

International negotiation on Climate Change:

## World Leadership with a New Framework

COP15 stirred up a hornet's nest, entering into summit-level negotiations after unprecedentedly unproductive preliminary talks. A fierce conflict of interests saved Japan - ambitious target hardly noticed - from having to accept the worst scenario. Japan should come away from "numerical targets" and lead the world in a new framework engaging many developing countries.

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**Akihiro SAWA**

(Executive Senior Fellow, 21st Public Policy Institute)

The Kyoto Protocol does not determine GHG reduction targets for years beyond 2012. Moreover, its targets only bind developed countries and are irrelevant to developing countries. The priority agenda of COP 15 (the Fifteenth Conference of the Parties to the United Nations Framework Convention on Climate Change) was to decide on a post-2012 framework. The crucial issue was whether the new framework could impose legally-binding targets upon the US, which withdrew from the Protocol clearly stating that it would never return; developing countries, which conversely supported the extension of the Kyoto Protocol; and major developing countries such as China and India, in particular, which are experiencing rapid economic growth.

Negotiations took an exceptional course: whereas a conventional negotiation process would begin with ministerial (environmental ministers) talks where the agenda would be narrowed down before the summit-level negotiations scheduled for the last two days. However, negotiations at the working level insufficiently left the negotiation text full of unresolved issues. The Danish Prime Minister's proposal which had been preliminarily prepared in the background was leaked to newspapers at a very early stage and the negotiation table was thrown into disarray, depriving the Chair of any chance of accommodating conflicts. Summit-level talks began in midst of such chaos that no one could be sure if any agreement would be reached.

Then, multilateral negotiations developed in a way never before witnessed. French President Sarkozy, exasperated by the host country's ineptness, invited the leaders of 25 countries and one international institution to an informal meeting that continued intermittently for ten hours. Sarkozy actually took a pen in hand putting down word for word the negotiated phrasing of a draft agreement. A unique case in diplomatic history, the meeting barely managed to produce the Copenhagen Accord. Still, the accord had only been agreed upon among 25 nations and had yet to gain consensus among all 189 parties to the Convention at the plenary session.

However, when Sudan and several Central and South American countries objected to the Accord, the meeting became a forum for invective between those in support of and those against it and the Danish Prime Minister clumsily, again, missed the opportunity to adopt it. Consequently, the conference of the parties decided to "take note" of the Copenhagen accord.

### The significance of an agreement to Japan

The scenario most dreaded by Japan before the COP15 meeting was one in which the US and emerging economies including China would agree on a "loose" framework apart from the Kyoto Protocol whereas Japan would be persuaded by the EU and Australia into consenting to a written commitment to adopt the outstanding reduction target of -25% as its target for the second commitment period (post 2012) under the "stringent" Kyoto Protocol.

The US has consistently refused absolutely to take part in any framework like the Kyoto Protocol that would oblige it to purchase credits (emission allowances) in case of incompliance with a numerical target. However, as long as it can remain outside of the framework, it has no reason to care about how the Kyoto Protocol evolves. Emerging economies including China welcome the continuation of the Protocol, under which they would bear no obligations.

The EU, where stable (or, possibly higher) prices in the EU-ETS is a critical issue for the region (and its financial sector), has an incentive to keep the Kyoto Protocol going, because the more stringent the reduction commitments the better it is for the market. Australian Prime Minister Rudd, having campaigned hard on the ratification of the Kyoto Protocol in the election, is now trying to push through a bill to introduce a domestic emissions trading system. Therefore, in some ways, Australia shares the same interests as the EU. An expert in China, Rudd has also been widely known to already have cemented close ties with China.

