



# Climate Change Negotiations

India's submissions to the United Nations Framework Convention on Climate Change

*August 2009*



सत्यमेव जयते

MINISTRY OF ENVIRONMENT AND FORESTS  
GOVERNMENT OF INDIA  
NEW DELHI



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August, 2009

# Contents

<b>FOREWORD</b> .....	<b>5</b>
<b>INTRODUCTION</b> .....	<b>7</b>
<b>SUMBISSIONS BY INDIA TO UNFCCC</b> .....	<b>9</b>
1 SHARED VISION FOR LONG TERM COOPERATIVE ACTION .....	11
2 MEASURABLE, REPORTABLE AND VERIFIABLE MITIGATION ACTIONS OF DEVELOPED COUNTRIES .....	14
3 MEASURABLE, REPORTABLE AND VERIFIABLE MITIGATION ACTIONS OF DEVELOPING COUNTRIES .....	16
4 NATIONALLY APPROPRIATE MITIGATION ACTIONS (NAMAs) OF DEVELOPING COUNTRIES .....	18
5 REDUCED DEFORESTATION IN DEVELOPING COUNTRIES (REDD), SUSTAINABLE FOREST MANAGEMENT (SFM), AND AFFORESTATION AND REFORESTATION (A&R) .....	20
6 ENHANCING ACTION ON ADAPTATION .....	27
7 FINANCING ARCHITECTURE FOR MEETING FINANCIAL COMMITMENTS UNDER THE UNFCCC .....	33
8 FINANCING FLOWS: WHY FINANCIAL CONTRIBUTIONS TO THE FINANCIAL MECHANISM OF THE UNFCCC CANNOT BE UNDER THE PARADIGM OF "AID" .....	41
9 TECHNOLOGY TRANSFER MECHANISM .....	43
10 AMENDMENT TO THE KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE UNDER ARTICLE 3.9 OF THE PROTOCOL .....	49
11 LAND USE, LAND USE CHANGE & FORESTRY (LULUCF) .....	54
12 IMPROVEMENTS TO EMISSIONS TRADING AND PROJECT BASED MECHANISMS .....	56





## Foreword

Climate change is a major challenge for developing countries like India that face large climate variability and are exposed to enhanced risks from climate change. Climate change will also significantly impact the economic growth and social development of India, where eradication of poverty is the first and overriding priority. It is for this reason that India has a huge stake in the multilateral climate change negotiations that are taking place under the purview of United Nations Framework Convention on Climate Change.

The international negotiations on climate change are taking place in pursuance of the Bali Action Plan adopted in 2007 and all Parties of the UNFCCC are working to reach an agreed outcome at Copenhagen in December 2009. The Climate change discourse covers a wide range of issues that include a shared vision for long term cooperation under the Convention, adaptation to and mitigation of climate change and provision of technology and financing for addressing Climate Change.

As part of these negotiations, India has expressed its views on several issues, in particular the issues affecting developing countries. It has also put forward proactive submissions to the UNFCCC on various issues. The twelve (12) papers contained in this publication encapsulate the major submissions made by India on the relevant topics in the course of the negotiations during 2008 and 2009. Of particular note are India's submissions on technology and forestry. On technology, India has presented a proposal to establish a mechanism for the development and transfer of technologies needed by developing countries for addressing climate change. On forestry, India has put forth an innovative proposal on forestry-related emissions, in which the emphasis is not only on reducing deforestation, but also on forest conservation, sustainable forestry management and enhancement of forest carbon stock.

I hope that this publication will give the reader a perspective of the range of India's contributions and the logic behind India's approach to the climate change negotiations.





# Introduction

13<sup>th</sup> Conference of Parties (CoP 13) of the United Nations Framework Convention on Climate Change (UNFCCC) held at Bali in December 2007 decided to launch a process of negotiations for full, effective and sustained implementation of the UNFCCC. CoP-13 constituted an Ad-hoc Working Group on Long-term Cooperative Action (AWG-LCA) and gave it a mandate to conduct the negotiations so that the Parties reach an agreed outcome in Copenhagen in December, 2009 at 15<sup>th</sup> Conference of Parties (CoP-15).

AWG-LCA is addressing four major building blocks of climate change, i.e. GHG mitigation; adaptation to climate change impacts; technology development and cooperation; and finance. Besides, discussions are also taking place, in parallel, in the Ad-hoc Working Group under Kyoto Protocol (AWG-KP) where the mandate to the Parties is to negotiate and agree on the emission reduction targets for Annex-I countries for the second commitment (post-2012) period under the Kyoto Protocol.

The negotiations are in progress as per an agreed work programme since 2005 in case of AWG-KP and early 2008 in case of AWG-LCA. In course of these negotiations, India has made several submissions on specific elements under discussion in order to express its views and state the position.

This compilation presents India's submissions/position papers submitted to the UNFCCC on each of the relevant issues. The submissions were made at various stages in course of meetings convened by the UNFCCC during 2008 and 2009. Initially, the submissions were made in form of narrative statements. Later, specific text on each issue was also suggested for inclusion in the negotiating text in accordance with requests made by the relevant AWG.

In this compilation, the submission on each subject begins with a narrative statement followed by a text suggested for inclusion in the negotiating text. The suggested text does not imply that an agreement has been reached on the text. The negotiations are still continuing and the text is under development through discussion amongst the Parties.

It is hoped that the compilation of the views expressed by India in the negotiating bodies at this stage will serve a useful purpose in educating the public on India's position on climate change related issues and also act as a reference material.



# **SUBMISSIONS BY INDIA TO UNFCCC**



## 1 SHARED VISION FOR LONG TERM COOPERATIVE ACTION

### LONG TERM CO-OPERATIVE ACTION

***“A shared vision for long-term cooperative action, including a long-term goal for emission reductions, to achieve the ultimate objective of the Convention, in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities”***

The focus of paragraph 1 (a) of the Bali Action Plan is on a shared vision for a “long-term cooperative action” to achieve the ultimate objective of the Convention as set out in Article 2. It includes the issue of how to deal with preventing overexploitation of the global atmospheric resource in order to prevent dangerous anthropogenic interference with the global climate system. The Bali Action Plan emphasizes that this objective must be achieved “in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities” of Parties.

The *ultimate objective of the Convention* is of a multidimensional nature. Article 2 reads as follows: *“The ultimate objective of this Convention and any related legal instruments that the Conference of Parties may adopt is to achieve, in accordance with the relevant provisions of the Convention, stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner”* [emphasis added].

Thus the “ultimate objective” encompasses three inter-connected elements. First, it prescribes a *method* – “in accordance with the relevant provisions of the Convention”. Second, it calls for *stabilization* of greenhouse gas concentrations at a level that would avoid dangerous interference with the climate system. This underscores the importance of cumulative emissions and the historical responsibility that goes along with contribution to the stock of greenhouse gases in the atmosphere. Finally, it includes three specific criteria for determining the *time-frame* within which stabilization must be achieved, including that economic development may proceed in a sustainable manner.

**India’s views on “paragraph 1(a) of Bali Action Plan” may be summarized as follows:**

(1) Equity must be central to the way forward. This requires that the any stabilization target should be achieved on the basis of the principle that each human being has an equal right to the common atmospheric resource accounting also for the historical responsibility of developed countries in building the concentration of greenhouse gases in the atmosphere. Developing countries cannot be denied access to their equitable share of the global atmospheric resource and carbon space. Equitable sharing of the carbon space, therefore, needs to be urgently agreed to by the international community. *As far as India is concerned we have stated publicly that our per-capita emissions will not exceed those of developed countries. We believe that a paradigm of convergence of per-capita*

*emissions of developing and developed countries, also accounting for the historical responsibility of developed countries, provides an equitable approach to fair burden sharing.*

(2) The Right to Development must be fully respected in the climate change regime. It must be recognized that, for poorer countries, rapid development is not only an economic and social imperative but also an essential requirement for building up a coping capacity against the adverse impacts of climate change. In this context, the imperative of development for adaptation is essential even from the point of Right to Life and basic issues of survival. Thus, addressing paragraph 1(a) must “take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties” (Article 4.7).

(3) In order to send out a clear signal of the urgency and magnitude of the climate change problem the international community should start identifying an indicative stabilization target and a time-frame for its achievement along with an equitable paradigm for sharing the carbon space. These should take into account the IPCC 4 scenarios and should be based on the principle of equity. Should it be required in light of new scientific data or changed economic conditions and technologies available, the initial stabilization target could be updated periodically to ensure that it sends out a sufficiently ambitious call to action. In the interests of integrity and transparency, and in order to prevent any ambiguity in the signal, there should be no tampering with the baseline year used in the Convention and the IPCC reports (i.e. 1990). Targets for emission reductions are meaningless unless the baseline date is clearly established.

(4) Any stabilization target, howsoever ambitious, cannot be misused to seek a revision of the provisions of the Convention. The “ultimate objective” itself requires that any stabilization target must be achieved “in accordance with the relevant provisions of the Convention”, that is, in accordance with the Commitments set out in Article 4 and the Principles enunciated in Article 2. The Bali Action Plan reinforces this requirement by underlining that long-term cooperative action must be pursued “in accordance with the provisions and principles” of the Convention. We must strictly abide by the terms of Article 2 of the Convention and the express requirements of the Bali Action Plan.

In this context, it would be pertinent to observe that the Convention is so designed that any stabilization level, howsoever ambitious, can be achieved through enhanced implementation of the commitments set out in Article 4. If achievement of a global stabilization goal necessitates mitigation measures in developing countries, the latter must be compensated by the developed countries to the extent of the full incremental costs, in accordance with the provisions of paragraphs 3 and 7 of Article 4. Thus the Convention makes full provision for mitigation measures in developing countries on the basis of full compensation for incremental costs.

(5) A long-term stabilization target would lack credibility if it is not linked to a medium term target for emission reductions by Annex I Parties, in accordance with their commitments under Article 4, paragraph 2 of the Convention, as well as the provisions of paragraph 1 (b) (i) of the Bali Action Plan. It is a matter of deep concern that the emissions of Annex I countries have been steadily *increasing* since 2000, contrary to the provisions of the Convention. UNFCCC data reveals that total Annex I emissions rose from 17,719 Tg CO<sub>2</sub> equivalent in 2000 to 18,182 Tg CO<sub>2</sub> equivalent in 2005. Moreover, there have also been increases in terms of per-capita emissions in the Annex I countries. This alarming trend must be immediately reversed. All Annex I countries should adopt deep emission reduction targets for the medium term based not only on technology options but also by adopting specific policies and measures that promote sustainable patterns of consumption and production, including life-style changes. IPCC scenarios indicate that such reductions should

be more than 25-40 percent by 2020, *excluding* life-style changes. We, therefore, call on the Annex I countries to adopt targets for reduction of their emissions by *more than* 25-40 percent by 2020, *with further reductions through policies and measures that promote sustainable lifestyles* from the 1990 baseline.

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## SUGGESTED TEXT

[Adopts:]

a shared vision for long-term cooperative action in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities;

[integrating:]

- enhanced provision of financial resources by developed countries to meet the agreed full incremental costs of mitigation and adaptation actions by developing countries;
- promotion of technology development, diffusion and transfer by operating the intellectual property rights regime in a manner that encourages development of climate - friendly technologies and simultaneously facilitates their diffusion and transfer to developing countries;

[enhancing:]

- the adaptive capacity of developing countries by promoting rapid sustainable development in these countries and by increased financial assistance to developing countries that are particularly vulnerable;

[effecting:]

- deep long-term reductions in global greenhouse gas emissions with appropriate mid-term emission reductions, based on an equitable allocation of the global atmospheric resource, in order to prevent dangerous anthropogenic interference with the climate system, while enabling developing countries to exercise the Right to Development and rectifying unsustainable life-styles in all countries.
-

## 2 MEASURABLE, REPORTABLE AND VERIFIABLE MITIGATION ACTIONS OF DEVELOPED COUNTRIES

***Bali Action Plan, para 1(b) (i) : “measurable, reportable and verifiable nationally appropriate commitments or actions, including quantified emission limitation and reduction objectives, by all developed country Parties, while ensuring the comparability of efforts among them...”***

Mitigation actions of Paragraph 1 (b) (i) of the Bali Action Plan sets out the mitigation commitments of the developed countries in conformity with Article 4.2 of the Convention. Two elements of the formulation merit attention.

First, the term “nationally appropriate” may be reasonably interpreted as meaning “nationally determined”, as contrasted with an internationally negotiated commitment. However, in this subparagraph of the Bali Action Plan, the term “nationally determined” is subject to an important qualification. The “nationally determined” commitments or actions must reflect comparable efforts among all developed country Parties. This can be ensured only through negotiations. Hence, though the commitments or actions of a developed country may, in the first instance, be nationally formulated, they must be finalized on the basis of UNFCCC negotiations, in order to ensure comparability of efforts among Annex I Parties.

Second, the paragraph requires ALL developed country Parties to adopt quantified emission limitation and reduction objectives, regardless of whether a Party chooses to describe this as a “commitment” or an “action”. The paragraph requires that the “commitments” or “actions” of any developed country must include a quantified emission limitation and reduction objective.

The Convention requires the developed countries to “take the lead” in climate change mitigation. Regrettably, they have yet to fulfill this pledge. It was envisaged under the Convention that greenhouse gas emissions of Annex I countries would be ‘returned’ to 1990 levels by the year 2000, after which they are to be progressively reduced. It is a matter of great concern that, instead of registering a sharp decline, after 2000, emissions of developed countries actually *increased* by 2.6 % from 16,527 Tg CO<sub>2</sub> eq in 2000 to 16,748 Tg CO<sub>2</sub> eq in 2005 (without LULUCF). Statistics including LULUCF show a similar trend though at a lower level. The anthropogenic nature of the increases are furthermore underscored in that increases in Annex I emissions have been led by CO<sub>2</sub>. Their per-capita emissions, too, have continued to increase. A sharp decline in the level of economic activity in the Economies in Transition (non-Annex II developed countries) between 1990 and 2000 resulted in an involuntary reduction of CO<sub>2</sub> emissions in these countries during the first decade of the Convention. This initially masked the rising emissions from other developed countries (Annex II). However, by the end of the decade, the Economies in Transition (EITs) had succeeded in rehabilitating their economies and their emission trends, too, began to exhibit a rising trend. Thus, in the current decade, ghg emissions of the Annex I countries, have shown an alarming rising trend.

