

# POLICY BRIEF

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**Cancún: don't look back in  
anger**

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## ABSTRACT

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This policy brief will analyze expectations and challenges behind the 16th Conference of the Parties (COP 16) in Cancún, Mexico (29 November - 10 December 2010).

In particular, the policy brief will focus on hot issues and key countries, the need for a “rescue plan” for the second Kyoto Protocol commitment period in the event of a Cancún failure and, finally, on a possible post-2012 climate policy architecture.

The starting point will be the Copenhagen Accord, where a huge contradiction emerged between the promises formulated (the 2°C goal) and the determination to fulfil them (voluntary national policy actions). A compromise among different interests and requests of countries is still missing and, while EU climate leadership is starting to be questioned, a credible signal still has to be given by the highest emitters.

However, what presumably will emerge in Cancún is a governance problem and parties will have to address the meeting as an opportunity to pave the way toward the establishment of an effective international climate change governance system.

According to the above-described issues, this policy brief aims at proposing a three-point agenda for guiding policy makers to a credible and ambitious position for the future negotiations in Cancún.

## Policy Challenge

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Many years have passed, but negotiations have not yet worked out how to manage climate change, and the Copenhagen summit has added new issues to the pending ones still on the list. The way forward is not more promising, since the features of a climate change agreement and the venues that should host its negotiation and implementation are still subject to discussion.

Moreover, negotiations are struggling to preserve what had already been achieved. The Kyoto Protocol will expire in less than two years, and efforts to avoid a gap with a subsequent commitment period are running out of time. As a matter of fact, the UNFCCC itself has started to outline several legal options in order to streamline the ratification process since much is at stake. Notwithstanding the impact that the absence of an arrangement would have on State Parties (i.e. without emission reduction), even flexible mechanisms could be suspended, thus nullifying the main existing means to engage developing countries.

## Introduction

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The starting point of the Cancún negotiations will be the provisions included in the Copenhagen Accord; in particular, the voluntary emissions pledges and the 2°C long-term target and financial aids from the developed to the developing world.

This is indeed the starting point, but it will not be enough. Moving a step forward in the right direction will be the objective of COP 16. This goal could be achieved via three channels. First, finding a compromise between old (U.S. and China) and new (ALBA) leading players, as well as old (eg. emissions target) and new (eg. financial aids, MRV provisions) negotiating topics. Second, safeguarding the key successes achieved under the Kyoto Protocol and bridging the legal weakness of the Copenhagen Accord. Third, seeking an appropriate climate change governance architecture besides responding to some previously defined open issues (eg. financial structure and transparency of action) with existing institutions and procedures.

## 1. Who and what matters

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### Hot countries

The North-South divide emerged once again during COP 15 in Copenhagen; this divergence among the players could be justified by different social and economic responsibilities. On the one hand, the developing world argues that action against climate change should come first and foremost from developed countries - considering their historical responsibility - while their primary objective is still eradicating poverty and enhancing economic development. On the other, many developed countries are pressing emerging economies to accept binding emission reductions, being particularly concerned about carbon leakage and exposure to unfair competition (Frankel, 2009).

Polarization still exists, and the Copenhagen Accord remains structured in terms of developed and developing worlds, even though its main protagonists were the United States and the emerging economies, namely China, India, Brazil and South Africa (so called BASIC group). This symbolically marked the shift of the negotiations' centre of gravity, with the EU climate leadership starting to be questioned<sup>1</sup>.

Unless the two world's biggest emitters<sup>2</sup>, China and the U.S., reduce their emissions, other countries may not take any or substantial actions, in light of the fact that their efforts would not produce meaningful results without the participation of these two big emitters. A credible signal has indeed to be given *in primis* by China and the US; even though both seem reluctant to take the first step without the assurance that others would do the same. China is unlikely to go beyond its modest targets until the U.S. does more. Vice versa, the U.S. is unlikely to do more if it is not sure of China's willingness to act (Busby, 2010).

In fact, while they did work together for the agreement's definition, they still have different positions on several issues. China puts pressure

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<sup>1</sup> For additional information see Favero A. and C. Rogate, "Winter-break in Cancún: will the EU carry its leadership?", FEEM Policy Brief n.06.2010.

<sup>2</sup> China now tops the list of CO2 emitting countries and the US is in the second position. China's 2006 CO2 emissions (about 6.200 Mt CO2) surpassed those of the USA (about 5.800 Mt CO2) by 8%. Netherlands Environmental Assessment Agency (2010). "China now no. 1 in CO2 emissions; USA in second position".

on the “different responsibilities”, and different commitments, while the U.S. asks for a future binding agreement without the “Kyoto-distinction” between developed and developing countries.

