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Report of the co-facilitators of the dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention

Report on the dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention

Note by the co-facilitators*

Summary

The Conference of the Parties (COP), by decision 1/CP.11, resolved to engage in a dialogue, without prejudice to any future negotiations, commitments, process, framework or mandate under the Convention, to exchange experiences and analyse strategic approaches for long-term cooperative action to address climate change.

In response to this request by the COP, the secretariat organized four workshops under the dialogue in 2006 and 2007. The dialogue was facilitated by two co-facilitators, Mr. Howard Bamsey (Australia) and Ms. Sandea De Wet (South Africa).

The COP requested the co-facilitators to report on the dialogue and on the information and diversity of views presented by Parties to the twelfth and thirteenth sessions of the COP. This note responds to the above mentioned request and provides the final report of the co-facilitators on the discussions in the dialogue.

* The document was submitted late because there was insufficient time to finalize it between the fourth workshop under the dialogue and the documents submission deadline.

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I. Introduction

Mandate

1. The Conference of the Parties (COP), by decision 1/CP.11, resolved to engage in a dialogue, without prejudice to any future negotiations, commitments, process, framework or mandate under the Convention, to exchange experiences and analyse strategic approaches for long-term cooperative action to address climate change that includes, inter alia, the following areas:
 - (a) Advancing development goals in a sustainable way;
 - (b) Addressing action on adaptation;
 - (c) Realizing the full potential of technology;
 - (d) Realizing the full potential of market-based opportunities.
2. The COP further resolved that the dialogue will take the form of an open and non-binding exchange of views, information and ideas in support of enhanced implementation of the Convention, and will not open any negotiations leading to new commitments. The COP agreed that the dialogue:
 - (a) Will be informed by the best available scientific information and assessment on climate change and its impacts from the Intergovernmental Panel on Climate Change (IPCC), as well as other relevant scientific, technical, social and economic information;
 - (b) Should enable Parties to continue to develop effective and appropriate national and international responses to climate change, and serve as a forum for identifying actions to promote research, development and deployment of, as well as investment in, cleaner technologies and infrastructure;
 - (c) Should identify approaches which would support, and provide the enabling conditions for, actions put forward voluntarily by developing countries that promote local sustainable development and mitigate climate change in a manner appropriate to national circumstances, including concrete actions to enable countries, in particular developing countries, to manage and adapt to climate change;
 - (d) Should explore ways and means to promote access by developing countries to cleaner and climate-friendly technologies and technologies for adaptation through the creation of enabling environments, concrete actions and programmes.
3. In response to the request by the COP, the secretariat organized four workshops under the dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention (the Dialogue) in 2006 and 2007. The agendas and the information presented during the workshops can be found on the UNFCCC website.¹
4. Pursuant to decision 1/CP.11, the Dialogue was facilitated by two co-facilitators, one from a Party included in Annex I to the Convention (Mr. Howard Bamsey (Australia)) and one from a Party not included in Annex I to the Convention (Ms. Sandea De Wet (South Africa)), who were selected by each group, respectively. The COP requested us to report on the Dialogue and on the information and diversity of views presented by Parties to the twelfth (November 2006) and thirteenth (December 2007) sessions of the COP.

¹ <<http://unfccc.int/meetings/dialogue/items/3668.php>>.

II. Co-facilitators' observations

5. This document responds to the request of the COP mentioned in paragraph 4 above and provides, along with the addendum cited in paragraph 7 below, our final report on the Dialogue, in which, as expected, the diversity of views among governments was manifest.²

6. The report consists of two parts. This document reflects our observations of the very fruitful discussions we all had on the essential building blocks and approaches and how they might be integrated to form an effective global response to climate change. We also reflect on the options offered by participants during the discussion on whether and how to proceed with their deliberations beyond the thirteenth session of the COP.

7. The second part of the report, document FCCC/CP/2007/4/Add.1, contains information regarding the organization of all four workshops and detailed descriptions of the information and diversity of views presented on the themes of the Dialogue during the workshops. It also contains information provided by participants on overarching and cross-cutting issues.