While the total emissions of the Annex II countries (excluding LULUCF) rose by 11% between 1990 and 2005, the increase was significantly higher in the case of the two Annex II countries that had not ratified the Kyoto Protocol by the latter date (2005). In their case, emissions increased by 25.3% and 16.3%, respectively.

Attainment of the ultimate objective of the Convention will be impossible unless these alarming trends are speedily reversed. The developed countries must sharply reduce their emissions so as to



release atmospheric space for the development of poorer countries, in a manner that is consistent with achievement of stabilization of the greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous interference with the climate system.

IPCC scenarios suggest that, in order to achieve the stabilization goal, Annex I countries must reduce their emissions by more than 25-40% by 2020, from the 1990 baseline. In addition, over and above these reductions, policies and measures must be introduced by them to significantly further reduce their emission through lifestyle changes. It is important that the real effort continue to focus on reduction of CO<sub>2</sub> emissions. Moreover, the Annex I country targets should also be noted and reported in per-capita terms. Changes in the suite of gasses and/or LuLuCF rules should not be used to circumvent the climate imperative for reducing anthropogenic emissions. Such a target by 2020 is an essential component of any meaningful outcome of the Bali Action Plan.

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### SUGGESTED TEXT IN RELATION TO PARA 1 (b)(i) OF BAP AND UNFCCC ARTICLE 4.2(a) & (b)

Developed country Parties listed in Annex I of the Convention shall, as a group, reduce their emissions of greenhouse gases not covered by the Montreal Protocol, by over [ ] per cent by 2020, compared to the base year 1990. This overall target shall be met through the individual emission reduction commitments of all Annex I Parties to the Kyoto Protocol for the second commitment period and the commitment of the United States of America to reduce its emissions of these gases by [ ] per cent by 2020, compared to the same base year, reflecting a comparable effort on its part, taking into account differences in its national circumstances. The emission reduction commitments of developed countries shall be subject to the same rules of measurement, reporting and verification.

Annex I parties shall individually or jointly reduce their anthropogenic GHG emissions by at least 40% below the 1990 baseline by 2020.

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### 3 MEASURABLE, REPORTABLE AND VERIFIABLE MITIGATION ACTIONS OF DEVELOPING COUNTRIES

The Bali Action Plan seeks to “urgently enhance implementation of the Convention in order to achieve its ultimate objective in full accordance with its principles and commitments”. The Action Plan must, therefore, be elaborated in full conformity with the provisions of the UN Framework Convention on Climate Change. No proposal that is inconsistent with the Convention may be entertained in elaborating or interpreting the provisions of the Action Plan.

Mitigation actions to be taken by developing countries are set out in paragraph 1(b)(ii) of the Action Plan. In conformity with the Convention, these actions are clearly differentiated from the commitments or actions required of developed countries set out in the preceding sub-paragraph. In particular:

- Emission limitation objectives are excluded in the case of developing countries.
- Corresponding to paragraph 4.7 of the Convention, mitigation actions to be taken by developing countries are only those that are “nationally appropriate...in the context of sustainable development”.
- Such actions should be “supported and enabled by technology, financing and capacity-building”, in keeping with the requirements of paragraphs 4.3, 4.5 and 4.7 of the Convention.
- The term “measurable, reportable and verifiable” (MRV) appears in a totally different context in paragraphs 1(b)(i) and 1(b)(ii), respectively, as shown below.

Paragraph 1(b)(i), referring to developed countries, requires “measurable, reportable and verifiable...mitigation commitments or actions”. In contrast, in the next sub-paragraph, dealing with developing countries, MRV applies only in the case of mitigation actions that are “supported and enabled by technology, financing and capacity-building”. In these cases, it applies equally to the provision of technology, finance and capacity-building and to the “supported and enabled” mitigation actions. This is abundantly clear not only from the text of the Bali Action Plan itself but also from its negotiating history. It will be recalled that paragraph 1(b)(ii) was amended before adoption and the phrase “measurable, reportable and verifiable” was shifted from the beginning to the end of the sub-paragraph, so as to make it clear that developing countries are not required to adopt a new commitment to implement measurable, reportable and verifiable mitigation actions in the absence of enabling financial and technological support from developed countries. For developing countries, MRV applies only in the context of *contractual arrangements* under which they receive financial, technological and capacity-building support to enable them to implement specific mitigation actions.

The Convention does not permit a review of mitigation measures adopted by developing countries. Consistently with the Convention, the verification process foreseen in paragraph 1(b)(ii) of the Bali Action Plan does not apply to mitigation actions of developing countries other than those implemented under a contractual agreement between a developing country and a developed country (or a UNFCCC financial entity) in terms of which the latter ‘supports and enables’ the developing country, through transfers of finance and/or technology, to take specified mitigation actions. In such cases, it would be reasonable to incorporate into the contract a provision requiring verification of compliance by both parties. The contractual agreement itself would spell out the MRV procedures. These might vary depending upon the precise nature of the financial or technological support and the “enabled” mitigation actions.

Finally, it must be emphasized that the Bali Action Plan, in conformity with the Convention, differentiates between the mitigation measures required of developed and developing countries, respectively. The terminology is consistent with that of the Convention, which distinguishes between two categories of parties, 'developed' and "developing". The "agreed outcome" to be adopted through a decision at COP-15 can have no other basis of differentiation in regard to mitigation.

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### SUGGESTED TEXT IN RELATION TO PARAGRAPH 1(b)(ii) and UNFCCC ARTICLES 4 AND 12

Developing countries may, on a voluntary basis, propose mitigation actions that they offer to implement provided the agreed full incremental costs are met by developed countries through the financial mechanism referred to in Article 11, paragraph 1, of the Convention. Such proposals should include an estimate of all incremental costs, including for the transfer of technology and capacity-building, as well as an estimate of reductions of emissions and increments of removals of greenhouse gases. Proposed mitigation actions, as well as the support required to enable their implementation should be measurable, reportable and verifiable.

Each proposal, together with the agreed financial support, shall be inscribed in a "Register of NAMAs (Nationally Appropriate Mitigation Actions) of Developing Countries Supported and Enabled by Technology, Financing and Capacity-building", on conclusion of an agreement between the proposer developing country and the financial mechanism in accordance with Article 4, paragraph 3 of the Convention.

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## 4 NATIONALLY APPROPRIATE MITIGATION ACTIONS (NAMAs) OF DEVELOPING COUNTRIES

The Bali Action Plan launched “a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action”.

The Bali Action Plan envisages, under clause 1(b)(ii), enhanced national/international action on mitigation of climate change, including, *inter alia*, consideration of Nationally Appropriate Mitigation Actions by developing country parties in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner.

The NAMAs envisaged in the BAP do not include national actions by developing countries with their own resources and without external support. Para 1(b)(ii) of the BAP clearly refers only to NAMAs “supported and enabled by technology, financing and capacity building”. NAMAs envisaged in the BAP are, therefore, voluntary actions proposed by developing countries, that require to be supported and enabled by technology transfer, capacity building and financial transfers by developed countries.

It is recalled that, under Article 12.4 of the Convention, “Developing country Parties may, on a voluntary basis, propose projects for financing, including specific technologies, materials, equipment, techniques or practices that would be needed to implement such projects, along with, if possible, an estimate of all incremental costs, of the reductions of emissions and increments of removals of greenhouse gases, as well as an estimate of the consequent benefits”.

Discussions were held in Poznan on a possible international registry for such NAMAs. The proposed International Registry should simply be a compilation of NAMAs proposed voluntarily by developing countries, along with an estimate of their mitigation benefits and the estimated incremental costs & technology requirements, submitted in accordance with Art.12.4 of UNFCCC. Implementation of the proposed actions will be contingent upon receipt of the “enabling” finance and technology requirements in accordance with Art.4.3 of UNFCCC which requires developed country parties to cover the “agreed full incremental costs” of measures implemented by developing countries. The proposed registry must be set up under the UNFCCC and hence, the financial support for these NAMAs will be provided by the financial mechanism set up by UNFCCC.

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### SUGGESTED TEXT

Non-Annex I Parties should formulate and implement NAMAs in the context of sustainable development, in order to moderate the growth of GHG emissions to the extent commensurate with support provided, in terms of technology and finance, by developed countries.

Developing country Parties may enhance their mitigation actions through NAMAs in accordance with the principle of CBDR & RC. These actions should be in conformity with national development priorities and in the context of sustainable development and poverty eradication. They shall be determined and formulated at the national level.

MRV of NAMAS and their desired outcomes shall apply only in such cases where, and to the extent that they are enabled and supported in terms of finance and technology by the Annex I country Parties through an agreed financing mechanism.

Guidelines for such MRV shall be established and approved by the CoP.

'Measurement and reporting of NAMAs in accordance with the established guidelines shall be undertaken by the host country, while the verification of the desired outcomes from such NAMAs shall be verified by the Financing Mechanism established under the Convention and the host country jointly.'

A mechanism to register and facilitate the implementation of NAMAs and support for them shall form part of the Financing Mechanism established under the Convention. The mechanism shall be established at the UNFCCC secretariat under the authority of the CoP and shall be supported by :

- A technical panel established under the convention to assess both the assumptions and methodology underpinning NAMAs and the support required for such actions,
- A new body established under the CoP that will conduct the verification of NAMAs and their corresponding technology, finance and capacity-building support.

As regards financial support to REDD-plus activities, there shall be a combination of market based, and non-market based approaches.

Measurement and reporting of ghg emissions from REDD+ would need to be done in accordance with an agreed objective, methodology and principles in order to take into account the quantum of removals in addition to quantum of emissions reductions, effected due to REDD-plus activities.

Sectoral crediting or sectoral crediting mechanism as part of NAMAS or otherwise are not consistent seek to place commitments on developing country parties that are in contravention of the principles of the convention.

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## 5 REDUCED DEFORESTATION IN DEVELOPING COUNTRIES (REDD), SUSTAINABLE FOREST MANAGEMENT (SFM), AND AFFORESTATION AND REFORESTATION (A&R)

- 1 **Introduction:** This is a paper setting forth the conceptual basis for possible treatment of the issue of Reduced Deforestation in Developing Countries (REDD), Sustainable Forest Management (SFM), and Afforestation and Reforestation (A&R), under the Bali Action Plan (BAP). It also outlines a possible approach towards provision of “positive incentives” for all three categories of actions related to forestry under BAP, based on this conceptual treatment.
- 2 **Statement of the Problem:** GHG emissions from deforestation in developing countries (principally Brazil, Indonesia, and Papua New Guinea) are estimated by the IPCC AR4 as contributing to c. 17% of current global emissions. However, several of these countries, have put in place policies and regulations to reduce, and progressively eliminate, deforestation, incurring both direct and opportunity costs. At the same time, several developing countries, including China and India have both strong regulatory regimes to prevent diversion of forests to non-forest use (e.g. agriculture, industry, human settlements, infrastructure), as well as large, nationally funded programs for afforestation of degraded forest land as well as non-forest lands, reclaiming them from non-forest use. Once again, these measures involve significant direct and opportunity costs, arising from costs of monitoring, enforcement, and protection; and non-use in the best alternative economic use, respectively. Developing countries argue that these costs must be met, at least in substantial part, by the global climate change arrangements, since the major benefits of these actions lie in global climate protection, and are not specific to the countries concerned.

Under the UNFCCC and Kyoto Protocol, REDD actions, while exhorted (e.g. (e.g. Preamble, Art. 4.1, 4.2, 7.2, 12.1, 12.2, etc., of UNFCCC and Art 2.1, 3.3, 3.4, etc., of KP), do not qualify for any kind of compensation or incentives. Similarly, under the UNFCCC and Kyoto Protocol, while SFM merits no compensation or incentives, A&R *projects* may qualify for CDM benefits. However, this incentive for CDM benefits in respect of A&R projects is extremely weak, since much of the A&R activity is actually implemented, not on the basis of clearly delineated projects, but on country (or State) wide programs by local communities, which typically involves small scale, dispersed activity and cannot afford to incur the large due diligence and transaction costs associated with the CDM. Further, the EU policy of not procuring carbon credits from A&R CDM projects has meant that such projects are not being significantly pursued (in fact as on date only one A&R project has been registered by the CDM EB). This lacuna has been recognized in the Bali Action Plan, which, in para 1 b (iii) identifies the need to provide “*positive incentives*” to REDD, as well as recognize “*the role of SFM and A&R*”. India has by interpretation, treated these two terms as synonymous, and the majority of developing countries concur with this view.

In the rest of this paper, it will be assumed that measurement and verification of forest carbon stocks, flows, and their changes, can be carried out by agreed measurement protocols, and no significant ambiguity or error would arise on this account.

3. **The Conceptual Basis of Compensation and Positive Incentives for REDD, SFM, and A&R:** In terms of elementary economic theory, an agent (assuming that he conforms to certain defined tenets of rationality) undertaking any activity involving costs to be borne by him, would in the face of diminishing marginal product, undertake the activity till the point at which the marginal cost of the activity *to him*, equals the marginal benefit (e.g. unit price) received *by him*.

**3.1 Internalization of Global Benefits:** However, in the event that part of the costs of the activity (negative externalities) are borne by others, the level of activity undertaken increases. Similarly, to the extent that part of the benefits are captured by others (positive externalities), the level of activity decreases. The *socially optimal* (“efficient”) level of the activity is when the agent responsible for undertaking the activity experiences the full costs as well as full benefits of the activity, (termed “internalizing the externalities”). Accordingly, the argument is that, in respect of REDD, SFM, and A&R, assuming that countries responsible for undertaking these activities (or at least, through regulation and policy deciding on the level of these actions to be carried out in their territories) are rational in the economic sense, since a major part of benefits are global, and not captured by the country concerned to any significant extent, the overall level of these forest activities are below the optimal level, from the perspective of the global society.

