

UN Climate Change Conference 2007, Bali

The fortnight long UN Climate Change Conference 2007 in Bali ended on the 15th December, 24 hours late to allow for last minute negotiations which in our view ultimately brought about a positive conclusion and the framework for a “Bali roadmap”. Meaningful progress was made to bring about these three key outcomes:

1. The “Bali Action Plan” was created in order to bring about a successor to the Kyoto Protocol before the end of 2009

Currently, there is no international framework for carbon markets post 2012, which generates considerable business uncertainty for carbon abatement projects which rely on income from a long term stream of carbon credits, and also for investment and product strategies across a range of industries. Although the Bali Action Plan is only a framework without even indicative commitments for national carbon reductions, we believe that there is now a very good chance that by the end of 2009 global quantitative carbon emissions targets will be in place. Many commentators have bemoaned the fact that quantitative targets were not set; however these plans were not even on the agenda in Bali, despite the EU championing such measures.

2. Unanimous agreement, including by the US, that deep cuts in global emissions are needed

All 192 countries represented at Bali, including the US, agreed that deep cuts in global emissions are needed. Given the US’s reticence in signing the Kyoto Protocol and failure to engage in other initiatives, this is a major step forward and should help bring a post-2012 agreement one step closer as well as increasing the chances of a nation-wide mandatory trading scheme in the US.

3. Developing countries opened discussions for setting voluntary targets

Although the US, Japan and China opposed having indicative emissions targets for developed countries in the final text of the roadmap, the “G77” developing countries were at least entering into discussions concerning the possible setting of voluntary targets in the future, agreeing for the first time to look for ways to make “measurable, reportable and verifiable” emissions cuts. However, there was no consideration of mandatory cuts, as unhindered economic growth remains a more important priority for them.

The Bali conference involved a series of events, including the thirteenth Conference of the Parties (COP 13) to the UN Framework Convention on Climate Change (UNFCCC) and the third Conference of the Parties serving as the Meeting of Parties to the Kyoto Protocol (COP/MOP 3). These events drew over 10,800 participants, including more than 3,500 government officials, 5,800 representatives of UN bodies and agencies, intergovernmental organisations and non-governmental organizations, and nearly 1,500 accredited members of the media.

These meetings resulted in the adoption of 15 COP decisions and 13 COP/MOP. These outcomes covered a wide range of topics, including financial aid for projects in developing countries, deforestation, technology transfer, capacity building, and various methodological issues. Below we have highlighted some of the more important developments.

Adaptation Fund

The UN approved the adoption of the Adaptation Fund, which will provide funding and assistance for developing countries to help protect them against the physical impact of climate change. The fund is expected to finance projects such as sea walls to guard against expanding oceans, early warning systems for extreme events, improved water supplies for drought areas, training in new agricultural techniques and the conservation and restoration of mangroves to protect people from storms.

The fund, which will have a 16-member board with the World Bank as the trustee, will be financed via a 2% levy on revenues generated from carbon credits associated with CDM abatement projects.

REDD - reduced emissions from deforestation and degradation

The UNFCCC believes that 20% of all greenhouse gas emissions are as a result of deforestation. Historically, deforestation has been outside any carbon abatement frameworks, due to uncertainty over the science and difficulties surrounding measurement and verification.

As part of the Bali roadmap, the delegates agreed to include forest conservation in future discussions on a post-2012 replacement for Kyoto. Although there were no concrete proposals, there is now a good chance that carbon credits will be able to be generated from the avoidance of deforestation in developing countries. REDD carbon projects are likely to be one of the most cost effective methods of reducing man-made greenhouse gas emissions, and, unlike many other abatement projects, also have additional environmental and social benefits. Indeed, the World Bank announced the launch of a forest preservation fund at Bali. However, there are still many issues that will need to be resolved, and REDD projects may only end up producing voluntary carbon offsets as opposed to ones eligible under the Kyoto protocol. The key obstacles to setting up a framework are:

- "permanence" - how to ensure that deforestation does not occur in the future once the carbon credits have been generated.
- "leakage" – will deforestation occur in other locations instead of the areas which are producing the credits?
- baseline data establishment – how does one create the baseline of “business as usual” deforestation against which to quantify the improvements? Countries such as Tanzania and India already have good forest management policies in place, so their ability to benefit from any scheme could be limited.

“Russian proposal” on voluntary commitments

Progress was made at the conference on a framework for developing countries to reduce carbon emissions. In May 2007, the Russians made a proposal on how developing countries could agree to non-binding targets as part of a post-2012 global agreement. Although goals for developing countries would not be mandatory, unlike for developed countries, it would still provide a framework to encourage countries to take positive steps, without risking their economic development. Possible voluntary targets:

- Absolute emission reductions - either in a particular sector or for the economy as a whole.
- Relative reduction targets - relative to economic growth
- Policy commitments - carbon taxes, emissions trading schemes etc
- Technology commitments - introduce, support and use low carbon technologies.

After much intense debate, parties finally agreed to a proposal by India and other developing countries to text referring to nationally appropriate mitigation actions by developing countries in the context of sustainable development, supported by technology and enabled by finance and capacity building in a measurable, reportable and verifiable manner.

Conclusion

We believe that the Bali conference was successful in as much as it increased the prospects of having a global agreement for post-2012 carbon abatement targets and policies by the end of 2009. Although there will be little impact on short term carbon trading or policies, organisations will be able to feel some more certainty when developing long term plans relating to climate change and carbon. The conference also saw some convergence of views, and the agreement by the likes of the US, China, India, Japan on the key policy statements was welcome and by no means certain. However, much work needs to be done over the next few years to ensure that the Bali Roadmap does indeed deliver, and corporates need to make sure that they are optimally positioned to take advantages of the opportunities that will subsequently arise.

Cairneagle Associates is a leader in climate change and clean technology consulting, offering a full range of advisory services from carbon strategy, asset allocation, risk management, commercial due diligence, corporate carbon programmes and carbon abatement project identification and facilitation.

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