8. We hope that this approach will act as both a summary compilation of the Dialogue and a distillation that helps governments reach conclusions about the road ahead and the measures needed to determine an effective response to climate change while allowing all countries to pursue and achieve their national priorities in a sustainable manner.

A. A strategic dialogue

9. During the Dialogue, we observed that some strategic features of an effective international response to climate change were proposed. We do not suggest that they attracted consensus or constitute a complete range of features, but as we heard the discussion, they seemed to be the features that many participants – delegates, observers and guest speakers – saw as essential for the success of any future international response to climate change.

10. The two years devoted to the Dialogue saw an unparalleled transformation in the attention paid to climate change at the highest levels of government, triggered by growing clarity of the scientific and economic case for urgent and effective action on climate change. It is against the background of this broader debate among world leaders that the pace and direction of the UNFCCC process will have to be set, reaffirming that the UNFCCC remains the central global framework under which legal instruments are negotiated and international mechanisms established.

11. That said, some participants reminded us that the work done under the Convention, though central, is not the only pathway to an effective response to the challenge of climate change. We heard repeatedly throughout the Dialogue of other streams of work beyond our processes, albeit in many cases motivated by and dependent on them, that form a part of the global effort to deal with climate change and will contribute to a comprehensive and thus truly effective response. Scientists, researchers, business and civil society all have critical roles in collaboration with governments. We are grateful that so many experts from all of these fields as well as from governments provided insights that illuminated opportunities to enhance the effectiveness of our cooperation and enlivened our work. They presented realities that must be reflected in our deliberations. If cooperative action among governments to address climate change is to have the global impact we seek, we must continue to draw on expertise not normally available in Convention processes.

12. The Dialogue was a unique experiment for the Convention: an articulated and prolonged exploration of the key issues affecting the prospects for more effective cooperative action, held without

² The co-facilitators reported orally to the twelfth session of the COP. The full text of that oral report is available at <http://unfccc.int/files/meetings/dialogue/application/pdf/oral_report_at_cop12_061117.pdf>.

the pressures and constraints of a negotiation. It provided the opportunity to all governments to engage with confidence in a relatively open and authentic exchange of views and experiences. We all heard much that would not be canvassed during a negotiation. This helped to identify more easily than in a negotiation the real interests of governments and other influential actors, especially business.

13. During the four workshops, governments, assisted by the contributions from experts mentioned in paragraph 11 above, identified possible building blocks for an effective international response to climate change and elaborated on what should guide such a response. They set out, especially in the first and last workshops, their views on a shared vision, as well as on principles and objectives. While these views were indeed as diverse as the COP anticipated, many common elements emerged and strong and broadly-based support was expressed for some ideas and specific building blocks. Clear differences among countries remain. But our strong sense is that these are now more precisely defined and so better capable of resolution given the growing commitment to strengthened international cooperative action evident throughout our discussions.

14. We heard no dispute that an effective global response to climate change is essential. All governments renewed their support for achieving the ultimate objective of the Convention. Differing views on what needs to be done exist – ranging from requiring strengthened implementation of existing obligations to enhanced implementation actions – but a common thread throughout the Dialogue is that more must be done. Among many signs of what several speakers described as a more mature discussion than we have had previously is that no challenge was made to the basic scientific conclusions that bring us together in the Convention and the Kyoto Protocol. Experts involved with the work of the IPCC provided an in-depth briefing on findings of the Fourth Assessment Report (AR4). The IPCC has put the facts plainly on the table, and spelled out in unequivocal terms that humankind has already changed the climate and that current policies – and business as usual – will result in unacceptable consequences. The AR4 also demonstrated that technological solutions are available for immediate deployment and that more are becoming available. It further concluded that the worst consequences can still be averted, if decisive action is taken without delay.

15. Against this background, the Dialogue process provided a unique opportunity for governments to articulate how they see the climate problem affecting their development aspirations and efforts to advance towards their development goals in a sustainable way. The climate change challenge is gradually becoming a core issue for sustainable economic development. In many countries, climate change impacts already threaten vital national interests by magnifying existing adverse climatic conditions. The Dialogue highlighted how much more salient now is the pressing need to adapt to climate change than was the case a few years ago. Once a distant second priority to mitigation for many governments, adaptation is now a crucial aspect of both domestic and international action; it is an essential building block.

