



Post-Cancun Analysis

Policy Briefing | Jan 17, 2011

I. Summary Points

- ‘Cancun Agreements’ have restored confidence in the UNFCCC process.
- Prospects for a deal at COP17 improved, but form still not clear.
- New mechanisms/processes are important achievements, but much to do.
- Mitigation ambition still too low, but inadequacy acknowledged.
- Future of Kyoto Protocol still in doubt.
- Momentum favours ‘bottom-up’ outcome under Convention track.
- Major players working better but domestic politics still key to UN progress.
- New, progressive coalitions likely to play increasing role in shaping talks.
- Immediate impacts on business from Cancun Agreements minor.
- But greater recognition of need for public-private partnerships.
- And new opportunities for business to influence institutional arrangements.
- Positive shift in discourse from focus on cost to low-carbon opportunities.
- Consultation, transparency, and political capital: the secret to COP success.

II. Overview

The remainder of this briefing is divided into the following key sections:

- I. **‘The Cancun Agreements’**, which provides a factual summary of the main outcomes from the Cancun Conference.
- II. **‘Analysis: Key Takeaways’** which analyses the implications arising from the key Cancun outcomes
- III. **‘Analysis: Key Country Reactions’**, which looks at what Cancun means for the US, China, India and the EU.
- IV. **‘Annexes I & II’**, which respectively provide a detailed breakdown of the Cancun Agreements and a work programme summary for the year ahead.

III. The Cancun Agreements

The ‘Cancun Agreements’ were the principal outputs from the 16th annual UN climate conference (COP16) held in Cancun, Mexico from Nov. 29 to Dec. 10, 2010. The Agreements consist of two formal conference decisions, which anchor progress made in the twin-track Convention and Protocol negotiations over the last two to three years.

The Convention ‘Cancun Agreement’

The Convention ‘Agreement’ is the more substantive of the two decisions, and can be considered as the formal successor to the Copenhagen Accord – the politically divisive and legally ambiguous document, which was ‘noted’ rather than ‘adopted’ at COP15 last year. The decision includes all the core elements of the Accord, but at 30 pages it is a far more comprehensive document. It re-incorporates all the negotiating issues that were left out of the Accord, but which have been the basis of the Convention track negotiations since the 2007 UN climate conference in Bali (COP13). The table below summarizes the key elements of the decision.

Table 1. Key Elements of Convention ‘Cancun Agreement’ ¹
<ul style="list-style-type: none"> • ‘2 Degree’ Celsius target² included in a COP decision for the first time • Copenhagen Accord emission reduction pledges anchored to a formal COP decision for the first time • Agreement to enhance and develop monitoring, reporting & verification (MRV) and international consultation and analysis (ICA) modalities and processes for all countries • Establishment of an ‘Adaptation Framework’ and ‘Adaptation Committee’ • Copenhagen Accord fast-start and long-term finance pledges formally incorporated into a COP decision • Establishment of new climate finance bodies: <ul style="list-style-type: none"> ○ ‘Green Climate Fund’, ○ Transitional Committee (to design Fund) ○ ‘Standing Committee’ (to oversee / coordinate finance flows) • Establishment of new two-part technology mechanism comprising: <ul style="list-style-type: none"> ○ Technology Executive Committee (TEC) ○ Climate Technology Centre & Network (CTCN) • Key elements and framework for developing a deforestation (‘REDD+’) mechanism agreed • Agreement to consider the establishment of new market and non-market based mechanisms at COP17. • Review process agreed to track adequacy of global mitigation efforts • Convention track negotiation extended to COP17 to complete its work

Note: A detailed breakdown of the ‘Agreement’ can be found in Annex I.

The decision contains nearly all the core Convention-related elements of the ‘balanced package’ that senior UN climate officials had identified as necessary for success in Cancun (see our ‘COP16 Cancun Briefing’ from Nov. 2010). In addition, the decision also establishes a number work programmes, calls for submissions from parties, and

¹ Formally: ‘Decision 1/CP16’. See: http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf

² The ‘2 degree target’ refers to the maximum increase in global mean temperature (above pre-industrial levels) that climate scientists have estimated would still provide a 50% chance of avoiding the worst impacts of climate change.

requests technical papers and a range of workshops from the UN climate secretariat (see Annex II for an indicative work programme for 2011).

Notable elements that were not delivered in the Convention decision include agreement on a long-term global emission reduction goal (i.e. for 2050) and a peaking year for global emissions (ideally somewhere between 2015 and 2020). The need for both was, however, recognized.

Failure to agree these points can be put down to two main reasons. First, continued developing country concerns about what a global target might mean for their economic development due to future emission limitation or reduction responsibilities. And second, the ongoing deadlock over post-2012 emission targets for developed countries. Unsurprisingly, this deadlock has had a negative knock-on effect on all other emission reduction discussions.

Also missing from the final decision is any reference to sectoral agreements, including the treatment of international aviation and maritime transport sectors. While good progress was made on some sectoral points (notably around agricultural cooperation), parties failed to reach agreement on a general framework. This was due to divergent views on the voluntary nature of sectoral approaches and the application of the 'common but differentiated responsibility' (CBDR) principle.

