



United Nations

FCCC/SB/2013/INF.9



Framework Convention on  
Climate Change

Distr.: General  
25 September 2013

English only

---

## **Subsidiary Body for Scientific and Technological Advice**

**Thirty-ninth session**

**Warsaw, 11–16 November 2013**

Item 9(a) of the provisional agenda

**Impact of the implementation of response measures**

**Forum and work programme**

## **Subsidiary Body for Implementation**

**Thirty-ninth session**

**Warsaw, 11–16 November 2013**

Item 15(a) of the provisional agenda

**Impact of the implementation of response measures**

**Forum and work programme**

## **Report on the in-forum workshop on area (d)**

### **Note by the Chairs of the subsidiary bodies**

#### *Summary*

This report presents the outcome of the in-forum workshop on area (d) of the work programme on the impact of the implementation of response measures, “Exchanging experience and discussion of opportunities for economic diversification and transformation”, which was held on 4 June 2013 in Bonn, Germany. The workshop provided an opportunity for Parties and relevant organizations to exchange information, experiences, best practices and views in relation to the impact of the implementation of response measures. Such information, experiences and views will serve as input to the relevant discussions of, and consideration by, the subsidiary bodies, in particular when conducting the review of the work of the forum on the impact of the implementation of response measures at their thirty-ninth sessions, with a view to providing recommendations to the Conference of the Parties at its nineteenth session, as mandated by decision 8/CP.17.

## Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction .....	1–4	3
A. Mandate .....	1–3	3
B. Possible action by the subsidiary bodies.....	4	3
II. Proceedings .....	5–51	3
A. Overview presentation .....	8–12	4
B. Information, experiences, best practices and views presented by Parties .....	13–27	5
C. Information, experiences, best practices and views presented by organizations	28–32	6
D. Concluding remarks made by workshop participants .....	33–51	7

## **I. Introduction**

### **A. Mandate**

1. The Conference of the Parties (COP), by decision 8/CP.17, adopted a work programme on the impact of the implementation of response measures (hereinafter referred to as the work programme) and modalities for its operationalization, under the Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technological Advice (SBSTA), with the objective of improving the understanding of the impact of the implementation of response measures in eight areas.<sup>1</sup>

2. The COP, by the same decision, established a forum on the impact of the implementation of response measures (hereinafter referred to as the forum), to be convened by the Chairs of the subsidiary bodies, to implement the work programme.

3. At their thirty-sixth sessions, the SBSTA and the SBI requested<sup>2</sup> the secretariat to support, under the guidance of the Chairs of the subsidiary bodies, the implementation of the work programme. In response to that request, an in-forum workshop on area (d) of the work programme, “Exchanging experience and discussion of opportunities for economic diversification and transformation”, was organized.

### **B. Possible action by the subsidiary bodies**

4. The subsidiary bodies may wish to take note of the information contained in this report when conducting the review of the work of the forum, including the need for its continuation, at their thirty-ninth sessions, with a view to providing recommendations to COP 19, as mandated by decision 8/CP.17.

## **II. Proceedings**

5. The in-forum workshop referred to in paragraph 3 above was held in Bonn, Germany, on 4 June 2013, and was co-chaired by Mr. Richard Muyungi, Chair of the SBSTA, and Mr. Tomasz Chruszczow, Chair of the SBI. It was attended by 60 participants representing Parties, international organizations and research institutions, and experts.

6. The workshop was divided into the following four parts:

- (a) Overview presentation by an expert;
- (b) Information, experiences, best practices and views presented by Parties;
- (c) Information, experiences, best practices and views presented by organizations;
- (d) Concluding remarks made by Parties.

7. The in-forum workshop agenda and the presentations made are available on the UNFCCC website.<sup>3</sup>

---

<sup>1</sup> Decision 8/CP.17, paragraph 1.

<sup>2</sup> FCCC/SBI/2012/15, paragraph 167.

<sup>3</sup> <<http://unfccc.int/7587>>.

## A. Overview presentation

8. An overview presentation was made by a consultant, Mr. Aaron Cosbey, who highlighted possible vulnerabilities of countries and ways to lower the impact of response measures. He also noted examples of activities that may expose countries to the impacts of response measures and that countries may be affected owing to an absence of economic diversification and transformation. He mentioned the following two characteristics of economic vulnerability:

- (a) A narrow export profile;
- (b) Vulnerability to response measures (owing to new demands from importers).

9. Countries that are extractive commodity exporters may be more affected, especially if those exports represent a high percentage of the total exports.