From the above, it follows that the levels of REDD, SFM, and A&R, would increase towards global optimality, if the global benefits could be internalized to the countries concerned, through “positive incentives”. This is illustrated in Fig. 1:

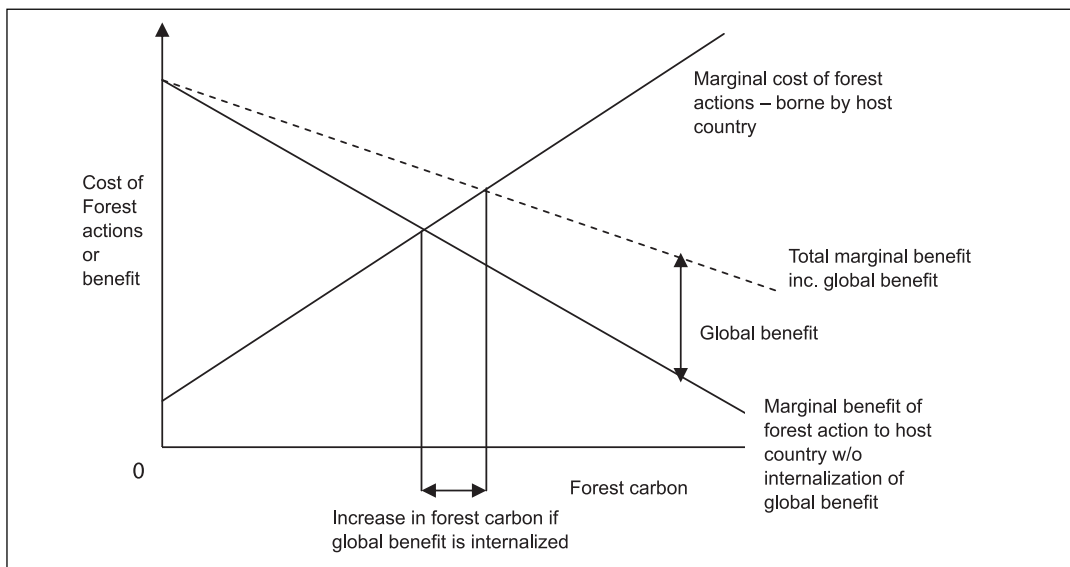


Fig 1: Increase in forest carbon by internalization of global benefit

**3.2 Positive Incentives for REDD:** In respect of REDD, host countries clearly have legal rights to maintain, or clear fell their forests. In case of clear-felling, the forest carbon services of the felled area are lost, through emissions of forest carbon, while the host country realizes the incremental economic benefits from clear felling. In the event of reduction in rate of deforestation, there is a *reduced flow* of carbon emissions from felled forest, while the host country loses the incremental economic benefits from clear felling. In respect of the remaining forest area *at any time*, a *stock* of forest carbon is maintained and not emitted, but the host country encounters direct and opportunity costs of keeping the area under forest.

In this situation, an appropriate scheme of Positive Incentives for REDD would be as follows:

- In respect of remaining forest area at any time, annual payments to compensate the host country for the *avoided global annual damage* from maintaining the forest carbon.
- In respect of change in the annual rate of deforestation, annual payments to compensate the host country for *lost incremental economic benefits of not clear felling the forest area corresponding to the reduced deforestation*.

These are illustrated in Fig. 2:

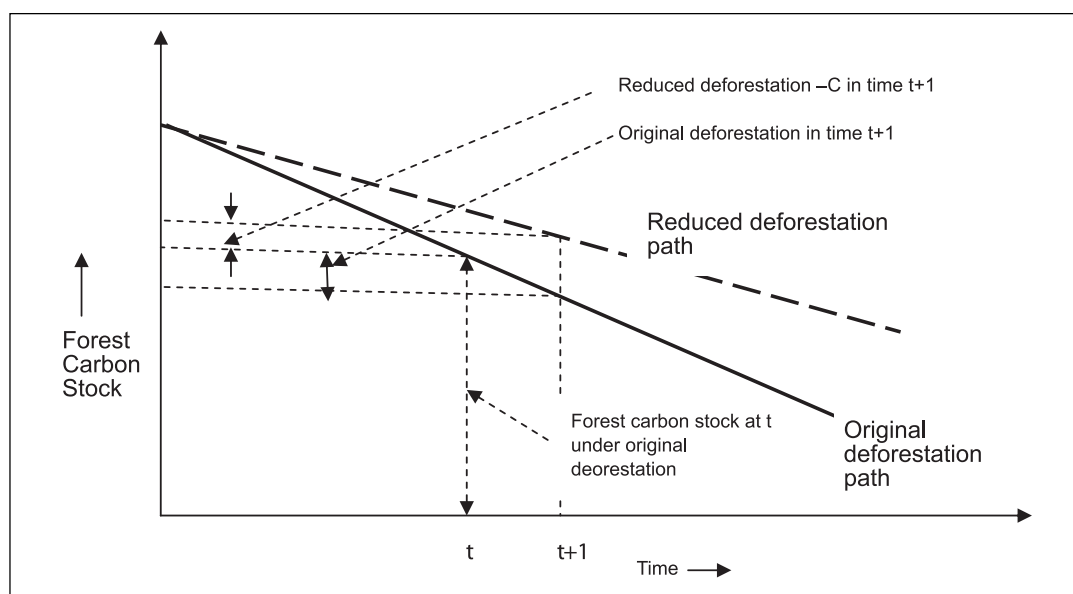


Fig 2: Reduced deforestation –C and forest carbon stock under REDD

**3.3 Positive Incentives for SFM and A&R:** Under SFM, the host country incurs direct costs on forest protection, monitoring, and enforcement, and opportunity costs in not clear felling the forest to the best alternative economic use. Under SFM accordingly, the host country refrains from forest carbon emissions through clear felling and conversion, which legally it may do, by maintaining the stock of forest carbon.

On the other hand, under A&R, resulting in increased carbon sequestration, the host country incurs additional direct costs in forest plantation, besides opportunity costs in not using the additional forest area in the best alternative economic use. There is thus an increased flow of carbon sequestration from A&R.

In this situation, an appropriate scheme of Positive Incentives for SFM and A&R would be as follows:

- In respect of remaining forest area at any time under SFM, annual payments to compensate the host country for the *avoided global annual damage* from maintaining the stock of forest carbon.
- In respect of increased *flow* of carbon sequestration due to A&R, annual payments to the host country corresponding to the direct costs of afforestation, and opportunity costs of refraining from the alternative best economic use of the land under A&R.

This is illustrated in Fig. 3:

**4. Modalities for Provision of “Positive Incentives”:** Various modalities for providing “Positive Incentives” in respect of REDD, SFM & A&R could, in principle, be considered. These may include:

- Trade benefits: such as reduced tariffs for forest product exports, or even exports more generally, from host countries undertaking REDD, SFM, A&R action in line with the forest carbon stock maintained and change in flow of forest carbon (emissions under REDD and sequestration under A&R).
- Increased level of ODA and/or MFI funding for development generally.



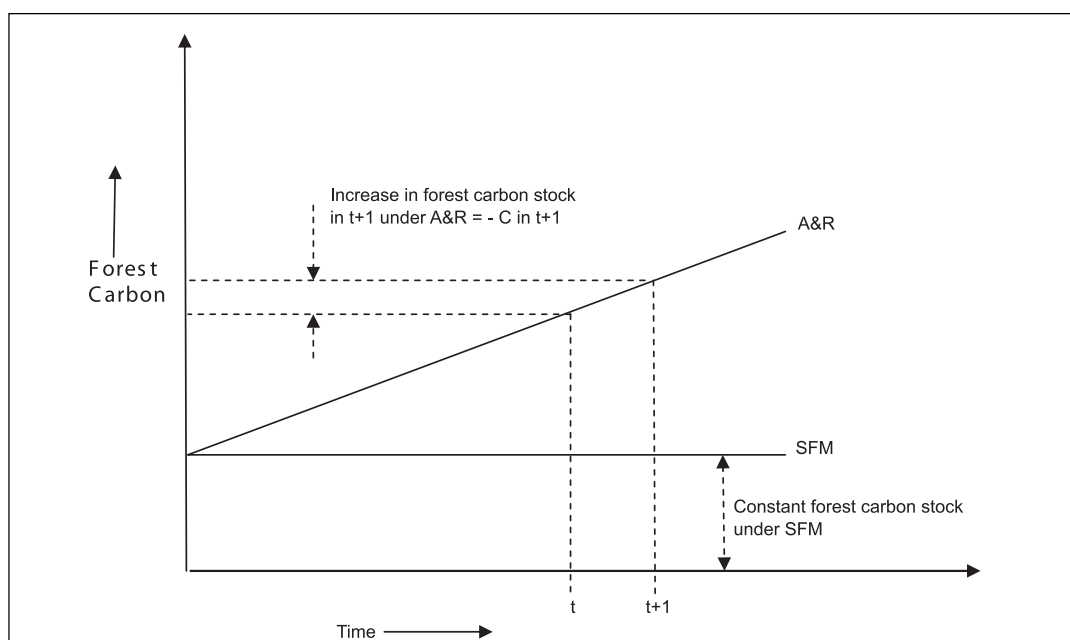


Fig 3: Forest Carbon Stock under SFM and  $-C$  Flow under A&R

- Financial Compensation: to host countries undertaking REDD, SFM, A&R actions in line with the forest carbon stock maintained and change in flow of forest carbon (emissions under REDD and sequestration under A&R).

These are discussed below:

- Trade benefits: This approach would require coordination with the WTO negotiations, which are complex enough, without loading on them this additional dimension. There are likely to be implications in terms of deviation from MFN treatment, permissible subsidies, as well as possible infringement of approaches set forth in WTO Council Decisions. It would also be very difficult to scale the level of trade benefits on year-to-year which would be necessary for scaling to the varying levels of forest carbon stock and flows.
- Increased level of ODA and/or MFI Funding: The principal implication of this modality would be to place decision-making, both in level of enhanced benefits provided, as well as what the additional resources may be used for, besides possible policy and political conditionalities, in the hands of developed country donors and the MFI Boards. This would reduce the autonomy of decision-making by the host developing countries.
- Financial Flows: There are two, not mutually exclusive, possibilities:
  - (a) Loan funding
  - (b) Non-repayable Financial Flows

Since the provision of “Positive Incentives” is in the nature of payments for environmental services provided to the global community, it is difficult to argue for the loan modality. On the other hand, non-repayable financial flows may be easily scaled to the level of actions to be compensated (forest carbon stock and/or changes in forest carbon flows), does not infringe on WTO mandates, and retains autonomy of decision-making with respect to what the resources may be used for, with the host country.

5. **Raising Resources for “Positive Incentives”:** Two possible ways of raising resources for these “Positive Incentives” are:
- “Assessed” Contributions by Developed Countries; and
  - Supply Side Linkage to the Global Carbon Compliance Market.

With respect to forest carbon *stocks*, it is not possible to link actions to the Global Carbon Compliance Market through supply of carbon credits, because GHG emissions are carbon flows to the atmosphere, and reductions in net GHG emissions can, similarly, be effected only by negative carbon *flows*. Accordingly, this means of compensation for SFM (and remaining forest carbon stock at a given time under REDD) is not feasible.

Compensation for maintaining forest carbon stocks, in terms of rates of compensation, say, per million tons of forest carbon stock, or quantum of total payments, cannot be a voluntary matter for individual developed countries. This would place this payment in the realm of “donor” funding, rather than compensation, and sever linkages with level of responsibility for climate change, and possibly respective capabilities, of each developed country. It would, judging by the history of climate change actions since the coming into force of the UNFCCC, also lead to serious under compensation, leading to reduced levels of maintenance of forest carbon stocks. Accordingly, the compensation payments should be on some norms for assessment, agreed under the BAP, related to both responsibility and capabilities of each developed country.

On the other hand, given sound monitoring and assessment of changes in forest carbon flows, it would seem feasible to provide “Positive Incentives” for REDD and A&R by including them among the sources of supply of carbon credits for the global carbon compliance market. To the extent that GHG mitigation actions or commitments by developed countries are scaled in terms of responsibility and capabilities, this means of compensation for changes in forest carbon flows would also relate to respective responsibility and capability.

As a practical matter, however, it needs to be kept in mind that potential changes in forest carbon flows from REDD and A&R actions could be very large, with much lower incremental costs (as defined above), than in other GHG mitigation actions involving new technologies, such as in the energy supply and demand sides. Since the promotion of such technologies would be a global policy imperative, in order that sufficient carbon credit supply side space is available for such technologies, there may be need to place limits on the extent to which a developed country may source REDD and A&R credits in order to meet its GHG mitigation commitments. Possible numerical limits in this respect would have to be considered only after review of the available empirical literature, and modeling results.