The CBDR issue was a particular sticking point with respect to the transport sectors where it has long acted as a barrier to progress. Many developing countries argue that CBDR should be applied to international transport so that developed countries take the lead in addressing emissions from these sectors. Developed countries consider that such application would distort competition and undermine broader non-discrimination principles governing international transport. This division remains unresolved.

The overall failure to move sectoral negotiations forward is disappointing due to the mitigation potential of this approach and the co-benefits (such as generating finance revenues and technology transfer) it provides³. It is not clear from the Cancun decision how or when sectoral negotiations will be taken up in 2011, but parties will no doubt be looking to COP17 for a decision. Separately, efforts to deal with international transport emissions will also continue in the IMO⁴ and ICAO⁵, the UN bodies with respective responsibility for shipping and aviation.

Despite the absence of these various elements, agreement in other areas, particularly around finance, technology, deforestation and MRV, ensure that the Convention decision represents a significant and substantive step forward for the negotiation process.

³ The Climate Group's work with the Aviation Global Deal Group (www.agdgroup.org) is a case in point.

⁴ International Maritime Organisation

⁵ International Civil Aviation Organisation

The Kyoto 'Cancun Agreement'

In contrast to the Convention decision, the Kyoto 'Cancun Agreement' is a concise two page document. Unfortunately, this brevity of text reflects the continuing lack of consensus and hence progress on core issues in the Kyoto track negotiations.

The most important element of the decision is agreement for the Kyoto negotiating group to continue and to complete its work *'as early as possible and in time to ensure that there is no gap between the first and second commitment periods* – meaning that for practical purposes, negotiations would need to be completed during 2011. This outcome was by no means guaranteed heading into Cancun, but was seen as essential if parties were to adopt the 'balanced package' of decisions considered necessary for delivering a successful COP.

Despite the agreement to continue talks, countries remain divided over the future of the Protocol itself. Japan, Russia and Canada all reiterated that they were not prepared to sign up to a second Kyoto commitment period. The future of the Protocol will therefore remain a flashpoint for negotiating conflict in 2011.

Parties also came to agreement on a number of other important points that had previously been deadlocked. This included the base year for calculating emission targets, and the continued use of flexibility mechanisms (see Table 2 below). The fact that negotiators hadn't reached agreement on these relatively straightforward points much sooner underlines the extent to which trust and confidence between parties had previously been eroded.

Table 2. Key Elements of Kyoto 'Cancun Agreement'⁶

- | |
|---|
| <ul style="list-style-type: none">• Agreement to continue and conclude negotiations to ensure no gap between commitment periods• Agreement on base year (1990) for calculation of emission reductions• Agreement also to allow countries to use an optional reference year for their own purposes• Agreement that developed countries can use emissions trading and project-based mechanisms to meet their targets• Agreement that forestry and land-use activities can continue to be used by developed countries as a means of meeting their targets• Agreement that the global warming potential of greenhouse gases are to be those provided by the IPCC |
|---|

It is worth bearing in mind that although the future of the Protocol itself is still uncertain, many countries, including the likes of Japan, are eager to see the key Kyoto mechanisms, such as the Clean Development Mechanism (CDM) survive. If agreeing a second commitment period ultimately proves impossible, developed countries are almost certain to want some or all of the Protocol mechanisms transferred to a new agreement under the Convention. Such an outcome would clearly be to the benefit of those businesses and governments, including from developing countries that have

⁶ Formally: 'Decision 1/CMP6'. See: http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_kp.pdf

invested heavily in these mechanisms. However, as the continuation of the Protocol remains a redline issue for developing countries, such discussion remains largely hypothetical at this stage.

Like the Convention outcome, the Kyoto decision 'takes note' of the mitigation targets (i.e. the Copenhagen Accord pledges) to be implemented by developed countries, as well as the need for raising the level of ambition. The decision also refers to the IPCC's recommended 25-40% emission reduction target for 2020 for developed countries. This remains the reduction range that developing countries, climate scientists and most observers want industrialised countries to adopt. It is also the target range which, unfortunately, is absent from the Convention decision.

Kyoto negotiations will continue in 2011 based on a set of draft decisions that were further developed in Cancun (including the incorporation of the above elements). These decisions (amounting to around 70 pages) cover the core Kyoto negotiating issues, namely: new post-2012 emission targets for developed countries; the treatment of land-use and forestry activities; use of trading/flexibility mechanisms; methodological issues (e.g. metrics for GHGs); and the impact of response measures.

IV. Analysis: Key Takeaways

The success of Cancun undoubtedly marks an important point in the international community's ongoing response to climate change. At the macro-level it has re-energised the UN process, while also highlighting the importance of other complementary efforts; it has further cemented the shift to 'bottom-up' rather than 'top-down' climate action; opened up new opportunities for public-private partnerships (particularly around finance and technology); reconfirmed for many that a final, comprehensive global deal will involve a long-term, iterative process; and helped shift the international narrative on climate action from one of cost and burden-sharing, to one of opportunity. Much, however, remains to be done. But provided governments can build on the trust that was regained in Cancun, this successful meeting should open new opportunities for accelerating the process of low-carbon market transformation and clean investment.

The remainder of this section considers some of the key takeaways from the conference.