Against the backdrop of such an array of interests among parties, last

November, UNFCCC (United Nations Framework Convention on Climate Change) Executive Secretary Yvo de Boer proposed a political agreement for the COP15 meeting that would establish a two-tiered structure embracing both the Kyoto Protocol and a new framework which would engage the US and developing countries. This aroused fears in Japan that COP15 might leave Japan eternally bound to the Kyoto Protocol with the US beyond reach. Not only Japanese industry but also labor unions expressed serious concerns; and therefore, reports in the media that the Japanese government seemed inclined to accept the proposal immediately triggered successive campaigns against the proposal.

The government's adherence to its obvious stance that it had no intention of including a 25% reduction target into the Kyoto Protocol (Annex B) is highly commendable because it saved Japan from being pushed into dire straits. However, it is also true that the chaotic negotiation process that sought settlement in summit-level negotiations worked to Japan's advantage. Under different circumstances, Japan might have been in for many maneuvers to gradually pin it down to the previously mentioned proposal.

The Copenhagen Accord stipulates that: 1) deep cuts in global emissions of greenhouse gas emissions are required so as to hold the increase in global temperature below 2 degrees Celsius from pre-industrial revolution levels; 2) developed countries shall submit the quantified economy-wide emission targets for 2020, and developing countries, their greenhouse gas mitigation actions, by January 31, 2010; 3) mitigation actions by developing countries will be subject to their domestic measurement, reporting and verification the result of which will be used for international consultations and analysis. The Copenhagen Accord was concluded as a political agreement that set the way for a new framework in which parties failing to comply with their numerical targets would not be subject to penalties or obliged to purchase credits.

Even a loose agreement was necessary in order to engage the US and China in mitigation actions. It is also commendable that all parties arrived at the conclusion that the Kyoto Protocol, which failed to embrace the two countries, could not be a promising framework to save the future of the Earth. The Copenhagen Accord has been considered to have the same legal status as if it had been accepted in a legal document and should be endorsed as such. However, the Accord does not make any clear reference as to whether or not a new legally-binding Protocol shall be formulated in the future

Box: Relationship between the Copenhagen Accord and the Kyoto Protocol

The Copenhagen Accord:

4. Annex I Parties that are Party to the Kyoto Protocol will thereby further strengthen the emission reductions initiated by the Kyoto Protocol.

Interpretation: The word “initiated” implies that the mid-term targets to be included in the Accord are distinguished from a revision of Annex B to the Kyoto Protocol, and hence, Japan’s acceptance of the Accord. If “under” had been used instead of “initiated by” then, the mid-term target would be subject to the Kyoto Protocol and Japan would not have been able to consent to it.

The Copenhagen Accord defined its status with the Kyoto Protocol is described in the above box, thus allowing Japan to avoid the worst scenario. However, target-setting for the second commitment period under the Kyoto Protocol is bound to be raised on the agenda again for COP16. The seemingly modest decision to extend the mandate of the AWG-LCA (a working group that discusses an alternative post-Kyoto framework), which was scheduled to complete its work by COP15, until COP16 was actually very meaningful in the sense that an alternative forum for negotiation outside the Kyoto Protocol forum was secured.

### Emission targets do not make a world leader

The highlight of the two-week negotiation process was whether the US and China, both representing approximately 20 percent each of global emissions, could reach a common understanding. The EU had always led climate change negotiations with a 20 to 30 percent reduction target with respect to 1990 levels, but when NGOs saw through its superficial targets that did not entail stringent climate change measures, they criticized the EU for its two-faced intentions. Its strategy to set targets for the second commitment period under the Kyoto Protocol for use in its EU-ETS was forgotten amid the intensified conflict between the US and China.

Japan’s aim had been to gain global leadership by setting out an outstandingly high numerical target among developed countries – reductions by 25 percent below 1990 levels. However, Japan barely enjoyed the spotlight during the COP15 session and failed to make any substantive contributions in the fundamental discussions on establishing a new framework, despite its proposal to provide as much as 11

billion dollars to financially support developing countries (for the three years remaining until 2012).

