Uniting views on climate change

Climate scientists may be almost united in their call for action on greenhouse gas emissions, but the world's policy-makers are not. Mark Nicholls speaks to Yvo de Boer who, as the new UN climate chief, will have to try and forge consensus – and soon

Yvo de Boer is stepping into his new role as executive secretary of the UN Framework Convention on Climate Change (UNFCCC) at a crucial time for the international climate regime. With the Kyoto Protocol ratified, investment is increasingly flowing into emissions reduction projects in the developing world, and the EU and Japan are gearing up for the start of the Kyoto target period, in 2008.

But attention is already turning to 2012, and a successor agreement to Kyoto: one that will bring the US and other Kyoto-sceptics on board; that can deliver the enormous volumes of reductions necessary to avert dangerous climate change; and that can encourage a shift in the development trajectories of countries such as China, India and Brazil.

"If you look at scenarios developed by the International Energy Agency [IEA], you see that within the next five to 10 years, we're going to renew around 40% of the world's electricity generating capacity," says de Boer, speaking to *Environmental Finance* at the UNFCCC's headquarters, on the banks of the Rhine in Bonn, Germany.

"The decisions we take … are going to be there to haunt us, or offer us fond memories, depending on the choices we make," he says.

The Kyoto Protocol, and the international market in carbon reductions that it has created, is beginning to inform those choices, predominantly via its Clean Development Mechanism (CDM). One of Kyoto's so-called flexible mechanisms, the CDM allows emissions reduction projects in developing countries to claim carbon credits, which can be used to help meet the emissions targets that industrialised countries took on under the Protocol.

Yvo de Boer, UNFCCC: "very satisfied with how the CDM is beginning to work"

De Boer, who took over from acting UNFCCC head Richard Kinley in September (who stepped into the role after the untimely death of Joke Waller-Hunter last year) says that he is "very satisfied with how the CDM is beginning to work", noting that there are around 1,400 projects in the pipeline.

Earlier this year, the UNFCCC secretariat announced that the CDM is set to deliver emissions reductions equivalent to some 1 billion tonnes of carbon dioxide (CO_2). Assuming a price of $10/tonne, that promises to see $10 billion of carbon finance flow to projects in developing countries – and potentially leveraging a great deal

more.

But the IEA also estimates that some $17 trillion will need to be invested in the world's energy infrastructure by 2030 to meet the projected growth in demand. And the World Bank calculates that around $30 billion/year will have to be spent to 'green' that infrastructure.

"The question is, where do we find that $30 billion," asks de Boer. "The CDM isn't going to grow to $30 billion/year by 2010. So, how do you expand the market?"

One way is by increasing the capacity of the UNFCCC, and the CDM Executive Board, to process prospective projects. Following decisions taken last December at COP/MOP 1, the annual UN climate change negotiations, the UNFCCC will see a substantial increase in staffing to support the CDM, to 42 by the end of this year, from just 12 in August last year.

And de Boer certainly has great expectations for the mechanism. He has carried out a calculation based on "three ifs": if industrialised countries reduce emissions by 60–80% by the middle of the century, as many climate scientists say they will need to do; if they buy carbon credits from developing countries for half that amount; and if carbon prices are $10/tonne of CO2. "Those three ifs combined could amount to a carbon finance flow of as much as $100 billion a year.That could go a very long way towards greening the IEA investment challenge, and towards addressing climate change in developing countries."

But de Boer acknowledges the CDM's shortcomings. He notes that the market has, by and large, pursued low-cost, high-volume projects that tackle industrial greenhouse gases (GHGs) such as HFCs. Such projects do little to promote sustainable development, their critics argue.

And he adds that Africa – and the world's least developed countries more broadly – are seeing few of the benefits of carbon finance. "The biggest challenge [at the COP in Nairobi this month] is,what we can do to help African countries with the CDM. If you look at where the majority of the projects are going to at the moment, they're going mainly to larger developing countries – the same group of countries that receive most foreign direct investment.

"The least developed countries are having problems attracting CDM projects. That's partly to do with the nature of their economies, and with the nature of the energy demand in their countries. But it also has lots to do with capacity" in those countries, he adds. He also believes that the market can be shifted towards projects with high sustainable development characteristics – meeting the other goal of the CDM, in addition to climate protection, of promoting sustainable development.

One avenue that could be pursued would be to increase official development assistance (ODA) related to the CDM, de Boer suggests. While the Protocol explicitly forbids the diversion of ODA into buying carbon credits, there's no reason it couldn't be used for CDM capacity-building, by funding local CDM 'Designated National Authorities', for example.