From another perspective, what is going on at home is quite different from what is happening on the international stage. With regard to the U.S., the Kyoto experience<sup>3</sup> suggests that an international agreement should follow rather than precede a domestic action in the country. Thus, the international agreement would be reached only if the United States approves its national energy and climate package. Nowadays, this appears far from the truth. In fact, while the negotiating process in Copenhagen was slowed down by U.S. domestic legislation, the mid-term result<sup>4</sup> and the stalemate on the US domestic policy will certainly not help in Cancún.

China submitted to the UNFCCC Secretary<sup>5</sup> its intensity targets to reduce the amount of emissions per unit of output by 40-45% by 2020 compared to 2005 levels<sup>6</sup>. However, this goal disappointingly offers little improvement beyond the efficiency gains a growing economy would deliver anyway (Carraro and Massetti, 2010). In addition, it remains unclear whether this target is adequately ambitious to satisfy U.S. requests.

A second clearly identifiable group at the negotiations table was the ALBA<sup>7</sup> bloc of Latin American countries. This faction is heavily characterized by an anti-U.S. and North-South divide rhetoric, both of which have been translated into the “People’s Agreement” text, aiming at offering a new mainstream for climate

change governance<sup>8</sup>. Some of its members (Bolivia, Venezuela, Cuba and Nicaragua) were openly hostile to the Copenhagen Accord and indeed responsible (together with Tuvalu and Sudan) for the non-adoption of the agreement.

In fact, while challenging the Copenhagen Accord, these countries are not suggesting realistic arrangements. Together with the unreasonable 1°C target<sup>9</sup> they are proposing ridiculous amounts of financial aids (6% of GDP), with the final effect of hampering negotiations, slowing down the reaching of an agreement, and creating a stalemate which benefits no one<sup>10</sup>.

These countries, with Bolivia at the forefront, were also protagonists of the Bonn talks, held after the COP 15, during which they did not abandon their obstructive stance.<sup>11</sup>

Finally, the oil-producing nations group showed itself unwilling to commit to emission reduction targets and several of its members, following the lead of Kuwait, were against the Copenhagen Accord. The same behaviour emerged in the last UN climate talks in Bonn when Saudi Arabia blocked a call by vulnerable island states for a study on the impact of 1.5°C, arguing that increasing action on carbon emissions “will hurt its revenues as fossil-fuel consumers switch to cleaner energy”<sup>12</sup>.

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<sup>3</sup> Few months before the Kyoto Conference, the U.S. Senate passed unanimously the Byrd-Hagel resolution which stated that the US should not be a signatory to any protocol which would mandate new commitments to reduce GHGs emissions for the Annex I Parties, unless it also mandated new commitments for developing countries”.

<sup>4</sup> The U.S. midterm election last November saw the win of Republicans in the House while Democrats still have the majority of the Senate. This will mark the end of any likelihood that an energy bill will be passed over the next two years and essentially stumbling the White House’s strategy on climate change.

<sup>5</sup> Developing countries communicated information on their nationally appropriate mitigation actions: <http://unfccc.int/home/items/5265.php>.

<sup>6</sup> Emission cuts and energy-saving will be key components in China’s next five-year plan which will be finalised and approved by the National People’s Congress in March 2011.

<sup>7</sup> Alianza Bolivariana para los Pueblos de Nuestra America – Bolivarian Alliance for the Americas.

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<sup>8</sup> The text was produced during The World People’s Conference on Climate Change and the Rights of Mother Earth, held in April 2010 and presented during the June Bonn talks. It proposes several new arrangements, like a United Nations Declaration on the Rights of Mother Earth. For more information see “The People’s Agreement” at <http://pwccc.wordpress.com/support/>.

<sup>9</sup> The 1°C aim corresponds to a concentration of 350 ppm CO<sub>2</sub>-eq which to be reached, given the current 430 ppm concentration, would require reducing emissions to zero now and at the same time absorb 80 ppm CO<sub>2</sub>-eq, namely the amount produced during the last 50 years, which would take another 50 years to absorb (IPCC, 2007).

<sup>10</sup> For further information about the ALBA bloc’s position see the IISD Earth Negotiation Bulletins and International Climate Policy and Carbon Market, No. 9, p. 6, July 2009.

<sup>11</sup> Their newly-mounted relevance has been also witnessed by the process of engagement the Mexican Minister of Foreign Affairs has initiated with them since September. In light of the upcoming COP in Cancun, he expressed the willingness to organize a preparatory conference in Ecuador to allow the ALBA group’s negotiating team to draft a common technical document outlining the group’s position.

