to Copenhagen, the 14th Conference of the Parties to the Climate Change Convention and the 4th Meeting of Parties to the Protocol, which will be held in Poznan, Poland, in December 2008, represent a gathering not to be missed. The countries will have to rely on the various proposals submitted up to now by the two ad hoc working groups, in order to identify the points of convergence and thereby lay the groundwork for an agreement in Copenhagen at the end of 2009. Positive signals will have to be sent to the international community on several points, especially on the defining of ambitious objectives to reduce emissions for the Annex 1 developed countries, as well as the means to reach these objectives.

The defining of broad lines for a new multilateral climate regime is complex. It implies defining keys to fair sharing of efforts made to fight climate change, among the developed countries on the one hand and the developing countries on the other. These keys must be in the forms of national commitments or actions to reduce emissions as well as of the making available of financial and technological resources. Faced with the needs for financing and investment and in the growth in the number of climate funds outside the Convention, several questions arise in particular regarding the financial architecture of the future multilateral climate regime.

It implies defining keys to fair sharing of efforts made to fight climate change, among the developed countries on the one hand and the developing countries on the other.

This preparatory document seeks to present the main issues of the international negotiations on climate change for the future climate regime agreement to be signed at the end of 2009. It will grasp them from the angle of the sharing of efforts in the fight against climate change, giving special attention to the issue of financing for the developing countries.

1. The conference of Parties and the Meeting of Parties represent the decision-making organs of the Convention and the Protocol respectively. They are held at the same time annually in order to assess the commitments implemented and to negotiate new measures.

List of abbreviations

APD Assigned Amount Unit
AWG-KP Ad-hoc Working Group on further commitments for Annex I Parties under the Kyoto Protocol
AWG-LCA Ad-hoc Working Group on Long-term Cooperative Action
CDM Clean Development Mechanism
CERU Certified emission reductions unit
CMP Meeting of the Parties to the Kyoto Protocol
COP Conference of the Parties
ERU Emission reduction units
GEF Global Environment Facility
GHG Greenhouse gas
IPCC Intergovernmental Panel on Climate Change
JI Joint implementation
LDCF Least Developed Countries Fund
NAPA National Adaptation Programme of Actionn
ODA Official Development Assistance
PPCR Pilot Programme for Climate Resistance
SCCF Special Climate Change Fund
UNFCCC United Nations Framework Convention on Climate Change

1

1 The framework of negotiations on post-2012: the bali action plan

The 180 countries present in Bali agreed on a road map that should lead between now and the end of 2009 to the adoption of a new international climate agreement. This agreement will have to be structured around five pillars:

- "shared vision" defined as follows: "A shared vision for long-term cooperative action, including a long-term global goal for emission reductions, to achieve the ultimate objective of the Convention, in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities, and taking into account social and economic conditions and other relevant factors";
- reduction of emissions (including for deforestation and degradation of land);
- adaptation to the impacts of climate change;
- transfer of technologies in the fields of emission reduction and adaptation;
- financing and investments to support measures of reduction, adaptation and technological cooperation.

Beyond these five pillars, the Bali Action Plan includes a negotiation process including all countries, both industrialised and the developing ones. The ad hoc working group on long-term cooperative action was set up with a negotiation mandate and a precise timetable. It must give its final conclusions at the 15th COP, at the end of 2009 (Copenhagen, Denmark). This ad hoc working group comes in addition to the one on the assessed future objectives for reducing emissions of the Annex 1 industrialised countries that have ratified the Protocol (AWG-KP). The AWG-KP must also give its conclusions at the end of 2009, with proposals on the emission reduction objectives for the Annex 1 developed countries and on the means for achieving these objectives.

2

2 The sharing of efforts between the industrialised countries and the developing countries

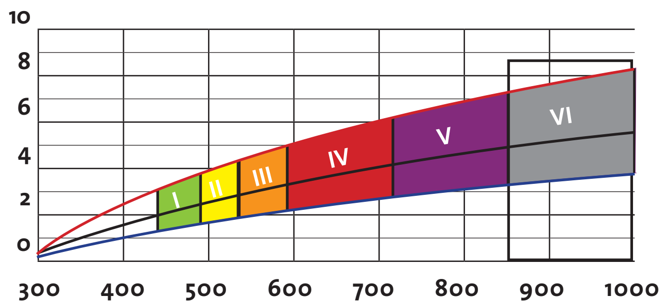
Given the climate urgency stated in the IPCC report, the coming 16 months are crucial for reaching an ambitious agreement on the post-2012 climate regime. Since Bali, no consensus among industrialised countries on the objectives for reducing emissions has been achieved. Yet, the level of commitment by the industrialised countries will be decisive for the actions that the developing countries will be prepared to undertake to fight against climate change. The developed countries have been giving constant reminders of this since the Bali Conference. The question of fairness cannot be evaded when determining the reduction commitments or actions for the developing countries and the developed countries and the financial coverage of the cost of mitigation and adaptation.

