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ON
Global CLIMATE CHANGE

**Thirteenth Session of the Conference of the Parties to the
UN Framework Convention on Climate Change
and
Third Session of the Meeting of the Parties to the Kyoto Protocol**

December 3-15, 2007
Bali, Indonesia

In tense and chaotic talks that ran a full day longer than planned, delegates to the UN Climate Change Conference in Bali remained far apart on fundamental issues but in the end agreed to launch a loosely framed negotiating process with the ambitious goal of achieving a new global climate agreement in 2009.

The annual gathering of governments – known formally as the Thirteenth Session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP 13) and, in parallel, the Third Session of the Meeting of the Parties to the Kyoto Protocol (COP/MOP 3) – highlighted both the urgency and the extraordinary difficulty of forging a comprehensive new agreement to reduce global greenhouse gas emissions. On one hand, the scientific case for action laid out unambiguously in the latest assessment of the Intergovernmental Panel on Climate Change (IPCC) was underscored time and again by scores of high-level speakers including UN Secretary-General Ban Ki-moon and former Vice President Al Gore, fresh from collecting the Nobel Peace Prize. On the other hand, in adopting the so-called Bali Roadmap, governments could agree only on the most general parameters for the process going forward, leaving virtually all the key issues to future talks.

There were some positive signs. The conference opened buoyantly with the announcement by newly elected Prime Minister Kevin Rudd that Australia had ratified the Kyoto Protocol, leaving the United States as the only major industrialized power outside the agreement. Over the course of the two weeks, governments managed to make progress on a number of key issues, resolving long-standing differences on a fund to help developing countries adapt to climate change and taking initial steps toward measures to reduce tropical deforestation. Two parallel meetings organized by the Indonesian government drew dozens of trade and finance ministers, who until now have remained largely aloof from the climate debate.

But the talks were dominated from start to finish by an intense debate over the terms of future negotiations. The play followed a familiar dynamic: the European Union pushing hard to get the United States on a path to hard commitments; the United States strenuously pushing back; and developing countries angling for stronger technological and financial assistance while resisting hard commitments for themselves. Unlike two years ago in Montreal, where it

refused until the last minute to allow even an informal dialogue on post-2012 action, the United States came to Bali saying it supported a roadmap to a global agreement in 2009. But U.S. negotiators worked at every turn to conform the roadmap to the Bush administration's vision of a new framework based on nationally defined – not internationally binding – “commitments.” The final outcome firmly embraces neither approach.

When closed-door negotiations among a small group of Ministers ran through the night with still no agreement, the debate finally spilled out into the open in an extraordinary closing plenary. Ban Ki-moon and Indonesia President Susilo Yudhoyono took to the podium to plea for agreement – warning that “the whole world is watching” – only to have the United States reject proposals put forward by developing countries and accepted by the EU. With developing countries then demanding that the U.S. either lead or get out of the way, and the other non-EU developed countries largely silent, the United States found itself virtually isolated. In the end, it backed down.

In the final compromise, developing countries agreed for the first time to consider taking “measurable, reportable and verifiable” mitigation actions, a significant departure from the “no new commitments” stand they have maintained in the past. In exchange, their actions would be supported by technology and finance from developed countries, which also would be “measurable, reportable and verifiable.” Developed countries, meanwhile, would consider taking “commitments or actions,” which could include emission targets. But the text binds no party to any particular outcome; it leaves completely open both the form and level of any future commitments.

One possible casualty of the Bali dustup may be the United States' “major economies” initiative. In launching this new process in Washington in September, President Bush pledged that its aim was to build consensus for a new UN agreement in 2009. As the Bali conference opened, the White House was issuing invitations for a second major economies meeting in late January in Honolulu, with the aim of a heads-of-state summit in July. During the negotiations, the EU threatened to boycott the Honolulu meeting unless there was agreement on a Bali roadmap. And though agreement was reached, the U.S. approach in Bali left many with a bitter taste, and other governments appeared less inclined than ever to seriously engage in a process brokered by an outgoing administration.

Following is a summary of key outcomes of the Bali conference (full text of the decisions can be found at http://unfccc.int/meetings/cop_13/items/4049.php):

The Bali Roadmap

Two years ago in Montreal, parties launched two parallel processes to begin considering post-2012 action. One, under the Kyoto Protocol, is a formal negotiation of new targets, but only for developed countries that are party to the Protocol. The second, under the Framework

Convention, was an informal Dialogue on Long-Term Cooperative Action that explicitly was not a negotiation of commitments. While there was no deadline set for the Kyoto negotiations, the Convention Dialogue was a two-year process culminating in Bali.