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## SUGGESTED TEXT

*The Conference of the Parties,*

*Recalling* the relevant provisions of the Convention, in particular Article 2, Article 3, paragraphs 1, 3 and 4, and Article 4, paragraphs 1(a)–(d), 3, 5 and 7,

*Recalling* the decision 2/CP.13, and draft conclusions proposed by the SBSTA 28 Chair as contained in document FCCC/SBSTA/2008/L.12 and SBSTA 29 contained in document FCCC/SBSTA/2008/L.23

*Acknowledging* the contribution of the emissions from deforestation to global anthropogenic greenhouse gas emissions,

*Acknowledging* that forest degradation also leads to emissions, and needs to be addressed when reducing emissions from deforestation,

*Acknowledging*, inter alia, the contribution of forest conservation, maintenance, and enhancement of carbon stocks by sustainable management of forests in reducing anthropogenic greenhouse gas emissions,

*Recognizing* the need of a comprehensive REDD mechanism, encompassing all policy approaches that enhance or save forest carbon, including approach of forest conservation, and increase in forest cover due to sustainable management of forests, and that of reducing deforestation and degradation,

*Recognizing* that efforts and actions to reduce deforestation, and to maintain and conserve forest carbon stocks including their enhancement due to sustainable management of forests in developing countries are already being taken,

*Recognizing* the complexities, efforts of communities, and high opportunity cost involved in stabilization, maintenance, and conservation of forest cover in diverse national circumstances,

*Recognizing* the need of encouraging all activities including reduction in deforestation, and stabilization, maintenance, and conservation of forest carbon stocks including their enhancement due to increase in forest cover and/or sustainable management of forests in order to reduce emissions and thereby helping to achieve the ultimate objective of the Convention,

*Affirming* the urgent need to take further meaningful action encompassing all relevant activities to reduce emissions from deforestation and degradation in developing countries,

*Noting* that all activities resulting in sustainable reduction in emissions from deforestation and forest degradation, including conservation and enhancement of forest carbon stocks in developing countries require stable and predictable availability of resources,

*Recognizing* that reducing emissions from deforestation and forest degradation through activities resulting in reduction in deforestation, maintenance and conservation of forest carbon stocks including their enhancement due to increase in forest cover and/or sustainable management of forests in developing countries can promote co-benefits and may complement the aims and objectives of other relevant international conventions and agreements,

*Recognizing* also that the needs of local and indigenous communities should be addressed when action is taken to reduce emissions from deforestation and forest degradation,

- *Invites* Parties to further strengthen and support ongoing efforts to reduce emissions from deforestation and forest degradation, by reducing deforestation, and maintenance and conservation of forest carbon stocks including their enhancement due to increase in forest cover and/or sustainable management of forests on a voluntary basis;
- *Encourages* all Parties, in a position to do so, to support capacity-building, provide technical assistance, facilitate the transfer of technology to improve, inter alia, data collection, estimation, monitoring and reporting of emissions from deforestation, forest degradation, and maintenance and conservation of forest carbon stocks including their enhancement due to increase in forest

cover and/or sustainable management of forests, and address the institutional needs of developing countries to undertake the above tasks;

- *Encourages* developing countries to undertake a programme of work using remote-sensing techniques with minimum ground verification to develop national monitoring systems in order to produce demonstrable, transparent, verifiable, and result oriented estimations in context of paragraphs 5 and 6 below;
- *Further encourages* developing countries to ascertain reference emission and removal levels and bench mark year in the context of national circumstances taking into account reliable historical data;

[Decides that:]

all activities leading to following objectives shall qualify to be acceptable for positive incentives under Reducing Emissions from Deforestation and Degradation (REDD) mechanism:

- (a) Stabilization of forest cover, and thereby forest carbon stocks
  - (b) Conservation and maintenance of forest carbon stocks due to sustainable management of forests
  - (c) Reduction in deforestation rates
  - (d) Enhancement of forest carbon stocks due to sustainable management of forests, and increase in forest cover due to afforestation and reforestation
- methods agreed by the Parties to estimate, measure, monitor and report status of stabilized forest carbon stocks and/or changes in forest carbon stocks and greenhouse gas emissions in respect of activities mentioned in paragraph 5 above shall be applied by developing countries to claim positive incentives,
  - separate financial approaches shall be adopted for providing positive incentives for the two types of carbon stocks under REDD regime as under
    - (a) Change in carbon stocks
      - i) Incremental carbon stocks
      - ii) Reduced deforestation
    - (b) Baseline carbon stocks
  - the financial mechanism for providing positive incentives for i) change in carbon stocks, and ii) baseline stocks shall be as under
    - (a) A market based approach for fluxes with reference to paragraph 7(a) and for actions mentioned in paragraphs 5 (c) and (d) above
    - (b) A non-market based approach for stocks with reference to paragraph 7(b) and for actions mentioned in paragraphs 5 (a) and (b) above

[Invites:]

Parties, in particular Parties included in Annex II to the Convention, to mobilize resources to operationalize the non-market mechanism

- Parties to establish market-based and non-market based mechanisms for disbursement of positive incentives with reference to paragraph 8 above; and

[Decides that:]

- definitions, modalities, rules and guidelines relating to REDD mechanism including establishment of the market and non-market financial mechanisms for disbursement of positive incentives shall be finalized, and placed before the COP in its .....<sup>th</sup> Session.

## 6 ENHANCING ACTION ON ADAPTATION

### BACKGROUND

The UNFCCC has given equal importance to both adaptation and mitigation as part of the response to climate change. Articles 4.1(e), 4.4, 4.8 and 4.9 provide the basic framework and outline the responsibilities of the different Parties. The Marrakech Accords at COP7 (2001) brought the need and urgency for adaptation to the foreground in the UNFCCC negotiations. They identified the need for predictable and adequate levels of funding for Parties not included in Annex I and the need to develop appropriate modalities for burden sharing among Parties included in Annex II<sup>1</sup>. Three new funds<sup>2</sup> were established under COP7 to support adaptation activities. 18<sup>3</sup> areas of assistance on adaptation were identified, including for GEF funding and process of development of National Adaptation Programmes of Action (NAPAs) for LDCs were also achieved under COP7.

The Adaptation Fund created as a part of the Marrakech Accords was finally operationalized at CMP3 in Bali. The process involved decisions regarding the basic elements of the fund (28/CMP.1), principles underlying operation and management (5/CMP.2) and giving specific form to these arrangements (1/CMP.3) under which the Adaptation Fund Board is serviced by a Secretariat and a Trustee. GEF would provide the Secretariat services and World Bank would serve as the trustee, both on an interim basis. This outcome was the result of sustained and concrete efforts by Parties to set up a new approach for managing the Funds, recognizing the very different way in which money is being sourced (as opposed to typical donor contributions).

Adaptation issues are also considered in two separate agenda items under the COP and its subsidiary bodies. Decision 10/CP.9 requested the SBSTA to “initiate its work on scientific, technical and socio-economic aspects of impacts of, and vulnerability and adaptation to climate change” and to facilitate exchange of information and practical experiences among the Parties<sup>4</sup>. A five-year programme of work was adopted at COP11 through decision 2/CP.11 and was renamed as the Nairobi Work Programme at COP12.

COP 10, 2004, also adopted the “Buenos Aires programme of work on Adaptation and response measures”<sup>5</sup> which seeks to support the implementation of concrete adaptation activities. At COP 13, 2007, Parties continued to consider progress on the implementation of decision 1/CP.10 and at SB 28 in June 2008 agreed on a set of specific activities up to COP 14 in Poznan, Poland to address the adverse effects of climate change, article 4.8, decisions 5/CP.7 and 1/CP.10.

Adaptation is one of the pillars of the Bali Action Plan and further action on adaptation is being considered under the AWG-LCA. Decision 1/CP.13 paragraph (c) identifies the following areas for consideration under enhanced action on adaptation - International cooperation to support planning and implementation; Risk management and reduction, including through insurance and disaster reduction strategies; Economic diversification; Strengthening catalytic role of the Convention in enhancing and integrating action by other entities, in developing countries that are particularly vulnerable to the adverse effects of climate change, LDCs and SIDS.

<sup>1</sup> Article 1(b) and 1(d) of Decision 7/CP.7

<sup>2</sup> SCCF and LDCF were established by decision 7/CP.7; Adaptation Fund was established by decision 10/CP.7

<sup>3</sup> Decision 5/CP.7

<sup>4</sup> Decision 10/CP.9

<sup>5</sup> Decision 1/CP.10

## KEY FINDINGS FROM THE IPCC AR4

It would be appropriate for future deliberations on enhancing implementation of adaptation to be informed by the findings of the Fourth Assessment Report of the IPCC. Some of the key findings from the AR4 with respect to vulnerability & adaptation are:

- Adaptation is necessary in the short and longer term to address impacts resulting from the warming that would occur even for the lowest stabilization scenarios assessed (WG2 SPM, p.19).
- More specific information is now available across a wide range of systems and sectors concerning the nature of future impacts, including for some fields not covered in previous assessments. Key impacts would be in water, food, ecosystems, coasts and health sectors (WG2 SPM, p.11).
- Though adaptation measures are seldom undertaken in response to climate change alone (WG2, Ch. 17, p.719), in several sectors, climate response options can be implemented to realize synergies and avoid conflicts with other dimensions of sustainable development (AR4 Synthesis Report, p.18).
- More specific information is now available across the regions of the world concerning the nature of future impacts, including for some places not covered in previous assessments. In addition to LDCs and SIDS (which are already acknowledged as vulnerable regions under the Convention) other regions have been identified (WG2 SPM, p.13), for example (examples extracted from WG2, Ch. 19, Sec. 19.3.3, p. 791-792):
  - Africa is likely to be the continent most vulnerable to climate change especially with respect to food security and agricultural productivity, particularly regarding subsistence agriculture, increased water stress, potential for increased exposure to disease and other health risks, increased risks to human health. Approximately 1 billion people in South, South-East, and East Asia would face increased risks from reduced water supplies decreased agricultural productivity and increased risks of floods droughts and cholera.
  - Tens of millions to over a hundred million people in Latin America would face increased risk of water stress.
  - Low-lying, densely populated coastal areas are very likely to face risks from sea-level rise and more intense extreme events.
  - Human settlements in polar regions are already being adversely affected by reduction in ice cover and coastal erosion.
- A wide array of adaptation options is available, but more extensive adaptation than is currently occurring is required to reduce vulnerability to future climate change (WG2 SPM, p.19).

## VIEWS OF THE PARTIES<sup>6</sup>

Recent dialogue on adaptation under the Convention has underscored that that political commitment to adaptation in the UNFCCC process needs to receive the same level of attention as that given to mitigation. In recognition of this urgency, Parties called for prompt actions on adaptation to be undertaken, in accordance with paragraph 1 of the Bali Action Plan. Parties expressed concern over what was described as the current fragmented approach to adaptation as well as the fragmentation of available funding both within and outside the UNFCCC process and stressed the need to ensure a structured work programme for the AWG-LCA on adaptation, which would not duplicate but build on work being undertaken under the UNFCCC process. With regard to the likely financial and technological needs for adaptation, it was argued that current levels of funding, technology transfer and capacity building are inadequate. In particular, it was suggested that international action on

<sup>6</sup> FCCC/AWGLCA/2008/6

finance is required to assist in the implementation of adaptation plans; specifically, to simplify and enhance access to existing funding opportunities and to scale up the level of financial support available for adaptation. Many Parties called for a coherent approach to financing adaptation programmes and streamlining current and future funding in order to enhance accessibility. In addition, many Parties expressed the view that new and innovative funding will be required, possibly including the extension of the adaptation levy to all flexibility mechanisms under the Kyoto Protocol, as well as the creation of other financial instruments.

## VIEWS OF INDIA

Enhancing the implementation of adaptation is a priority for India, given our high vulnerability to climate change and the fact that climate change impacts can pose a significant risk to economic and social development and poverty alleviation efforts. Recognizing that there is a diversity of views and needs, a pragmatic approach might be to focus on a set of core principles that would guide the approach for enhancing the implementation of adaptation. These principles could cover, inter alia, the generation of resources, the delivery of resources and the institutional arrangements required for this purpose. These principles may be given a more precise operational form through the ongoing deliberations, and a new mechanism for adaptation that captures these principles may be created through the negotiations under the BAP.

Such an approach was adopted with some success in the case of the Adaptation Fund, where the deadlock on the institutional arrangements for the Fund was resolved by first reaching consensus on the general principles for governance and operational modalities, subsequently followed by a decision on the specifics.

### Principles underlying a new mechanism for adaptation

The generation of resources for adaptation should be guided by:

- *Adequacy*: The resource pool for financing adaptation should be *adequate*, in terms of being able to finance the different categories of adaptation interventions in developing countries.
- *Predictability*: The resources for adaptation need to be made available in a *predictable* form, so as to enable responses to be planned and implemented more effectively.
- *Automaticity*: The generation of resources should incorporate a certain level of *automaticity* so as to ensure adequate and predictable flow of funds. An example of automaticity already exists for the Adaptation Fund, which is financed through a 2 percent levy on the CER's generated by the CDM activities. This could be extended to other kinds of carbon market transactions. Alternatively, or in addition, a scheme of defined contributions could be adopted.
- *New and additional*: The need for new and additional resources has been recognized. The generation of these resources should follow the principles of the UNFCCC. This means that there can be no internalization of costs by developing countries and similarly there can be no redirection of investment in developing countries from development programmes.

### **The resources for adaptation should be used to meet the agreed additional costs of adaptation:**

Climate change poses a specific additional burden in different sectors and regions and in different contexts. There are many situations where this additional imposed burden goes beyond what may be reasonably expected as part of a development objective of managing risk. Therefore, this 'additional cost' should be supported. Further, since this is responding to the effects of global negative externality, this financing ought to be in the form of grant, or at least concessional finance.

**The determination of agreed additional costs:** Since adaptation interventions are often multi-sectoral and closely linked with the ongoing development programmes, it is difficult to estimate the cost of baseline course of action and the incremental action that will enhance adaptation. Recognizing further that the level of funding available will not be adequate for financing full cost of adaptation even in the most optimistic scenarios of fund availability, financing the additional cost of adaptation should be based on a negotiated set of co-financing or cost-sharing levels. The approach to be followed for this determination should be:

- *simple*, avoiding project-by-project calculations to the extent possible
- *predictable*, in the sense that approximate levels of co-financing levels possible for different types of interventions in different sectors will be known
- *flexible*, to accommodate varying country, sector and project-specific conditions
- *comprehensive*, to ensure that the resource needs of the large variety of adaptation interventions possible can be addressed

The **institutional arrangements** for the new mechanism for adaptation<sup>7</sup> should include:

- an *executive board* that is responsible for the management and delivery of the resources. This governing body will be constituted by, and will be accountable to the COP, and will have a defined structure, composition, powers and functions. The composition should have balanced representation from the Annex-1 and non-Annex 1 Parties
- an *advisory body* that will assist the executive board particularly with regard to methodologies and guidance for additional costs and for establishing templates and metrics for adaptation project design, reflecting sector-specific characteristics<sup>8</sup>.
- a *Secretariat*, to support the operation of the arrangements
- a *Trustee*, for managing and disbursing the funds

The institutional arrangements should provide for direct access to the resources by interested Parties, with provisions for expeditious processing, enabling quick approvals and reviews at the project proposal development phase and speedy disbursement of funds once the project has been approved.

## CATEGORIES OF ADAPTATION INTERVENTIONS

*Concrete adaptation projects:* Two broad categories of concrete adaptation interventions may be recognized. Responding to climate change which poses a specific, additional burden that goes beyond what may be reasonably expected as part of a development objective of managing climate risk would constitute a concrete adaptation project. For example, infrastructure may need to be redesigned to accommodate a change in the climate risk that is directly due to climate change – such as an intensification of monsoon rainfall. Similarly, climate change leading to persistent drought that goes well beyond a normal coping range will require an adaptation intervention specific to this additional risk. The second category is where climate change poses new and unique risks that may arise in future, that may be non-marginal, and beyond the baseline of climate variability (one of the important insights from the IPCC AR4).