1. Efforts in terms of emission reduction commitments or actions

1.1 The IPCC scenarios for stabilising greenhouse gas emissions

According to the last IPCC report, ambitious and immediate actions at the world level are necessary in order to limit global warming to less than 2 degrees between now and 2100, compared to pre-industrial temperatures, and thereby to avoid dangerous climate change. Worldwide greenhouse gas emissions must reach a peak between now and 2015 at the latest, to then decline by 50 to 85% between now and 2050, compared to 2000 levels. The same report provides for a scenario of concentration stabilisation of 450 ppm CO2-eq and a reduction of 25 to 40% in industrial country emissions between now and 2020. It also indicates that certain countries of the South America, East and Central Asia and Middle East regions should limit their GHG emissions relative to their current pathways. In this stabilisation scenario, there is nonetheless a 50% probability of exceeding 2°C warming between now and the end of the century (see diagram below).

Equilibrium global mean temperature increase above preindustrial (°C)



GH concentration stabilization (ppm CO2 eq)

Stabilization scenario categories and their relationship to equilibrium global temperature change above pre industrial using

(I) «best estimate» climate sensitivity of 3°C (Black line in the middle)
(II) upper bound of likely range of climate sensitivity of 4,5°C (Red line at top of shade area)
(III) lower bound of likely range of climate sensitivity of 2°C (blue line at bottom of shade area).

Coloured shading shows the concentration bands for stabilization of greenhouse gases in the atmosphere corresponding to the stabilisation scenario category I to VI

Source : IPCC AR WG3 SPM fig.8

1.2 Commitments by the industrialised countries

BACKGROUND

According to the IPCC stabilization report, the industrialised countries will have to reduce their greenhouse gas emissions by 25% to 40% by 2020, compared to 1990 levels. The question of the commitments by the industrialised countries is being dealt with by the ad hoc working group on the assessed future objectives for reducing emissions of the industrialised countries of Annex 1 (AWG-KP) as well as under the aegis of the ad hoc working group on a long-term cooperative action (AWG-LCA).
In the first case, it is up to the Annex 1 industrialised countries to define new absolute commitments for reducing their emissions. In Bali, the AWG-KP adopted a decision referring to the required global emission peak in 10 to 15 years from now, followed by a substantial reduction by at least half between now and 2050, compared to the 1990 levels[2]. In the second case, the commitments that will be made by all the developed countries, including the United States, will have to ensure «the comparability of efforts among them». More specifically, the developed countries will

2. This decision moreover refers to the scenario of the lowest concentration of greenhouse gas emissions in the 4th IPCC report, implying that the group of industrialised countries of Annex 1 must reduce their emissions by 25 to 40% between now and 2020 compared to 1990 levels.

have to adopt «Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives, [...] while ensuring the comparability of efforts among them, taking into account differences in their national circumstances». Differently from the AWG-KP, no reference to the IPCC emission stabilisation scenario was included in the Bali Action Plan.

CHALLENGES

Since the Bali Conference, few countries other than the European Union and Japan have declared their absolute reduction commitments. In March 2007, the heads of state of the European Union undertook to reduce European emissions by 20% between now and 2020, compared to 1990 levels[3]. They also announced a 30% reduction objective for 2020, but conditionned to reaching a «satisfactory» overall agreement in Copenhagen. In June, Japan announced its intention to reduce its emissions by 60 to 80% by 2050, compared to 2005 levels. Its mid-term objective (for 2020) has not yet been specified. This announcement of future reduction commitments in Poznan by other industrialised countries, would represent a major progress for the negotiations. This leadership would reinforce their credibility in the eyes of the developing countries.

3. Disparities can also be found in the poor countries, between the elites and the more disadvantaged social classes. For example, the well-to-do classes (1% of the population) produce about 5 tons of CO_2 per inhabitant (the average being 2.5 ton of CO_2 per inhabitant). See Anantha-padmanabhan G., Srinivas K, and Gopal V. «Hiding behind the door», Greenpeace, 2007. v

1.3 Actions in the developing countries

BACKGROUND

The question of the contribution of developing countries to the emissions reduction effort is being discussed within the framework of the AWG-LCA. According to the Bali Action Plan, the «type» and «nature» of developing country actions will differ from those of developed countries. As for the developing countries, they will have to adopt «Nationally appropriate mitigation actions [...] in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner». The agreement that will be reached on this question will represent one of the main step-forward of the new multilateral treaty on climate change.

CHALLENGES

The sector-based approaches

The question of actions in developing countries was dealt with in the last AWG-LCA meeting, in Accra (Ghana). Discussions focused on sector-based approaches. This term covers very different notions according to the developed countries and the developing countries. For the latter, the sector-based approaches must not replace the legally binding mitigation commitments of the industrialised countries of Annex 1 and must not include the international sector-based agreements as the developed countries foresee it. Such agreements, which require fixing a set of objectives, could imply constraining commitments for the developing countries. The sector-based approaches must, rather, consist in further measures aiming to encourage technology transfer, a position shared by the developed countries. The latter, and especially the European Union, nevertheless think that the sector-based approaches could also include the carbon marketEmission quota exchanges could be carried out in a sector-based way, enabling developing countries to reduce their emissions at lower cost.