For further information see “Mexico aims to engage Alba bloc ahead of Cancun” Point Carbon 24 September 2010.

<sup>12</sup> Middle East Online: “Saudi thwarts call for climate warming report.” 11 June 2010.

## Hot issues

Above all, the Copenhagen Accord contains at least some important provisions representing a first step towards a post-2012 era. However, what emerged is an inconsistency between the promises formulated and the determination to fulfil them<sup>13</sup>. Indeed, Copenhagen issues have to be addressed in the right way and something more has to be put on the table. Cancún is the right place to do so.

First, the goal of limiting the global average warming to 2°C in order to avoid the most damaging impacts of climate change has been recognised. However, only voluntary commitments within 2020 have been agreed upon, without defining the pathway for achieving the emissions reductions required to reach the climate-stabilization goal. Thus, the inconsistency between the bottom-up definition of short-term regional targets and the top-down, long-term goal on global warming cannot guarantee the environmental effectiveness of the agreement (De Cian and Favero, 2010). So, something between 2020 and 2100 has to be put on the negotiation table.

The second important provision envisaged a fast-track fund of US\$ 10 billion per year from 2010 to 2012, for a total amount of US\$ 30 billion. And, conditional on sufficient and transparent mitigation actions, developed countries have committed to transfer US\$ 100 billion dollars a year by 2020.

Nevertheless, the Accord remained vague on the nature of the funding sources (public and private, multilateral and bilateral), on their allocation among countries and scopes (mitigation and adaptation) and on who will manage them. Finally, it did not define what instruments would be used in order to mobilize these funds.

Hence, the situation persists to be unclear with developed countries having unilaterally defined the proportion of their contribution<sup>14</sup>, nothing more. However, a number of public and private mechanisms for funding climate mitigation have already been established, such as carbon funds (both public and private), the Global

Environmental Facility (GEF) and the Clean Development Mechanisms (CDM) and could present a good starting point<sup>15</sup>. Additionally, creating a demand and a supply for emissions reductions, through policies or other incentives (e.g. carbon tax or cap-and-trade), is the strongest tool to spur investment. The carbon market indeed would be able to (i) generate monetary and technological transfer from the developed to the developing world where there are more abatement opportunities; (ii) address investments towards low carbon technologies and R&D; and (iii) create public finance for example via auctioning carbon permits (see Bastianin et al, 2010).

In this context, one of the mechanisms explicitly mentioned in the Copenhagen Accord, which represents a credible option for the post-2012 era, is the Reducing Emissions from Deforestation and Forest Degradation (REDD+). It symbolizes a significant step toward the right direction because it offers the potential for achieving multiple benefits in the areas of climate change mitigation, since deforestation is a major source of CO<sub>2</sub> emissions, accounting for around 17% of total annual anthropogenic carbon release (IPCC, 2007). Additionally, developing countries would reap the many co-benefits that accompany the maintenance of healthy forests and it represents a meaningful incentive for them to undertake mitigation actions.

While financial flows were the outcome of a compromise found at COP 15, they now constitute a fundamental matter of trust in the relationship between developing and developed countries. In order to preserve one of the two major accomplishments of Copenhagen, developed countries must deliver what they have promised.

Bridging the above-mentioned gaps and promoting transparent action must be at the top of the policymakers' agenda at Cancún. In practice, strictly associated to both emissions reduction actions and financial flows is the issue of monitoring, reporting and verification (MRV). In order to build trust, it is indeed important to ensure the credibility and consistency of the commitments made by the developed countries

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<sup>13</sup> See for example Dellink R., G. Briner and C. Clapp (2010). "Costs, revenues and effectiveness of the Copenhagen Accord emission pledges for 2020" OECD, Environment Working Papers No. 22.

<sup>14</sup> For more information see World Resource Institute (2010) "Summary of climate finance pledges put forward by developed countries".

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<sup>15</sup> Since its launch, Clean Development Mechanisms has contributed to an investment of around US\$ 100 billion in developing countries. See Casella H., A. Delbosco and C. de Perthuis (2010). "Cancún: year one of the post-Copenhagen era." Climate Report No. 24.

(such as financial aids) and the developing countries (such as national appropriate mitigation actions). This is especially important because uncertainty related to both the long term stabilization target and to financial instruments, makes it more difficult for industries to plan investments in low carbon technologies and, for countries, to build trust among them.