'Cancun Agreements' have restored confidence in the UNFCCC process. The successful adoption of the 'Cancun Agreements' has undoubtedly helped restore faith in the ability of the UN system to deliver global action to address climate change. But while the rumours of the UNFCCC's death were overplayed, it is also clear that the forum is not necessarily the best or the only place for developing international policy. A process that still requires consensus (more or less) amongst 194 parties has obvious weaknesses, not least in terms of efficiency and speed. Complementary processes, such as the Major Economies Forum or Cartagena Dialogue (see below) will therefore continue to play a part in raising trust, building ambition and accelerating action amongst parties.

Prospects for a deal at COP17 improved, but form not clear. Prospects for some kind of new climate deal at COP17 in South Africa in December are now looking brighter, but it remains unclear what the form of such a deal might be. A formal, comprehensive and legally binding agreement, of the sort originally envisaged for Copenhagen, is very unlikely in 2011, or indeed anytime in the short to medium term (i.e. before 2015). Domestic political conditions in key countries (notably the US) continue to preclude such an outcome. An incremental, evolutionary approach, favoured by the new UN climate chief, Christiana Figueres, and manifested in the Cancun Agreements themselves, is likely to gain increasing support.

New mechanisms/processes are important achievements, but much to do. Agreement to establish a new climate fund, technology mechanism, adaptation framework and processes for MRV and ICA, are significant achievements. They represent the product of three years of tough and often acrimonious negotiation. These new bodies or initiatives are, however, relatively empty vessels. Putting flesh on the bones of new decisions and mechanisms quickly (i.e. through 2011) will be necessary to ensure the UNFCCC process maintains the good faith and momentum created in Mexico. Success at COP17 in South Africa will likely depend on progress made in developing these new institutions or processes over the next 11 months.

Mitigation ambition still too low, but inadequacy acknowledged. Cancun saw no improvement on Copenhagen Accord mitigation pledges. As a result an annual 'Gigatonne Gap' of around 5Gt (roughly equivalent to the EU's total yearly CO₂ emissions) still exists between current pledges and the minimum cuts recommended by climate scientists. If not remedied this shortfall is projected to result in a more than 3°C increase in global temperature, i.e. above the 2 degree maximum already agreed by parties. Importantly, the Cancun Agreements recognise the inadequacy of existing mitigation measures. The new review process, scheduled to start in 2013, will need to be sufficiently robust to ensure that ambition is increased in a timely and adequate manner. The scope and modalities for the review process are to be developed in 2011.

Future of Kyoto still in doubt. The prospect of a second commitment period for the Kyoto Protocol remains far from certain despite agreement to continue talks. The rejection by Japan, Russia and Canada of any further Kyoto commitments indicates that the likelihood of, a comprehensive and environmentally effective post-2012 Kyoto outcome is diminishing. The EU and other industrialised Kyoto parties, such as Australia, are likely to find it difficult to justify to domestic audiences further Kyoto commitments in the absence of these three key countries. As the continuation of the Protocol remains a totemic issue for developing countries, the future of Kyoto will remain a flashpoint for disagreement between parties through 2011.

Momentum favours 'bottom-up' outcome under Convention track. More obvious progress under the Convention track negotiations, including the formalisation of all Copenhagen Accord pledges here⁷, suggests that the balance of negotiating momentum has swung in favour of this track. It has also reinforced the shift away from

⁷ Developing countries were seeking to avoid references to pledges from Kyoto parties in the Convention track in order to keep developed country mitigation discussions firmly anchored in the Kyoto track.

a top-down, 'Kyoto-style' architecture for international climate action, to a more bottom-up approach. This development was severely criticised by the Bolivian delegation – the only party to reject the Cancun Agreements – as a fatal weakening of global action. Despite being a lone voice, Bolivia's criticisms are not without merit. However, the implications – good or bad – of this shift are likely to take some time to play out. It will be up to other countries, but particularly developed ones, to prove the Bolivian predications wrong.

Key international relationships working better but domestic politics still key to progress. Cancun saw all the major players work hard to forge an agreement – an encouraging sign. But domestic political conditions will continue to determine how far and how fast UN negotiations can move. Each of the main players faces their own challenges. In the US, the political debate on climate and energy policy looks set to remain highly polarised limiting the US's room for manoeuvre and increased ambition at the international level. In India, despite significant support for domestic climate efforts, many parliamentarians reacted negatively to the pragmatic but progressive stance taken by the Indian delegation in Cancun. In Europe, a decision over whether or not to unilaterally increase the EU's 2020 emission target to 30% remains a point of tension between key member states – limiting the continent's claim to climate leadership and hence influence. And in China, where significant domestic climate and energy efforts continue to gather pace, geopolitical considerations are likely to ensure that the Chinese government, for the moment at least, will continue to wait for US movement before upping the ambition of its own international position.

New, progressive coalitions to play increasing role in shaping talks. Cancun saw the 'Cartagena Dialogue', an informal forum of progressive developed and developing countries, play an important role in building confidence and trust amongst parties. The emergence of this grouping is an important development. It signals that many countries are increasingly willing to look beyond traditional, but often inadequate, political alliances to deal in a more sophisticated manner with both the opportunities and threats presented by climate change. This pragmatism has the potential to shape a much more progressive approach to the negotiations.

