

The Road to Copenhagen

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Shri Rajiv Kumar, Director of ICRIER, Shri Anwar-ul-Hoda, distinguished guests, ladies and gentlemen,

I am grateful to ICRIER for giving me an opportunity to share my thoughts on the forthcoming Climate Change summit in Copenhagen, which is just days away from now with such a distinguished audience. While it is difficult to predict the precise contours of the outcome, certain trends are already clear.

First, we are unlikely to have a full-fledged, legal outcome, which would meet the requirement of the Bali Action Plan mandate.

Second, the outcome is unlikely to meet international expectations whether in terms of significant emission reductions by developed countries or the mobilization and deployment of substantial financial resources to support mitigation and adaptation action among developing countries.

Third, the negotiations are likely to continue post-Copenhagen and there could be a deadline for concluding

them at an early date, and at least, not beyond COP-16 in Mexico in 2010.

Why are these negotiations proving to be so difficult and complex especially if there is a general recognition that we are confronting an urgent global challenge which requires a collaborative global response?

Those who have dealt with trade-related issues may well have a sense of déjà vu here. The earlier rounds of GATT negotiations clearly recognized development of developing countries as a central theme and tacitly accepted a non-reciprocal trade and investment regime with few obligations devolving on developing countries. Uruguay Round, in my view, marked the turning point, with a reciprocal, competitive regime replacing the old development-centered regime. Currently, the UNFCCC is the only international regime which has a differentiation favourable to developing countries. This is sought to be replaced with a reciprocity based regime. It remains to be seen how successfully this can be resisted. The problem is that Climate Change negotiations have become less about Climate Change and more about safeguarding or promoting economic interests. They are, in reality, full-fledged economic negotiations.

So what about specific issues in these negotiations?

According to mandate given to negotiators in the Bali Action Plan adopted at COP-13 at Bali in December 2007, our objective is to enhance the implementation of the UNFCCC in respect of mitigation, adaptation, finance and technology. We also need to come up with a long-term vision for cooperative action on Climate Change.

As we head towards Copenhagen, where do we find ourselves on the key, outstanding issues in the multilateral negotiations?

Mitigation

On mitigation, developed countries have yet to indicate firm emission reduction targets both for the mid-term, up to 2020, or for the long-term, up to 2050. Some indicative targets have been announced, but some are conditional upon actions by others; some have a large component dependent upon offsets, a few have a baseline which is different from 1990, which is the accepted base year in the Kyoto Protocol. The US is using 2005 as its base year.

There is another sticking point. With the exception of the US, virtually all developed countries are parties to the Kyoto Protocol, which came into force in 1997. So are the vast majority of developing countries. The Protocol, in its first commitment period, which comes to an end in 2012 and for its subsequent second commitment period, which may end in 2020, requires quantitative emission reduction targets only from developed countries. These targets are legally binding and there is a strict compliance procedure. An adhoc working group has been meeting for the past 3 years with a mandate to determine the emission reduction targets for developed countries for the second commitment period, but there has been no progress so far. The reason advanced by the developed country parties to the Protocol is two-fold – firstly, the need for comparability with obligations to be taken by the US, which is outside the Protocol; and secondly, the importance of major developing countries such as India, China

South Africa and Brazil, among others, to also take on mitigation obligations. As a result, there is a major push by developed countries to put aside the Kyoto Protocol altogether in favour of a single, new instrument, which would encompass the mitigation obligations of both developed and developing states. This is being fiercely opposed by virtually all developing countries who insist that the Kyoto Protocol remains fully valid and that developed countries incorporate their emission reduction targets in the Protocol format. As for the US, it is being argued that they should, in an appropriate form, assume comparable obligations, if they are reluctant to join the Protocol.

The status of the Kyoto Protocol and the nature and scale of emission reduction commitments, which developed countries will assume, could be significant sticking points at Copenhagen.

Let me say a word about developing country obligations for mitigation. As you are probably aware, the UN Framework Convention on Climate Change (UNFCCC) does not require any mitigation obligations from developing countries. The reason for this is an acknowledgement that climate change is taking place as a result of cumulative accumulated emissions in the atmosphere, for which the industrialized world is mostly responsible. This aspect of historical responsibility, coupled with higher economic capacity, lies behind the well-known principle of “common but differentiated responsibilities and respective capabilities”. Nevertheless, developing countries may voluntarily take on mitigation actions which must, however, be supported by finance and technology from developed countries. The legal position, therefore is as follows:

Developed countries are required to take unconditional economy wide emission reduction commitments; developing countries may take on specific mitigation actions, but supported by finance and technology. These are not economy-wide; these are not unconditional. This distinction, as you would appreciate, is both legally and operationally significant.