The transparency of climate finance needs to be improved, as it lacks a consistent methodology to both calculate and track disbursements, flows and the effectiveness of the climate finance spent<sup>16</sup>. Indeed, a comprehensive and transparent system of MRV for financial aids is needed (i) to track their multiple dimensions (i.e. origin/source, goal, end-points); (ii) to verify their ex ante and ex post purposes<sup>17</sup>; (iii) to compare their flows; (iv) and to judge their effectiveness. This is even more important in order to demonstrate that new climate finance instruments are not introduced at the expense of those targeting other objectives<sup>18</sup>.

This requires at least a globally recognised definition of a benchmark and financial flows calculation as well as an institution (the UNFCCC?) behind the above-mentioned procedures. So far, a number of international institutions (e.g. UNEP, UNDP, OECD), multilateral development banks (e.g. World Bank), national governments, private (e.g. Ecofys) and NGOs (e.g. WRI, Project Catalyst) have already started the procedure of tracking these financial flows, risking an overlapping situation in what to track and who is tracking what<sup>19</sup>.

Finally, there will not be a global response to climate change if it is not fully recognised as a problem. Hence, restoring the credibility of the scientific community behind the climate change issue, especially the Intergovernmental Panel on

Climate Change (IPCC), must be a priority. This is particularly important because the UNFCCC climate talks usually rely on the IPCC periodical assessment reports. Even though its Fourth Assessment Report of 2007 has been decisive in spreading awareness of climate changes, it has also been severely criticized for some inaccuracies, questioning the credibility of the overall Panel.<sup>20</sup> In response to those critiques, the IPCC formed an outside panel (the InterAcademy Council - IAC) to review its practices and identify areas for improvement. After a careful analysis, the IAC has concluded that the IPCC has been successful overall, but could still be improved through a stronger enforcement of existing procedures<sup>21</sup>.

The IPCC reform seems to be only a small piece of a broader renovation involving the overall approach in addressing climate change matters: from the UNFCCC legal and procedural issue to a new architecture.

## 2. Watch your step

In Copenhagen the two Ad Hoc Working Groups (the Ad Hoc Working Group on Long-term Cooperative Action under the Convention/AWG-LCA and the Ad Hoc Working Group on Further Commitments for Annex I Parties to the Kyoto Protocol/AWG-KP) were expected to conclude their work<sup>22</sup>, paving the way toward the new deal. However, the negotiation stalemate clearly showed that it would not be possible to reach a fully agreed outcome for the post 2012 period on time.

The Parties' efforts therefore, resumed in 2010 from both negotiation levels, leading the two groups to cope with a situation of huge uncertainty. In particular, AWG-LCA had to handle the unclear relationship between the

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<sup>16</sup> Even if there is a well developed system for tracking current government spending (ODA) and good tracking of current carbon market flow, there is a relatively immature tracking of government spending on climate-related causes and fragmented tracking of current (private) investment capital flows. Brinkman M. "Climate finance landscape overview", McKinsey & Company, presented during the International Workshop on The State of International Climate Finance, held by ICCG, 14th October, 2010

<sup>17</sup> J. Corfee-Morlot and J. Benn, "Financing climate change. Key outcomes & questions from recent OECD work", OECD, *ibid*.

<sup>18</sup> Huhtala A. "How to define and calculate finance flows in climate action?", World Bank, *ibid*.

<sup>19</sup> See *supra* n. 16.

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<sup>20</sup> In November 2009, an illegal act of hacking East Anglia University emails involved some IPCC authors, accused of manipulating data to emphasize climate change evidence. Two months later, public was once more shaken due to the wrong estimation of the melting of Himalayan glaciers in 2035.

<sup>21</sup> For further information see FEEM Blog, "What will change in the Intergovernmental Panel on Climate Change?"

<sup>22</sup> Both the groups worked on the negotiating texts that accompanied the international community to Copenhagen. On the one hand, the AWG-KP has the objective to discuss Annex I parties' further commitments for a second period. On the other, the objective of the AWG-LCA is the adoption of an agreement that promotes the effective and full implementation of the principles of the Convention.

Copenhagen Accord and the previous negotiating text on long-term cooperation. At the same time, AWG-KP carried forward the debate on the future provisions under the Protocol, trying to address the challenges related to a possible gap period. To this regard, it is important to underline that, even if major expectations in Copenhagen were for replacing the Kyoto Protocol with a new legally binding agreement, the former will not actually expire, only its targets will have to be redefined.