*Adaptation technologies:* Technology will play an important role in enabling adaptation. The proposals regarding a new mechanism for technology ought to also address technologies for adaptation. To the extent adaptation technologies help in reducing the impacts of a global bad, they may be

<sup>7</sup> In this respect, we may follow the models for Adaptation Fund Board and the Multilateral Fund for the Montreal Protocol. In fact, the Adaptation Fund Board could itself be given an expanded mandate and a strengthened structure. Of course, this is a Protocol Fund. Alternatively, if a new mechanism is created the AF Board could be subsumed into it.

<sup>8</sup> In this respect, it may function in a manner somewhat analogous to the Methodologies Panel of the CDM. The idea of a Group of Experts (or Adaptation Committee of Experts) has been brought up by many Parties.



treated in a manner similar to mitigation technologies, with regard to issues of IPR, grant finance and support for technology development and transfer. The general concept of financing additional cost will be applicable to this category of interventions as well.

*Insurance:* Insurance is a general tool for addressing climate-related risks and hazards. As such, it may be considered as a part of the development baseline as a variety of insurance products (crop insurance, flood insurance etc.) are already in existence. However, climate change may alter the risk profiles, and given the uncertain and stochastic nature of extreme weather events may lead to the inability of existing insurance mechanisms to cope. A re-insurance mechanism to deal with catastrophic losses arising due to climate hazards may be created. A portion of the global resources generated for adaptation may be assigned for such a re-insurance Fund.

*Mainstreaming adaptation in ongoing development programmes:* Mainstreaming climate change concerns into ongoing development programmes in critical sectors has been identified as a general approach for enhancing adaptive capacity and promoting adaptation. A number of different types concrete actions for this purpose have been identified by Decision 5/CP.7, including capacity-building; observations, monitoring & forecasting; modeling and assessment and information sharing and exchange. In general, such activities & projects should be eligible for full-cost funding.

## SUGGESTED TEXT

### Preamble

Adaptation needs to receive the same level of attention as that given to mitigation for reasons that the adverse impacts of climate change can pose a serious risk to a sustainable economic and social development.

There is need for a comprehensive and flexible framework to address the different aspects of adaptation that will lead to the formulation and implementation of adaptation plans, build resilience, and reduce and manage risks with appropriate financial and technological support.

### Principles

Key principles for enhanced action for adaptation and means of implementation inter alia should include:

- Equity and principle of common but differentiated responsibilities and respective capabilities under the convention.
- Establish new, additional and predictable financial resources that are supported by appropriate institutional mechanism.
- Promote coherence in a way that adaptation issues are addressed under the UNFCCC.
- Build access to means of implementation including finance, technology, capacity building, and knowledge sharing for adaptation at national, sub regional, regional and international levels.
- Implementation of Adaptation actions should take into account diverse and specific characteristics of different levels of vulnerability assessments including gender sensitivity as integral part of adaptation actions.
- Cover full costs of technology for stand alone adaptation projects.

### Institutional Mechanism

Appropriate institutional mechanisms at national, sub regional, regional and international level for adaptation should be established with an executive board responsible to Conference of Parties for

the management, delivery and easy access of resources. The executive board should be supported by an advisory body that will assist the board on issues related to methodologies, provide guidance on additional costs, and for establishing templates and matrices for project design reflecting sector specific characteristics. A secretariat to support the operations of the arrangements and a trustee for managing and disbursing funds will be required to be incorporated within this institutional arrangement.

### **Means of Implementation**

The financial resources for enhanced adaptation action should be adequate, agreed full costs, predictable, timely and stable with provisions of direct, simplified and expeditious access to developing country Parties.

### **Implementation of adaptation actions**

The adaptation actions should inter alia include, enabling activities, activities related to reducing vulnerabilities, rehabilitation and compensation for loss and damage, resilience building through Adaptation projects and programmes; Adaptation technologies; Insurance; and mainstreaming adaptation in the national developmental programmes. This should also include activities such as capacity building, learning by doing and knowledge sharing.

### **Risk and Insurance**

Assessment of risks associated with climate change is the fundamental requirement for devising adaptation plans to combat climate change. For addressing climate change risks, insurance mechanisms in the nature of crop insurance, flood insurance and other insurances as per the adaptation requirements need to be included.

### **Monitoring and Feedback**

An appropriate monitoring and feed back mechanism should be established to ensure full implementation of developed country Parties under the Convention.

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## 7 FINANCING ARCHITECTURE FOR MEETING FINANCIAL COMMITMENTS UNDER THE UNFCCC

### BACKGROUND & THE LEGAL BASIS

- Addressing the impact of climate change and climate variability by raising adaptive capacity i.e. protecting people from climatic adversity; and avoiding the large scale world-wide climate hazards linked to anthropogenic activities i.e. protecting the climate from the production and consumption patterns of people by mitigating GHG emissions are the two major public goods challenges of our time. The current global architecture for delivering and financing these public goods is mandated under the multilaterally negotiated United Nations Framework Convention on Climate Change (UNFCCC).
- Specifically with respect to financing, the framework provides for new, additional, adequate and predictable financing by developed country Parties to developing country Parties to implement the UNFCCC (hereafter the Convention). In this regard, Article 4.3 (provision of new and additional financial resources to meet the obligations of the developing country Parties under clause 12 paragraph 1 and to meet the agreed full incremental outlays, including for the transfer of technology, required by the developing country Parties for implementing measures included under Article 4.1); Article 4.4 (assistance to meet the costs of adaptation); and Article 4.5 (promotion, facilitation and financing of the transfer of, or access to, environmentally sound technologies and know-how) of the Convention, all lay down legally binding commitments on the part of developed country Parties to provide such financing. Article 4.8 (on funding for response measures especially in vulnerable developing country Parties); and Article 4.9 (on funding for least-developed countries) of the Convention also detail legally binding commitments of developed country Parties to provide funding to developing country Parties.
- The foregoing commitments by developed country Parties are at the core of the balance of commitments between developed and developing country Parties as reflected in Article 4.7, which states that “The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties”. And precisely the same balance is captured under section 1b(ii) of the Bali Action Plan.

### ADDITIONALITY OF RESOURCES & FINANCING INSTRUMENTS

- The financial resources committed under the Convention cannot be new and additional if they merely divert any existing or likely resources, including ODA and other net foreign inflows, available for economic and social development and poverty alleviation to developing country Parties.
- Further, to the extent that the incremental lifetime costs of investment in adaptation and mitigation are positive, they would have to be fully recompensed if economic and social development and poverty alleviation are not to suffer. This is true for both private and official sources of such new

<sup>1</sup> Incremental costs hereinafter refer to both the incremental investment cost and the incremental lifetime costs where applicable. Such incremental costs will need to be fully recompensed through resource transfers (typically under bilateral arrangements) or grants (typically multi-lateral arrangements) that effectively result in resource transfers to the developing countries.

and additional funding. Only a grant that results in a resource transfer can truly recompense such positive incremental costs<sup>1</sup> in full without impacting social and economic development and poverty alleviation – the recognized first priority of the developing country Parties under the Convention. As an example, carbon markets under CDM actually pay for such positive incremental costs in full and thereby preserve the socio-economic viability of the underlying investments despite the higher costs of mitigation. While incremental lifetime costs must only be funded through new and additional grants and resource transfers, the base costs of economic and social development can be funded by a range of current or new financial instruments offered by bilateral, multilateral or domestic/foreign market sources. And indeed Article 11.5 of the Convention specifically refers to such bilateral, regional and multilateral channels being sources for resources for implementation of the Convention. Instruments that fund these base costs can include traditional equity and loan investments, concessional loans, loan guarantees or other risk mitigation structures, and a range of funds for acquisition, development, deployment and diffusion of technologies.

## PROJECTED FUNDING NEEDS

- The UNFCCC has estimated a requirement of US\$ 200-210 billion in additional investment in 2030 to return GHG emissions to the current level. Further, additional investment needed worldwide for adaptation is estimated to be US\$ 60-182 billion in 2030 by UNFCCC, inclusive of an expenditure of US\$ 28-67 billion in developing countries. Incremental investment needed by developing countries for adapting to projected impacts of climate change is estimated as US\$ 10-40 billion per annum by the World Bank and Oxfam estimates this number to be US\$ 50 billion per annum. The UNDP estimates that incremental investment needed for adaptation alone could amount to US\$ 86 billion per annum by 2015. Not only do these numbers vary widely among themselves, they are a fraction of UNFCCC's own estimate that peg the incremental cost of addressing climate change at 0.3-0.5% of global GDP or Lord Stern's revised estimate of 2% of global GDP. At current levels of global GDP this range translates to US\$ 165 billion to US\$ 1.1 trillion.
- The above broad range of estimates is not surprising for we are still struggling to fully understand the science of climate change. Hence, we need to learn by doing and not wait for elimination of all uncertainty because costs of impacts from climate change will be a multiple of the estimates made if we fail to act immediately.

## FUNDING SOURCES

- Clearly, the magnitude of funding needs is enormous compared to what is available under the current financial mechanism of the Convention. The funding committed to GEF, for various funds managed by it, is US\$ 1.3 billion for the period 2007-10. The funds managed by GEF for adaptation total about US\$ 275 million and since 2005 GEF has provided US\$ 110 million for adaptation projects. The Adaptation Fund to be built up from 2% of CDM flows is expected to amount to US\$ 100-500 million by 2012. Tapping other flexibility instruments will, at best, add increments of similar magnitude. The carbon markets have the potential for raising larger sums. However, this requires very deep emission reduction targets (potentially negative emission obligations for some developed country Parties) that are legally enforceable. And while carbon markets may be able to fund incremental costs of mitigation under certain scenarios, funding for incremental costs of adaptation would require resource transfers or grants.
- It is stressed that the proposed funding sources cannot be voluntary providers of funds because

voluntary contributions are not predictable and cannot service legal commitments under the Convention. Further, the commitments under the Convention to fund the incremental costs of addressing climate change cannot be treated as aid or assistance under a donor-recipient platform. Finally, as already stated, agreed incremental costs of combating climate must be funded with resource transfers or grants. Keeping these requirements in mind, the following funding sources are proposed (as stated above, the base costs would continue to be funded through normal channels in accordance with current practices):

- a) Annual contributions equal to 0.5% of the total GDP of the developed world for funding full agreed incremental costs of adaptation and mitigation through resource transfers or grants. Individual country contributions may be decided multilaterally on the basis of historical responsibility for GHG concentration, current emission levels, per capita GDP etc. Each developed country Party or any grouping of developed country Parties would be free to decide the means for raising these contributions through country specific or region specific auctioning of emission rights, carbon taxes, and specific levies on sectoral emissions or any other means considered feasible within their borders.
- b) Any levies on international travel or use of marine haulage that are negotiated under the Convention.
- c) Any private sources of grant funding on a voluntary basis.
- d) Any other bilateral or unilateral grant funding or contributions on a voluntary basis.

## INSTITUTIONAL BASE/GOVERNANCE OF THE FINANCIAL ARCHITECTURE

- Although the Convention is silent on the choice of an Institution to manage the funds made available, it is quite explicit in stating under Article 11.1 that the proposed financial mechanism “shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria”. Article 11.2 further states that the “financial mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance”. While creating the Adaptation Fund (AF) the foregoing provisions were fully adhered to. At Nairobi the second meeting of the CMP actually decided that the AF should be under the ‘authority’ of the COP in addition to the requirement of ‘being under the guidance and accountable to’. The Nairobi decision also adopted “a one country one vote” rule in relation to the operation of the AF and a majority representation for developing countries on the governing body (Decision 5/CMP.2.para 3). CMP.3 at Bali created the Adaptation Fund Board with a majority of members from developing countries and designated representatives from the two main recipient interest groups i.e. Group of Least Developed Countries and the Alliance of Small Island States. Moreover, it was decided that Parties should have direct access to the funds, and the involvement of the GEF and the World Bank in the running of the AF was reduced to an interim provision of secretariat and trustee services respectively. The AF structure succeeded in developing an equitable and balanced representation of all parties within a transparent system of governance as required under Article 11.2 of the Convention. The same is true for the Multilateral Fund under the Montreal Protocol.
- Anything short of the above precedents would be a step backwards and, hence, the proposed financial architecture must be under the direct control of COP as detailed in paragraph 10. An Executive Board, with an equitable and balanced representation of all Parties, appointed by COP must manage the proposed financial architecture. A professional secretariat and appropriate technical committees that establish eligibility, evaluation and compliance criteria, in conformance with the Convention, would assist the Executive Board. Direct access to funding by developing country Parties and their involvement in every stage of the process, through the

COP, will make the architecture demand driven. A Trustee selected through open competitive bidding among reputed and pre-qualified institutions would administer the funds.

- It must be recognized that any funding that is pledged or becomes available outside the governance structure foreseen under the Convention and highlighted above, cannot be counted towards the fulfilment of the commitments made by developed country Parties under the Convention. The Convention would be undermined if parallel initiatives outside the governance structure foreseen by the Convention are considered towards fulfilment of commitments of developed country Parties under the Convention.

## ELIGIBLE COUNTRIES/ENTITIES

- Although establishing detailed and formal country eligibility criteria is outside the scope of this note, it is conceivable that differentiated criteria could be established for different developing country Parties or groups of developing Country Parties to match their differing needs and vulnerabilities. In general all developing country Parties would be eligible with special emphasis being laid on the needs of Vulnerable States and Least Developed Countries. For eligible Parties, funds could be made available to national or sub-national governments, private entities within the eligible country or other private or national/sub-national entities (for example, holders of intellectual property rights).

## TARGET INVESTMENTS FOR FUNDING SUPPORT

- The proposed financial architecture should target multiple sectors and support a range of activities that could include though not be limited to the following:
  - Incremental costs of mitigation across all economic and social sectors.
  - Incremental costs resulting from deployment and diffusion of commercially available low carbon technologies.
  - Incremental costs of research and development of clean energy or low carbon technologies
  - Incremental cost of building capacity and institutional framework in recipient countries.
  - Incremental costs of preparing national communications and national action plans and implementation of the same.
  - Full cost of technology patents and license fee for IPRs covering low carbon technologies.
  - Full cost of adaptation to climate change.

