

The New Deal on Climate Change: Symbol of a Progress Towards a Sustainable Future

By Wayne Visser and Jed Jones

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The new deal on climate change is a big deal! Between 29 October and 9 November 2001, the seventh Conference of the Parties (COP7) of the United Nations Framework Convention on Climate Change reached an agreement that should pave the way for the ratification this year of the Kyoto Protocol on reducing greenhouse gases.

The bulk of this article summarises the technical aspects of the agreement that was reached – the so-called Marrakech Accords. Some of draws from an excellent synthesis paper that was prepared by the PEW Centre on Climate Change. In the conclusion, however, the authors speculate on why this landmark agreement is a fitting and optimistic symbol for the creation of a sustainable future.

Since the article is a culmination of a series that has been featured in preceding editions of Resource Magazine, it assumes a minimum understanding of the issues and jargon surrounding the climate change negotiations.

Overview

International climate change negotiators at COP7 in Marrakech, Morocco, reached agreement on a complex set of decisions spelling out rules for implementing the Kyoto Protocol. The decisions agreed at COP7 provide detailed text elaborating on the broad principles of the Bonn Agreement, reached in July at the second session of COP6 in Bonn, Germany.

Major areas covered in the Marrakech Accords include:

- operating rules for international emissions trading and the Protocol's two other flexibility mechanisms, the Clean Development Mechanism (CDM) and Joint Implementation (JI), and rules defining a Party's eligibility to participate in these mechanisms;
- a compliance regime that sets consequences for failing to meet an emissions target, but defers until a later Conference of the Parties the question of whether the consequences are legally binding;

- accounting procedures that provide for fungibility of carbon permits, i.e. carbon permits resulting from CDM and JI projects can be transferred several times as equal units to the Assigned Amount Units allocated to Annex I Parties. The Accords also create a new type of emissions unit for sinks credits, Removal Units (RMU) that cannot be banked for future commitment periods;
- a decision to consider at COP8 how to proceed at COP9 with a review of commitments that could frame discussions of future developing country emission commitments.

In addition, the Conference appointed ten members and ten alternates to the CDM Executive Board and approved a declaration to the World Summit on Sustainable Development scheduled for August/September 2002 in Johannesburg, South Africa.

The Marrakech Accords effectively complete the work under the Buenos Aires Plan of Action, adopted at COP4, and set the stage for countries to ratify the Protocol and bring it into force. The Protocol will take effect only when ratified by at least 55 countries, including Annex I countries accounting for at least 55 percent of developed country emissions of carbon dioxide in 1990. Many countries expressed the hope that entry into force will be achieved by the time of the Johannesburg summit.

The United States participated in the Conference but reaffirmed that it does not intend to ratify the Protocol.

Key Decisions in Marrakech

Mechanisms and Accounting

The Kyoto Protocol establishes three market-based mechanisms aimed at achieving emissions reductions as cost-effectively as possible. They are Emissions Trading (Article 17), Joint Implementation (Article 6), which is a project based mechanism where both the host country and investing country are Annex I Parties, and the Clean Development Mechanism (Article 12), where the host country is a non-Annex I Party.

Key decisions include:

- fungibility, allowing emissions units under all three mechanisms to be treated equally. This allows for a more liquid market in emissions units, making the mechanisms more viable and enhancing opportunities for cost-effectiveness;
- creation of RMUs to represent sinks credits generated in Annex I countries (including through JI). RMUs can be used only to meet a Party's emissions target in the commitment period in which they are generated. They cannot be traded or banked for a future commitment period;
- banking of any remaining emission allowances beyond those needed to meet a Party's targets permitted, except that banking of Certified Emission Reduction

units (CERs) generated under the CDM, and Emission Reduction Units (ERUs) generated under JI, is limited to 2.5% of a Party's initial assigned amount;

- unilateral CDM is allowed, enabling a developing country to undertake a CDM project without an Annex I partner and market the resulting emissions credit;
- Annex I Parties that cannot meet the Protocol's inventory requirements can still host JI projects through a project design and approval process similar to the CDM;
- the Executive Board of the CDM is authorised to approve methodologies for baselines, monitoring plans and project boundaries; accredit operational entities; and develop and maintain the CDM registry. The COP/MOP (the Conference of the Parties meeting as the Meeting of the Parties to the Kyoto Protocol, following entry into force), will oversee rules of procedure for the Executive Board; accreditation standards for, and designation of, operational entities; and a review of regional/sub-regional distribution of CDM project activities;
- the requirement in the Bonn Agreement that each Annex I Party hold back from the market 90% of its allowable emissions (or five times its most recently reviewed emissions inventory, whichever is lower) is deemed mandatory. The provision addresses the risk of overselling emission credits that a Party might need to meet its target. In essence, oversold units become the buyer's liability.

Carbon Sinks

The Protocol establishes the principle that countries may receive credit toward their emissions targets for carbon absorbed by forests, soils and other so-called "sinks". The Bonn Agreement defined the kinds of sinks activities that are eligible and, for forest management, set country-specific caps for each Annex 1 country. The Marrakech Accords agreed that:

- Russia, which had registered an objection at the time of the Bonn Agreement, sought and received an increase of its ceiling for forest management credits from 17.63 to 33 million tonnes of carbon annually;
- Annex 1 parties are to report on their sinks activities in order to be eligible to participate in emissions trading and the other mechanisms. Parties that report can participate in the mechanisms but their inventories will be adjusted at the close of the commitment period if their reports are deemed inadequate;
- Annex I parties are to report on efforts to protect biodiversity in the context of sinks activities.