Immediate impacts on business from Cancun Agreements minimal. While Cancun undoubtedly moved international efforts forward, it produced little concrete action that will have any immediate impact in shifting economies to low-carbon trajectories. The effect on carbon prices (which rose in the EU-ETS⁸ following Cancun) is unclear as it is hard to disentangle weather and fuel impacts from the effects of policy uncertainty. With the future of Kyoto still in doubt, the CDM also remains in limbo. This is despite the agreement that developed countries should be able to use the Protocol's flexibility mechanisms beyond 2012. While this uncertainty is cold comfort for businesses engaged in the official offset market, it no doubt opens new opportunities for the voluntary offset sector. Overall, however, domestic legislation and regulation at national and sub-national level will continue to have the most impact in the short to medium-term on low-carbon investment and related business decisions. With luck the renewed confidence in international action will filter down to stimulate greater ambition at the domestic level.

⁸ European Union Emissions Trading System

Greater recognition of need for public-private partnerships. In the longer-term the Cancun Agreements have opened the door to greater public-private partnerships. For example, the role of the private sector in helping mobilise the \$100billion p.a. in long-term finance is recognised. Given that traditional financing mechanisms in international agreements are based on inter-governmental transfers, this acknowledgement is significant⁹. Similarly, collaboration and engagement with the private sector features in the mandates of the new Technology Executive Committee and Climate Technology Centre and Network (the constitute parts of the new Technology Mechanism). The practical and hands-on mandate of the CTCN in particular provides an interesting model for low-carbon businesses looking to develop mutually beneficial relationships with developed and developing country governments, researchers, academics and commercial partners.

New opportunities for progressive business to influence institutional arrangements. Much of the detail for the new climate fund, technology mechanism and other Cancun elements is still to be agreed. This provides a significant opportunity for progressive business to help determine the framework and institutions that will shape international climate action over the next decade or more. The operational details of these new instruments and processes are expected to be developed through 2011 and observers, including business, have the ability to both directly (i.e. through submissions) and indirectly (i.e. through government sources) feed in their views and expert knowledge.

Positive shift in discourse from focus on cost/burden-sharing to low-carbon opportunities. One important and positive development that clearly favours the voice and objectives of low-carbon business is the shift in discourse that the Cancun Agreements have provided. For perhaps the first time, explicit mention is made of *'substantial opportunities'* arising from a *'paradigm shift towards building a low-carbon society'*.¹⁰ Traditionally, the UNFCCC has tended to focused on concepts such as 'responsibility' and 'equitable burden sharing'. While this language is still present, the insertion of this new text, illustrates that the rhetoric of international climate action is beginning to shift in a far more positive direction. Although this may seem like a relatively minor victory, the UNFCCC is a process where language matters enormously and where whole meetings can succeed or failure over a single sentence (or less). Small victories often lead to large ones.

Consultation, transparency, and political capital: the secret to COP success. The success of Cancun owes much to the strategy of the Mexican government in the 12 months leading up to COP16. Extensive, frequent and transparent consultation with parties and observers, plus investment of real political capital from the Mexican President down, demonstrated the essential ingredients for delivering a successful COP. South Africa, host of COP17, would be well advised to follow the lead set by Mexico.

⁹ Not least because the \$100billion represents only about one-tenth of the additional investment that the International Energy Agency and others estimate will be needed globally on an annual basis to decarbonise economies through to 2050.

¹⁰ See paragraph 10, Section I 'Shared Vision', Decision 1/CP16.
http://unfccc.int/files/meetings/cop_16/application/pdf/cop16_lca.pdf

V. Analysis: Key Country Reactions

In this section senior Climate Group staff in our US, China, EU and India offices provide their views and assessment of what the outcome from Cancun means for government and business in their respective countries and economies.

United States (*Evan Juska, Senior Policy Manager, New York*)

The US got what it asked for from the Cancun Agreements - including proportionate progress on all the main issues, willingness from China to participate in 'international consultation and analysis' and a more formal shift towards the 'pledge and review' approach embodied in the Copenhagen Accord.

With significant progress made on these institutional issues, the US will be forced to address the fundamental question of how it will meet its mitigation and finance commitments (without cap and trade legislation) in future meetings.

The US is hoping that a suite of targeted policies (including EPA regulation, increased fuel economy standards, and possibly a national clean energy/efficiency standard) will enable it to meet its 2020 mitigation commitment (17 percent reduction below 2005 levels), but it's unclear whether such policies will be enacted, and what their cumulative impact would be if they were. Furthermore, without the revenues generated from a cap and trade program, it is also unclear how the US will contribute to a long-term Global Green Fund. To date, the US has contributed \$1.7 billion from the federal budget to fast-start financing, but expected budgetary cuts in the new Congress put even these initial funding levels in doubt for the near future.

What does it mean for business?

The defeat of cap and trade legislation combined with the disappointing outcome in Copenhagen had some US businesses wondering whether the climate issue was going to lose momentum, and for how long. The positive outcome in Cancun signifies that despite the lack of progress at the domestic level, the world is set to move forward with its climate plans, keeping the issue alive at the international level, and by extension, at the domestic level (if to a lesser degree).