## FUNDING VERTICALS AND FUNDING CRITERIA

- Establishing various verticals along which funding could be made available under the proposed financial architecture or the various criteria that warrant funding is also beyond the scope of this note. Suffice it to say that the proposed financing architecture should be organized into functional windows to address specific requirements such as a Technology Acquisition and Technology Transfer Fund for available climate friendly technologies, a Venture Capital Fund for emerging climate technologies, Collaborative Climate Research Fund, Adaptation Fund etc. The financing architecture could integrate other funds operating under the Kyoto Protocol to avoid duplication. It might be argued that the proposed financial structure would be unwieldy and ineffective because of concentration of all activities under one umbrella. It is pointed out that the only unifying force is a common architecture of governance, funding and investment policies under the direct control of and accountable to COP. Each vertical will be operated and will grow

independently under this common architecture.

- The criteria established for funding specific investments would largely be linked to outcomes and shall not enforce co-financing from certain specified sources or harsh conditionalities that go beyond the objectives that address climate impacts as laid down under the Convention. The assessment criteria could, among other measures, include the following:
  - Impact on adaptive capacity and mitigation beyond business as usual.
  - Adaptive capacity realized or emissions mitigated per unit of investment.
  - Conformity to a host country's national program.
  - Contribution to the host country's sustainable development objectives.
  - Ability to fund the base costs directly or through other sources subject to the proposed financial architecture providing grants or resource transfers to fund all agreed incremental costs related to addressing climate change.

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## SUGGESTED TEXT IN RELATION TO PARA 1(e) (i) OF BAP AND UNFCCC ARTICLE 4

*The Conference of the Parties,*

*Recalling* the relevant provisions of the Convention, in particular Articles 4.3, 4.4, 4.5, 4.8 and 4.9 of the Convention,

*Recalling further* the resolve of the Parties, as expressed in para 1(b)(ii), 1(c) and 1(e) of Decision 1/CP 13, to enhance action on the provision of financial resources and investment to support action, inter alia, on mitigation and adaptation and technology cooperation,

*Affirming* that the developed countries are committed to provide agreed full additional costs of mitigation and adaptation, including costs of technology transfer, incurred by developing countries as laid out in 4.3, 4.4 and 4.5 of the Convention;

*Recognising* that the agreed incremental costs must include the upfront incremental costs of investment and technology transfer and the lifetime incremental economic costs incurred by the developing countries.

*Agreeing* that the agreed full incremental costs of mitigation and adaptation, including costs of technology transfer in Non-Annex I Parties will be recompensed in full by the Annex I Parties through resource transfers, grants or grant equivalent of soft loans,

*Conscious of the fact* that the funding for addressing climate change needs to be adequate and predictable as required under Art 4.3 of the Convention, and hence cannot be voluntary,

*Acknowledging* that the implementation of commitments under Article 4.3 will provide the main source of funding, and that such funding will be "new and additional", over and above all existing and likely flows from both domestic and foreign official and private sources currently financing development;

*Recalling* Art. 11 of the Convention defining a financial mechanism of the Convention that will function under the guidance of and be accountable to the Conference of the Parties,

[Decides that]

each developed country Party or other developed Party included in Annex II of the Convention shall contribute 1 percent of its GDP to the financial mechanism referred to in Article 11, paragraph 1, in order to enable developing countries to implement nationally appropriate mitigation and adaptation actions involving incremental costs, in accordance with the provisions of Article 4, paragraphs 3, 4 and 7 of the Convention.

the determination of individual Annex-1 obligations shall be based on responsibility and respective capability,

the Annex I Parties will be free to meet their respective assessed contributions either by earmarking domestic public funds from respective budgets or by raising the funds from country-specific or region-specific auctioning of emission allowances, or any other means considered feasible within respective developed country borders as consistent with the principles and the provisions of the Convention,

[the resources shall be grant-based, particularly for adaptation, without prejudice to certain concessional loan arrangements in appropriate form, to meet the needs of a specific programme],

the contributions of the Parties shall be made to a Fund that will be managed and operated by an entity subject to the direct supervision and authority of an Executive Board, constituted and appointed by the CoP,

the Executive Board of the Fund shall have an equitable and balanced representation of all Parties within a transparent system of governance and shall function under the supervision and the authority of the COP,

the Executive Board shall ensure that all Parties have direct access to the Fund in accordance with guidelines as laid down by the CoP which shall decide on the policies, programme priorities and eligibility criteria for accessing the funds,

any funds pledged to an entity or Fund not managed and operated by the Financial Mechanism shall not be regarded as the fulfilment of commitments by developed countries under Art. 4.3 of the Convention,

the Executive Board, with approval of the CoP, may authorize the national entities of developing country Parties as designated by such Parties to approve activities, projects, programmes for funding, subject to the guidelines and procedures approved by the CoP,

the financial mechanism shall have separate windows for funding projects, programmes and activities aimed at mitigation and adaptation and technology cooperation and each of the funding windows shall be assisted by a dedicated team of experts (thematic assessment unit) to carry out the relevant assessments for disbursement to the designated national funding entities of the developing country Parties

the thematic assessment units shall be a part of the Financial Mechanism and shall function under the authority of the Executive Board,

the Executive Board shall manage a certification and registry system for receiving financial resources



in compliance of the financial commitments of developed country Parties under Art 4.3 of the Convention,

the Executive Board, with approval of the CoP will institute suitable external independent oversight as well as internal monitoring and evaluation into the management and operation of Fund.

### FURTHER TEXT\*

Parties agree to establish, in accordance with Article 11 of the Convention, the Financial Mechanism of the Convention with a structure that meets the specific requirements laid down under Articles 11.1 and 11.2 of the Convention. This Financial Mechanism shall enable, enhance and support mitigation and adaptation actions by developing country Parties through the provision of financial resources to meet the agreed full incremental costs of such actions including the cost of technology transfer.

The Financial Mechanism, established under the Convention, will be managed by an Executive Board appointed by the COP in accordance with the Convention. The Executive Board shall have an equitable and balanced representation of all Parties within a transparent system of governance and shall function under the guidance of and be accountable to the COP which shall decide on its policies, program priorities and eligibility criteria. The Executive Board will be supported by a professional Secretariat.

The Financial Mechanism, established under the Convention, shall have separate specialized windows for funding projects, programs and actions aimed at mitigation, adaptation and technology transfer. Each of the funding windows shall be assisted by a specialized thematic assessment unit. The thematic assessment units shall be under the authority of the Executive Board and, together with the professional secretariat of the Executive Board, shall constitute the operating entity of the Financial Mechanism.

The Funding provided by the Financial Mechanism established under the Convention should be demand driven and enable direct access to funds by the ultimate beneficiaries.

A Trustee selected through open competitive bidding among reputed pre-qualified institutions would administer the funds of the Financial Mechanism established under the Convention.

The national entities, designated by the developing country Parties, shall approve funding for projects, programs, actions, subject to the guidelines and procedures established by the specialized thematic assessment units duly approved by the Executive Board. The thematic assessment units under the Executive Board shall carry out the relevant assessments for disbursement of funds to the designated national entities under their respective specialized funding windows.

A transparent, efficient and competitive procurement regime with conditionalities limited to those warranted by prudent fiduciary norms and the MRV regime foreseen under Decision 1/CP 13 should characterize funding from the Financial Mechanism established under the Convention.

The Financial Mechanism established under the Convention shall manage a certification and registry system for receiving and deploying financial resources to enable developing country Parties to count their financial contributions and technology support towards compliance of their commitments under the Convention and under paragraph 1(b) (ii) of Decision 1/CP 13.

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*\*Further text was introduced additionally during negotiations in Bonn'*

The designated national funding entities could also accept contributions directly, as per guidelines agreed in the COP, from and facilitate linkages with other private or official national, regional, sub-regional, international bodies and/or stakeholders that may seek to implement actions relating to mitigation, adaptation and technology transfer and related activities directly.

The Executive Board of the Financial Mechanism, with approval of the COP, shall institute suitable external independent oversight as well as internal monitoring and evaluation of the management and operation of the Financial Mechanism established under the Convention.

The resources of the Financial Mechanism established under the Convention shall be used to meet the costs associated with the functioning of the Executive Board, the Secretariat and the thematic assessment units, subject to the approval of the COP.



## 8 FINANCING FLOWS: WHY FINANCIAL CONTRIBUTIONS TO THE FINANCIAL MECHANISM OF THE UNFCCC CANNOT BE UNDER THE PARADIGM OF “AID”

1. **Background:** The UNFCCC requires the establishment of a Financial Mechanism under Art 11. An Adaptation Fund has already been set up by with a unique governance structure. The Bali Action Plan (BAP) (Decision 1/CP 13) identifies “Finance:” as one of the 4 “Building Blocks” of the future climate change arrangements.

It is clear that the scale of finances required are extremely large, and going by available, partial and broad brush estimates, may range, in the case of GHG Mitigation, to several hundred billion US \$ per year and, in the case of Adaptation, at least several tens of billions of US\$ per year. The resources currently provided (GEF contributions, CDM levy for the Adaptation Fund) are currently in the range of a few hundreds of millions of US\$ only per year. It is clear that new and additional resources of a very high order must be found to support the actions of developing countries under para 1(b)(ii) of the BAP.

2. **Entitlement not Aid:** In the current discourse on financing resources to be provided towards implementation of Article 1(b)(ii) of the BAP, there is a tendency to equate such resources to foreign “aid” or Overseas Development Assistance. However, the new Financial Architecture for Climate Change derives from the UNFCCC and is fundamentally different from donor-driver aid flows, which rarely take into account the priorities of the recipient countries. There is also an inbuilt bias in favour of using such funds to source supplies and technology from the donor country or countries, even though more appropriate and cost effective solutions may be available elsewhere, including from within the recipient country itself. Therefore, it is necessary to clearly distinguish between fund flows that are based on the conventional aid paradigm and establish a new, multilateral financial architecture for climate change.
3. **Towards a New Financial Architecture for Climate Change:** Specifically, arrangements under BAP need to embody the following:
  - **Legal obligation, no Repayable “Loans”:** First, unlike in the case of “development finance”, there is clear legal recognition in the UNFCCC of the “*common but differentiated responsibilities and respective capabilities*” of Parties for addressing climate change. Accordingly, the provision of financial resources for climate change must relate explicitly to this legal principle in any future climate change arrangements, and cannot be subject to decisions of developed country Governments and legislatures. The providers of finance cannot be discretionary “donors”, but must be legally obligated “assesseees”. This would also rule out repayable financial contributions; legal obligations premised upon responsibility are not repayable.
  - **Balanced Governance Structure:** Second, the flow of resources to developing countries must be in line with the basis of provision of funding, i.e. under BAP: [Para 1 (e)] in case of mitigation, in respect of nationally appropriate mitigation actions under Para 1(b)(ii) which requires that these must be supported and enabled by the provision of “*technology, finance, and capacity building*”, and Para 1(c) in respect of adaptation. Quite obviously, there is no scope for *unilateral* determination by the assesseees (developed country Parties) of which developing country Parties may be funded, or the extent (quantum) of funding required, or the funding modality (project, program, budgetary contribution). A multilateral governance structure that is sufficiently responsive to the perspectives of the developing country Parties undertaking the climate change actions is essential.

- **Procurement:** Third, a more balanced governance structure would enable the Financial Mechanism to work out and implement procurement norms that are competitive in terms of technical capability *and cost*, unlike the present situation where the technical evaluation criteria may be biased in favour of developed country suppliers.
- **No Conditionalities:** Fourth, the climate change funds are meant for addressing climate change actions in relation to BAP, and not to any other objectives. Accordingly, any covenants other than those strictly consistent with the BAP, i.e. MRV requirements as set forth in para 1(b)(ii) of the BAP, would be impermissible.

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## 9 TECHNOLOGY TRANSFER MECHANISM

### RATIONALE

Enhanced mitigation and adaptation under the UNFCCC requires an acceleration in the development, deployment, adoption, diffusion and transfer of environmentally sound technologies among all Parties, particularly from Annex II Parties to non-Annex I Parties, in order to avoid the lock-in effects of non-environmentally sound technologies on developing country parties, and to promote their shift to sustainable development paths, thus enhancing the goals of the Convention. There is a critical and urgent need to provide access to technology for adaptation at a regional and national level, enabled by capacity-building and provision of new and additional funding to meet the costs of both integration of adaptation into the development process and stand-alone adaptation activities.

Currently, access to financing is limited, and should be enhanced to deliver technology development, deployment, diffusion and transfer to non-Annex I Parties. Barriers to technology transfer and trade also inhibit the adoption of environmentally sustainable technologies in non-Annex I Parties, highlighting the urgency for access to these technologies while balancing rewards for innovators with the common good of humankind, including jointly developed technology and intellectual property rights (IPR) sharing.

The immediate and urgent delivery of technology development, deployment, diffusion and transfer to non-Annex I Parties requires suitable responses, including a continued emphasis by all Parties on the enhancement of enabling environments, facilitating access to technology, and financing that leverages private sector financial resources. Current institutional arrangements are insufficient to deliver immediate and urgent technology development, deployment, diffusion, and transfer to non-Annex I Parties.

To address these challenges, this mechanism will build on existing activities within the Convention, including the work of the EGTT, and promote coherence by integrating expanding and ongoing activities related to technology. It will provide a means to enhance delivery on the Convention obligations on technology and related finance and capacity building.

### OBJECTIVE OF A TECHNOLOGY MECHANISM

An enhanced institutional mechanism will address all aspects of cooperation on technology research, development, diffusion and transfer in accordance with Articles 4.1(c), 4.3, 4.5 and other relevant articles of the Convention, in order to enable mitigation and adaptation under the relevant paragraphs of decision 1/CP.13.

### GUIDING CRITERIA

The technology mechanism will operate under the authority and guidance of the COP and be accountable to it. It shall aim to achieve:

- Accessibility, affordability, appropriateness and adaptability of technologies required by developing countries for enhanced action on mitigation and adaptation;
- Provision of full costs and full incremental costs, as per Article 4.1 of the Convention;
- Adequacy and predictability of funds for technology transfer
- Removal of barriers for technology development and transfer.