16. We heard manifold expressions of the need for urgency. Many participants told us of the serious impacts of climate change experienced daily and underlined the cost, both socially and economically, that further delay will have on their sustained development. For some highly vulnerable countries, we heard that longer-term impacts, such as sea level rise or desertification, threaten their very survival. This highlighted to all that delaying action to respond to climate change is not only dangerous but costly. The reality is that the choice of development paths has a strong impact on climate policy, and the technology and energy choices made today commit investors and the global community to a certain emission path for decades to come.

17. Vulnerable economies are looking for support in their efforts to reduce their vulnerability to the impacts of climate change. We were reminded that the adverse consequences of climate change fall disproportionately hard on those who have least capacity to respond and are least responsible for causing the problem. This makes the realization of their development aspirations contingent on the success of the

global community in developing and implementing strategies which deliver an effective response to climate change.

18. The Dialogue demonstrated how governments, business and civil society are starting to find ways and means to stimulate economic development while reducing greenhouse gas (GHG) emissions in relative terms through improved technologies and policies. No longer is this seen as dealing only with the consequences of past economic growth; it now embraces the challenge of greening future growth. Such cleaner development paths are already delivering important development co-benefits such as improved energy security and reductions in public health costs from improved air quality.

19. No national economy is isolated from the global economy and governments articulated in the Dialogue the national as well as international dimensions of the response to climate change, including the reality that some climate change responses might have unintended consequences adversely affecting other countries. National action is critically important for all governments and can be greatly enhanced by effective international cooperation and incentive mechanisms.

20. Analysis of the economics of action on climate change has demonstrated the efficiency gains from cooperation and from flexibility in where and how emission reductions take place. One of the challenges of designing climate change policies is to enable these efficiency gains to be realized.

21. International mechanisms such as the clean development mechanism (CDM) have already demonstrated how international cooperation can deliver such efficiencies and thereby cost-effective emission reductions while contributing to sustainable development. But we heard many times in the Dialogue that the present design and scope of the CDM limit its scale. Accordingly, many participants suggested amendments to provide broader opportunities for cost-effective emission reductions. Governments have called for more such opportunities in the future.

22. We also heard from many that the financial mechanism of the Convention does not comprehend the volume of financial flows necessary to support an effective international response. New mechanisms involving the international financial institutions and the private financial sector will have to be considered. Several proposals for innovative funding mechanisms were made, and will require systematic investigation. At all sessions of the Dialogue new proposals were presented for creating incentives to unlock the capacity of some developing countries to contribute to limiting emissions. These proposals all merit close examination. If successfully implemented, all would assist in consolidating sustainable development.

23. Throughout the Dialogue, many participants set out their views on the various principles that would underpin a global response to climate change. Suggestions included: fairness; common but differentiated responsibilities and capabilities; environmental integrity; economic efficiency; flexibility to allow for differing national circumstances; and the importance of sustainable development priorities.

24. We heard many suggestions that a shared vision reflected in the identification of a long-term goal would provide overall direction to the effort and ensure that the aggregate result of the actions taken is commensurate with the problem at hand. Suggestions on what such a long-term goal should be were presented in terms of level of emissions, the time by which global emissions would need to peak or the maximum acceptable level of temperature increase. In this context, many participants noted the advice of the IPCC that global emissions would need to peak within 10–15 years and would need to be reduced to half of what they were in 2000 by no later than 2050. Several participants suggested that warming beyond pre-industrial temperatures should not exceed 2°C, while acknowledging that such a level would result in significant adverse impacts. In this discussion, many participants referred to the interdependence between the Dialogue and the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG) when it comes to the discussion of long-term emission goals.

B. Building blocks for an effective response to climate change

25. As indicated in paragraph 1 above, the Dialogue was tasked by the COP specifically to analyse strategic approaches for long-term cooperative action to address climate change that advance development goals in a sustainable way, address action on adaptation and realize the full potential of technology and market-based opportunities. We discussed each of these themes in turn and explored issues that cut across them, such as investment and finance.