### **In the legal limbo**

The legal basis of the Copenhagen Accord is very different from the (legally binding) Kyoto Protocol's one. Whereas the 1995 Berlin Mandate clearly required the "adoption of a protocol or another legal instrument", the 2007 Bali Action Plan only specified the steps to reach an "agreed outcome" without exactly defining its legal form. This lack of directions raised a large disagreement among countries over the nature of the Copenhagen outcome<sup>23</sup>. Thus, instead of a legally-binding agreement, the last-minute Accord has been a political statement without the authority to establish new legal obligations. In addition, due to the opposition of only six countries, the COP 15 did not adopt the Copenhagen Accord but only "took note of it" (consensus is required to "adopt" a document).

The problem in Copenhagen was that the elements of the Accord were not on the table earlier in order to be properly incorporated in the LCA text before the conclusion of the Conference (Muller, 2010). Thus, the Copenhagen Accord fell in a 'legal limbo', because of the substantial contradiction between its contents (e.g. targets and financial commitments) and its legal weakness.

In this context, the link between the Copenhagen Accord and the UNFCCC system continues to cause strong divergence among Parties. In particular, BASIC countries reiterated the centrality of the LCA and the Kyoto Protocol, relegating the role of the Copenhagen Accord to an information document (Houser, 2010). On the contrary, the US and the EU consider the text

of the Accord as an operational document on which the future agreement should be built<sup>24</sup>.

It seems very unlikely that this situation will be rectified in Cancún. Therefore, the uncertainty surrounding these legal issues raises two main concerns. The first one refers to the possibilities of avoiding an interruption in the application of the Kyoto Protocol provisions. The second, strictly linked to the former, points at ways to face the consequences that this situation could imply.

### **Avoiding the gap**

As underlined above, the first commitment period of the Kyoto Protocol will end on the 31<sup>st</sup> of December 2012. In order to avoid a gap period between this expiry date and the beginning of the subsequent commitments, an agreement needs to be reached in the short term. However, even if the most important countries would be able to reach a common deal, another political outcome would not be enough, instead, a stronger legal instrument (such as an amendment to the Kyoto Protocol or a new protocol itself) is required. While the UNFCCC does not specify any particular procedure to adopt a new Protocol, amending the KP requires acceptance from three fourths of the Parties and ninety days to entry into force (Art. 20)<sup>25</sup>. Such a result seems to be very unlikely for two main reasons. On the one hand, divergences among countries – described in Section 1 – clearly showed that an agreed outcome will not be reached in Cancún. On the other, national governments could need a lot of time to ratify it. As the recent attempts to approve climate legislation in U.S. have shown, this process could face fierce domestic opposition that would cause further delay, putting at stake the continuity of the Kyoto Protocol achievements.

In order to streamline this process of ratification, the UNFCCC Secretariat officially started thinking of some alternative legal options. In particular, some procedural changes have been

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<sup>23</sup> Potential outcomes in the COP-15 could have been a Decision of the Parties, Amendments (of the UNFCCC and/or of the Kyoto Protocol) or a new Protocol (Bodansky, 2009).

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<sup>24</sup> For further information on countries position issues see IISD Earth Negotiation Bulletin –Summary of the Tianjin Climate Talks.

<sup>25</sup> This means that, even if Parties will be able to adopt an amendment at the sixth session of the Meeting of the Parties (MOP) in Cancun, at least 143 of the 190 countries have to submit instruments of acceptance by the 3rd of October 2012.

envisaged in order to allow for an expedited entry into force of the amendments.<sup>26</sup>

In addition, another feasible solution is to provisionally extend current Kyoto targets.

### Addressing the gap

Since the expectations of reaching a new deal in Cancún are very low, the UNFCCC identifies a number of issues which could challenge the future debate. In particular, it highlights the uncertainty surrounding the maintenance of national systems, the future of flexible mechanisms, and the compliance procedures in the case of no commitments during the gap period (UNFCCC, 2010).

With regard to the national systems, if a provision related to a subsequent commitment period is not in force by the 1<sup>st</sup> of January 2013, Annex I Parties will not have Quantified Emission Limitation and Reduction Objectives to fulfil, which will potentially lead to the removal of either national systems or national registries.

In the case of flexible mechanisms, even if the UNFCCC does not consider them explicitly linked to the first commitment period, the absence of emission reduction targets could frustrate their purpose, and lead to the suspension of their activities.

Hence, in order to avoid the uncertainty that would affect ongoing and future activities, some countries - in particular the EU - requested an agreement on a set of decisions (to be approved during the COP 16), which could be implemented immediately (Council of the European Union, 2010).