## INSTITUTIONAL ARRANGEMENTS

The mechanism comprises an Executive Body and a Multilateral Climate Technology Fund operating under the Conference of Parties.

### A. Executive Body on Technology

An Executive body on Technology shall be established as a subsidiary body of the Convention in accordance with its Article 7(2)(i) to enable implementing the Convention by enhancing action on technology development and transfer to support mitigation and adaptation. This subsidiary body shall comprise government representatives, (elected by the COP and with balanced regional representation, who are experts on matters related to technology transfer, and be open to input from other experts. The subsidiary would comprise and be supported by:

- **Strategic Planning Committee** to develop strategy; provide regular guidance; assess and elaborate technology-related matters; continuously evaluate progress; and develop updates for the Technology Action Plan, as described below, for regular intervals.
- **Technical Panels** to generate and compile current expert information related to: capacity building; policies and measures; intellectual property cooperation; sectoral, cross-sectoral, and cross cutting cooperation; assessment, monitoring and compliance; and other necessary topics. The Executive Board may establish additional technical expert committees, panels or or working groups to or other bodies to provide scientific, technical, and operational expertise, and to consolidate and provide advice to the Executive Body and COP in order to assist it in the performance of its functions. In this context, it shall take fully into account the consideration of regional balance.
- **Verification Group** to verify the financial and technological contributions made to the mechanism in accordance with the overall “measurable, reportable, verifiable” requirement of Decision 1/CP.13.
- **Secretariat** to support and facilitate the activities of the Executive Body. The secretariat will compile and prepared a final report on financial and technological contributions made and reported by Parties to the technology mechanism in accordance with the overall “measurable, reportable, verifiable” Decision of the 1/CP.13.

### B. Multilateral Climate Technology Fund (MCTF)

This fund will provide technology-related financial requirements as determined by the Executive Body. The fund will operate under the COP as part of the enhanced multilateral financial mechanism described in the Indian proposal on financial architecture.

- The MCTF shall be financed by assessed contributions from Annex II parties. Contributions to the mechanism shall be additional to other financial transfers to non-Annex I parties and shall meet the costs incurred by such Parties
- An agreed proportion of contributions by developed country parties and other parties included in Annex II of the Convention to bilateral and regional co-operation may be considered as contributions to the MCTF, provided that such co-operation is consistent with the policies and scope of the mechanism.
- Financial transfers to the MCTF shall be counted as measurable, reportable and verifiable commitments under para 1.b(ii) of the Bali Action Plan. Any funding not under the authority

and guidance of the UNFCCC shall not be regarded as the fulfillment of commitments by developed countries under Art. 4.3 of the Convention or Decision 1/CP.13.

- The MCTF shall cover, inter alia, eligible costs of activities approved by the Executive Body; administrative costs of the Executive Body, Secretariat, and Trustee or Trustees; and costs associated with other specific decisions of the Conference of the Parties.
- In the context of the enhanced multilateral financial mechanism proposed by India, the MCTF shall be managed by a trustee or trustees, selected through a process of open bidding, who shall have fiduciary responsibility and administrative competence to manage the MCTF, and shall hold in trust, the funds, assets, and receipts that constitute the Fund, and shall comply with the principles and modalities for their management and disbursement as stipulated by the Conference of the Parties.

## TECHNOLOGY ACTION PLAN

A Technology Action Plan shall serve as a starting point for the work of the executive body. It will include clear actions and dates for the first three years, and will be updated for successive three-year periods. To realize the full potential of technology, the Action Plan shall support all stages of the technology cycle, including:

- **Research.** The Action Plan will accelerate research and invention through scientific and technical cooperation at all levels, including that of scientists and institutions
- **Development.** The Action Plan will accelerate the rate at which technologies are developed and brought into effect.
- **Transfer and diffusion.** The Action Plan will ensure financing for technology transfer (including all available means to ensure the affordability of technologies, products and related services).

The Technology Action Plan will define specific policies, actions and funding requirements for all relevant technologies, under the following classifications

- **Public domain technologies.** The Action Plan will identify needs, and establish an international cooperation system to ensure lowest cost options, as well as transferring know-how to use and maintain the technologies; to adapt them to local conditions, including endogenous technologies.
- **Patented technologies.** The Action Plan will ensure that privately owned technologies are available on an affordable basis including through measures to resolve the barriers posed by intellectual property rights and addressing compulsory licensing of patented technologies. Technologies with shared ownership (government and private) will be made available on an affordable basis by facilitating transfer of the government proportion on a reduced or no-cost basis. Technologies that are government owned will be made available on an affordable basis by facilitating transfer at reduced or no-cost basis.
- **Future technologies.** The Action Plan will support the establishment of national and regional technology excellence centers and will reinforce north-south, south-south and triangular cooperation, including Joint Research and Development.

## ELIGIBLE ACTIVITIES

The mechanism will cover technologies in all relevant sectors and endeavor to remove barriers to effective technology development, deployment, diffusion and transfer. It will articulate with the overarching financial mechanism of the Convention to secure necessary financing. The following list of activities and costs eligible for support by the mechanism is indicative and may be modified by the COP at any time.

Activities eligible for support include, inter alia:

#### Full Costs

- Promotion, facilitation and implementation of activities along the entire technology cycle to enable the accelerated adoption of ESTs;
- Support for research, development, manufacture, commercialization, deployment and diffusion of technologies for adaptation and mitigation in accordance with Decision 1/CP.13.
- adaptation technologies to address the adverse effects of climate change and finance the removal of barriers to the large-scale transfer of technologies for adaptation;
- capacity building to manage and generate technological change, enhance absorptive capacity, create enabling conditions in developing countries, inter alia, costs of :
  - Research, development and demonstration of new technologies
  - Enhancing human and institutional capacity;
  - Guarantees on foreign direct investment for Environmentally Sound Technologies

#### Incremental Costs

- Commercialization of new and emerging technologies, inter alia:
  - Venture capital, with public investment leveraging private capital markets for emerging technologies;
  - Research, development, and demonstration of new technologies, financed by venture capital and other sources
  - Joint technology development
- Creation of manufacturing facilities for EST, including low-GHG emission technologies, inter alia, costs of:
  - Compulsory licensing, cost of patents, designs, and royalties;
  - Conversion of existing manufacturing facilities or of establishing new facilities;
  - Research and development activities, including joint research, development, design, and demonstration;
  - Technology adaptation;
  - Retraining and dissemination of know-how;
  - Operation; and
  - Monitoring and verification.
- Procurement of low-GHG emission technologies, including software and hardware, inter alia:
  - Cost of premature modification or of replacement of existing equipment, as well as the cost of new equipment;
  - Cost of retraining and dissemination of know-how;
  - Cost of technical assistance for the design, installation, and stable operation of the technology;
  - Cost of fuel and other operational costs;
  - Cost of monitoring and verification.

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### SUGGESTED TEXT

The Conference of the Parties,

*Recalling* chapter 34 of Agenda 21 and the relevant provisions of the programme for the further implementation of Agenda 21 on the transfer of environmentally sound technologies adopted by the United Nations General Assembly at its nineteenth special session,



Recalling the relevant provisions of the Convention, in particular Article 4, paragraphs 1, 3, 5, 7, 8 and 9, Article 9, paragraph 2(c), Article 11, paragraphs 1 and 5, and Article 12, paragraphs 3 and 4,

Recalling decisions 13/CP.3, 4/CP.7, 6/CP.10, 6/CP.11, 3/CP.12 and 1/CP.13,

Recognizing that there is a crucial need to accelerate innovation in the development, deployment, adoption, diffusion and transfer of environmentally sound technologies among all Parties, and particularly from Annex II Parties to non-Annex I Parties,

Further recognizing that current institutional arrangements, access to financing and suitable indicators for monitoring under the Convention for the implementation of Article 4, paragraph 5, are limited and should be enhanced to deliver immediate and urgent technology development, deployment, diffusion and transfer to non-Annex I Parties,

Further recognizing the barriers to technology transfer and trade, and highlighting the urgency for access of advanced clean technologies to non-Annex I Parties, while balancing rewards for innovators with the common good of humankind, including jointly developed technology and intellectual property rights (IPR) sharing.

Further recognizing that the immediate and urgent delivery of technology development, deployment, diffusion and transfer to non-Annex I Parties requires suitable responses, including a continued emphasis by all Parties on the enhancement of enabling environments, facilitating access to technology, financing that leverages private sector financial resources,

[Agrees to:]

establish an arrangement for the purposes of providing financial and technical co-operation, including the transfer of technologies to non-Annex I Parties pursuant to Article 4, paragraph 5, to enable mitigation and adaptation actions and approaches under the relevant paragraphs of decision 1/CP.13. The arrangement shall meet the costs incurred by such Parties in order to enable these actions.

[Decides that:]

- the categories of full costs met by the arrangement shall include, inter alia:
  - Procurement of technologies for adaptation to the adverse effects of climate change
  - Research, development and demonstration of new adaptation and mitigation technologies
  - Guarantees on foreign direct investment for adaptation and mitigation technologies
  - Capacity-building to manage and generate technological change and enhance absorptive capacity
  - Commercialization of new and emerging technologies, inter alia:
    - i. Venture capital, with public investment leveraging private capital markets for emerging adaptation and mitigation technologies;
    - ii. Research and development of new adaptation and mitigation technologies, financed by venture capital and other sources
    - iii. Joint development of adaptation and mitigation technologies
- the categories of full incremental costs met by the arrangement shall include, inter alia:
  - Creation of manufacturing facilities for adaptation and mitigation technologies, including *inter alia*:
    - Compulsory licensing, cost of patents, designs, and royalties;
    - Cost of conversion of existing manufacturing facilities or of establishing new facilities;
    - Cost of research and development activities, including joint research, development and

- demonstration
  - Technology adaptation
  - Cost of retraining and dissemination of know-how;
  - Operational costs; and
  - Cost of monitoring and verification.
- o Procurement of adaptation and mitigation technologies, including software and hardware, *inter alia*:
  - Cost of premature modification or of replacement of existing equipment, as well as the cost of new equipment;
  - Cost of retraining and dissemination of know-how;
  - Cost of technical assistance for the design, installation, and stable operation of the technology;
  - Cost of fuel and other operational costs;
  - Cost of monitoring and verification.
- the list of categories of costs, in paragraph 2 and 3 above, eligible for support by the arrangement can be modified by the Conference of the Parties.
- the arrangement shall monitor activities, using performance indicators, and periodically report to the COP on the performance assessment of the activities supported by the arrangement , including, *inter alia*, the speed of technology flows and the range and effectiveness of technologies transferred, with a view to measuring, reporting and verifying the results of the arrangement.
- the arrangement established under paragraph 1 shall include an Executive Board of Technology, as a subsidiary body as established in accordance with Article 7(2)(i), a Technology Fund which shall be a window of the financial mechanism under the UNFCCC, and a Secretariat, who shall operate under the authority of the Conference of the Parties, and who shall decide on its overall policies.

[Decides / Agrees that:]

the Executive Board of Technology shall develop strategy and technology action plans, and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources, for the purpose of achieving the objectives of the Technology Fund, taking into account, the cost-effectiveness of the proposed activities, as well as the potential for their replicability, and the cost-sharing by project beneficiaries.

- the Executive Board of Technology shall elaborate modalities and procedures for implementation to report for adoption by the Conference of the Parties at its sixteenth session.
- the Executive Board of Technology shall recommend a work programme based on the expected assessed contributions to the Technology Fund for each 3-year period.
- the members of the Executive Board of Technology shall be elected by the Conference of the Parties on the basis of a balanced representation of non-Annex I Parties and Annex I Parties.
- a new branch of the UNFCCC Secretariat shall support and facilitate the activities of the Executive Board of Technology, and shall be accountable to it.
- the Technology Fund shall meet the costs incurred by such Parties in order to enable the actions specified in paragraph 2 and 3 above and other decisions of the Conference of the Parties, as well as the administrative costs of the Executive Board of Technology, and the Secretariat.
- resources under the Technology Fund shall be disbursed with the concurrence of the beneficiary Party.

10

## AMENDMENT TO THE KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE UNDER ARTICLE 3.9 OF THE PROTOCOL

- *Consideration of the scale of emission reductions to be achieved by Annex I Parties in aggregate;*
- *Contribution of Annex I Parties, individually or jointly, to the scale of emission reductions to be achieved by Annex I Parties in aggregate.*

Communication dated 12 June 2009 from Algeria, Benin, Brazil, Burkina Faso, Cameroon, Cape Verde, China, Congo (Republic of), Democratic Republic of Congo, El Salvador, Gambia, Ghana, India, Indonesia, Kenya, Liberia, Malawi, Malaysia, Mali, Mauritius, Mongolia, Morocco, Mozambique, Nigeria, Pakistan, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Sri Lanka, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe

To the Secretariat of the United Nations Framework Convention on Climate Change

### On an Amendment to Annex B according to Article 3 paragraph 9 of the Kyoto Protocol

Noting the provisions of Article 3, paragraph 9 of the Kyoto Protocol, that commitments for subsequent periods for Parties included in Annex I shall be established in amendments to Annex B to this Protocol, which shall be adopted in accordance with the provisions of Article 21, paragraph 7, the governments of Algeria, Benin, Brazil, Burkina Faso, Cameroon, Cape Verde, China, Congo (Republic of), Democratic Republic of Congo, El Salvador, Gambia, Ghana, India, Indonesia, Kenya, Liberia, Malawi, Malaysia, Mali, Mauritius, Mongolia, Morocco, Mozambique, Nigeria, Pakistan, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Sri Lanka, Swaziland, Togo, Uganda, United Republic of Tanzania, Zambia, Zimbabwe—hereby formally submit the attached amendment, according to the mandate of the Ad hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol.

The Secretariat is required to make the necessary arrangements to communicate this amendment at least six months before the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fifth session, for consideration and adoption at that session.

