

Climate Change: Key Issues for India

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Broad Structure of the Presentation

- I. Key Issues at Copenhagen
- I. Issues and Concerns relating to Trade and Climate Change
- II. National level implementation issues relating to low-carbon growth

Costs of Climate Change & Development Concerns

- Studies and reports have highlighted the importance of economics and tech. transfer at the heart of negotiations.
- Equity, Economics & Efficiency: 3 cornerstones of the post 2012 scenario
- But exactly what the cost is, and how it will be distributed across countries and sectors under different policy scenarios remains uncertain.
- Draft World Bank Study:
 - India cannot undertake deep emission cuts without sacrificing poverty alleviation plans and dev. needs
 - Current and future emission trends for India do not support lifestyle or consumption patterns displayed in developed countries; but aimed at basic energy services

I Key Issues at Copenhagen

Key Issues at Copenhagen

- New architecture for **Financing, Technology Transfer & Emission Reduction Targets.**
- The essential mandates for an international agreement has been summarized by UNFCCC Exec. Secretary Yvo de Boer as follows:
 - *To what extent industrialized nations are willing to reduce their emissions of greenhouse gases;*
 - *How much are developing nations (like China and India) willing to do to limit their emissions;*
 - *How will the help to developing countries for reducing their emissions be financed and*
 - *How this money should be managed.*

UNFCCC & MEF Declaration

MEF Declaration- Developed countries will *'take the lead by promptly undertaking robust aggregate & individual reductions'*.

- Developing countries commit to *'promptly undertake actions whose projected effects on emissions represent a meaningful deviation from BAU in mid-term.'*

- Linkage of developing country obligations to 'sustainable devt., supported by financing, tech. & capacity building'.
- However, no clear linkage between the obligation of developed countries to ensure financing, tech. transfer, and commensurate responsibilities on developing countries.

UNFCCC ack. that linkage: Adherence by developing countries to their obligations under the UNFCCC is *linked to the 'effective implementation' by developed countries of their commitments to provide financial resources and transfer of technology*

India's Position

- Emission Reduction obligations only for developed countries, based on 1990 baseline
- **Concept of “Measurable, Reportable and Verifiable” (MRV) Mitigation actions under the Bali Action Plan:**
 - Developed countries to Implement **MRV** Mitigation actions
 - Developing countries to undertake ‘nationally appropriate mitigation actions’ (NAMA) in context of sustainable development “supported and enabled by technology, financing and capacity building
 - **MRV** for developing countries under Bali Action Plan applies only in the context of tech and financial support.
- Financial Architecture & Framework for Technology Action Plan

India & G-77

- Increased international finance and investment should be equitable and sustainable;
- Governance mechanisms should be transparent and efficient;
- India has also projected funding needs: USD 200-210 Bn by 2030 additional investment + requirements for incremental investment for adaptation (UNFCCC estimate: 0.3-0.5% of global GDP; Lord Stern: 2% of global GDP)
- Not to be treated as 'Aid'; It should be a *Legal Obligation* & not a Repayable 'Loan'

What further aspects need to be addressed:

- Objective mechanisms and criteria to determine eligibility for and quantum of financial assistance

Main Points of Contention

EU & US

- ER Targets for Dg countries (US more insistent than EU)
- **Differences between EU & US:** Baseline of 1990 or 2005
- EU emphasis: *Commitment to Low Carbon Growth by Dg countries*
- Robust & Verifiable Strategies for accessing int'l support
- Identification of support reqd.
- Int'l Registry for Actions for monitoring LCG

India

- ER Targets not possible: Common but Differentiated Responsibility
- No Deviation from IPCC Baseline of 1990
- Emphasis on new financial architecture
- MRV for LCG to be linked to MRV for financial contributions & tech transfer

Financial Mechanism

Recognition that:

- Current levels of funding and tech transfer not sufficient
- Financing will be an important foundation of the post-2012 outcome

Role of Private sector

- Pvt. Sector responsible for 86% of int'l finance & investment flows
- One of the main sources of funding in post-2012 scenario will be the private sector
- How to *legally bind* private sector? Is it possible?
- Or should it be left to creation of attractive financial incentives and environment for investment- 'enabling environments' both in country of origin & of import?

Financial Mechanism (Cont'd)

- Creation of 'Enabling Environments'- a critical aspect for *both* developing and developed countries

IFC's Proposals:

- First loss or risk sharing instruments that support investors entering new and untested markets;
- Credit enhancement facilities used to guarantee future cash flows; and
- Highly concessional loans.

Others:

- Creation of Climate Related Financial Instruments: Structured Products, Bonds, Environmental Fund
- Govt. Venture Capital Fund for tapping clean technology
- Insurance Arrangements and Diversification of Risks

Technology Transfer

- Most transfer of technology occurs in the private sector.
- Technology transfer occurs mainly through:
 - Foreign direct investment in a foreign country in order to produce and commercially exploit technology;
 - Licensing of proprietary technology to another entity, with the terms of the contract governing licensing; Often linked with consultancy services for deployment
- Assessment of nature and costs of tech transfer: no clear estimates as yet
- Barriers to tech transfer: Costs, IPRs, Tariff and Non-Tariff Barriers

IPRs & Technology Transfer

- Existing literature inconclusive. Fair amount of non-proprietary tech also available.
- Other NTB and Investment barriers to Tech transfer-needs to be acknowledged and addressed.
- Compulsory licensing- VERY limited value in tech transfer. Because of inherent nature of tech transfer-that comes as a package- know-how, equipment and technology itself.