10. The following export sectors are likely to be adversely impacted by response measures:

- (a) Conventional fuels (oil, gas and coal);
- (b) Renewable energy technologies;
- (c) Consumer goods subject to eco-labelling and standards;
- (d) Energy-intensive trade-exposed goods (such as aluminium, iron and steel, cement, chemicals, pulp and paper);
- (e) Airfreighted goods;
- (f) Tourism;
- (g) Marine-transported goods.

11. Countries that are overdependant on conventional fuels, energy-intensive trade-exposed goods and tourism will be most affected by the impact of response measures. It was noted that some least developed countries fall into that category and will need to diversify their economies. In order to achieve economic diversification, industrial policies need to be reformed at the following three levels:

- (a) Fixing the macro policies: getting the investment conditions right; for example, removing subsidies, using fiscal policies as stabilizers, lowering inflation and using exchange rates that work for exporters;
- (b) Addressing market failures of underinvestment: for example, transportation and energy infrastructure, education and environmental protection;
- (c) Targeted support: unleashing latent comparative advantage; for example, subsidies (tax preferences, grants, low interest loans), research and development support and demonstration projects.

12. Mr. Cosbey's concluding remarks included noting that achieving economic diversification requires undertaking it as part of a broader process of sustainable development. It is also necessary to obtain information on the scope of the problem (e.g. national circumstances, affected countries and sectors) and to collaborate with international institutions, such as the United Nations Industrial Development Organization, the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, that are involved in work on economic diversification.

## **B. Information, experiences, best practices and views presented by Parties**

13. A representative of the Group of 77 and China (G77 and China) stated that work on area (d) presents an opportunity to exchange views, experiences, lessons learned on economic diversification and transformation in the context of nationally defined priorities, circumstances and needs. She also noted that the exchange of views would help to improve knowledge on how economic diversification can be integrated into sustainable development plans.

14. Citing Article 4, paragraphs 3, 5 and 7, of the Convention and decision 2/CP.17, the representative pointed out that economic diversification and transformation entail high adjustment costs for developing countries. Developed country Parties and other developed Parties included in Annex II to the Convention therefore need to support developing countries by providing the financial resources, technology transfer and capacity-building required by the Convention.

15. She pointed out some of the response measures undertaken by developed countries that pose a threat to developing countries' economies. Those may include agricultural subsidies in the importing countries, standards and tariffs. A number of those measures may transfer the burden of mitigation obligations to developing countries.

16. The presentation by a representative of Saudi Arabia defined economic diversification and expounded on how it may help in alleviating the adverse impacts of response measure. It also covered the benefits of discussing it under the UNFCCC process, activities that could be undertaken at the international and national levels and a case study in the energy sector.

17. While recognizing the definition of economic diversification provided in the overview presentation, the representative of Saudi Arabia referred to a workshop on economic diversification that was held in 2003, in which economic diversification was defined as the following:

- (a) A process in which a growing range of economic output is produced;
- (b) The diversification of markets for exports or the diversification of income sources away from traditional domestic economic activities.

18. In explaining how economic diversification can help to alleviate the adverse effects of response measures, she listed the following benefits:

- (a) Reducing the vulnerability of single-commodity or single-sector economies;
- (b) Enhancing economic resilience;
- (c) Limiting exposure to market distortions;
- (d) Increasing risk management options.

19. She indicated that the exchange of views under work area (d) could lead to long-term resilience and short-term adaptive measures, building on the experience of other mechanisms in assessing risks and promoting capacity-building.

20. On possible economic diversification activities that could be coordinated at the international level, she mentioned identification of means to support developing countries, examining barriers to economic diversification, sharing experiences on methodologies and tools, building a platform for learning and defining the role of the secretariat in supporting those efforts.

21. She mentioned social (e.g. job creation and employment), economic (e.g. development of structural and institutional capacity and promotion of an initiative to

encourage private–public partnerships) and environmental (promotion of economic diversification that has emission reduction co-benefits) activities that could be coordinated at the national level. That was illustrated by showing a case study on diversifying the energy sector in Saudi Arabia as part of its national development plan.

22. A representative of the European Union emphasized that economic diversification and socioeconomic trends, including developments in finite/renewable resources, population trends and technological innovation, offer challenges and opportunities for all countries. A transition to a low greenhouse gas (GHG) emitting society provides an opportunity for economic diversification. The representative illustrated those opportunities by giving examples of how the European Union has decoupled economic growth and GHG emissions and by describing its renewables policy and its diversification of energy consumption.

23. The representative further noted that the objective of the work programme is to improve the understanding of the impact of the implementation of response measures, by taking into consideration both positive and negative impacts and by sharing information through open discussions among Parties, experts and civil society.

24. Recognizing the definitions of economic diversification provided by previous speakers, a representative of the Bolivarian Republic of Venezuela stressed that overreliance on one source of income is an economic risk.