## AMENDMENT TO THE KYOTO PROTOCOL TO THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

### Article 1: Amendment

#### A. Article 3

The following paragraphs shall be added to Article 3 of the Protocol after paragraph 1:

- **1 bis** The Parties included in Annex I shall reduce their aggregate anthropogenic carbon dioxide equivalent emissions of greenhouses gases listed in Annex A by at least 40 per cent below 1990 levels in 2020.
- **1 ter** On the basis of the aggregate emission reduction specified in paragraph 1 *bis*, the Parties determined the individual quantified emission reductions commitments of Annex I Parties inscribed in Annex B for the second commitment period, by applying the principle of historical responsibility, from 1850 to 2005;

- **1 quater** In the second quantified emission reduction commitment period, from 2013 to 2020, the assigned amount for each Party included in Annex I shall be equal to the percentage inscribed for it in Annex B of its aggregated anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A in 1990, or the base year or period determined in accordance with paragraph 5 below, multiplied by eight.

The following paragraph shall be added to Article 3 of the Protocol after paragraph 9:

- **9 bis** The Conference of the Parties serving as the meeting of the Parties to this Protocol shall initiate the consideration of further commitments at least seven years before the end of any commitment period.

#### **B. Article 4**

In paragraph 3 of Article 4 of the Protocol, for the words: “the commitment period specified in Article 3, paragraph 7” there shall be substituted:

“any commitment period established by the Conference of the Parties serving as meeting of the Parties to the Kyoto Protocol”.

#### **C. Annex B**

For Annex B to the Protocol there shall be inserted a new column next to the existing column :

(Please see the table on right hand page.)

### **Article 2: Entry into force**

1. The Amendment shall enter into force for those Parties having accepted the amendment on the ninetieth day after the date of receipt by the Depositary of an instrument of acceptance by at least three fourths of the Parties to this Protocol. The Amendment, in accordance with article 20, paragraph 5 of the Protocol, shall enter into force for any other Party to the Protocol on the ninetieth day after the date of deposit of its instrument of acceptance of the said amendment.

Annex B<sup>a</sup>

Party	Quantified emission limitation or reduction commitment (2008-2012) (percentage of base year or period)	Quantified emission reduction commitment (2013-2020) (percentage of base year or period)
Australia	108	89
Austria	92	71
Belarus*	92	83
Belgium	92	64
Bulgaria*	92	84
Canada	94	77
Croatia*	95	86
Czech Republic*	92	74
Denmark	92	74
Estonia*	92	84
European Community	92	72
Finland	92	80
France	92	70
Germany	92	69
Greece	92	84
Hungary*	94	79
Iceland	110	91
Ireland	92	81
Italy	92	80
Japan	94	81
Latvia*	92	85
Liechtenstein	92	72
Lithuania*	92	85
Luxembourg	92	73
Monaco	92	72
Netherlands	92	78
New Zealand	100	84
Norway	101	82
Poland*	94	76
Portugal	92	82
Romania*	92	83
Russian Federation*	100	85
Slovakia*	92	78
Slovenia*	92	81
Spain	92	80
Sweden	92	69
Switzerland	92	76
Ukraine*	100	89
United Kingdom of Great Britain and Northern Ireland	92	57
United States of America <sup>c</sup>	93	74

\* Countries that are undergoing the process of transition to a market economy.

<sup>a</sup> As at January 2010

<sup>c</sup> Countries that have not yet ratified the Kyoto Protocol

## INFORMATION NOTE ON SUBMISSION OF PARTIES FOR AMENDMENT TO THE KYOTO PROTOCOL

In the table attached with this information note, the first column identifies the Annex I country; the second column represents the average emissions for the country for the first commitment period of the Kyoto Protocol, used to calculate its assigned amount as in Article 3, paragraph 7; the third column the average for the second commitment period of eight years, similarly an average, used to calculate its assigned amount as in Article 1 *quater* above; and the fourth column showing the quantified emission reduction to be reached in 2020. The third column is consistent with a scale of aggregate emission reductions by Annex I Parties of 40% from 1990 levels by 2020, consistent with 1 *bis* above; the third column is equally consistent. The additional information is provided to make clear the relation of the aggregate to the individual quantified emission reductions commitments of Annex I Parties.

(Please see the table on right hand page.)

Party	Quantified emission limitation or reduction commitment (2013-2020) (percentage of base year or period)	Quantified emissions reduction commitment (in 2020) (percentage of base year or period)	Quantified emissions reduction commitment (2008-2012) (percentage of base year or period)
Australia	108	89	69
Austria	92	71	51
Belarus*	92	83	74
Belgium	92	64	36
Bulgaria*	92	84	76
Canada	94	77	61
Croatia*	95	86	76
Czech Republic*	92	74	55
Denmark	92	74	57
Estonia*	92	84	77
European Community	92	72	53
Finland	92	80	68
France	92	70	49
Germany	92	69	46
Greece	92	84	76
Hungary*	94	79	65
Iceland	110	91	72
Ireland	92	81	71
Italy	92	80	69
Japan	94	81	67
Latvia*	92	85	77
Liechtenstein	92	72	53
Lithuania*	92	85	79
Luxembourg	92	73	54
Monaco	92	72	53
Netherlands	92	78	64
New Zealand	100	84	68
Norway	101	82	63
Poland*	94	76	58
Portugal	92	82	72
Romania*	92	83	75
Russian Federation*	100	85	70
Slovakia*	92	78	64
Slovenia*	92	81	70
Spain	92	80	67
Sweden	92	69	47
Switzerland	92	76	61
Ukraine*	100	89	77
United Kingdom of Great Britain and Northern Ireland	92	57	23
United States of America <sup>c</sup>	93	74	55

## 11 LAND USE, LAND USE CHANGE & FORESTRY (LULUCF)

AWG-KP in its seventh session in Bonn from 29 March to 8 April 2009 agreed to continue its deliberations on how to address, where applicable, the definitions, modalities, rules and guidelines for the treatment of LULUCF. The AWG also noted that the Annex to draft conclusions proposed by the Chair (FCCC/KP/AWG/2009/L.3) does not capture all the proposals and options put forward by Parties in their submissions and during the discussion at the seventh session, and, therefore, invited Parties to submit to the secretariat by 24 April 2009 views on the Annex for compilation into a miscellaneous document for consideration at its eighth session.

Our submission in respect of paragraph 1 above is as under:

### General

The contribution of LULUCF in Annex I commitments has been increasing substantially. This increased reliance on LULUCF is not desirable as it diverts attention of Annex I Parties from, and dilutes more tangible action in crucial sectors of energy, transport, industry and waste management. India, therefore, proposes to **reasonably** limit the use of LULUCF by Annex I countries to meet their commitments in second commitment period (2 CP). We favour an overall upper ceiling, limiting the use of LULUCF with flexibility of differential ceilings on individual activities of LULUCF like forest management (FM), grazing land management (GM), cropland management (CM) and revegetation (RV). We, however, are open to the alternative of prescribing upper ceilings separately and individually to different activities.

We do not support the linking of commitments of Annex I Parties under Article 3 paragraph 9 of Kyoto Protocol with the outcome of discussions on this agenda item on treatment of LULUCF in 2 CP.

We favour discussions based on the framework of Decision 16/CMP.1 relating to treatment of LULUCF in 1/CP.

### OPTION 1 (BASED ON DECISION 16/CMP.1)

- A. Definitions:** Definitions would be finalized only after the text in sections B, C, D and E of the Annex is agreed and frozen.
- B. Article 3, paragraph 3:** It is difficult to comprehend the equivalence/congruity between “planted production forest” and “equivalent forest” as both differ widely in age structure and carbon content.
- C. Article 3, paragraph 4:** We do not support inclusion of new activities unless these improve the accounting or plug accounting-out of emissions. As regards ‘cap’, or ‘discount factor’ or ‘bar’, we would support their application only if it is in consonance with our overall stated objective of limiting the use of LULUCF.
- D. Article 12:** We will offer comments once the negotiations on expanding the activities under this section are initiated.



- E. General:** We do not support the application of 'force majeure' in an open ended manner and to all the activities. Similarly, we consider the concession in accounting for natural disturbance a grey area requiring an in-depth analysis and debate as there is a thin line between an event being 'force majeure' or being man-made. Absence of preventive measures before occurrence of an event or inadequate control measures after its occurrence may pose difficulty in categorizing the incident or its severity as 'force majeure'. Also, accounting for carbon locked in harvested wood products (HWPs) in terms of quantum and duration is not easy. As no universally acceptable methodology for accounting of HWPs is currently available, we consider this to be a grey area, and, therefore, cannot agree to any accounting that is not foolproof.

## OPTION 2 (LAND-BASED ACCOUNTING SYSTEM)

This option requires more discussions, and the present level of experience, knowledge and information does not warrant its adoption in 2 CP.

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## 12 IMPROVEMENTS TO EMISSIONS TRADING AND PROJECT BASED MECHANISMS

### CLEAN DEVELOPMENT MECHANISM:

#### Adoption of country/region-specific baselines based on commonly used technology:

**Option:** The CDM Executive Board will, after due consideration of proposals, adopt country and/or region-specific baselines for CDM activities based on specific technologies in general use in that country and/or region.

#### Adoption of summary procedures for similar CDM activities:

**Option:** Summary procedures will be adopted by the CDM Executive Board in respect of CDM activities hosted under similar environmental conditions, similar socio-economic conditions, same technologies, and same methodology, to ensure that only the minimum number of such activities chosen by techniques of statistical random sampling, as would provide sufficient statistical confidence in estimates of GHG mitigation, undergo validation, and the results applied to all such activities.

#### Prescribing and ensuring adherence to time limits of the CDM processes:

**Option:** The CDM Executive Board will, on the basis of experience gained so far, prescribe mandatory time limits each of the following stages of the CDM process: consideration of CDM activities by the Executive Board for registration; verification of CDM activities by Designated Operating Entities; issuance of CERs by the Executive Board; consideration of new or amended methodologies by the methodologies panel and Executive Board; and consideration of new and revised monitoring plans by the Executive Board. The CDM Executive Board shall report to the CMP all instances where the mandatory time limits have not been adhered to, giving explanations for the non-adherence in each case.

#### Further simplification of the procedures for small-scale CDM activities:

**Option:** The CDM Executive Board will adopt further measures for simplification of procedures for small-scale CDM activities in respect of project size, methodologies, determination of additionality, and requirements of documentation.

#### Direct Interaction between the CDM Executive Board and proponents of CDM activities:

**Option:** The CDM Executive Board shall, upon request by the proponents of CDM activities, provide sufficient opportunity for the proponents to interact face-to-face with the CDM Executive Board at its meetings to enable the proponents to provide information, clarifications, and explanations, in respect of the CDM activity, prior to their consideration by the Executive Board. The CDM Executive Board will also invariably provide such opportunity to the proponents in case of consideration of changes to existing or proposed methodologies.

### Provision of clear guidelines by the CDM Executive Board for reckoning environmental additionality:

**Option:** The CDM Executive Board will provide clear guidelines, in respect of different types of CDM activities, for reckoning environmental additionality, in case of expansion of CDM activities, and in respect of variations in CER projections, or scale of CDM activity, or product mix.

### Enhancing CDM Executive Board's understanding of country and/or region-specific circumstances:

**Option:** The CDM Executive Board will, as necessary, seek country and/or region-specific expertise so as to sufficiently appreciate country and/or region-specific conditions, in consideration of relevant matters before it,

### Avoiding unnecessary duplication of validation of CDM activities.

**Option:** The CDM Executive Board will refrain from undertaking verification of CDM activities that have already undergone verification by a DOE, unless there is evidence before it giving reasonable grounds for doing so.

### CDM Executive Board to be made full-time:

**Option:** The CDM Executive Board members shall serve full-time. The Executive Board will seek the assistance as necessary of competent specialists in different types of CDM activities and/or country and/or region-specific circumstances.

### Establish Appeals procedures to review CDM Executive Board decisions

**Option:** The CDM Executive Board shall establish an appeals mechanism whereby grievances of project proponents/ DOEs can be heard.

### No requirement of demonstrating financial additionality:

**Option:** The CDM Executive Board will not require CDM activities to demonstrate financial additionality in addition to environmental additionality.

### Funding development of new CDM methodologies:

**Option:** The CDM Executive Board may part-finance the development of new CDM methodologies in respect of types of CDM activities where in its judgment the absence of sufficient methodologies prevents the taking up of adequate numbers of CDM activities. Such part-financing may count towards "administrative costs" of the CDM Executive Board.

### Developers of new methodologies to be incentivized:

**Option:** Developers of new methodologies may be incentivized through waiver of registration fees and/or in-kind means of recognition.

### Accuracy of CERs estimates to be within 95% level of statistical confidence:

**Option:** The CDM Executive Board should strive to adopt and implement methodologies and

verification procedures to ensure that CERs estimates are accurate to within 95% level of statistical confidence.

### Enhanced requirements for certification and recertification of DOEs personnel

The existing requirements of technical personnel available with DOEs shall be revised to require availability of qualified personnel with adequate sectoral and/or country and/or regional experience. In addition to existing requirements of technical competence, all proposed personnel of DOEs must undergo mandatory capacity building in CDM Executive Board guidelines and their authoritative interpretation. All certified personnel must undergo re-certification, involving, inter-alia attending capacity building courses to update their knowledge and understanding of CDM Executive Board guidelines.

### Revision of Financial Criteria for accreditation of DOEs:

**Option:** The existing financial criteria for accreditation of DOEs shall be revised, without dilution of technical criteria, to enable candidate DOEs located in non-Annex I Parties to be accredited in sufficient numbers.

### Systems of validation and verification to be standardized:

**Option:** The CDM Executive Board shall standardize the systems of validation and verification for different types of CDM activities.

### Same DOE may undertake validation and verification of CDM activities:

**Option:** At the option of the proponent, the same DOE may undertake both validation and verification of a given CDM activity with appropriate safeguards against conflict of interest.

### Development of suo-moto methodologies:

**Option:** The CDM Executive Board shall consider proposals for new or amended methodologies submitted by institutions or organizations that do not involve a specific CDM activity accompanying the submission.

### Development of methodologies for programmatic/bundled CDM activities:

**Option:** The CDM Executive Board will incentivize the development of new methodologies for programmatic/bundled CDM activities, including by way of part-financing the development of such methodologies.

### Promotion of renewable energy CDM activities:

**Option:** Renewable energy CDM activities shall be incentivized through: removal of requirements for demonstrating additionality; reduction in threshold size limits; revision of monitoring criteria.

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## **CONTACT US**

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