Differentiation among the developing countries

During discussions on sector-based approaches, the question of differentiation among the developing countries was touched on. The developing countries are currently considered to be a single category, but they face very different situations in terms of greenhouse gas emissions and vulnerability faced with the impact of climate change . Given these disparities, some developed countries, especially the European Union, are urging for a differentiation of reduction actions between the «advanced» developing countries and the other developing countries, especially the least advanced countries. These actions could include national plans for emission reduction, increased participation in the carbon market through sector-based mechanisms and the setting up of sustainable development policies and measures. The European Union suggests that the least advanced countries be exempt from mandatory actions, but that they nevertheless be supported so that they can participate in the Clean Development Mechanism (CDM), for the adoption of sustainable development policies and measures. Some developed countries have proposed to work out a matrix or list of parameters (GDP/inhabitant, energy intensity/inhabitant, etc) to go into more depth on this question of differentiation. This proposal goes along the lines of certain research findings (see box).

FRAMEWORK PROPOSAL ON DIFFERENTIATION:
SOUTH-SOUTH-NORTH DIALOGUE ON EQUITY
IN THE GREENHOUSE EFFECT

In 2004, a team of researchers, mostly from developing countries, worked out a framework proposal on differentiation for the negotiation of a future climate agreement[4]. These researchers identified different criteria for differentiation:

- **responsibility:** accumulated emissions of CO2 of fossil origin between 1990 and 2000
- **capacity:** the human development index and the GDP per inhabitant
- **greenhouse gas emission reduction potential:** emissions per inhabitant, emissions in intensity and percentage of emission increase

According to the evaluations carried out based on these criteria, four categories of developing countries stand out[5]:

- the newly industrialised countries (notably South Korea, Qatar, Saudi Arabia, Singapore)
- the high-growth developing countries (notably Argentina, Brazil, Malaysia, China)
- the other developing countries (notably Bolivia, India, Kenya, Morocco)
- the least advanced countries (notably Benin, Democratic Republic of Congo, Burkina Faso, Mali)

Different actions will have to be undertaken depending on the categories of countries defined above. For example, the newly industrialised countries would have to make commitments on absolute reductions of their emissions, whilst the least advanced countries would not be subject to any reduction objective, and sustainable development policies and measures that might concern them would be subject to appropriate support by the industrialised countries.

4. Ott, H, H. Winkler, B. Brouns, S. Kartha, M. J. Mace, S. Huq, Y. Kameyama, A. Sari, J. Pan, Y. Sokona, P. Bhandari, A. Kassenberg, E. La Rovere and A. Rahman, "South-North Dialogue on Equity in the Greenhouse, A proposal for an adequate and equitable global climate agreement", 2004.

5. In accumulated emissions between 1990 and 2000, per inhabitant.

The European Union proposal, supported by other developed countries, has been subject to sharp criticism by developing countries. The latter recall that the quantified emission reduction commitments are first of all the responsibility of the developed countries, given their historic responsibility in climate change. And, up to now, their emissions have tended to increase. They therefore ask the developed countries to first of all respect their commitments. Several developing countries, such as Brazil and China, emphasise on the reduction actions being carried out at their level that are still too little acknowledged. Once again, the developing countries are throwing the argument back to the developed countries and putting them face to face with their own commitments in terms of emission reduction on the one hand, and in terms of financing and technology transfer on the other.

2. Efforts in financial terms

2.1 The financing needs

As reminded by the Convention Secretariat's report on investments and financial flows, more than 200 billion dollars in financing and investment are needed between now and 2030 in order to maintain emissions at their current level[6]. This represents only 0.3–0.5% of global GDP. However, this financing and investment must be mobilised through a combination of market instruments (carbon market), national policy incentives and official development assistance. Additional financing is necessary. About 46% of this financing should go to the developing countries, which would enable a reduction of 68% of total emissions.

6. UNFCCC Secretariat, *Investment and financial flows to address climate change, 2007.*

With regards to adaptation, the financing and investment needs are more difficult to assess, as the adaptation measures will be very heterogeneous. However, the report estimates that extra tens of billions of dollars will be needed between now and 2030, mostly in the developing countries. There is currently 275 million dollars in multilateral funds (GEF, special funds of the Convention). The bilateral contribution is estimated at 100 million dollars per year between 2000 and 2003. According to the Secretariat's report, the amounts of the Protocol's Adaptation Fund that will be available would depend on the quantity of certified emission reduction units issued by the executive board of the CDM and on the price per ton of carbon. If we take the hypothesis of 300 to 450 million units issued per year and a price per ton of 24 US dollars, the financial resources available will be about 80 to 300 million dollars per year. In the favourable hypothesis of the CDM continuing after 2012 and a strong demand for the carbon credits, between one and five billion dollars could be available. But this still remains below the necessary needs.

During the Bonn session of subsidiary bodies (June 2008), the Secretariat was mandated by the Parties, within the framework of the AWG-LCA, to update its 2007 report for the Poznan conference. This gathering could provide a new opportunity for the Parties to propose innovative financing tools. Furthermore, in Poznan, the Parties will have to carry out the second review of the Kyoto Protocol provided for in its Article 9. The question of extending the 2% deduction on the value of units from the CDM to the two other flexible mechanisms of the Protocol (joint implementation and rights of emission market) are on the agenda of this review.