### 3. Governance, this is the problem (again)

Climate change discussions have moved at a slow pace and have achieved only modest results, opening the debate on the need for a treaty and/or which kind of agreement could be envisaged. COP 15 again highlighted how climate change negotiations are affected by unsolved deficiencies, and only led to an accord which is based on non-legally binding national

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<sup>26</sup> We hereby recall: the tacit acceptance or automatic opt-in/opt-out procedure as well as the reduction of the required majority. According to international law, these changes would be considered provisional (UNFCCC, 2010).

commitments without meaningful penalties for non compliance. In addition, UNFCCC credibility as the major institutional venue for international climate policy negotiations and implementation has decreased, while other institutional arrangements have begun to be considered.

According to Bosetti and Sgobbi (2009), alternative architectures could be assessed and compared on the basis of four main criteria: economic efficiency; environmental effectiveness; distributional implications; and their political acceptability, which is measured in terms of feasibility and enforceability. While a universal, legally binding, equitable, top-down and ambitious agreement would be in theory the first best outcome for climate change governance, other options started to be assessed, even if they represent only second best solutions.

While there is no shortage of alternative “architectures” proposals, we hereby outline the main features of the principal alternatives elaborated in order to face what we consider the two major deficiencies affecting climate change negotiations: a too inclusive process, especially since it is coupled with consensus rules, and the discussion of too many issues at the same time (Barret, in Aldy and Stavins 2009). All alternative options<sup>27</sup> are often intertwined and aim at identifying a model for climate change governance that is scientifically sound, economically rational and politically pragmatic (Aldy and Stavins, 2009).

### Too many countries to reach consensus

Climate change negotiations each time involve 194 parties characterized by different interests and national priorities<sup>28</sup>. Together with this, on the one hand, only twenty of them account for more than 80% of global emissions; on the other hand, countries are characterized by the varying degrees to which they contribute to and are affected by climate change (i.e. the most exposed countries are very low emitters). As mentioned above, a huge polarization between developed and developing worlds (partially fuelled by UN culture) negatively affects the

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<sup>27</sup> For an extensive overview of climate architectures options see, for example, Aldy and Stavins (2009).

<sup>28</sup> The larger number of parties that are included in a negotiation, the larger the transaction costs incurred in reaching an agreement (Stavins, 2010).

bargaining, and the consensus-based voting rule does not help in overcoming differences.

*Starting with few, aiming to gather more*

Several authors, recognizing the need to streamline the negotiating process, have outlined climate architectures with a varying geometry of participation, initially limited to the most pivotal countries and then progressively broadening. Instead of aiming at universal participation, these architectures foresee, for instance, the creation of a “coalition of the willing”<sup>29</sup> or a club (providing benefits and therefore incentives to participation) of countries that could accept new members through accession deals, which will require determined achievements and/or the adoption of certain standards and policies<sup>30</sup>. Also, some authors<sup>31</sup> have evaluated that, instead of aiming at universal participation, a series of bottom-up “sub- global” agreements, at the regional or sub-regional levels, are more likely to achieve a stable and profitable international agreement in the medium term. With regard to these options, their responsiveness to the above-mentioned criteria will actually depend on which countries will be engaged and therefore on which kind of incentives they will be able to provide.

Progressive participation could also be envisioned, for example, through the adoption of formulas or by linking national trading systems. As regards the first, formulas could set quantitative emissions limits proportionally to national incomes and account for past responsibilities, so that every country should feel that it is only doing its fair share<sup>32</sup>. The linkage of tradable permit systems would make it possible to progressively expand the area of countries/regions involved through direct links between systems and neighbouring countries. In addition, flexibility mechanisms (like the CDM) could provide the indirect links, necessary to gradually link systems worldwide and build

capacity in developing countries<sup>33</sup>. These alternatives will respond to equity concerns and distributional implications, also granting political acceptability. However, as regards their economic efficiency and environmental effectiveness, the degree to which they will be realized will depend on the broadness of systems integration and on the stringency of the imposed domestic caps.

### Alternative venues

Thinking about alternative architectures inevitably leads to rethink where climate change negotiations should be held. This is not a merely academic exercise since countries have already started to negotiate bottom-up non-legally binding agreements under other – smaller – cooperation’s forums, like the Asia Pacific Partnership (APP), the Major Economies Forum on Energy and Climate (MEF), the G-8 and G-20 summits. This trend reflects an unwillingness to adopt an operative agreement with targets and timetables and, among the others<sup>34</sup>, the MEF and G-20 are often considered as the most promising (Table 1).