In order to play in the diplomatic game going on between the US and China, Japan needs a twist in its diplomatic strategy. Accounting for only 4 percent of world emissions, it had been impractical from the beginning that such a small emitter should attempt to exercise influence based on merely the impact of its numerical target. Announcing a target that largely exceeds economically reasonable reductions would just allow other nations to consider Japan to be a “welcome customer” of emission allowances. Ever since Japan set out its 25 percent reduction target, its exposure in overseas media has been mainly in the context of credit purchasing.

### Japan's Diplomatic Strategy

While Japan was still mired in the conventional Kyoto-type concept of diplomatic bargaining of numerical targets, Australia unexpectedly strengthened its presence in the Copenhagen talks. Australia does not account for a large portion of emissions and yet joined the drafting of almost all important documents and served as a good advisor to the US and UK in several critical points in the negotiations.

What gave Australia - a small emitter – such strongly representation? This was because in early 2009, Australia had proposed a master plan for a post-Kyoto framework that both the US and major developing economies could agree on. It had devised rules that gave consideration to country-specific circumstances and timelines and at the same time urged voluntary mitigation efforts (schedule approach). This placed Australia in a position to broker the deal between developed countries and emerging countries, or “bridge negotiations” - precisely what Prime Minister Hatoyama had sought to do.

By experiencing the COP15 negotiations, the Prime Minister and ministers of the current administration have surely realized that they had been caught up in illusions that a nation could gain world leadership simply by announcing a quantified target. The pursuit of a new framework entails the consideration of many other issues: a MRV (measurable, reportable and verifiable) system, conflict of interests due to differences in ideas for a future offset credit system and the importance of not only greenhouse gas abatement but also climate change adaptation assistance in terms of diplomatic strategy.

The times have changed since the Kyoto Protocol era, when developed countries represented 60 percent of global emissions. Climate change issues can no longer be

resolved without developing countries sharing due burden. Today, we are in need of diplomatic power that can correctly recognize such structural changes and comprehensively design a framework for fair and effective solutions instead of competition over numerical targets. Upon submitting the mid-term target due before the end of January this year, Japan should reconsider its current outstandingly ambitious target and come up with an alternative target which is well-balanced from both economic and technological dimensions as well as shift its diplomatic weight to presenting a concrete design for a post-Kyoto framework based on the Copenhagen Accord.

Japan could revitalize the sectoral approach (a method for deriving global emissions through technology transfer based on an analysis of national reduction potential in terms of technology and costs by industry or sector) which the new administration has not yet addressed.

Under this framework, countries will internationally pledge policy measures to engage in emission reductions by sector and verify their implications in a MRV way. The framework should be focused not on numerical targets but internationally analyzing and verifying national policy measures, sharing relevant knowledge and transferring and disseminating to other countries any policy measures that have proven to be effective.

## **Abandon the UN Process**

The United Nations Framework Convention on Climate Change is an UN-oriented framework for international cooperation in which decision-making is meant to be done by consensus among all nations, each of which possess a vote. Witnessing how last minute opposition by a few nations kept the Copenhagen Accord from being “decided” upon and left it just “noted,” we were exposed to the shortcomings of the UN process.

For better or for worse, in the recent negotiations, China demonstrated its overwhelming presence. The world’s largest emitter, China’s acceptance of any agreement was indispensable and thus it was consulted for all drafts. Meanwhile, it could also very well stand beside other developing countries without binding targets under the Kyoto Protocol and assume leadership in their context, influencing negotiations by intimidating developed countries with the number of developing countries it has lined on its sides.

In the negotiation process leading to the Copenhagen Accord, China utilized its influence to its greatest advantage, thus frustrating the top leaders of developed

economies. All developed countries – even the EU which sought the stabilization of the EU-ETS - were intent on abandoning the Kyoto Protocol and shifting to a new framework, perhaps because they strongly feared allowing China to permanently enjoy an advantage in negotiations.