2.2 The principles

In view of their historic responsibilities in terms of emissions, having the industrial countries pay the incremental costs related to the fight against climate change represents a strong demand by developing countries. Within the framework of discussion on sharing the financial cost of the fight against climate change, EcoEquity and the Stockholm Environment Institute have developed a tool called the «Greenhouse Development Right»[7]. This tool is based on the right to development in a world under carbon constraint. Two indicators form the basis of this tool: that of responsibility and that of capacity. By «responsibility», we should understand the known and cumulative emissions of a country. As for «capacity», it corresponds to the «health» of the country concerned and therefore to its degree of ability in responding to the problem. By combining these two indicators, the GDR evaluates the following for each country:

- its financial contribution towards the global reduction of greenhouse gas emissions (within the country as well as outside);
- its financial contribution for the setting up of adaptation policies and activities in the developing countries.

The choice of criteria for defining the fair sharing of efforts by each country, according to its responsibility and capacity are as follows:

- *available carbon budget:* This is defined according to the pathway of emissions making it possible to limit the temperature increase to less than 2°C between now and the end of the century. It is based on a stabilisation of greenhouse gas concentrations in the atmosphere at a level of 400 ppm CO_2 eq or less in 2100 (with a brief excess of concentrations at 470 ppm CO_2 eq). As for the global greenhouse gas emissions, they must peak in 2015 and be reduced by 80% in 2050 compared to 1990 levels.
- *evaluation of responsibility* defined according to accumulated emissions between 1990 and 2005.
- *evaluation of capacity* expressed in income per inhabitant
- *a development threshold set at US $ 7500 per inhabitant:* the population of a country below this threshold is not subject to contribution.

Overall, the richest countries represent 15.6% of the world's population and 53.9% of overall income. By taking into account other development criteria as well, such as purchasing power parity, these countries total 78.8% of overall capacity. Their cumulative emissions amount to 52.7%. By combining these criteria, the rich countries must contribute to 78.5% of the cost of emission reduction and of the adaptation to the impacts of climate change. Europe would have to contribute 164 billion dollars, the United States 212 billion dollars, Russia 14 billion and Brazil 12 billion. China would have to contribute 43 billion and India 2.1 billion.

The respective responsibility and capacity of each country, which are the guiding principles of this tool, could for example act as the guidelines for international discussions to guarantee a suitable taking into account of the principle of equity in the sharing of effort.

7. Baer P., Athanasiou T., Kartha S., "The right to development in a climate constrained world – The greenhouse development rights framework", Stockholm Environment Institute and Equity, November 2007.

3

3 How to support the Fight against climate change in the developing countries?

The question of financial support to developing countries raises other issues on which the donor countries are going to have to agree, notably on the nature of the new and additional financial resources and their use by the developing countries. The resources provided by carbon financing and official development assistance passing through the bilateral and multilateral agencies, notably the Global Environment Facility, are not enough. A rationalisation effort is also necessary, given the growing number of bilateral and multilateral funds. Two financing options are currently being discussed: one is based on the carbon market and the other on public funds. The private sector, which must currently satisfy 86% of the financial needs, is also concerned. The challenge of an agreement on the post-2012 climatic regime is therefore going to be based on effective linking between an effective carbon finance mechanism and the public financing passing through the bilateral and multilateral development cooperation agencies. More generally, the question of the future of the international financial architecture on climate will have to be dealt with in the new agreement

1. The carbon market

BACKGROUND

The carbon market, more specifically the CDM, must in principle support additional emission reductions in developing countries. It should also contribute to their sustainable development. At the same time, it must enable the Annex 1 industrialised countries to receive emission credits as a counterpart, which they can use to compensate parts of their domestic emissions. This mechanism is strongly criticised. These criticisms concern non-additional reductions of emissions or a weak contribution to the sustainable development of the host countries. Furthermore, far from benefiting to all developing countries, this mechanism is for now focused on the countries that emit the most, such as China, India or Brazil; sub-Saharan Africa benefits very little from this mechanism. The CDM follows a market logic and is focused on the regions of the world in which the potential for emission reduction is significant.

CHALLENGES

This observation brings up the question of the future of the CDM within the future international regime to fight climate change. Improvement of the environmental integrity of the market mechanisms of the Protocol is dealt with within the framework of the AWG-KP. During the Accra discussions (August 2008), the Parties thus agreed on two lists: one with the modifications that could become applicable during the initial engagement period of the Protocol (2008-2012), and the other relative to modifications that would come into force only after 2012:

- Modifications likely to be applicable starting from the initial period of engagement: possibility of appealing against the decisions of the CDM's executive committee, which is in charge of approving projects; improvement in the CDM's programmes; use of robust social and environmental criteria for the CDM projects, etc.
- Modifications likely to be applicable during the second period of engagement: possibility to reserve part of the demand for CDM credits to certain types of projects (especially those with a high contribution to sustainable development) or to specific groups of countries, introducing technology transfer as a criterion for each CDM project, including activities that fight against deforestation and forest degradation into the CDM, etc.

Starting from Poznan, all of these options should be rationalised. This would make it possible to enter into a concrete phase for determining options and thereby finding a solution for the main weaknesses of the CDM in environmental and social terms.
One of the major challenges in terms of improving access by the least advanced developing countries to the market mechanisms could consist in shifting from an approach that up to now has been based on projects, to an approach expanded to policies or programmes in the various sectors of economic activities (habitat, agriculture, transports, etc.). As the development of small-scale projects is not attractive for investors, bringing the latter together within a single programme would make it possible to achieve economies of scale.