The willingness demonstrated by countries in Cancun to cooperate on issues like technology, forests and adaptation, despite their differences on the issue of mandatory emissions reductions, opens up a whole new range of near-term possibilities for countries to cooperate on things like technology research and development, sectoral agreements, and agreements on individual gasses (e.g. HFCs), which could directly affect businesses.

China (*Changhua Wu, Greater China Director, Beijing*)

The Chinese government did not manage to get all it had hoped for at Cancun. This included clear answers to fundamental questions about a second commitment period for the Kyoto Protocol, clarity on the sources and size of funding commitments from

major industrialized countries, and ambitious mitigation efforts from the industrialized world to meet the 2°C degree goal.

Learning from lessons in Copenhagen when China was portrayed by many Western media as “a blocker”, the Chinese delegation in Cancun played a more cooperative and constructive role. And also because of the direction from the Mexican COP President that parties focus on the big picture and principles, the Cancun Decisions – though managing to end on a positive note – did not touch greatly on details of sticky issues.

The positive outcome ensured that the Chinese delegation achieved the ‘mandate’ set by the top leadership before Cancun. This was that China should be seen as a very positive and constructive player. As one Western journalist described it, Chinese delegates were “very low key, but very positive and constructive”.

With the negotiations in Cancun a rather low-key affair, a lot of press attention was instead focused on China’s upcoming 12th Five-Year Plan at Cancun, even though the Plan itself won’t be made public until mid-March 2011. This kind of attention has put the Chinese government’s next move under the microscope, literally putting China’s thinking and potential moves in front of the world’s eyes. This will potentially add more pressure and even motivation on domestic decision makers in Beijing to put more serious consideration into how to ensure progressive outcomes be achieved around energy saving and emissions reduction in the coming decade.

While Cancun saw China give more consideration to rebuilding the international community’s confidence in international governance around climate change, this does not mean that China will be a soft touch during negotiations in 2011. When details are to be discussed, China will continue to defend its rights and those of the broad developing countries, and stick to some fundamental principles.

Although China does not expect much substantial support from the negotiation process, it seems that the Chinese delegation will continue to advocate for the interests of the whole developing world. Yet China has to consider its own interests and make sure that climate change issues are handled properly in the international process. This is because they will potentially reinforce positively China’s domestic efforts to achieve its domestically set targets and goals leading up to 2020.

With respect to Chinese businesses, they will continue to focus on compliance with domestic policy and legislation around energy efficiency, alternative energy and the idea of a clean industrial revolution. With the 12th Five-Year Plan to be rolled out in March, Chinese businesses face more stringent laws, regulations and standards to meet the 40-45% carbon intensity target (2005-2020). The business community is expected to enjoy the biggest opportunity ever in Chinese history from clearly defined policy targets, certainty and direction, and the strongest public support for a clean energy revolution.

Besides the 40-45% carbon intensity target, some pioneering regional governments, provinces and cities, are expected to take more ambitious steps to cap their energy use and emissions. Sectors such as power and a few others are expected to take the lead to achieve total emissions control when a sector cap will be imposed upon them.

Carbon market and carbon trading will be piloted accordingly to effectively support those regions and sectors to achieve their set targets.

For those Chinese companies with eyes on international markets, they will have to become more knowledgeable and ready for laws and regulations different from Chinese ones, and more importantly, take a more proactive role in participating in international markets.

Partnerships will also become increasingly important for the Chinese business community. Partnerships with government, academics, and peers, both domestically and internationally, will be needed in order to dramatically increase Chinese business capabilities in technology research, development and deployment. The increasingly clearly defined international framework will offer Chinese businesses the opportunity to become more important players to work with others to drive the global clean revolution.

European Union (*Luc Bas, Director of European Programs*)

For the EU, Cancun delivered a balanced and substantive package of decisions, and is seen as an important step on the road to a comprehensive and legally binding post-2012 framework for climate action. This was what was hoped for by the 27 member block following the last EU Council meeting in Brussels in October.

The EU worked hard to be a bridge-builder in Cancun while also advancing its positions. An important element of this was its transparency on the progress it has made in mobilising the €7.2 billion of fast-start funding it has pledged over 2010-2012. The EU will continue to report on this funding on annual basis.

But EU Climate Commissioner Connie Hedegaard emphasized that the two weeks in Cancun showed again how slow and difficult the process is. There is still a long and challenging journey ahead to reach a legally binding global climate framework.

Prior to Cancun, the EU had more clearly committed to a second commitment period under the Kyoto Protocol. However, this commitment was not unconditional and therefore the EU's position was initially not that different to the positions of Russia and Japan before these rejected more clearly any 2nd CP. The EU's compromise approach did, however, help to keep the Protocol alive (for now).

Another very important outcome for the EU in Cancun was that it succeeded in speaking better with one voice and was somehow able to show leadership again.

However, the question remains whether the results of Cancun will push the EU to increase its 2020 emission reduction target from 20% to 30% (below 1990 levels). At present it seems unlikely that any comparable move is likely from other developed countries in the near future (a key condition of any EU increase). The European Parliament has again asked the EU Council to increase the target to 30% at the EU Energy Summit on 4th February 2011, as a means to secure Europe's economic competitiveness.