Alternative venues could also *supplement* the UNFCCC, creating a governance system where issues are tackled on different tables and, for example, targets’ negotiations could be separated from implementations’ ones. In fact, while the UNFCCC as the principal negotiation’s venue is being questioned, it is indeed unlikely that any of these alternatives will completely supplant it, at least in the short term. The UNFCCC has considerable international legitimacy - key for implementation – and it has a large constituency of support, coming especially from developing countries (Stavins, 2010). It therefore responds to political acceptability and distributional concerns, mainly thanks to the adoption of the principle of “common but differentiated responsibilities”. Together with this, uncertainty related to the effectiveness of other venues and the costs related to its dismantling does not pave the way for quickly skipping to another negotiating table.

However, despite the relationship that could be envisaged among these venues, climate change

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<sup>29</sup> For more information see, for example, Grubb M. (2010). “Copenhagen: back to the future”, *Climate Policy*, Vol. 10, No. 2, pp. 127-130.

<sup>30</sup> For more information see, for example, Victor D.M. in Aldy and Stavins (2009).

<sup>31</sup> For more information see, for example, Carraro C. and C. Egenhofer (eds) (2007). “Climate and trade policies. Bottom-up approaches towards global agreement”, *ESRI Studies Series on the Environment*, Edward Elgar Publishing, Northampton.

<sup>32</sup> For more information see, above all, the first proposal made by J. Frankel in Aldy and Stavins (2009).

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<sup>33</sup> For more information see, for example, the proposal elaborated by J. Jaffe and R.N. Stavins in Aldy and Stavins (2009).

<sup>34</sup> The IEA and the G-2 have also been considered among the principal alternative venues.

governance seems to be already characterized by a regime complex, involving many different initiatives (e.g. experts' assessment; unilateral and bilateral action; clubs; specialized UN agencies and UN legal regimes etc.) and, above all, suffering the lack of an hierarchical organization (Keohane and Victor, 2010).

**Table 1. Alternative venues: pros and cons**

	Pros	Cons
MEF	<p>Already has a mandate to address climate change<sup>35</sup>;</p> <p>Small group that can tailor policies and encourage participation by larger developing countries accounting for nearly 90% of global emissions (China and India). This should be able to grant environmental effectiveness and to reach a high level of cost efficiency.</p>	<p>Created and chaired by the U.S., it may lack sufficient legitimacy and therefore political acceptability.</p>
G-20	<p>Capacity and expertise when it comes to climate finance;</p> <p>It accounts for all major emitters, therefore responding to environmental effectiveness.</p> <p>Support for both developed and developing countries which should help its political acceptability.</p>	<p>It excludes countries most vulnerable to the impact of climate change and its distributional implications could be questioned;</p> <p>Full agenda given the financial crisis.</p>

**Too many issues: an economy-wide indigestion**

Differently from any other international agreement, climate change potentially requires adopting economy-wide measures and this has led to overwhelming negotiations with full agendas addressing too many issues at the same time. Several options have been envisaged to

<sup>35</sup> Much of the Copenhagen Accord reflects consensus achieved at the MEF Leaders Meeting held in July 2009 (Houser, 2010).

fragment the comprehensive integrated approach that has been adopted, especially if economy-wide obligations cannot be enforced (e.g. by trade sanctions). Frequently, these options are coupled with the assumption that smaller agreements are often more effective in identifying practical solutions than a global one (Dobriansky and Turekian, 2010).

These architectures therefore aim at being an alternative to a universal agreement. For example, a portfolio system of linked international treaties could separately address different sectors and/or gases, as well as key issues like adaptation and technology R&D. Moreover, treaties could be easier to negotiate if the goals are expressed in technology standards<sup>36</sup>.

As proposed by Bodansky (2010), a possible approach could be to proceed separately splitting the climate-change issue up into different parts and addressing them in more specialized forums. First and foremost, because we should seek progress where we can, and these institutions are already in place. Secondly, because they could capitalize on their long tradition of cooperation and know-how in tackling specific issues. For instance, the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO) could deal with international maritime and aviation emissions<sup>37</sup>. In addition, the Montreal Protocol itself has already had a huge impact in mitigating climate change, since ozone-depleting substances (HCFCs) are also GHGs.

An integrated multi-track approach<sup>38</sup> has been proposed as a middle course between a purely top-down or bottom-up approach. It foresees a common framework and individualized commitments. Particularly, all major economies could enter into commitments aimed at reducing or moderating their GHGs emissions, but the type of commitments could be differentiated in a

<sup>36</sup> For more information see, for example, Barrett S. in Aldy and Stavins (2009).

<sup>37</sup> Remarkably, the last EU Environment Council concluded that, "COP 16 should urge ICAO and IMO to develop without delay a global policy framework in a manner that ensures a level playing field and that does not lead to competitive distortions or carbon leakage" (Environmental Council of the European Union, October 2010).