This brings us back more broadly to the notions of sector-based approaches and enlargement of market mechanisms, notions that are taking on more and more importance in international discussions. During the last AWG-LCA session (August 2008), some Parties such as the European Union brought up the issue of the carbon market as a mechanism for financing reduction actions in developing countries. The European Union has thus called for the creation of a mechanism making it possible to reward sector-based reductions of emissions in the developing countries through obtaining credits (by taking a predefined level of reduction to reach and above which credits could be obtained). South Korea has also formulated a proposal along the same lines, with carbon credits for appropriate national emission reduction actions. For a developing country, this could for example consist of setting up a measure to fight against climate change, such as the establishment of a purchase price to develop renewable energies.

However the future discussions will turn out on the subject, the difficult part of the negotiations risks focusing on the definition of the reference scenarios and on the real additionality of measures that could be set up. For the carbon market, this would mean that the credit supply would increase if such sector-based credit approaches were adopted. To solve this problem between supply and demand, South Korea has proposed that the Annex 1 industrialised countries increase their reduction objectives. This would not represent extra constraint, as this could be financed by substitution, due to the reduction of emissions in the developing countries.

2. Public financing

BACKGROUND

Since the beginning of the 1990s, the international financial architecture on climate change has undergone deep transformations. Up to now, it was essentially based on the Global Environment Facility, created in 1991, to channel developed country financing to the developing countries. This financial mechanism is recognised in several multilateral agreements on the environment, and in particular in the Convention on Climate Change. Until the end of the 1990s, the GEF was the main source of financing at the multilateral level for helping developing countries fight climate change. Since then, several major changes have occurred in this area: (i) the development of flexibility mechanisms, in particular the clean development mechanism, within the framework of the Kyoto Protocol; (ii) the creation of several funds within the Convention (the special fund for climate change and the fund for the least advanced countries, managed by the GEF) and the Protocol (Adaptation Fund) and (iii) the development of bilateral initiatives by major donor countries, with the support of multilateral agencies such as the World Bank, through trust funds. The World Bank has also set up two investment funds on climate (the pilot programme for climate resistance and the fund for clean technologies). At the same time, the GEF's mandate has grown, even though its resources have remained limited[8].

In a background of decreasing official development assistance, the donor countries have progressively given up the one-stop approach by the GEF and developed new funds. In less than two years, more than a dozen bilateral and multilateral funds have been announced. The creation of these funds can be explained by: (i) increased political awareness of the climate urgency in the donor countries, (ii) the desire to have a more visible and more immediate impact in terms of reducing greenhouse gas emissions in the developing countries and (iii) a preference for methods of financing based on programmes rather than on projects[9]. The launch of these funds is also occurring in a context in which the GEF is being criticised by developing countries (complex procedures and governance judged to be imbalanced because in favour of the donor countries). These funds vary in terms of objectives (mitigation, adaptation, forests and biodiversity), of origin of funds mobilised (ODA, tax on the European system of emission quotas), types of financing (loans, grants), amounts, duration and target countries.

CHALLENGES

This evolution of international financial architecture on climate change and official development assistance involves several challenges for the negotiating the new agreement on the climate regime:

- the necessity to generate new and additional resources for official development assistance: the growth in the number of funds raises a number of questions about the origin of the

8. *The GEF's resources amount to around 250 million dollars per year, or about 4.5 million dollars per country (of which 2 million dollars for climate change).*

9. *Porter, G. et al., « New finance for climate change and the environment », WWF, Fondation Heinrich Böll, Juillet 2008.*

resources and their additionality with regards to ODA (risks that ODA is rerouted towards climate change). This problem brings us back to the necessity of developing innovative financial mechanisms, as recommended in the Bali Action Plan

- the necessity to ensure greater coherency in the financing: the funds created within and outside the Convention create a risk of fragmentation of financial resources, which remain relatively weak compared to the estimated needs. These initiatives tend to be spurred on by the donor countries essentially and hardly at all by the recipient countries. The duplication of initiatives could also harm aid effectiveness as promoted in the Paris Declaration, which has been signed by the donor countries and the beneficiary countries. Increasing the coherency of financing, implies that a suitable institutional structure for managing and distributing the resources should be reflected upon within the framework of the negotiations.

Within the framework of the recent AWG-LCA discussions, several proposals on the new sources of financing and/or institutional aspects were formulated. The proposals presented by the G77/China and Mexico are the most in-depth with regards to financing within the framework of the Bali Action Plan.