While several prominent EU climate ministers have stated that the result from Cancun makes agreeing the 30% target more likely, other important EU members (such as Italy and Poland) remain to be convinced of the need for Europe to up its ambition. If the increased target is not agreed at the forthcoming Energy summit, the next opportunity will be in March at the spring EU Council. However, expectations that the incoming Hungarian presidency will take a lead on this are not high.

Apart from the 2020 targets, the other area where the result from Cancun could influence EU policy is with respect to the European Commission's strategy for the transition to a low-carbon economy by 2050. This is due to be released in March and will include a 2030 objective.

From a business perspective, Cancun may mean that European companies will be slightly more assured that low-carbon investments will now pay off, given the revitalisation of the international process. This optimism was hinted at in the price of EU emission allowances for December 2011, rising as much as 1.8 % to €15.17. But the Cancun Agreements themselves will not unlock the big shift towards a low-carbon economy in Europe, since the outcome in Mexico does not in itself guarantee success at COP17 in South Africa.

However, the result in Cancun should help the case of those European businesses calling for greater EU ambition. With major emerging countries beginning to move at a faster speed in decarbonising their economies, arguments against unilateral action because of competitiveness concerns are beginning to look not only weak, but also dangerous.

India (*Aditi Dass, Consultant, New Delhi*)

After 17 years of climate change negotiations in which it stuck to its position on 'differentiated responsibility', India finally conceded that developing countries too, should be curbing their emissions. This shift in Cancun helped contribute to the success of COP16, but domestic accusations that Minister Jairam Ramesh 'sold out' to US pressure have been vociferous.

In response to this political outcry, Minister Ramesh has sought to clarify India's position in Cancun. He has said that he called for binding commitment "under appropriate legal form" and not a legally-binding commitment. Mr Ramesh has said the phrase could refer to decisions of the Conference of Parties or commitments made by the government to parliament. "India will not be able to even consider a legally-binding agreement until there is clarity on substance, penalties for non-compliance and monitoring system."

In a long letter sent to Parliamentarians, and subsequently posted in the public domain, Mr Ramesh sets out India's successes in Cancun. Key negotiating gains identified were:

- The formulation and inclusion of 'international consultation and analysis' for developing countries that seeks to protect their sovereign rights;
- Exclusion of 2015 as a peaking year and 2050 as a emissions lowering target year;

- Inclusion of developed country mitigation actions subject to international assessment and review by committee having representation from developing nations.

Progress on issues such as deforestation ('REDD+'), finance, and technology have been well received in India. However, the role of the World Bank as the interim trustee of the new Green Climate Fund has been less welcomed. Other positives include:

- The inclusion of developing country members in a committee drawing up the technology transfer mechanism
- Continuation of the Kyoto market mechanisms such as CDM
- The categorical statement that unilateral measures to combat climate change should not '*constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade*'.

For businesses, India's position in Cancun reinforces the view that the government is serious about its environmental commitments towards a low carbon, clean energy future. This follows on from various announcements and policy clearances since the onset of the National Action Plan on Climate Change in 2008. Developments such as the international commitments made last year of reducing energy intensity; bringing in domestic market mechanisms such as the PAT scheme¹¹ as well as the REC¹² scheme show that energy efficiency and renewable energy production are high priorities for this government.

The business community at large has been weary of the environment Ministry of late. The Ministry has managed to block considerable development projects in a number of states – something unprecedented in the last two decades. Vedanta mining in Orissa, the airport at Navi Mumbai, and Posco's steel plant (the largest foreign investment in India) are a few examples of development projects put on hold in the country by his ministry in the past year.

Still, the steam amongst larger companies that had been lost owing to Copenhagen's failure has been reinstated; and India's flexibility towards progressing the global climate change regime is a clear signal to investors that energy efficiency and clean energy are crucial priorities for this Government.

For further information contact:

Damian Ryan
Senior Policy Manager
dryan@theclimategroup.org
+44 (0)207 960 2717

¹¹PAT – Perform, Achieve, Trade: A national energy efficiency trading mechanism

¹² REC – Renewable Energy Certificate

Annex I: Detailed Elements of Convention ‘Cancun Agreement’