One of the major challenges we will face at Copenhagen will be a determined attempt by several developed countries, to translate their high decibel campaign against so-called advanced developing countries like China and India, into an erosion, if not elimination of this key distinction between developed and developing countries. Countries like the US and Japan have made their emission reductions conditional upon comparable obligations being undertaken by major developing countries. The European Union wants the latter to commit to a significant and quantitative deviation from business as usual emissions trajectory. One of the reasons why the Kyoto Protocol has now become inconvenient is precisely because it does not allow the imposition of emission targets on developing countries. The Australian proposal for a “schedule” based approach is an attempt to prescribe a uniform legal framework which would reflect the mitigation obligations of both developed and developing countries, even though the nature and scale of the obligations may be different. The bottom line here is that mitigation obligations must devolve on both categories. This is what we are trying to resist even though we are willing to undertake unilateral mitigation actions and report them to the UNFCCC as part of our National Communications or NATCOMs. It is only in case of supported mitigation actions, that we are prepared to accept a measure of “obligation” or accountability, but these cannot

be in the nature of economy-wide measures. Squaring this circle will be difficult.

I have dwelt at length on the mitigation issue because it is the most controversial and there is a possibility that it may stall achieving closure at Copenhagen.

Adaptation

Thanks to the efforts of developing countries and in particular the efforts of the small island developing states and the LDCs, adaptation is receiving higher priority but, of course, not on terms equal to mitigation. It may be reasonably argued that for developing countries, adaptation to Climate Change is a challenge bigger than mitigation. Even if, by some miracle, emissions, worldwide became zero tomorrow, the impact of climate change would continue into the future, since Climate Change is the result not of current emissions but of accumulated emissions in the atmosphere. This stock of emissions will reduce only gradually.

While the importance of adaptation for developing countries has been acknowledged, the Copenhagen Summit will probably result in the deployment of funds to meet the requirement of the most vulnerable countries, including the SIDs and LDCs. The needs of countries like India, which have numerically much larger vulnerable populations, will probably go unaddressed because there will simply not be enough funds to go around. We are already meeting our current adaptations requirements by spending an estimated 2% to 2.5% of our GDP annually. This figure is likely to go up steadily as the impact of Climate Change becomes steadily more widespread.

Finance

Along with mitigation, finance is the most critical issue in the negotiations. The legal position in the UNFCCC is clear. The mitigation actions of developing countries as well as their adaptation needs must be financed by developed countries through a financing mechanism to be set up under the UNFCCC. These financial transfers are not in the nature of ODA. They represent the entitlement of developing countries on account of historical responsibility of

developed countries for Climate Change. To put it more bluntly, “the polluter must pay.” Furthermore, there is also the aspect of capacity to pay.

Unfortunately, the finance debate in the multilateral negotiations has gone off at a tangent. Developed countries are unable to shed the donor-recipient mindset and continue to look upon financial transfer as a category of aid to poorer countries. Of the figures announced so far, such as \$100 billion by 2020 by UK PM Gordon Brown, or pound 100 billion by EU, only 10-15% would be through public sources. The rest is essentially in the nature of market flows, based on CDM or on offsets. It has also been made obvious that virtually all the publicly raised resources could be for meeting adaptation needs (which cannot by their very nature be met from market mechanism) and that, too, with priority for SIDs and LDCs. At the recently concluded Commonwealth Summit, the U.K., supported by Australia and Canada, announced that they would support a “fast start fund” of \$ 10 billion per annum for the next 3 years to support climate action in developing countries, with priority to LDCs and SIDs. The guidelines for disbursement remain to be worked out.

Some funding may be made available for adaptation and mitigation in other developing countries through funds set up in multilateral development banks such as the World Bank. Of course, these would not meet the criteria laid down in the UNFCCC, since they would be in the nature of mostly loans and will be subject to the governing structure of the lending institution itself. It is for this reason that developing countries have argued that MDB finance cannot be taken as a fulfillment of the legal obligation of developed countries to make financial resources available to developing countries as their entitlement under the Climate Convention.

Let us look at what may be possible to obtain through the much talked about market mechanism i.e. the carbon market. The size of the market and the price of carbon will depend upon how ambitious emission reduction targets are and how predictable their enforcement would be. Therefore, a legal basis and enforcement, would be the minimum requirement for a stable, predictable and expanding carbon market. Only then would there be an incentive for companies in industrial countries to seek cheaper options through offsets in developing countries. On this score, the Copenhagen outcome, especially if it is not legally binding, will fall short and less strict targets will deliver an unattractive price of carbon.

Currently, the Clean Development Mechanism (CDM) is the main channel for companies in the industrialized world to seek cheaper offsets in developing countries. India has been one of the major beneficiaries of the CMD. If, however, the Kyoto Protocol is put aside and emissions targets of developed countries are only political commitments, which are not

enforceable, then the CDM will become an uncertain and risky instrument. In any event, the EU has indicated that major developing countries like India should be phased out of CDM to give a chance to other developing countries. In which case, this source of market financing may well be closed to us. Then, what is the alternative?