As this year's COP/MOP is to be held in Africa, adaptation to the effects of climate change will be high up the agenda. The meeting is due to consider the working programme on adaptation, and the management principles of the Adaptation Fund – to be financed by a 2% 'tax' on Certified Emission Reductions (CERs) from CDM projects – are expected to be agreed.

However, the sums involved are likely to be small compared to the needs of least developed countries: even if all the CDM's 1 billion-plus CERs are generated (a big if) and if they are sold for an average of $10/tonne, only some $200 million will be raised for the Adaptation Fund.

"We have to ask ourselves if we're aware of all the possible channels for adaptation funding," says de Boer,"and are we using them as well as we can. For example, there are many bilateral donors interested in getting involved … [and] the Global Environment

Facility is looking at the question of adaptation. There is a multitude of potential sources of funding, but I'd agree – current financing is insufficient to deal with what's needed."

But the most pressing issue facing de Boer is the post-2012 regime – an issue that is, increasingly, weighing upon the carbon market.

"The fact of the matter is that, without a clear, long-term perspective, it is unclear what the value of carbon credits will be post-2012," he says. "That means that the CDM return on investment will be getting smaller and smaller.

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"Now that the carbon finance machine is rolling, we need to make sure it has continuity … to ensure that investors coming into the market know that they are putting their money into something that has a post- 2012 value."

And the clock is ticking. As de Boer points out, parties to the UNFCCC have said they don't want a gap between the end of the first Kyoto period and whatever comes after."We need to count backwards in time. It took us a number of years to negotiate Kyoto and for it to come into force, and we need a certain timeframe to get things done in time.

"I wouldn't want to pin myself down to 2009" – the date some, such as UK environment minister David Miliband, have set for a deal – "but if agreement on a post-2012 regime comes much later than 2009, then we can't be sure it will be ratified before 2012."

The million-dollar question, however, is whether that post-2012 regime will heal the rift that has led the US to reject the Kyoto Protocol, and what the role will be of major developing countries, which have thus far resisted taking on GHG reduction targets of their own.

"It doesn't make any sense to design a global climate change regime that the largest emitter is not a part of," says de Boer. "But we have to go back and look at what made it impossible for the US to ultimately ratify Kyoto."

He mentions the two reasons given by President George Bush – the fear that Kyoto would harm the US economy and the lack of developing country commitments to reduce their emissions.

"So, on the one hand, how can you be environmentally ambitious, while on the other, how do you keep the costs of implementation as low as possible? … And how can you address emissions in developing countries while respecting the fact that their over-riding concern is economic growth and poverty reduction? "

It is important that we develop a future climate change regime that is ambitious, affordable, and fits with the priorities of developing countries," he adds.

Agreement in Montreal – but what does Nairobi have in store?

More easily said than done. The talks in Nairobi this month are not expected to lead to any breakthroughs on the shape of the climate regime after 2012. But de Boer is confident that there is much in the Kyoto Protocol that could form the basis for a post-2012 agreement.

"The most significant thing about the Kyoto Protocol is not the [average] 5.2% reduction target" that industrialised countries agreed upon, "it is the architecture that is embedded within it. There is a lot of very interesting architecture that we can use in the context of the future regime."

He refers to the increase in flexibility seen in the climate negotiations in the run-up to the 1997 talks – which de Boer attended as a Dutch government negotiator. Then, discussions were broadened from CO2 to the basket of six GHGs, from simply covering emissions to including land-use and land-use change, and to including the international trading of reductions.

"I see an increase in flexibility and creativity … we can carry that forward into the new regime," he says.

Such a regime is likely to include a mix of "hard" and "soft" agreements, Janos Pasztor, de Boer's colleague and officer-in-charge of project-based mechanisms at the UNFCCC, told an emissions trading conference organised by *Environmental Finance* in October.

In addition to the absolute emissions targets that industrialised countries agreed to at Kyoto, he suggested that developing countries might sign up to "quantified sustainable development targets" that "could take into account their huge diversity". Other analysts have suggested that global targets could be negotiated by industry sectors, or that 'no-regrets' programmes could be developed, incentivising reductions in developing countries without imposing penalties for missing targets.

"The future is likely to be much more complex than the existing Convention and Protocol," de Boer said. "But under just about any scenario I've heard, the market will have a role."

Essentially, the approach that de Boer takes towards a post-2012 regime appears to be one of ends, rather than means. As to whether the answer comes via the Kyoto Protocol, or under the parent UN Framework Convention (to which the US remains a party) is irrelevant, he says: "I wouldn't take a particular legal instrument as my point of departure," he says.

"What's important is that we develop a future climate regime that is ambitious, affordable, and fits within the parameters set by participating countries," he concludes.

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