<p>I. ‘Shared Vision’</p> <ul style="list-style-type: none"> • ‘2 degree’ goal incorporated into a formal decision for the first time, but with recognition that greater ambition is necessary to reach goal. • Recognises need to engage stakeholders including business and sub-national govts. • Low-carbon opportunities arising from a shift to decarbonised societies recognised
<p>II. Adaptation</p> <ul style="list-style-type: none"> • Establishment of an ‘Adaptation Framework’ – essentially a set of actions/ activities that constitute recognised adaptation efforts. • Establishment of an ‘Adaptation Committee’ to promote enhanced and coherent action across various adaptation programmes/initiatives. • Establishment of a ‘Loss & Damage’ work programme to look at the climate impacts in developing countries, including possible development of a ‘climate risk insurance facility’
<p>III. Mitigation</p> <p>i) Developed Countries</p> <ul style="list-style-type: none"> • All existing mitigation pledges finally anchored to a formal COP decision • Agreement to enhance existing reporting of dev’d country mitigation actions and support • ‘International assessment’ process established for mitigation actions • Dev’d countries to develop ‘low-carbon development strategies or plans’ • Work programme on enhanced reporting established to develop details of new reporting requirements <p>ii) Developing Countries</p> <ul style="list-style-type: none"> • Agreement that aim of dev’g country mitigation action is a deviation in emissions from BAU by 2020 • All existing mitigation pledges finally anchored to a formal COP decision • Dev’d countries to provided enhanced support for finance, technology transfer and capacity building • A ‘mitigation registry’ established to record both mitigation actions seeking support and support provided • Reporting to be enhanced: existing national communications ideally to be submitted every 4 years; plus new biennial update reports • Agreement on basic monitoring, reporting & verification (MRV) provisions: <ul style="list-style-type: none"> ○ Supported mitigation: subject to domestic and international MRV ○ Non-supported mitigation: subject to domestic MRV only but done according to international guidelines • Agreement on basic International Consultation & Analysis (ICA) provisions: <ul style="list-style-type: none"> ○ Biennial reports subject to ICA in a manner that is ‘non intrusive, non-punitive and respectful of national sovereignty’. ○ Discussion about appropriateness of domestic measures not part of

<p>process.</p> <ul style="list-style-type: none"> • Creation of low-carbon development strategies or plans encouraged. • Work programme established to develop details for all of the above.
<p>iii) Deforestation (aka REDD+)¹³</p> <ul style="list-style-type: none"> • No formal ‘REDD+ mechanism’ actually established, but agreement on: scope of activities; guidelines for developing and implementing policies; key national plans and systems to be developed; the need for a three phased approach to implementing policies and measures; the necessity of dev’d country finance to support REDD+ activities; a work programme to developed details on MRV of actions, monitoring of forest levels, and ID drivers of deforestation; further negotiation to explore financing options for full implementation of REDD+ activities. • Essentially ensures REDD+ negotiations and activities can move ahead.
<p>iv) Market & Non-Market Mechanisms</p> <ul style="list-style-type: none"> • Agreement to ‘consider’ the establishment of one or more market-based and one or more non-market-based mechanisms at COP17
<p>v) Impact of Response Measures¹⁴</p> <ul style="list-style-type: none"> • Reaffirms support for an open international economic system to enable sustainable development • Reaffirms that climate actions should not constitute a means of arbitrary or unjustifiable discrimination or disguised restriction on trade. • Temporary forum established under Subsidiary Bodies with view to develop work programme on response measures
<p>IV. Finance</p>
<ul style="list-style-type: none"> • Copenhagen Accord ‘fast-start’ (\$30b to 2012) and long-term (\$100b pa mobilised by 2020) finance commitments anchored in formal decision • Agreement that funds may come from a variety of sources including public, private, bilateral and multilateral • ‘Green Climate Fund’ established and its basic governance agreed; • World Bank appointed interim trustee for three years; • ‘Independent secretariat’ to support fund operation; • ‘Transitional Committee’ established to design fund, members to be finance and climate experts; • ‘Standing Committee’ established to help improve coherence and coordination of finance delivery and use and MRV
<p>V. Technology Transfer</p>
<ul style="list-style-type: none"> • ‘Technology Mechanism’ established of two parts: <ul style="list-style-type: none"> ○ ‘Technology Executive Committee’ (TEC) ○ ‘Climate Technology Centre and Network’ (CTCN) • TEC to provide strategic advice to parties e.g. technology overviews,

¹³ Reducing Emissions from Deforestation and Degradation (‘REDD’) and through forest conservation and sustainable management (‘+’)

¹⁴ This refers to a positive climate action taken by one country (e.g. raising fuel efficiency in cars) impacting negatively on an activity in another (e.g. vehicle or petroleum exports). This is an issue historically associated with OPEC, but interest has widened due to trade barrier concerns over potential impact so-called ‘border tax adjustment’ measures.

<p>recommend actions, promote collaboration, seek cooperation, catalyse action plans</p> <ul style="list-style-type: none"> • CTCN to facilitate a network of national, regional, sectoral and international technology networks, organisations and initiatives • CTCN to provide practical advice, support, training and facilitation to actually help deliver tech transfer to individual countries • Non-exhaustive list of priority technology areas identified • Agreement to continue negotiations to resolve outstanding issues in order to make Technology Mechanism full operation in 2012 • All reference to intellectual property rights (IPR) removed from text
<p>VI. Capacity Building</p> <ul style="list-style-type: none"> • Reaffirms CB is essential to climate actions and that CB support needs to be strengthened through strengthened institutions, networks, communication/ education/ and training. • Dev'd countries should provide financial resources for CB • Invites/encourages/requests parties to provide more info on CB needs and support given • Negotiators to consider ways to enhance CB monitoring and reporting and elaborated modalities for CB institutional arrangements
<p>VII. Review</p> <ul style="list-style-type: none"> • Agreement to periodic review of long-term goal adequacy • Review to be based on CBDR, latest science, observed impacts, aggregated effect of steps taken, consider strengthening of goal including in relation to 1.5°C rise • First review to start in 2013 and concluded by 2015 • Parties to take appropriate action based on review. • Scope of review to be further refined and develop modalities including inputs with view to adopt at COP17.
<p>VIII. Extension of Convention Negotiations</p> <ul style="list-style-type: none"> • Extended for another year (to COP17) • Parties to continue to discuss legal options with aim to complete and agreed outcome based on existing mandate, work at COP16 and proposals under Article 17 of Convention • S. Africa given mandate to undertake inclusive and transparent consultations to facilitate progress.