26. As we came to the conclusion of the Dialogue, we asked governments to articulate what they saw as the essential building blocks of an effective response to climate change. There is strong agreement that, at a minimum, the following building blocks would need to form part of such a response in some manner:

- (a) Mitigation;
- (b) Adaptation;
- (c) Technology;
- (d) Investment and finance.

27. Governments also indicated that these building blocks alone will not by themselves form an effective response to climate change and that they need to be enhanced by important additional components of the international response, which we discuss in paragraphs 56–60 below.

1. Mitigation

28. The Dialogue brought home the reality that current efforts will not suffice to control the rate of growth of global emissions or stabilize atmospheric concentration of GHGs at a safe level. It was often mentioned that the global nature of the climate change challenge requires global solutions. It was highlighted that success of mitigation efforts depends on the will of all governments to move beyond their existing commitments. Many views were expressed regarding what this would mean in practice. We heard no dispute that developed countries need to continue to take the lead. Some countries expressed the will to undertake deeper emission cuts, others the need for enhanced actions to implement existing commitments, while others were ready to undertake mitigation actions with the assistance of incentives. More discussions will be needed to build on this fragile understanding and explore how it can be put into practice in the design of the climate change regime. The availability of suitable climate-friendly technologies, finance and investment and market mechanisms would greatly support and facilitate any such global efforts.

29. A fundamental transformation will be required, most notably in the way energy is produced and consumed. Current and future choices of unsustainable or inefficient technologies and infrastructure, or options that rule out future improvements and retrofits, can lead to stranded capital or can lock in investments, which will limit future options to tackle climate change. This is particularly true for long-lived investments in energy systems and infrastructure, including human settlements, housing and office buildings.

30. We heard that many countries – including those with relatively small emission profiles – wish to be part of the global response. Several countries presented to the Dialogue the strategic approaches they are taking to reduce their overall national emissions or control the rate of growth of emissions as economic activity expands. These strategies were presented in the context of national circumstances and development plans and outlined the actions these countries have taken and are prepared to take in the future. In some cases, they identified how international mechanisms could further enhance the effectiveness of these actions.

31. One of the interesting novel concepts to emerge from these presentations and the ensuing debate was the suggestion that the climate mitigation benefits of sustainable development policies and measures (SD PAMs) could represent significant contributions to the global effort to control the growth in, and to reduce, GHG emissions. It was suggested that the SD PAMs approach would make it possible for developing countries to pledge, with the necessary incentives, measurable, reportable and verifiable mitigation actions in line with their sustainable development objectives. These are important areas for further work.

32. Success in mitigation relies on a range of enabling mechanisms such as fiscal and regulatory approaches that can reduce costs, provide further incentives for cleaner development and help mobilize the required investment. In order to be most effective, fiscal and regulatory approaches would need to be tailored to the specifics of national economies and be less dependent on international frameworks than the carbon market mechanisms. We discuss the role of carbon market mechanisms in more detail in the context of finance in paragraphs 49–55 below.

33. One of the key messages from the Dialogue is that the energy sector will need to be at the centre of the international response. Government and business representatives alike agreed that the challenge of delivering the energy required for economic activity calls for a major effort to exploit all low and negative cost energy-efficiency options, to accelerate the deployment of available technology and to enhance cooperative action to develop new generation clean energy technologies. Improvements in demand-side management also show promise in changing consumer behaviour.

34. We were encouraged by the promising discussion on efforts to reduce emissions from deforestation and the fact that a country endowed with extensive tropical forests put on the table a concrete proposal for accelerating efforts to reduce deforestation through international cooperative action. This provided for thought-provoking discussions involving many Dialogue participants on a number of possible approaches for dealing with deforestation under a future regime. The Subsidiary Body for Scientific and Technological Advice (SBSTA) will be reporting to COP 13 the results of its work on approaches to stimulate action to reduce emissions from deforestation in developing countries launched by the COP in 2005 at its eleventh session, in Montreal. Success in this area will be important to the future efforts of the global community.