COP15 had been spotlighted from all directions as an important conference to determine the framework beyond 2012. However, the final text merely outlined the bare minimum agreements aggregated during the past two years of negotiations. The UNFCCC negotiations have come to resemble those in the WTO. Also engaging many member states, not only has the WTO negotiation process become very complicated with national interests divided, many negotiations have consequently collapsed. In order to overcome deadlock, most countries have concluded bilateral free trade agreements (FTA) or economic partnership agreements (EPA) with important trade counterparts.

It may be time for climate change policy to seek new schemes for international cooperation. We should at least create a mechanism - to complement the UN process, if not replace it - which would advance greenhouse gas abatement through bilateral or regional cooperation. If we wait for COP negotiations to be resolved, we might not be able to prevent climate change in time. Japan should employ its industrial and technological strengths with an aim to establish a framework to curb climate change by enhancing regional ties centered on technology transfer and financial assistance based on Japan's industrial and technological strengths.

### Japan's Proposal for a New Scheme

Japan could propose a new scheme in which Japan and a developing country in Asia could achieve substantial GHG reductions under an “administrative agreement” on multilateral cooperation in the areas of energy efficiency and conservation, renewable energy and nuclear energy. Such an agreement would include the following elements:

- 1) Identify and decide on projects in the three abovementioned areas that can be implemented jointly by the government and experts representing the private sector.
- 2) Establish volume-based targets against the baseline or intensity-based targets for GHG reductions that can be achieved by these projects.
- 3) Offset credits that are generated by achieving the targets described in 2) should be jointly “accredited” by a MRV (measurable, reportable and verifiable) method bilaterally agreed upon and respectively allocated according to financial and

technological contribution. The validity of the credits generated should be limited to domestic schemes (for example, under existing schemes, they can be counted as offset credits to be used for compliance with the Voluntary Action Plan or an emission trading test scheme.)

This scheme can be tailored to circumstances unique to a certain region or party nation so long as it is designed to embrace a developing country and a developed country. It would also be possible to extend such schemes to cover the transport, office and household sectors as well as carbon sinks. For example, it could be flexibly designed to accommodate exports of hybrid cars from Japan to a developing country where they would replace gasoline cars, or the development of light-weight steel sheets to be exported to a developing country where fuel-efficient domestic vehicles will be developed.

Such a new scheme can innovatively encourage emissions reductions at the consumption level unlike current rules under the Kyoto Protocol which can only assess emission mitigation at the production level. Japan's experiences with the Energy Saving Law have given it much insight into MRV methods. Its achievements in the Asia-Pacific Partnership for Clean Development and Climate (APP) under which it has engaged in regional cooperation with the US, Australia, Canada, Korea, China and India to address climate change can be effectively employed to provide institutional infrastructure.

Under the Kyoto Protocol, Clean Development Mechanism (CDM) projects are acknowledged as a main source of offset credits, but with CDM projects concentrated in China, financial resources have not efficiently been distributed to a large variety of developing countries. Therefore, the abovementioned scheme would be an attractive plan for a majority of developing countries as well.

Japan can present this framework to emerging countries besides China that have not enjoyed the advantages of CDM and provide least developed countries and small island developing countries with financial resources for adaptation, making clear that this scheme will not replace but will complement the UN process. Furthermore, an additional policy to provide "climate change abatement points" that can be used for compliance with domestic regulations to Japanese companies providing financial or technological assistance for adaptation will give originality to Japan's idea for a developed country – developing country model. By proposing this scheme at the coming Davos meeting, Japan can revitalize the climate change negotiations that were stagnant in Copenhagen as well as strengthen its representation.

Akihiro SAWA was born in Osaka, Japan. Upon graduation from the Faculty of Economics at Hitotsubashi University in 1981, he joined the Ministry of International Trade and Industry (predecessor of the Ministry of Economy Trade and Industry). He taught at the University of Tokyo's Research Center for Advanced Science and Technology as a professor from 2004-2008. He was appointed to his present position in May 2007.