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Reignition: the positive side of Cancun

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The Cancun Agreement forged at the COP16 climate summit in Mexico in December has restored momentum to UN climate talks, according to analysts at The Climate Institute¹, whose perspectives are summarised here.



Credit: Greenpeace/Natalie Behring-Chisolm

While some will criticise the fact that Cancun did not produce a new international treaty, the significance of a formal UN agreement should not be underestimated. The agreement is akin to a detailed contract between nations, compared to the 2009 Copenhagen Accord, which was more of a memorandum of understanding between world leaders.

UN decisions, while not strictly binding, have the currency of international law. While treaties spell out national obligations, UN decisions provide the detailed rules and mechanisms by which countries fulfil their commitments. For example, all of the detailed rules underpinning the global carbon market, in which countries and companies trade hundreds of millions of dollars worth of credits daily, are derived from UN decisions.

The three most significant achievements of the Cancun Agreement are anchoring national mitigation commitments, a new 'Green Climate Fund' and improved transparency.

Anchoring national mitigation commitments: from all major polluting countries, covering ~80 per cent of global emissions. This is the first time pollution commitments from the US, China and all other major economies – both developed and developing – have been captured in a formal UN agreement.

New 'Green Climate Fund': to help mobilise US\$100 billion a year by 2020 to support low-pollution economic development, protect tropical forests, and help the world's most vulnerable people build resilience to escalating climate change impacts. If implemented well, this fund should unlock billions of dollars of investment in clean energy. The fund can also open pathways to clean energy export opportunities for innovative Australian businesses.

Improved transparency: of domestic efforts to reduce pollution, including a process for international review of countries' actions by technical experts. This includes the use of common international reporting guidelines, ensuring the data provided by countries is

complete, comparable, transparent and accurate. Improved transparency has been a key sticking point in negotiations between the US and China.

Another notable outcome of the agreement was the Cancun Adaptation Framework, a program established to coordinate adaptation support for the world's most vulnerable countries. This will include capacity building and financing to improve the resilience of countries already experiencing the damaging effects of climate change, including Australia's Pacific island neighbours. A process was also established to consider how to address loss and damage as a result of climate change in developing countries (eg insurance and compensation).

However, several issues remain contentious. UN estimates of global warming that will follow from current commitments far exceed the agreement's goals of avoiding global warming of 2, if not 1.5, degrees Celsius above preindustrial levels. Greater pollution reduction efforts will be needed.

Other issues that need to be addressed include sources of long-term finance, common pollution accounting rules, legal form, the Kyoto Protocol, and implications for Australia.

Sources of long-term finance

The establishment of the new US\$100 billion Green Climate Fund was a key achievement. However, no decision has been made on how to raise money for this fund. It is expected that sources of finance will be a key focus for negotiation in 2011.

Not all sources of finance require a decision from the UN. It will be important for countries such as Australia to identify how they can mobilise new funding beyond the aid budget. Two options available to Australia are the use of revenue from a domestic pollution price and the redirection of fossil fuel subsidies. Broader options include funding from international aviation and shipping.

Common pollution accounting rules

Under the Kyoto Protocol, countries agreed to use the same accounting rules for measuring carbon pollution. This enables fair comparisons between each country's pollution reduction efforts, and makes it easier to trade carbon between countries – a tonne of carbon pollution in Australia is equivalent to a tonne of carbon pollution in Europe.

While commitments to greater transparency were made at Cancun, agreement has yet to be reached on the use of common accounting rules for countries not covered by the Kyoto Protocol, including the US and China. The Cancun decision refers to the use of 'national arrangements' for measuring pollution. This will need to be clarified through further negotiation in 2011.

Legal form

While the decisions adopted in the Cancun Agreement are important steps forward for international climate negotiations, they are not necessarily a substitute for a new international treaty.

Politically, it remains very difficult to see how a new climate treaty can be agreed to and ratified in the short-term. While most countries – including Australia – support the creation of a new treaty, several key countries – including China and India – remain opposed, and instead argue for international climate law to evolve through UN decisions.

In Cancun, countries began formal discussions on the future legal form of the global climate regime. Island nations, with support from countries such as Costa Rica and South Africa, have managed to get this issue firmly on the agenda for 2011.

Kyoto Protocol

Closely related to the question of legal form is the question of whether there will be a second commitment period under the Kyoto Protocol.

This issue was brought to a head in Cancun by Japan's declaration that it will not participate in a second commitment period. Most other countries – including Australia and the European Union – have declared their support for a second commitment period, providing there is a new legally binding agreement covering all other major polluting countries, including the US, China and India.

While this issue was not resolved in Cancun, a decision was made under the Kyoto Protocol to continue negotiations and formally recognise the targets already pledged by developed countries that have ratified the protocol. This keeps open the opportunity for all of these countries – including Japan – to gracefully participate in a second commitment period.

The second commitment period issue will continue to be discussed in 2011, but will remain heavily dependent on whether or not a new treaty covering all major economies can be agreed. The challenge for negotiators will be to ensure that uncertainty around the second commitment period does not undermine broader progress in the negotiations.

While some progress was made in Cancun on the detailed rules for a Kyoto Protocol second commitment period, several sticking points remain, particularly amendments to the land sector accounting rules. As well as encouraging abatement opportunities in the

land sector, these rules need to determine how – and to what extent – countries can use carbon sinks to offset pollution from the energy sector and other sources.

One of the elements of the agreement struck in Cancun is that countries' final targets under the Kyoto Protocol second commitment period will be set after taking into consideration the impacts of any 'loopholes' that may result from the amended accounting rules. This includes potential loopholes associated with land sector accounting.

Reaching agreement on land sector accounting rules, along with other rules, such as the carryover of surplus credits, should be top of the agenda for Kyoto Protocol negotiations in 2011. Without agreement on these rules, even those countries willing to take on a future target under the Kyoto Protocol cannot commit to a second commitment period.

Implications for Australia

With the extent of global action becoming clearer, the Cancun Agreement reinforces the need for Australian pollution and climate change policy to be flexible enough to go beyond the five per cent 2020 reduction targets.

In 2011, the Australian Parliament will need to negotiate a flexible package with a pollution price, as well as limits and other policies that can enable more ambitious pollution reduction. Failure to provide such flexibility could require taxpayers, households and business to pay billions more if stronger action is needed from Australia in future.

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More information

'The Cancun Agreement: a preliminary assessment', Climate Institute policy brief: www.climateinstitute.org.au/our-publications/reports

¹ The Climate Institute is an independent Australian 'think tank' focusing on climate change. Its board numbers leading policy experts and scientists, including former CSIRO scientist, Dr Graeme Pearman. See www.climateinstitute.org.au

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