

Policy Brief | The Cancun Agreement: A Preliminary Assessment | December 2010

Key Points

The Cancun Agreement has restored momentum to the UN climate talks. Much more needs to be done, particularly at national levels, but key barriers have been addressed. Three important areas of achievement should be noted:

- **Anchoring national commitments covering 80% of global emissions**
- **New Global Climate Fund**
- **Improved transparency, review & verification**

While Cancun marks important progress, a number of issues need attention, including:

- **Greater pollution reduction effort**
- **Sources of Financing**
- **Common accounting rules, including for land sector**
- **Legal form of final framework**

The Cancun Agreement reinforces the need for the Australian Parliament to pass a flexible pollution reduction package with not only a pollution price but limits and policies that can enable ambitious pollution reduction.

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Established in late 2005, **The Climate Institute** is a non-partisan, independent research organisation that works with community, business and government to drive innovative and effective climate change solutions.

The Institute's policy briefs serve to stimulate a dialogue and provoke critical feedback around topical climate change issues by contributing research, analysis and policy recommendations to the public domain.

Summary

The United Nations and global efforts to reduce carbon pollution and drive investments in clean energy gained momentum at the Cancun Climate Summit.

This Policy Brief provides The Climate Institute's preliminary assessment of the progress achieved in the International Agreement made in Cancun, and the implications for Australia.

The formal UN decisions adopted in the Cancun Agreement strengthen the global framework for action on climate change. The talks and Agreement at Cancun also help to build trust between nations important for national governments to take the more ambitious efforts needed.

With the extent of global action becoming clearer, within and outside the UN, the Cancun Agreement reinforces the need for Australian pollution and climate change policies to be flexible enough to go beyond the 5 per cent 2020 reduction targets. This will require a flexible package of pollution price, limits and other policies.

Table 1 in the main body of this policy brief provides an overview of progress achieved in a number of key areas addressed in Cancun. In summary, the three most significant achievements in the Cancun Agreement are as follows:

- **Anchoring of national mitigation commitments:** formal recognition and 'anchoring' of existing pollution targets and commitments from all major polluting countries, covering around 80 per cent of global emissions. This is the first time pollution commitments from US, China and all other major economies (both developed and developing) have been captured in a formal UN agreement. This illustrates a strong commitment by countries to take action at home to reduce their economic dependence on pollution.
- **New 'Green Climate Fund':** agreement to establish a new 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. This fund will help build confidence amongst governments and add momentum to the UN negotiations and, if implemented well, 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 and by buffering nation states against climate impacts limit risks of regional political instability.
- **Improved transparency:** measures to improve 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. This will have important implications for monitoring progress at the national and international level, and is politically very important as improved transparency was a key sticking point between the US and China.

Progress in Cancun is a sign that international climate diplomacy is beginning to catch up with action at the domestic level in key countries. These efforts are driving a multi-billion dollar clean energy boom, with total global investments predicted to reach US\$154 billion in 2010. In 2009 an estimated US\$35 billion



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was invested in China alone; \$18 billion in the US and \$11 billion in the UK. In Australia, with a population approximately a third of the UK's, less than US\$1 billion was invested in clean energy in 2009.ⁱ

Importantly, the policies and actions already being implemented by key countries result in a direct and indirect price on carbon pollution. Previous work for The Climate Institute has demonstrated that the direct and indirect pollution price tag in the electricity generation sector in China is over eight times higher than in Australia, and around three to five times higher than in the USA or Japan.ⁱⁱ

What was achieved in Cancun?

The most important tangible outcome from the summit is a set of official UN decisions – the 'Cancun Agreement'. This is an important step forward from the Copenhagen summit, which ended in a high level political 'Accord', but which was unable to deliver a formal UN decision. Put another way, the Cancun Agreement represents a more detailed contract between nations, whereas the Copenhagen Accord represented more of a memorandum of understanding struck between world leaders.

Prior to the Cancun summit, The Climate Institute outlined six issues which needed to be addressed in Cancun in order to deliver progress.ⁱⁱⁱ This was widely described as a 'balanced package' of outcomes, satisfying some of the political and policy objectives of both developed and developing countries. In addition, several other areas of potential agreement were also identified, including the final legal form of the outcome from UN climate talks and the future of the Kyoto Protocol, and its associated rules, such as the land sector accounting rules.

Table 1, below, provides an overview of progress achieved in a number of key areas addressed in Cancun.

Why is the Cancun Agreement important?

The progress achieved in Cancun has the potential to inject new momentum into international climate diplomacy. This is critically important, given the erosion of trust that occurred in Copenhagen last year. While avoiding dangerous climate change will require greater ambition from national governments, the Cancun summit demonstrates the importance and the potential of multilateralism.

Some will criticise the fact that the Cancun summit did not produce a new international treaty. Putting aside the reality that nobody expected a treaty to emerge from

Cancun – indeed this was never the objective in Cancun – the significance of the formal UN decisions adopted in Cancun should not be underestimated.

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 mechanism by which countries fulfil their commitments. While not necessarily a substitute for a treaty, most countries abide by the terms and conditions agreed to in UN decisions. 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.

Areas where more work is needed

The Cancun Agreement is an important sign of progress in international efforts to tackle climate change. However, a number of 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

The establishment of the new Green Climate Fund was a key achievement in Cancun. However, no decision has been made on how to raise money for this fund. As outlined in the report of the High-Level Advisory Group on Climate Change Financing, various sources are available to mobilise the US\$100 billion committed to in Cancun. This includes both public and private sources, as well as the use of carbon markets.