35. Mitigation potential in other sectors was also explored and found to be significant. Sectoral approaches could be effective in realizing this potential through either national policies or coordinated international efforts in specific sectors. A case in point is emissions from international aviation and maritime transport. It was also suggested that coordinated international action in close cooperation with business would be effective in such internationally competitive sectors as aluminium, steel and cement. Action at the international, regional and national levels could involve technology cooperation, performance benchmarks and market mechanisms. Initial success has already been achieved in some of these sectors.

36. Our analysis of strategic approaches to mitigation suggests that enhanced international cooperative action would need to be based on a firm foundation of national mitigation strategies, the effectiveness of which could be enhanced by coordinated international action in some sectors. These national strategies would form the ‘bottom-up’ component of an effective international response. This international response will not be truly effective, however, unless it is guided by and is consistent with the UNFCCC objective of stabilizing GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.

2. Adaptation

37. Adaptation has been recognized as a priority area for action for all countries and a critical element for a future response to climate change. Many countries and communities are already experiencing the impacts of climate change and we were informed of a broad range of adaptation

activities being undertaken. Many countries are not in a position, without international cooperation, to acquire the necessary capacity to identify the most important risks they are likely to confront, to judge their own vulnerabilities or to develop effective strategies to manage risks and build resilience. It is important, then, that an effective international response to climate change include mechanisms to support national and regional action on adaptation.

38. Within the Convention, governments have accorded increased importance to work on adaptation in recent years, and a number of speakers in the Dialogue described their national programmes of adaptation. Most action will remain national in focus although, as participants from the Caribbean region made clear, regional responses have shown promise, especially in the area of risk-pooling.³ Still, since adaptation is needed in response to the impacts of global anthropogenic interference with the climate system, it is appropriate that the Convention – working closely with other international agencies – lead that response and that those countries with greater capacity and resources assist the more vulnerable ones in coping with the impacts of climate change.

39. Several speakers in the Dialogue made the point that international cooperation to enhance adaptation efforts need not be delayed. It can proceed pending agreement on future action under the Convention and the Kyoto Protocol. Indeed, following extended negotiations, an extensive programme of work was agreed during COP 12 and is now being implemented.⁴ The challenge currently is to identify additional steps that build on ongoing work and add value to our current endeavours.

40. While work on adaptation is under way at international and national levels, participants urged that our efforts must be intensified. The truth is that our understanding of the fundamentals of adaptation is still limited and further analysis of likely impacts, reviews of experience and exchange of best practice has the potential to be of immediate value to governments in all regions. In addition, international cooperation in implementing the required practical actions is a challenge for which plans or even likely costs are still emerging. Clarity in this respect will be a critical element in our future work.

41. It was indicated that the design of an effective adaptation response would need to focus on key elements of adaptation, including identifying priority activities at the national level and developing the necessary support mechanisms (nationally and internationally) in order to ensure that concrete adaptation activities can be implemented as an integral part of the development process of all countries. In order to achieve this, a number of steps may be necessary, including enhancing the scientific basis for decision-making; further developing and using methods and tools for the assessment of adaptation needs and results of adaptation measures; continuing to build individual and institutional capacity; increasing public funding; and ensuring the availability of the necessary technological solutions.

42. The Stern Review⁵ and the investment and financial flows work of the secretariat (see paras. 51-55 below) confirmed that there is a need for long-term funding and support for implementation of adaptation activities on a global scale. Existing funds will need to be supplemented by the development of new and innovative sources of funding and instruments, such as carbon finance, wide engagement of business, disincentives for maladaptation and developing new risk sharing mechanisms. Further effort will be required to remove barriers that limit access to existing and new funds. International organizations and implementing agencies can play a key multifaceted role in the area of development cooperation and disaster reduction through, for example, the implementation of integrated sets of actions that are linked to national and sectoral policies and objectives and make full use of synergy with the objectives of other environmental agreements.

³ Risk pooling refers to mechanisms employed to share and transfer risk, including mechanisms such as insurance, reinsurance, catastrophe bonds or disaster funds.

⁴ The Nairobi work programme on impacts, vulnerability and adaptation to climate change.

⁵ Stern N. 2007. *The Economics of Climate Change: The Stern Review*. Cambridge: Cambridge University Press.