THE NEW SOURCES OF FINANCING:
Different options have been formulated, both by the Convention Secretariat and by certain countries. The table below presents the ideas for financing proposed by the Convention Secretariat[10] .
Among the proposals formulated by the countries, the following ones can be accepted:

10. Cf. Faraco, B. «Les propositions de financement sur la table des négociations», June 2008.

- Allocating 0.5% to 1% of GDP of the Annex 1 countries, in addition to official development assistance, for i) emission reduction, ii) adaptation, iii) research and development of technologies, iv) technology transfer, v) patents, vi) capacity building and vii) preparation and implementation of national action plans (proposal by G77 and China);
- Auctioning some of the quota units allocated to the Annex 1 Parties to finance adaptation (Norwegian proposition);
- Establishing a tax of 2 US dollars per ton of CO_2 emitted, with an exemption for the countries whose emission level per inhabitant is less than 1.5tCO_2 (Switzerland's proposal)[11];

11. About 48.5 billion US dollars could be generated and allocated to adaptation.

MECHANISM	VOLUME	EXPLANATIONS
Setting up a tax similar to that existing on the CDM on international exchanges of ERU[12], AAU[13] and RMU[14]	*10 to 50 million $* *Depends on size of carbon markets after 2012*	Yearly average from 2008 to 2012 Any estimation must make assumptions about the future commitments, because the level of commitments will set the amounts exchanged.
Auctioning of quotas for international aviation and sea transport	*10 to 25 billion $*	The yearly average for aviation grows between 2010 and 2030.. The yearly average for sea transport grows between 2010 and 2030.
Tax on air transport	*10 to 15 billion $*	Based on 6.5 US$ per passenger and flight.
Fund to invest in foreign exchange reserves	*Up to 200 billion $*	Voluntary allocation of up to 5% of foreign exchange reserves for mitigation.
Access to renewable energy programmes in the developing countries	*500 million $*	Eligible renewable energy projects in the developing countries could receive certificates that could be used as elements of harmonisation with commitments in terms of renewable energy in the Northern countries.
«Debt for energy effectiveness programme»	*To be determined*	The loaner countries negotiate an agreement to cancel part of the external debt in exchange for a commitment by the debtor country to invest this amount in clean energy projects.
Tobin Tax	*15 to 20 billion $*	0.01% tax on all monetary transactions..
Special drawing rights	*18 billion $ at first*	Special drawing rights could be granted to create income for the Convention objectives.

12.*Emission Reduction Unit.*
13.*Assigned Amount Unit*
14.*Removal unit*
15 *About 48.5 billion US dollars could be generated and allocated to adaptation..*

- Voluntary contributions by developed countries and certain developing countries, based on several criteria negotiated at the multilateral level (greenhouse gas emissions, population, human development index), for mitigation, adaptation and technology transfer.

THE INSTITUTIONAL STRUCTURE:
The need for better coherency in the climate financial architecture was mentioned on several occasions in Accra, especially by the developing countries. Regarding this point, the proposal by the G77 and China on an improved financial mechanism for the United Nations Framework Convention on Climate Change is the most detailed. Among the objectives set, the mechanism must improve the relations between the various sources of financing in order to facilitate access to this financing and reduce fragmentation. It must also make sure that the activities concerning the fight against climate change initiated outside this mechanism are coherent with the Convention and the appropriate decisions taken by the Conference of Parties. In terms of governance, the financial mechanism must function under the aegis of the Conference of Parties, which is in charge of defining the policies, the programmatic priorities and the eligibility criteria for financing. The different funds would be managed by one or more trustees and would enjoy the support of groups of experts.

The Mexican proposal on a multinational fund for climate change does not precisely define the governance of the funds. It nevertheless mentions that all the contributor countries (developed and developing countries) and beneficiary countries will participate in the governance body.

THE REVISION OF THE EUROPEAN DIRECTIVE ON THE SYSTEM OF EXCHANGE OF CO_2 QUOTAS

TOWARDS A TAX ON THE INCOME FROM THE AUCTIONING OF QUOTAS?

Within the framework of the revision of the directive establishing a system of exchange of CO_2 quotas, the European Commission proposed that 20% of the income stemming from the auctioning of the quotas be allocated to a list of activities having to do with the fight against climate change: development of renewable energies, fight against deforestation in the most vulnerable countries, adaptation of developing countries to the impacts of climate change, etc. However, no agreement on this point has emerged yet within the European Union. This is nonetheless an important source of income that would enable, in the case of auctioning 100% of the CO_2 quotas from 2013, to generate at least 40 billion euros per year in Europe. The member states of the European Union must reach an agreement on this proposal during the second semester. During the Poznan Conference, Europe could announce this option. This could in turn, partially determine the future actions for emission reduction taken by the developing countries.

4 What approach for effective and equitable use of financing?

The increase in financing for mitigation and adaptation is a priority acknowledged by the majority of countries. Most of the discussions are now crystallising on the new sources of financing and on the institutional arrangements. Yet, given the scale of financing involved, the question of the allocation and the use of these resources must also be raised, especially in the case of adaptation.

1. Resources for which beneficiary countries?

BACKGROUND

Up to now, the resources available for mitigation within the framework of the Convention and the Protocol have benefited several major emerging and transition countries that are among the biggest emitters of greenhouse gas. In the case of the GEF, the majority of resources are allocated to China, India, Russia, Brazil, Poland, South Africa and Mexico. This is partially explained by the resource allocation system, which favours financing towards the big emitter countries, partially for reasons of effectiveness. The least developed countries find themselves on the sidelines, faced with investors looking for potential greenhouse gas reduction in economically, socially and politically stable countries.
In the area of adaptation, the GEF financing is more recent and intended mainly for several pilot countries. No eligibility criteria have been defined so far for the Adaptation Fund. This is part of the mandate of the Adaptation Fund Board set up in Bali.