Technology Transfer- Issues

- Therefore CL is only one of the elements to be addressed
- Technology, whether or not protected by IPRs, typically comes with a high price tag
- Enabling Environments & Adequate Financial Support: Key to Access to Technology
- Also Code of Conduct for Pvt. Sector:
 - Pvt. Sector cannot deny access to clean technology
 - Commercial terms of licensing and transfer of proprietary environmental products & technology: should be comparable between customers; benchmarks for assessing 'reasonableness'.
 - *Policy instruments:* Link financial incentives to transfer of clean technology to developing countries

Monitoring for both Tech & Fin. Transfers

- Evolve criteria for Measurable, Reportable, Verifiable Tech & Financial transfers
- Reporting and Monitoring mechanisms
- Greater pro-activeness from developing countries: To identify requirements for capacity building, technological and financial transfers,
- Development of benchmarks to assess fulfillment of those requirements through the tech and financial transfer mechanism.

II Issues and Concerns relating to Trade and Climate Change

Trade and Climate Change

3 Broad Elements of the Debate

- I. Trade Incentives & Preferential Treatment to promote trade in environmental goods and services ('EGS Debate')
- II. Carbon leakage and competitiveness concerns of developed countries;
- III. Unilateral trade measures in the form of carbon border measures

Carbon Border Measures

- Unilateral carbon border measures: as a way to address competitiveness concerns.
- EC had contemplated this as a way in which to discourage ‘free riders’ – those who do not participate in the multilateral system; continues to be an ‘open’ issue
- US Clean Energy & Security Act: Requirement that importers of goods from countries without carbon caps obtain permits/ allowances for the emissions resulting from the production of imported goods.

Carbon Border Measures: Key Issues

- Difficulties in administration and enforcement: How to assess 'CO2 intensity' of a product?
- Border measures could also invite retaliation and provoke a negative spiral of protectionism, under the pretext of environmental protection.
- Possible issues of WTO compatibility
- Unilateral Carbon Border Measures would undermine the basic principles of 'common but differentiated responsibility' under UNFCCC negotiations

WTO Compatibility

- Possible violation of National Treatment and MFN Obligations: Since the measure seeks to distinguish between 'like' products, based on the methods of production.
- Can such measures be justified under 'environmental exceptions' under Article XX?
- Current WTO jurisprudence:
 - Reducing CO2 emissions could fall under Art.XX exemption
 - BUT, WTO AB has also held that *Multilateral solutions to environmental issues are the preference; a WTO Member should therefore make serious efforts to negotiate such solutions. If despite such efforts, an agreement cannot be concluded, then unilateral measures for protection of environment may be taken, even outside that country's jurisdiction.*

III National level implementation issues relating to low-carbon growth

Domestic Challenges & Opportunities

- India: Approximately 30% of Registered CDM Projects; 25% of CERs generated
- Legal and foreign exchange bottlenecks prevent realization of full potential
- Adequate Incentives to maintain status as significant CDM player:
 - Tax incentives
 - Taxation of CERs
 - Accounting of CERs
 - Clarity in Foreign Exchange Rules

Domestic Challenges & Opportunities

- **Carbon Financing- Challenges**

- To be made a viable source of funding at the project construction/ development stage; not just an ‘additional’ source of revenue
- Clarity required on receiving ‘advances’ against ERs
- Regulatory framework required for financial viability of carbon neutral projects

Domestic Challenges & Opportunities

- **Incentives for Investment in Low Carbon Growth**
 - Current legal Framework- lopsided and often favours ‘high-carbon’ growth patterns;
 - No adequate support for low-carbon initiatives;
 - E.g.s:
 - High subsidies for Chemical Fertilizers; not for Organic Composting
 - Mining- Compensatory Afforestation reqd. *only* when mining on forest land; not otherwise;
 - No sufficient incentives for Common Effluent Treatment Plants.
 - Jatropha plantations: Caught in legal ambiguity of ‘*no foreign investment in plantations*’

Domestic Challenges & Opportunities

- Common but Differentiated Responsibility at Int'l Level
- Same principle at national level as well to bridge the 'rich-poor' divide & ensure fulfillment of development needs
- Recent study: Significant carbon footprint of a relatively small wealthy class (1% of the population) is camouflaged by the 823 million poor population of the country, who keep the overall per capita emissions below 2 tonnes of CO₂ per year.
- PM has recently addressed issue of 'lifestyle changes' at the national level

In Conclusion...

- *“Duty arises from our potential control over the course of events. Where attainable knowledge could have changed an issue, ignorance has the guilt of vice”*

- Alfred North Whitehead