3. Technology

43. We heard that technology choices will determine, to a large extent, the degree of climate change resulting from economic activity. Technology is an essential part of mitigation and adaptation efforts and will greatly enhance the success of such efforts. The exchange in the Dialogue addressed both the deployment and transfer of existing climate-friendly technologies as well as the development and commercialization of new and more efficient ones. Accelerating progress in these areas was seen as key to the transition to less carbon-intensive economies.

44. We heard from business that it is ready to play its role in promoting wider adoption of technological solutions for climate change. It is clear that substantial capital needs to be invested in technology research and innovation and, while the carbon market is an important vehicle for engaging the business community and stimulating investment, it is unlikely that sufficient incentives for the investment necessary would come from the carbon market alone. The development, demonstration and commercialization of new technological solutions can be quite capital-intensive. For technologies the sole purpose of which is to reduce emissions, first-mover advantage is minimal. Additional actions will be required to enable such investments to be made. National and international policies can significantly influence the return on investments in technology innovation.

45. It is evident from the Dialogue that special attention will need to be given to technological transformation in the energy sector. While there are many areas requiring attention, key technologies discussed included carbon dioxide capture and storage, advanced fossil fuel technology, renewable energy and safe nuclear power. Adaptation technologies (both existing and new) and the mechanisms that ensure that sectors and communities have access to these technologies were also brought up as a key issue during the Dialogue. Existing technologies include early warning systems, which have proven to be effective in reducing vulnerability to weather-related hazards. Further careful assessment of both mitigation and adaptation technologies and the role they can play in an effective response will be needed.

46. The results of current efforts in technology in the context of the UNFCCC were discussed. Governments presented their assessment of the barriers to effective diffusion of technology to where it is needed for mitigation and adaptation and proposed a range of solutions to overcome these barriers. This debate revealed broad diversity of views on the value of available strategic approaches. The frank exchange on the pros and cons of different approaches in the Dialogue helped to rebuild some of the trust among Parties that has been eroded by difficult debates in the past on this important issue.

47. Several suggestions were made on further action to be undertaken to accelerate progress in all the stages of the technology process from technology innovation to application. With regard to technology innovation, suggestions included enhancing investment in well-structured research and development activities, replication of successful public-private partnerships and targeted capacity-building for developing countries. Pilot projects, and clean development partnerships and programmes were highlighted as useful approaches to demonstrate new climate-friendly technologies, with a view to replicating successful projects in other regions. A market-based technology transfer mechanism, which would provide incentives for investors to transfer clean technologies, was proposed as a means to overcome barriers to technology deployment.

48. Translating these ideas into reality calls for special attention to broad-based technology cooperation in the context of mitigation and adaptation as an essential component of long-term cooperative action to address climate change. We heard from both governments and business of international collaboration already under way to facilitate the development and deployment of new and existing technologies, and are encouraged by the prospects for further cooperative action.

4. Investment and finance

49. As a participant observed in the final session of the Dialogue, change costs money. Even though many mitigation actions – especially in the field of energy efficiency – provide rapid returns on investment, funding is still required up front. A key focus of the Dialogue has therefore been to consider: how much is required for a global response to climate change and where will it come from?

50. At the opening of the Dialogue it was clear that views varied greatly on the answers to these questions and on the extent to which access to financial resources is an obstacle to progress. While that is still the case, two important contributions to our understanding of the funding and financing picture were presented to the Dialogue. The first, from Sir Nicholas Stern, made a compelling case that global action on climate change would sustain global growth and development while, conversely, inaction would constrain them. The Stern Review represented for us and for many others a turning point in understanding the economic case for providing the financial resources to underpin an effective global response to climate change. It presented estimates of the cost of such a response, which while spanning a considerable range, on the whole were relatively modest compared with the risks of unmitigated climate change. Yet, as both the Stern Review and the Dialogue participants pointed out, we have much more to learn about the economics of climate change. A more precise definition of the cost–benefit curve, for example, would enable governments to take better account in their cost calculations of the economic benefits of avoiding greater climate change.