CHALLENGES

Facilitating equitable access to financing for all the developing countries represents a major challenge of the future post-2012 climate regime agreement. In the case of mitigation, the question arises whether, for example, public financing priority should not be given to the poorest countries, whose use of the carbon market and the market instruments would be too doubtful and complex (see the proposal by the European Union and South Korea). This would amount to establishing differentiation among the developing countries, a point they are clearly refusing in the discussions on mitigation. With regards to adaptation in particular, the small island states consider that priority in financing must be intended for them as well as for the least advanced countries, due to their strong vulnerability[15]. The developing countries, brought together within the G77, have not expressed themselves for now on the resource eligibility criteria. .

15. "Preliminary AOSIS views on adaptation under the AWG-LCA", 26 août 2008.

2. Resources for which activities?

BACKGROUND

Up to now, in the area of mitigation, the GEF has concentrated on improving the institutional environment and structuring activities (capacity building) and on the spread of exemplary and reproducible technical innovations with positive effects on the environment. It does not enable massive investments in sectors that emit the most (electricity, transport, habitat). Without climate policies, the effects in terms of gas emissions from these sectors could be tragic. The prices of carbon will not have a sufficient incentive effect to reorient investments towards less carbon-consuming infrastructures, which are not economically profitable or that present risks.

The case of adaptation is once again special insofar that it is closely linked to development and requires more long-term thinking. Faced with the volumes of financing announced for adaptation, many are wondering what can be financed in concrete terms.

CHALLENGES

In order to maximise the leverage effect, the financing must evolve towards a more programmatic approach, enabling to tackle the challenges of the most emitting sectors. This could facilitate the countries' transition, and in particular for developing countries, to implement sustainable development policies and take measures for, concerted public policies that include mitigation[16]. The question of shifting from «project» approach to a programmatic and more integrated approach also arises within the framework of discussions on adaptation. Developing countries claim their preference for the financing of specific projects and programmes linked to adaptation, whilst developed countries promote the incorporation of adaptation in the sector-based policies. This latter approach consists of anticipating the future climate risks in development planning. The Pilot Programme for Climate Resistance set up by the World Bank also favours this approach (see box).

16 *"Preliminary AOSIS views on adaptation under the AWG-LCA", 26 août 2008.*

THE WORLD BANK'S PILOT PROGRAMME FOR CLIMATE RESISTANCE

The Pilot Programme for Climate Resistance (PPCR) is part of the new Strategic Climate Fund of the World Bank. It is "designed to provide programmatic finance for country-led national climate resilient national development plans. The PPCR aims to provide transformational and scaled-up support for both the development and implementation of such plans. Furthermore, its purpose is to provide lessons over the next few years that might be taken up by countries, the development community, and the future climate change regime, including the Adaptation Fund. This experience will be gained through scaled-up interventions covering the full range of sectors and sources of financing, and with sufficient resources to move quickly from planning to action. The PPCR will build upon National Adaptation Programs of Action (NAPAs), will be implemented in a manner consistent with the Paris Declaration of Aid Effectiveness, and will complement the existing adaptation funds which continue to serve essential roles in tackling climate change."[17].

17. *World Bank, «Strategic Climate Fund», June 2008..*

A way to identify concrete adaptation projects consists in considering adaptation actions in broad terms, as measures making it possible to reduce climate vulnerability in the short, middle and long-term. Such measures have frequent co-benefits, in terms of development[18]. These benefits are important enough to justify their implementation, even in the absence of climate change. Thus, according to this broad definition, many projects concerning infrastructure improvements could be considered as adaptation projects[19]. The number of projects could be considerably increased according to the impacts of climate change. A way to determine the number of projects would be, for example, to define priority countries and to finance a fraction of the total cost of the project or identify strategic sectors. These strategic sectors would include those that are particularly vulnerable to climate change, that contribute to economic development and that procure significant benefits even in the absence of climate change (hydraulic and drainage infrastructures, reduction of natural risks, etc)[20].

In their recent proposal on a full adaptation framework, the African countries suggest, for example, that distinction be made between the needs for «(i) the adaptation to short-term climate shocks, linked to the increase in the number of extreme risks [...]» and for «(ii) the adaptation to long-term changes in climate conditions [...]». They also suggest the establishment of a network of African research centres on climate change and a system of regional information on the risks linked to climate change in the short, middle and long term. Finally, the Nairobi five-year work programme on impacts, vulnerability and adaptation to climate change adapted within the framework of the Convention (2005) could contribute to defining allocation criteria and, more broadly, to identifying concrete activities[21].

18 *In the developing countries, vulnerability to climate variability and to extreme risks is partially related to the absence of infrastructures (drainage, irrigation, etc) to mitigate their impacts. The setting up of these infrastructures consequently fulfils development objectives and represents an adaptation measure.*

19. *According to some estimates, the improvement of infrastructure networks could cost 7.5-9% of GDP for the least advanced countries in the upcoming five years, or about 150 billion dollars. See Hallegatte, S. "Adaptation to Climate Change: Do Not Count on Climate Scientists to Do Your Work", Related Publication 08-01, February 2008*

20. *Hallegatte, S., Adaptation to Climate Change: Do Not Count on Climate Scientists to Do Your Work. Related Publication 08-01, Février 2008.*

21. *Secrétariat de la CCNUCC, «Five-year programme of work of the Subsidiary Body for Scientific and Techno-logical Advice on impacts, vulnerability and adaptation to climate change», Décision 2/CP. 11.*

Conclusion

With the Copenhagen deadline for signing a new post-2012 climate regime approaching, all eyes are turned towards Poznan. The diplomatic efforts made by the countries within the framework of discussions by the two ad hoc working groups have not managed to bring out the ambitious consensuses that had been so greatly expected. On the contrary, the long-standing differences of opinion between the developed countries and the developing countries, which had settled down along with the adoption of the Bali Action Plan, have come out again. The discussions on the sector-based approaches to reducing greenhouse gas emissions and the differentiation among the developing countries underlined this gap.