Developed countries are pushing the idea of “offsets” based on internationally prescribed sectoral norms. Thus, a country may earn sectoral credits by performing better than the prescribed norms in terms of emissions. These offsets could be purchased by developed country companies to offset their mitigation responsibilities from developing countries. The problem for a country like India is the very diverse character of most sectors, which include a large proportion of SMEs. They may not be carbon-efficient but may have other strengths that make them competitive. They will be adversely impacted by any internationally prescribed sector wide emission norm.

The other danger, of course, is the sectoral standards, once given international recognition, could well become the basis of which countries may levy “border measures.”

Therefore, it appears to us that, on present indications, there is little additionality, in terms of economic benefits, that appears possible from Copenhagen. Rather there is a real risk that India’s economic prospects may be further constrained.

Technology

Let us now turn to the 4th pillar of the Bali Action Plan i.e. technology and see where the negotiations are leading us.

In the UNFCCC and the Bali Action Plan, the developed countries have acknowledged their commitment to transfer technology to and support capacity building in developing countries to enable them to meet the challenge of Climate Change. However, most developed countries regard the “transfer” obligation as unrealistic, since most relevant technologies are in private hands. They are willing to assist with capacity building and to engage in collaboration, research and development, but are not prepared to go beyond this. On our side, we have argued that if Climate Change is an overarching global challenge, then it is logical to ensure the most rapid and widespread diffusion of existing climate friendly technologies. This can be done through an adjustment of the IPR regime in respect to such technologies. It may be possible to set in place a global mechanism for the purchase or licensing of such technologies and make them available as public goods.

Another suggestion from our side is that both developed and developing countries, particularly those with significant S&T capabilities, create a global platform for collaborative R&D into transformational technologies for the future. These technologies that emerge could then be made available as public goods. This, too, has not found much resonance.

It is our expectation that we will obtain a modest technology package at Copenhagen, but this would fall far short of a significant global response to an urgent and compelling global challenge.

Long Term Vision

The Bali Action Plan also calls for adoption of a long-term vision for cooperation on Climate Change. This is likely to be somewhat sparse given the modest results so far in the negotiations. Here, the effort is to obtain endorsement of a global emission reduction target. This is expressed as a 2° C limit on global temperature rise, a cap at 450 ppm on accumulated emissions in the atmosphere, or a 50% cut in global emissions by 2050. This is accompanied by most developed countries, including the US, announcing their goals by 2050 – usually in the range of 80%-85%. Simple arithmetic would reveal that unless developing countries assume the residual and significant emission reduction obligations, to the order of 20%-40% by 2050 with 1990 as the base year the global target would be unachievable. This would imply that our per capita emissions may have to halve from the already low figure of 1.1 tonnes of CO₂. This would place an enormous economic burden on us especially as we have seen, there is no significant global support in sight in terms of either finance or technology. Many people in our country do not appreciate this dimension of the issue, when they criticize our negotiators for being obstinate or inflexible. We would like to see an ambitious target for global emission reduction. That is in our interest since we are going to be the most impacted by the consequences of Climate Change. But, we would like, at the same time, a clear understanding that in achieving such a goal, the principle of equity and equitable burden sharing will be scrupulously observed. The planetary atmosphere represents a global commons and every citizen of the globe must have equal entitlement to the atmosphere space. Long term convergence of emissions is the only equitable basis on which we can build a sustainable agreement.

Outlook for Copenhagen

So, where do we go from here with Copenhagen round the corner? Developed countries have given notice that they cannot sign on to a legally binding outcome since there are still several outstanding issues that remain unresolved. It is also being argued that since the US Climate Change legislation is not yet in place, it will not be possible to include the US in a legally binding agreement. Therefore, a stop gap arrangement is proposed, i.e. a politically binding agreement at Copenhagen, incorporating substantive commitments on all aspects of the Bali Action Plan, to the extent that consensus has been reached and with a promise to deliver a legally binding agreement with a specified time frame. Will this fly? What is India's position?

India, along with other developing countries, has argued that we should continue to negotiate in good faith for a legally binding outcome since we still have more than a week of negotiating time available to us when COP-15 convenes in Copenhagen. If we are unable to achieve closure, then we could take a call on what kind of outcome we should settle for. Should we merely agree to continue our negotiations post-Copenhagen until agreement is reached? Or do we record what we have been able to agree upon and spell out the outstanding issues that would be subject to further negotiations? What should be the template for those subsequent negotiations? These are difficult questions to answer at this time. However, one thing that we are clear about, and this happens to be the view of virtually all developing states, that the Copenhagen should not become the new and diminished basis for the subsequent negotiations. It

is also agreed that the Kyoto Protocol must continue to remain valid and operational.

India is unlikely to come back with a significant additionality either in terms of finance or technology. But, we must not come back with a global regime that diminishes rather than enhances our growth prospects. That should be the bottom line for us.