51. With the consent of participants, we asked the secretariat to undertake an analysis of the financial resources that would be required for mitigation and adaptation as part of a global response to climate change. The report of the secretariat's work,⁶ the second of the major contributions referred to in paragraph 42 above, was presented at the final session of the Dialogue. It suggested that responding to climate change would require significant changes in the existing patterns of investment and financial flows, and showed a very complex picture, which highlighted radical differences in national circumstances and sources of financing appropriate for mitigation and adaptation. For the purposes of mitigation, domestic resources deployed by the business sector in response to market signals or government requirements would constitute the major source of the required funding. For this to occur, national policies to establish circumstances conducive to commercial investment would be necessary.

52. The report also made clear, however, that private sector investment – domestic and foreign – will fall far short of meeting the needs of some countries. A representative of a small island developing State outlined in the Dialogue the difficulty his country faces in attracting commercial investment in climate-friendly technologies, simply because its economy is small. The report highlighted that many developing countries, especially the least developed, will require increased official development assistance and concessional financing.

53. The report analysed the current state and future prospect of the carbon market triggered by the Kyoto Protocol. Expanded carbon markets are seen as powerful tools to provide positive incentives for voluntary action by developing countries and to provide developed countries with cost-effective means to meet their emission reduction commitments. Participants discussed the future evolution of the CDM, joint implementation and emissions trading but acknowledged that the scale of the expansion required is such that additional mechanisms will need to be established to make that expansion of the use of carbon markets possible. Such new mechanisms would need to transcend the limits of a project-by-project approach and be capable of delivering tangible sustainable development benefits to host countries. The prospects of a vibrant carbon market, and of the associated financial flows, will be determined by the

⁶ “Background paper on analysis of existing and planned investment and financial flows relevant to the development of effective and appropriate international response to climate change”, available at <http://unfccc.int/cooperation_and_support/financial_mechanism/items/4053.php>.

level of ambition in the emission reduction commitments adopted and the degree to which the policy tool of emissions trading will be employed by national governments to meet those commitments.

54. The report and several expert presenters, including some from business, also underlined that in the pre-commercial stages of technology development, especially research, development and demonstration, carbon markets alone will not stimulate sufficient investment. This is because commercial investors would not receive adequate returns. It will remain necessary for governments to share the financial risk in bringing new technologies to market. Discussion of this issue was a feature of both the financing and the technology components of the Dialogue.

55. A serious gap in data and analysis relating to the financing of adaptation was identified in the report. This was taken up by many participants, who argued that remedying this problem is critical to the design of future international cooperative arrangements. Despite this gap, there was broad recognition that substantial additional funding will be required to support effective adaptation action. In this regard, discussions highlighted the need to identify new and innovative sources of funding, and the need for existing funding to be used most effectively.

5. Other components

56. We have now addressed the essential building blocks which would, at minimum, be needed to construct an effective response to climate change. None of these building blocks can function effectively in isolation; when they are truly integrated the whole becomes more than the sum of its parts.

57. Several additional components were identified, which will be needed to make the long-term cooperative action truly effective and appropriate. It was proposed that the following will require special attention:

- (a) Management of the unintended consequences of response measures for the economies of other countries;
- (b) Means of implementation, in addition to finance, including capacity-building and awareness-raising.

58. It became clear from the debate that potential unintended consequences of action on adaptation and mitigation for the economies of other countries will require careful and rigorous attention in the design and implementation of a future response to climate change. Many of the examples of such consequences relate to potential impacts on trade and services such as fossil fuel production, agriculture and tourism. These issues strongly relate to the sustainable development context of climate policy and the need to be sensitive to national circumstances and to the legitimate interests of others when policies are developed and implemented.

59. In outlining the action they are taking on climate change, many participants referred to barriers and constraints resulting from lack of financial, institutional and human capacity. It is clear that effective national action on climate change will call for a major strengthening of capacity to measure and monitor emissions, develop and implement national strategies, identify climate change impacts and vulnerabilities, raise awareness and actively participate in international action to address climate change. Attention to these needs by the international process is a prerequisite for success.

60. From the interventions of participants it was clear that our future cooperative action will be guided by key principles such as those mentioned in paragraph 23 above.