Annex II: Convention Track Work Programme / Outputs for 2011

	Issues noted for consideration at COP17	Matters for further negotiation in 2011	Submissions Sought		Future workshops, Papers, and Meetings (dates tbc)	Matters for Subsidiary Bodies**
			Issue	Due		
I. 'Shared Vision'	<ul style="list-style-type: none"> Identify 2050 emission goal and peak year 					
II. Adaptation	<ul style="list-style-type: none"> Decide on composition and operation of Adaptation Committee Adopt decision on modalities and guidelines for dev'g country adaptation plans 	<ul style="list-style-type: none"> Discuss and recommend details of composition, modalities and procedures of new Adaptation Committee and linkages with other relevant institutional arrangements 	<ul style="list-style-type: none"> Views on make-up and operation of new Adaptation Committee (P)* Views on content of 'Loss & Damage' work programme (P+O)* 	21 Feb 2011 21 Feb 2011	<ul style="list-style-type: none"> Secretariat 'Loss & Damage' synthesis report based on Parties' submissions Workshops and expert meetings on 'Loss & Damage' 	<ul style="list-style-type: none"> SBI to develop modalities and guidelines for the development of dev'g country adaptation plans. SBI to take up 'Loss & Damage' work programme in June 2011.
III. Mitigation						
a) Developed Countries			<ul style="list-style-type: none"> Views on work program on enhanced dev'd country MRV (P)* 	28 Mar 2011	<ul style="list-style-type: none"> UNFCCC doc compiling dev'd country mitigation pledges Workshops to clarify assumptions and conditions of dev'd country pledges Secretariat 'technical' paper on dev'd country pledges 	<ul style="list-style-type: none"> SBI to hold process for international assessment of dev'd country emission targets (NB: not clear when this begins)
b) Developing Countries		<ul style="list-style-type: none"> Negotiate details of how to facilitate support through new dev'g country mitigation registry 	<ul style="list-style-type: none"> Views on work program on dev'g country MRV and ICA (P)* 	28 Mar 2011	<ul style="list-style-type: none"> UNFCCC doc compiling dev'g country mitigation pledges Workshops to understand assumptions of dev'g country mitigation pledges Dev'g countries to submit to Secretariat info on actions seeking support Dev'd countries to submit to Secretariat info on support available 	<ul style="list-style-type: none"> SBI to elaborate modalities and guidelines for provisions of enhanced mitigation for LDCs SBI to hold process for international consultation and analysis (ICA) of dev'g country mitigation actions (NB: not clear when this begins)
c) Deforestation (REDD+)	<ul style="list-style-type: none"> Consideration of draft decisions on REDD+ financing 	<ul style="list-style-type: none"> Negotiate financing options for REDD+ 				<ul style="list-style-type: none"> SBSTA to establish detailed work program for REDD+
d) Market/ Non-Market Mechanisms	<ul style="list-style-type: none"> Consider establishment of new market and non-market based mechanisms 	<ul style="list-style-type: none"> Negotiate towards decision on new market and non-market mech. for possible adoption at COP17 	<ul style="list-style-type: none"> Views on the creation of new market and non-market mechanisms (P+O)* 	21 Feb 2011		
e) Response Measures			<ul style="list-style-type: none"> Views on forum and work programme to address impact of response measures (P)* 	28 Mar 2011		<ul style="list-style-type: none"> SBI & SBSTA to convene forums on the impacts of response measures in June & Dec and to develop work program.
IV. Finance			<ul style="list-style-type: none"> Dev'd countries to submit details of yearly delivery of fast-start finance 	May 2011, May 2012, May 2013	<ul style="list-style-type: none"> Meetings of the 'Transitional Committee' of the Green Fund (open to observers) 	
V. Technology		<ul style="list-style-type: none"> Further refine and clarify structure and relationship between Tech. Exec. Committee (TEC) and Climate Tech. Centre & Network (CTCN) 			<ul style="list-style-type: none"> Meeting of the Technology Executive Committee Expert workshop on the composition and operation of new Tech. Mech. entities. 	
VI. Capacity Building		<ul style="list-style-type: none"> Further elaborate modalities regarding institutional arrangements for capacity building 				
VII. Review	<ul style="list-style-type: none"> Decide on scope of 2013 (and subsequent) review of global emissions goal 	<ul style="list-style-type: none"> Further refine scope of review and develop its modalities including required inputs, for adoption at COP17 				
VIII. Extension of Convention track negotiation	<ul style="list-style-type: none"> Negotiating group to present results of all its work at COP 17. 	<ul style="list-style-type: none"> Continue discussing legal options with aim to complete an 'agreed outcome' 				

*P = Parties Only; *P+O = Parties + Observers