Compliance

The Bonn Agreement defined the broad outlines of a compliance regime overseen by a Compliance Committee with facilitative and enforcement branches. The agreement also set consequences for Annex I Parties failing to meet their emissions target, including

restoration of excessive tonnes at a rate of 1.3 to 1 (a country must make up its shortfall, plus 30 percent, in the next target period), suspension of eligibility to sell credits and development of a compliance action plan. Parties took conflicting positions on the legal character of the compliance regime, specifically, whether the consequences for non-compliance should be legally binding. The Marrakech Accords agreed to defer a decision on the legal nature of the compliance regime until the first meeting of the COP/MOP following the Protocol's entry into force.

Other Decisions

Review of Adequacy of Commitments

The agenda for each of the last three COPs has called for a review of the adequacy of commitments under the Framework Convention on Climate Change, but each time the item has been deferred, in part because developing countries are not prepared to discuss the question of whether they should take on binding commitments. In Marrakech, the parties agreed to consider at COP8 how to frame the issue for discussion at COP9. A workshop is to be held next year to review the most recent report of the Intergovernmental Panel on Climate Change as guidance for future discussions.

Input to the World Summit on Sustainable Development

The Conference adopted a Marrakech Ministerial Declaration providing input to the Summit, which will be held in September 2002 in Johannesburg. The declaration emphasizes linkage between sustainable development and climate change, reaffirms development and poverty eradication as the overriding priorities of developing countries and calls on countries to explore synergies between the Framework Convention on Climate Change and conventions on biodiversity and desertification.

Summary

As with most international agreements the Marrakech Accords are a compromise between the three main negotiating groups: the European Union and the accession states; the Umbrella Group of Canada, Australia, New Zealand, Japan, Russia, Iceland, Ukraine and Norway plus the United States; and G77 + China (the developing countries). The European Union probably conceded more than the other groups in the interests of agreement and the eventual ratification of the Protocol.

Experts in the European Union claim that the Marrakech Accords further dilute the reductions Annex I Parties will need to make to meet their Kyoto targets in the first commitment period. EU estimates suggest that the original 5.2% reduction has been cut to 1.5%. However, many believe the Kyoto Protocol is only a start and that having the agreement in place is more important than the actual reductions achieved in the first commitment period.

To put the Marrakech Accord into perspective, Annex I emissions have grown by at least 20% since 1990, therefore, if Annex I countries as a whole comply with their

commitments, the reductions over current levels will be 21.5% rather than 25.2%. It has long been accepted that significant reductions will only occur from the second commitment period onwards, and when the industrialised developing countries and the United States of America accept limits on their greenhouse gas emissions.

Conclusion: Symbol of a New Sustainable Era

We started out this article saying that the new deal on climate change is a big deal. Why? The reason is that the progress that has been made on addressing climate change (and there is still a long way to go yet) has all the hallmarks of what will be necessary to create a sustainable world. These essential characteristics are:

- *Incorporating the triple bottom line.* The triple bottom line refers to the three dimensions of sustainability – social, environmental and economic. Climate change has incorporated all of these, by studying, analysing and computer modelling the disastrous ecological, social and economic impacts that the phenomenon will cause. No one dimension can be separated from the other, which is the nature of sustainability.
- *Uniting the three forces.* The three forces refer to the dominant players in our modern world, namely business, government and civil society. Climate change has engaged the tireless energies and innovative suggestions of each of these sector grouping. Some of these engagements have been fierce and confrontational, but following extensive dialogue, a peaceful consensus appears to be emerging.
- *Internalising externalities.* For many years, progressive economists, social activists and environmental campaigners have all be crying out for the market to factor in the full costs of companies' impacts on society and the environment, based on the concept of externalities. Climate change is one of the first sustainability issues to put this thinking into practice, through the implementation of energy taxes, clean technology subsidies and emissions trading schemes.
- *Think global, act local.* This catch-phrase epitomises the new reality of the sustainability challenge, which requires a global perspective, but local action. Climate change has been one of the first issues to take this slogan and test it to the limits. What we have now is a global agreement that has already sparked off multiple local initiatives, which will snowball as the new rules regulating climate change are put in place.
- *Think long term, act short term.* Similarly, sustainability issues demand that we stretch our time horizons, considering how our decisions and actions today effect generations to come. Once again, climate change has forced us to do this, since its effects are going to be felt for hundreds of years to come. Importantly, however, we are also called to change our behaviour in the short term, in order to change the direction of the proverbial Titanic.

The new deal on climate change is cause to take a moment to celebrate a victory for sustainability, to stand back and celebrate the fruits of collaborative effort, and to refocus our energies for the long road that lies ahead – the path to a sustainable future.

Wayne Visser is Director – Environment, Health & Safety for KPMG in South Africa.

Jed Jones is KPMG's International Coordinator on Greenhouse Gases, based in London.

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