C. Next steps

61. As we have previously noted, a refrain throughout the Dialogue was that an effective response to climate change will demand that more is done globally, be that through enhancing implementation of

existing commitments or through strengthening existing commitments to the extent necessary for an effective response to climate change. The question is therefore: how should such further action be achieved? A few participants expressed the view that no further process is needed, while some said that we need to build on the existing Dialogue process by moving to a new mode of discussion in which decisions could be made relating to future cooperative action to address climate change. The reality is that without a further process, by definition governments cannot reach agreement on a more effective future response to climate change. Some also said they want to be able to maintain the positive characteristics of the Dialogue, such as the capacity for authentic exchange of views. A new process will therefore need to be designed in such a way that it combines these elements.

62. Many references were made to the sensitive question of the degree to which work in a new process should be synchronized with that of the AWG. Some participants said it is essential for progress that all work on future cooperative action be fully integrated or progressed at a similar rate; others saw the two work streams as distinct in their focus, one predominantly concerning developing countries and the other developed countries. Proposals at the final workshop for future work beyond the Dialogue traversed the spectrum of positions between these views. We believe it was generally accepted that, given the global nature of climate change, we need a global solution. The fact that the AWG and the Dialogue were established as parallel processes – recognizing the limitations and opportunities present under each – makes clear that some degree of synchronicity is essential.

63. Consideration should be given to timelines for this process. Almost all participants stressed the need for urgent action in order to avoid the more serious impacts of climate change, as well as to better prepare the global economy for a carbon-constrained future. Some proposed that conclusion of any process on the development of long-term co-operative action to address climate change will need to be finalized by 2009. This makes a decision on the process question important for the COP at its thirteenth session.

64. Various process options were proposed that might be considered by the COP for their suitability to deliver the required results, including:

- (a) Extend the Dialogue, with a further report to the COP, similar to the present Dialogue or with further mandate and timelines;
- (b) Continue discussion on long-term cooperative action under an item on the COP agenda and reorganize and consolidate the agendas of the subsidiary bodies (the Subsidiary Body for Implementation and the SBSTA) around the building blocks;
- (c) Establish a negotiating process to be undertaken in a working group or other negotiating body established under the COP, with a clear mandate and set time frames;
- (d) Establish a fully integrated negotiating process to be undertaken in a working group or other negotiating body established under both the COP and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol with a clear mandate and set time frames.

65. All of these options have advantages and disadvantages but analysis of their qualities demands a degree of subjectivity. Reaching conclusions about further process is the responsibility, perhaps the priority task, of the COP. In our view, this will call for political-level judgement.

66. If a further process is agreed by the COP, it will have implications for our current work programme and practices under the UNFCCC. We are convinced that the greater clarity of the task before us will require more intensity and more focus in our efforts. Business as usual cannot produce what governments all say they want. The level of ambition required to respond to climate change in a

manner that can deliver both development and low emissions is immense and the practical implications to develop such a response need to be fully understood by governments and their key agencies.

67. This challenge will have to be matched by a work programme that can produce the results required. Essential elements for success in this regard are time and financial resources. We all know that both of these are in short supply. Within the current work programme and the financial allocations under the Convention there is no spare capacity to take on the task that participants have said is required. Our current practice of negotiating over four weeks per year is wholly inadequate for delivering the intergovernmental response necessary. Parties will have to consider how to overcome these limitations and also how to incorporate more effectively the contributions of business and other non-state actors, who will play a major role in the implementation of future action.

68. We see two possibilities in this respect. The first is to request additional financing for the new process that could support a work programme and participation by all in an adequate manner. Delegates will have to be willing to make time available in their own schedules to participate. The second is to make an assessment of the work programmes of the subsidiary bodies with a view to rationalizing them or placing them on hold in order to accommodate the demands of a new process. The likely outcome is that both options will need to be pursued simultaneously and will of necessity require the scaling up of resources, capacity and political will. The COP will have to address this practical matter if a further process is to be undertaken.

69. The Bali Conference will need to determine what the next steps are to develop an effective response to climate change. Future meetings will complete the task of developing the building blocks and integrating them. The constructive spirit that characterized the Dialogue process suggests to us that prospects for our meeting the collective challenge of constructing an effective global response to climate change are stronger than ever before.