The key decision in Bali was the launch of a negotiating process under the Convention that will now run in parallel with the Kyoto negotiations with the expectation that – although not formally linked – the two tracks will converge in a comprehensive post-2012 agreement in 2009. Related decisions concerned the timing and agenda of the ongoing Kyoto negotiations, and the framing of the Kyoto “review” to take place in 2008.

The “Bali Roadmap” is not a single decision or process, but rather an umbrella term coined by the COP President, Indonesian Environment Minister Rachmat Witoelar, to tie together all of the forward-looking decisions reached in Bali.

UNFCCC Negotiations

Governments were in broad consensus coming into Bali on the need for a new negotiating process under the Convention addressing four elements – mitigation, adaptation, technology, and investment and finance – and ending in 2009. The key issues in Bali were defining the anticipated scale of effort and the nature of the actions to be negotiated for developed and developing countries. The United States differed with most parties on both issues, at times supported by Japan, Canada, Australia, and Russia.

Initial drafts supported by the EU called for global emissions to peak in 10 to 15 years and decline “well below half” of 2000 levels by 2050, and for developed country emissions to be 25-40% below 1990 levels by 2020. The United States strenuously opposed the 2020 numbers, which are far more aggressive than the target levels in legislation now before Congress to establish mandatory economy-wide emission limits. The final compromise contains no numbers for either timeframe. It simply calls for “deep cuts in global emissions,” with a footnote to portions of the IPCC’s Fourth Assessment Report that present a range of emission reduction scenarios (noting that “under most equity interpretations” developed country emissions must fall 10-40% by 2020). The decision calls for the development of a “long-term global goal for emission reductions.”

On the nature of mitigation actions to be negotiated, initial drafts drew a clear division between developed and developing countries. For developed countries, they proposed “quantified emission limitation and reduction commitments” – i.e. emission targets – comparable to those being developed under Kyoto. Developing country actions, on the other hand, were described only as “measurable and reportable.” Alternative text proposed by the United States would have made no distinction between developed and developing countries. It called generally for “effective, measurable, and reportable domestic mitigation actions,” defined as “national” emission objectives or “domestic plans and measures.” The terms “domestic” and “national” implied that countries’ actions could be determined unilaterally, not as international commitments.

The decision adopted by the COP retains the distinction between developed and developing countries, in both cases calling for “measurable, reportable and verifiable nationally appropriate mitigation....” For developed countries, this is further defined as “commitments or actions, including quantified emission limitation and reduction objectives,” making binding targets an option. For developing countries, the decision calls for “actions...supported by technology and enabled by financing and capacity-building,” which also are to be “measurable, reportable, and verifiable.” The decision specifically notes that mitigation action could include “policy approaches and positive incentives” to reduce deforestation (see below) and “cooperative sectoral approaches and sector-specific activities.”

Elsewhere, the decision calls for new efforts to support adaptation to climate impacts; remove obstacles to, and provide financial support for the “development and transfer of technology” to developing countries; and other “positive incentives” for mitigation and adaptation by developing countries. The negotiations will be conducted under a new Ad Hoc Working Group on Long-term Cooperative Action under the Convention. The group will meet four times in 2008 and “shall complete its work in 2009” and present the outcome for adoption at COP 15 in Copenhagen.

Kyoto Negotiations

In a separate decision, the Kyoto parties further elaborated the negotiating track launched two years ago under the Protocol – called the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol – and set 2009 as the deadline for adopting new commitments for Kyoto’s developed country parties.

The decision notes that, under the most ambitious scenarios presented in the IPCC’s Fourth Assessment Report, global emissions must peak in 10 to 15 years and decline to well below half of 2000 levels by 2050; and that this requires developed countries as a group to reduce their emissions 25-40% below 1990 levels by 2020. Over the next two years, the Ad Hoc Working Group will consider the means available to meet new emission reduction targets; their potential environmental, economic, and social consequences; the scale of emission reductions to be achieved in the aggregate by developed countries; and “options for the allocation of the corresponding mitigation effort.” At least six sessions of the Ad Hoc Working Group are planned between now and COP/MOP 5 in Copenhagen.

Review of the Kyoto Protocol

Article 9 of Kyoto requires a periodic review of the Protocol. Last year, at COP/MOP 2 in Nairobi, parties conducted a *pro forma* review to satisfy the terms of the Protocol and agreed to conduct a more thorough second review next year at COP/MOP 4. Developed countries have looked to the review in part to demonstrate that developed country commitments alone will not achieve the global emission reductions that are needed, while developing countries have sought to ensure that the review process is not an avenue to new commitments for them.

In Bali, parties set the parameters of the second review. Among the items to be considered are the scope and effectiveness of Kyoto's flexibility mechanisms (international emissions trading; the Clean Development Mechanism, or CDM; and joint implementation); progress by developed countries in implementing their commitments on finance and technology for developing countries; and the possibility of extending to the other flexibility mechanisms the levy now applied to CDM transactions to support the Protocol's Adaptation Fund (see below). The review also will take into account the status of the Ad Hoc Working Group on new Kyoto commitments. The decision reiterates that the review "shall not lead to new commitments for any Party."