The 14th Conference of the Parties of the Convention and the 4th Meeting of the Parties of the Protocol should be opportunities to alleviate these differences of opinions. During the various meetings in 2008, the developing countries gave reminders of the conditions they had set in Bali concerning their participation in the effort to reduce greenhouse gas emissions, i.e. adequate financial resources being made available and technology transfer. Proposals from developed countries are therefore expected on these last two points. The announcement of emission reduction objectives by the Annex 1 countries of the Kyoto Protocol would also represent a positive signal for the international community and would reinforce their credibility in the eyes of the developing countries. Faced with the extreme vulnerability of some developing countries and of the most fragile populations, efforts must be undertaken urgently, according to the respective responsibility and capacity of each country to deal with climate impacts. Equity will then be at the heart of the post-2012 multilateral agreement.

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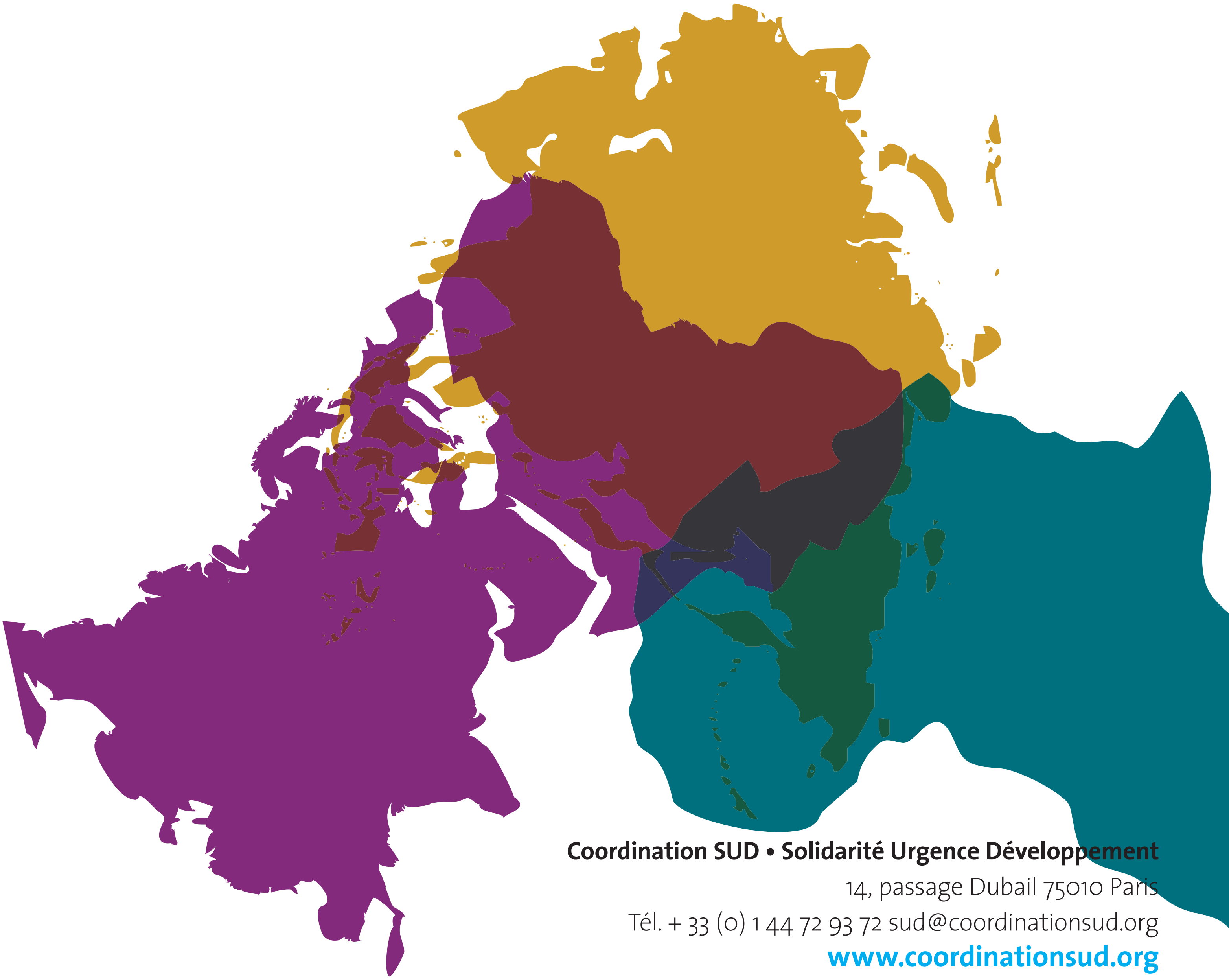

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