25. The representative raised the question of whether economic diversification leads to development or vice versa and observed that economic diversification is at the moment difficult to undertake in many developing countries, since their main effort is to ensure survival and to improve quality of life. There is therefore a lack of economic diversification in the least developed countries and oil-exporting countries, which are thus being exposed to the severe impacts of response measures.

26. The representative further discussed the relationship between economic diversification and sustainable development. While reduced economic diversification increases the vulnerability of economies to the impacts of response measures and reduces their capacity to adapt to climate change, economic diversification alone is not enough to effectively address adaptive capacity and long-term prospects. He noted the following key requirements for achieving sustainable development:

- (a) Meeting the poor's basic needs (i.e. poverty eradication);
- (b) Ensuring environmental sustainability (acquiring know-how);
- (c) Expanding the environment's ability to meet people's needs by improving technology and social organization;
- (d) Equity both within and between generations.

27. He concluded his presentation by acknowledging that none of the above-mentioned requirements are easy to meet and that actions such as technology transfer, capacity-building and education are all important contributions towards sustainable development.

### **C. Information, experiences, best practices and views presented by organizations**

28. The presentation by a representative of the International Centre for Trade and Sustainable Development (ICTSD) focused on the linkages between trade and climate change. He emphasized why consideration of trade issues in the climate discussions is important.

29. Among others, trade can:
- (a) Be an engine of growth and support social and economic development;
  - (b) Help to adapt to shocks (e.g. in agricultural production);
  - (c) Play a key role in adapting to climate change;
  - (d) Help to limit water usage;
  - (e) Facilitate the provision of renewable energy and efficient technologies to consumers, thus creating a global marketplace in which innovation increases and prices reduce.
30. Furthermore, the representative mentioned the following reasons why it is necessary to understand the linkages between trade and climate change:
- (a) Failure to consider trade concerns poses a risk that countries may not address climate action and could miss out on the opportunity to develop associated trade policies;
  - (b) There are fears that climate change policies will lead to protectionism, which may undermine the will to enhance trade reforms and thus impede trade contributing to growth and development;
  - (c) It is recognized that trade rules were made before countries agreed on the climate change process. Under the World Trade Organization (WTO) there are a number of disputes related to climate change but no guidelines on how to address them.
31. The major linkages include the following: the biophysical impacts of climate change and the trade implications, the direct impact of trade on climate change, policy linkages such as climate change policies and the impact of measures on trade, and the contribution of trade policies to climate-related goals.
32. A representative of the Organization of the Petroleum Exporting Countries (OPEC) explained the projections made by the Global NERA Model, a general equilibrium impact assessment model, which show that OPEC member countries will face large and disproportionate adverse impacts arising from the implementation of response measures. He noted that economic diversification could help to alleviate those adverse impacts if it is supported by an adequate means of implementation, in particular technology transfer and capacity-building. The adverse impacts would be even more reduced should the portfolio of mitigation policies by developed countries be selected in a least-cost manner. To that end, the presenter stated that full implementation of previous UNFCCC decisions is also required.

#### **D. Concluding remarks made by workshop participants**

33. The participants were invited to ask questions and make comments on the presentations, with a view to gathering ideas for preparing recommendations for further work to support economic diversification under the UNFCCC process.
34. Many participants agreed that the forum is important for sharing information, experiences and lessons learned for addressing the impacts of the economic and social consequences of response measures.
35. Reflecting on Mr. Cosby's presentation, the representative of the International Trade Union Confederation (ITUC) inquired whether civil society organizations participate in the development of economic diversification policies and activities. In response, Mr. Cosby underlined that since economic diversification is part of a broader strategy of development with nationally defined development goals, a national dialogue among all

stakeholders, including civil society, trade unions, non-governmental organizations and research institutes, is essential.

36. Noting that undertaking economic diversification actions in the energy and transport sectors will require substantial support, a representative of Sierra Leone wished to learn about the support given to developing countries by the European Union and other developed countries. In response, a representative of the European Union referred to the presentation he made in another workshop on the support given by the European Union in the area of clean development. That support covers needs in the energy and transportation sectors.

37. Referring to Mr Cosbey's presentation, in which industrial policy reforms, including the removal of subsidies and using fiscal policies as stabilizers, were mentioned as being necessary, a representative of India noted the following:

(a) Targeted and transparent subsidies are needed in India. For example, subsidies in the energy sector, especially for renewable energy, are very important for providing energy security to poor communities;

(b) In some cases the removal of subsidies may cause inflation, especially of food prices;

(c) In order to utilize effective fiscal policies, financial support is needed in many countries.

38. A representative of Argentina concurred with the views made by other developing countries regarding the need for subsidies and stressed the importance of energy and agriculture subsidies in developing countries.