<sup>38</sup> See, among others, Bodansky D. and E. Diringer (2007). "Towards an integrated multi-track climate framework", Pew Center for Global Climate Change.

number of ways (e.g. binding or not, economy-wide/sectoral).

Finally, the option of a bottom-up “portfolio of domestic commitments”<sup>39</sup>, has been envisaged, whose main features are not far from the Copenhagen Accord’s structure. Instead of defining top-down targets and timetables, this option, while subject to several declinations, gives member states “free rein to dictate the precise form their domestic commitments will take” (Stavins, 2009), which will be subject to domestic law for its implementation and compliance. Such an agreement will grant high flexibility, will allow for countries to accede at various times and will skip the negotiating burden at the domestic level. Legally binding or not, it will spur consensus by emphasising the lowest common denominators, but it could also negatively impact on the degree of policy ambitions. As recently pointed out by Carraro and Massetti (2010), despite being contested, this approach could actually prove to be environmentally effective if properly associated with other instruments, like the Copenhagen Green Climate Fund’s financial transfers to developing countries.

While all aiming at gaining political acceptance (and therefore enforceability), the environmental effectiveness and cost efficiency of these alternatives will not be automatic. Indeed, they will depend on the target set and their achievement, as much as on which and how many sectors would be involved. Finally, the two last options are particularly aimed at granting broad participation. This also relates to developing countries, and these alternative architectures should therefore be able to respond to equity and distributional concerns.

## Conclusions

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The Copenhagen Accord provides some good starting points for the Cancún conference. However, it presents at least two drawbacks. First, it does not deal properly with the transparency provision. Second, there is a scarcity of economic and financial instruments to mobilize the financial aids proposed. It is

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<sup>39</sup> See, among others, Stavins R.N. (2009). “A portfolio of domestic commitments: implementing common but differentiated responsibilities”, Viewpoints, Harvard Project of International Climate Agreements. Australia, India and the U.S. expressed their willingness to consider such a climate policy architecture before COP 15.

indeed needed to address both issues through consistent monitoring, reporting and verification (MRV) procedures and a credible financial structure.

Cancún could do this: starting from something that is already on the negotiation table and putting it in the right direction through a pragmatic approach.

Strictly associated to both emissions reduction commitments and promised financial flows is the issue of monitoring, reporting and verification. MRV could help to build trust ensuring the credibility and the consistency of financial aids by developed countries and national appropriate mitigation actions by developing countries.

In addition, a structure able to give some reliability to the financial promises could be associated to the use of the carbon market through the trade of both credits from project-based mechanisms and permits from domestic cap-and-trade schemes. This could enable both financial and technological transfer from developed to developing countries and address investments towards low-carbon technologies, as described in Section 1. Nevertheless, current mechanisms seem not capable of releasing the resources proposed, therefore additional instruments are necessary. For instance, one option is constituted by the use of REDD+, which represents both a cheap abatement option and an incentive for a broader participation in the climate change action.

In this context, Parties in Cancún have the opportunity to fix the progress achieved on these issues during the last year of negotiations. Indeed, only by pursuing this objective, Cancún will enact a step forward towards the building of a comprehensive long-term agreement. As underlined in Section 2, working to avoid the negative consequences of a gap period constitutes a top priority. In particular, one of the major Cancún challenges is to better clarify the future of the project mechanisms considering both the first Kyoto commitment period expiration and the need to reform them.

Whatever its legal form, the outcome in Cancún can at least address the pending legal issues. To this purpose, countries have to resolve the difficult task concerning how to make operative the political compromise found in the Copenhagen Accord, and agree on the way to include it into the UNFCCC’s formal negotiation process.

Finally, in the future architecture's limbo, it is crucial to explore on which already globally recognized arrangements a credible framework could be built. Climate change governance needs quick and effective arrangements and useful supplants have to be envisioned, such as proposed in Section 3. Building on what already exists seems to be also one of the main messages launched by the EU in the last months. Together with this, during the last Tianjin talks, the AWG-LCA has already proposed to invite IMO and ICAO to report on their work to the COP (IISD, 2010). Moreover, as Carraro and Massetti (2010) have assessed, a lot can be done with what has already been agreed upon. Instead of reopening the discussion about targets and possible gaps between national pledges and the 2°C long term goal, negotiators have to devote their attention to the opportunities offered by what has already been established in the Copenhagen Accord.

To sum up, Cancún has not easy but feasible tasks. Making operative what is already on the paper. Creating the right environment for bridging the above-mentioned gaps. Building a transparent and credible action against climate change.

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