Russian Proposal

Two years ago, Russia proposed establishing procedures for developing countries to take on voluntary emission limits under the Kyoto Protocol. The issue was deferred to COP/MOP 2 in Nairobi, where parties agreed to organize a workshop on the controversial proposal. In Bali, the parties received a report from the workshop, held in May, and invited Russia to introduce its proposal for consideration during the upcoming Protocol review and in the new Ad Hoc Working Group established under the Convention.

Avoided Deforestation

Although deforestation accounts for approximately 20% of global carbon emissions, actions to reduce deforestation do not presently qualify for emissions crediting under the CDM. Two years ago in Montreal, a coalition of 15 rainforest nations led by Papua New Guinea reopened the debate about deforestation with a proposal to allow credits for reduced deforestation. The following year, Brazil outlined a competing approach, under which countries reducing their deforestation rates would receive payments from an international fund supported by donor country contributions, rather than marketable emission credits. The issue – now known as Reduced Emissions from Deforestation and Degradation in Developing Countries (REDD) – has drawn intense interest in part because it is the one area where developing countries have offered concrete proposals to reduce their emissions.

In a step toward recognizing REDD efforts, the COP adopted a decision encouraging tropical forest countries to undertake demonstration activities and providing "indicative guidance" for such projects. The primary focus of the demonstration activities is the development of national emission baselines, based on historic emissions, against which reductions can be measured. The decision leaves open whether incentives to reduce deforestation would take the form of carbon credits or direct financial assistance, as the question of "policy approaches and positive incentives" for reducing REDD emissions is to be taken up by the new Ad Hoc Working Group that will consider post-2012 action under the Convention. The United States sought to subsume REDD in that decision under land use generally, but tropical forest countries insisted on an explicit reference to REDD and prevailed.

In addition, the World Bank launched a new Forest Carbon Partnership Facility to help demonstrate the feasibility of accurately accounting for REDD reductions. The facility has two components: a \$100 million “readiness” fund focusing on capacity building and a \$200 million carbon finance mechanism for pilot projects. The Bank has already raised roughly half of this money from nine industrialized countries and The Nature Conservancy.

Adaptation Fund

In one of the most significant steps to date to address adaptation, the COP/MOP resolved long-standing differences on the governance of the Adaptation Fund created under the Kyoto Protocol to assist developing countries that are particularly vulnerable to the impacts of climate change.

Unlike other funds under the Convention and the Protocol, which are supported by developed country contributions, the Adaptation Fund is supported by a 2% levy on projects generating emission credits through the CDM. As such, many developing countries had argued that it should not be managed by the donor-dominated Global Environmental Facility (GEF), which manages the other funds, and should have a governance structure giving developing countries more say in decision-making.

In Bali, the parties established a 16-member Adaptation Fund Board to manage the fund on behalf of the COP/MOP. Its functions include recommending strategic priorities and policies to the COP/MOP, developing criteria to ensure that governments seeking funding are administratively and financially capable, and approving funds for adaption projects and programs proposed by governments. The Board will be composed of two representatives of each of the UN’s five regional groups, one representative of small island developing states, one representative of the least developing countries, and two each from developed and developing countries. The parties designated the GEF as the fund’s secretariat, and the World Bank as its trustee, on an interim basis, to be reviewed in three years.

Technology Transfer

In a pair of COP decisions, parties revisited the perennial issue of technology transfer, agreeing to reconstitute the Expert Group on Technology Transfer (EGTT) with a new mandate and outlining priorities for future efforts.

Last year in Nairobi, following the expiration of the EGTT’s original mandate, developing countries sought to reestablish the group as a standing body with decision-making powers and proposed the creation of a new fund allowing them easier access to technologies by “buying out” intellectual property rights. Developed countries were staunchly opposed, and parties agreed only to keep the EGTT alive for another year.

In Bali, the COP reconstituted the EGTT for another five years with a wide-ranging mandate to evaluate ongoing technology transfer efforts and develop recommendations for

strengthening these efforts in a post-2012 agreement, including the role of new finance mechanisms. Areas identified as priorities for funding include joint research and development of new technologies, South-South cooperation, and licenses to support access to low-carbon technologies and know-how. Among the options to be considered is a “venture capital fund related to, or possibly located in, a multilateral financial institution.”

Future Meetings

The parties decided that COP 14 and COP/MOP 4 will be held December 1-12, 2008, in Poznan, Poland. COP 15 and COP/MOP 5 is set for November 30-December 11, 2009, in Copenhagen, Denmark.