39. A representative of the European Union explained that in some cases the removal of subsidies may be justified if they have harmful effects. A case in point is when penetration of modern energy systems is needed in order to embrace access to clean and more sustainable energy. Subsidies to maintain antiquated systems will need to be discontinued.

40. A representative of Australia recognized the importance of subsidies for some vulnerable communities. However, he stressed that subsidies can be inefficient and ineffective and therefore removing them may help governments to distribute the funds among economically viable activities.

41. Several workshop participants commented on the model presented by the OPEC representative.

42. The ITUC representative remarked on the projection of that model that indicated a decrease in the gross domestic product (GDP) of OPEC countries in the future. He contended that the amount of resources some OPEC countries are investing in economic diversification should lead to an increase in the GDP. As an example, Saudi Arabia's initiatives that provide a manufacturing base in the Middle East together with its oil resources will be a powerful economic opportunity.

43. On behalf of the G77 and China, a representative of Argentina wished to know whether the model assesses the adjustment costs.

44. In relation to the notion that revenues and GDP will fall in OPEC countries, a representative of Australia cited the *2012 World Energy Outlook* of the International Energy Agency (IEA). He pointed out that the world's energy demand will rise, leading to higher energy prices and consequently higher GDPs.

45. Regarding the model assumptions under the 550 parts per million (ppm) carbon dioxide equivalent stabilization scenario, a representative of the European Union concurred with the ITUC regarding the ambitious projections. He informed participants about the



IEA's ongoing modelling exercises, which utilize a range of models that provide a useful range of projection options for consideration.

46. In response to the queries on the model projections, the OPEC representative noted the following:

(a) The Global NERA Model explored other stabilization targets, such as 450 ppm, and according to the model the adverse impacts on OPEC member countries are projected to be higher than in the 550 ppm scenario;

(b) Policies and measures undertaken should be a combination of economic diversification and mitigation policies that minimize the adverse effects;

(c) The model did not assess adjustment costs.

47. A representative of Singapore associated himself with the views presented by the G77 and China and referred to Article 3, paragraphs 4 and 5, and Article 4, paragraph 10, of the Convention. Using Singapore's experience as an example, he said that one of the necessary conditions for economic diversification is the availability of open markets. He urged all Parties to take steps to remove trade barriers, such as standards for exports from developing countries and barriers to environmental goods and services. He reiterated that a robust rule-based multilateral system is critical for economic diversification.

48. On the linkages between trade and response measures, participants had an active discussion, which included the following:

(a) Having reflected on the linkages between transportation and climate change in the ICTSD presentation, a representative of the G77 and China refuted the notion that long-distance goods transportation contributes to an increase in GHG emissions. She said that there was no scientific basis for that claim and asserted that it is possible to emit more GHGs while producing goods locally. Therefore, what is needed is to examine the whole life cycle of goods and services;

(b) A representative of the United States of America agreed with the view espoused by Singapore, namely that Parties to the Convention should uphold international trade agreements. She pointed out that the existing processes, such as those under WTO on trade-related issues, need to be respected. Similar discussions should therefore not take place in the UNFCCC process since it is not the appropriate platform for them;

(c) A representative of Argentina responded by asserting that there are no negotiations on the linkages between trade and climate change under WTO. She referred to decision 1/CP.18, paragraph 54, in which the COP invited Parties to continue their participation in the forum, including sharing of views on policy issues of concern, such as unilateral measures. On the basis of that mandate she proposed that a workshop be organized in Warsaw, Poland, to discuss the possible impacts of unilateral measures. That proposal was strongly supported by a representative of China, but representatives of the United States and the European Union disagreed, stating that the decision did not give the discussion on unilateral measures any special status requiring separate consideration under the work programme.

49. A representative of Saudi Arabia expressed a view that the forum should be a place to discuss only the negative impacts of response measures, since positive impacts are already accommodated under several agenda items. He called on Parties to work together to ensure that policies and measures being adopted are useful to the international community and offer global benefits and economic growth in a sustainable manner.

50. On the proposal for further discussions under area (d), a representative of the United States expressed interest in deliberating on how the tourism sector may be affected by the impacts of response measures and urged small island developing States to share their

experiences and specific circumstances. A representative of China also supported the suggestion of holding a more focused discussions on topics of critical concern.

51. A representative of the G77 and China reiterated the proposals she had presented earlier in the meeting relating to the needs of developing countries. Pointing out the high cost of adjusting to low-carbon economies, it was important to enhance the provision of financial, technological and capacity-building support by developed countries to developing countries. Saudi Arabia supported that view and appealed to developed countries to fulfil their obligations in that regard.

---