It is expected that sources of finance will be a key focus for negotiation in 2011. However, not all sources of finance require a decision from the UN. As such it will be important for countries, including Australia, to identify how they can mobilise new funding beyond what it being delivered through the aid budget. Two options available to Australia are the use of revenue from a domestic pollution price and the re-direction of fossil fuel subsidies. Broader options include funding from international aviation and shipping.



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Common pollution accounting rules

Under the Kyoto Protocol countries agreed to use the same accounting rules for measuring carbon pollution. This helps to compare each country's efforts to reduce pollution and also makes it easier to trade carbon

between countries. In simple terms it means a tonne of carbon pollution in Australia is equivalent to a tonne of carbon pollution in Europe.

While important commitments were made for greater transparency in Cancun, agreement has yet to be reached on the use of common accounting rules for those countries not covered by the Kyoto Protocol, including the US and China. In fact the decision made in Cancun refers to the use of 'national arrangements' for measuring pollution. This does not necessarily preclude the use of commonly agreed international accounting rules, but this is something that will need to be clarified through further negotiation in 2011.

Legal form

While the decisions adopted in the Cancun Agreement are undoubtedly important steps forward for international climate negotiations, they are not necessarily a substitute for a new international treaty. Previous analysis published by The Climate Institute outlines the reasons why a new treaty will help to unlock the level of ambition needed to avoid dangerous climate change.^{iv}

Politically, it remains very difficult to see how a new climate treaty can be agreed to and ratified in the short term. While the majority of 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. The US government, while still officially supportive of a new treaty covering all major economies, will have a tough time convincing Congress to ratify a new international agreement. No such ratification is required for UN decisions.

In Cancun countries began formal discussions on the future legal form of the global climate regime. This was an important step, as to date this discussion has mostly occurred on the sidelines, with a number of countries blocking its formal consideration within the negotiations. Island nations, with support from countries such as Costa Rica and South Africa have managed to get this issue firmly on the agenda for continued negotiation in 2011.

The Kyoto Protocol's second commitment period

Closely related to the legal form question, discussed above, is the question of whether or not 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.

This 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 uncertainty around the second commitment period does not undermine broader progress in the negotiations.

Kyoto Protocol rules, including for the land sector

While some progress was made in Cancun on the detailed rules for a Kyoto Protocol second commitment period (see **Table 1**), several sticking points remain. Most notably this includes 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.

It is important to note that 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. Indeed, the reality is that 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.



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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 5 per cent 2020 reduction targets.

Both the ALP and Coalition back conditions for commitments, made internationally, for stronger targets.

In 2011, the Australian Parliament will need to negotiate a flexible package with not only a pollution price, but also limits and other policies that can enable more ambitious pollution reduction.

As noted in other research from The Climate Institute, a failure to provide flexibility could require taxpayers, households and business, to pay billions more if stronger action is needed from Australia.^v

Table 1: Progress achieved in Cancun Agreements

| | Key Objectives | Progress Delivered |
|---------------------------------|--|--|
| Pollution Reduction Commitments | <ul style="list-style-type: none"> Global goal to stabilise global temperatures below 2°C A review, including for 1.5°C to be concluded by 2015 at the latest. Inscription of all countries' existing targets | <ul style="list-style-type: none"> Formal recognition given to the 'below 2°C' goal Agreement to consider strengthening this to 1.5°C Establishment of a process to review the global goal and progress towards its achievement. The first review will begin in 2013 and be concluded by 2015. Existing national targets and commitments from major polluting countries – both developed and developing, including the US and China – have been anchored in the formal UN decision. Recognition that all countries need to do more and a process was launched to assess and compare these national targets and commitments, with a view to reaching agreement on each country's final target for the period to 2020. |
| Transparency | <ul style="list-style-type: none"> Agreement on key elements of international measurement, reporting and verification (MRV) of national commitments Establishment of a work program to develop detailed procedures for MRV, including international consultations and analysis | <ul style="list-style-type: none"> Commitment from all major polluting countries to strengthen reporting of pollution, including progress towards national targets and commitments. Most significantly, this includes a commitment from major developing countries to submit biennial updates of national greenhouse gas inventories, and efforts to reduce pollution. It was also agreed that pollution reduction efforts by all countries will be subject to much greater levels of international review and verification, including through a process of international consultations and analysis (ICA). A process, beginning in 2011, was launched to develop the detailed guidelines by which countries will comply with these stronger transparency provisions. |



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Finance

- Establish new global fund
- Process for mobilising long term finance to 2020
- Transparency on fast start funds for the period 2010 to 2012
- A formal decision was made to establish a new 'Global Climate Fund', which will play a central role in mobilising and deploying US\$100 billion a year by 2020 to support developing countries to reduce pollution, avoid emissions from the destruction of tropical forests, ensure technology cooperation and manage the unavoidable impacts of climate change
- Several key features of the fund were also agreed to in Cancun, including its governance structure and the appointment of the World Bank as an interim trustee. A decision on the permanent trustee role will be made at a later date.
- The Cancun Agreements also established a Transitional Committee to formulate the detailed design of the fund, which is expected to begin its work in early 2011.
- The Cancun Agreements recognise that multiple financing sources (i.e. public and private) will be needed to achieve the goal of mobilising US\$100 billion a year by 2020. While formal recognition was given the High Level Advisory Group on Climate Change Financing, the Cancun summit did not establish a process for mobilising any specific sources.
- Developed countries agreed to improve reporting of all the financial support they provide to developing countries. A new international registry was also established to help match finance with national actions being undertaken by developing countries, which will help improve transparency.
- With respect to the transparency of fast start finance provided over the period 2010-2012, the Cancun Agreements made only modest progress through an invitation (as opposed to a requirement) to developed countries to provide annual reports on finance provided. However, many countries – including Australia – have already released details of how their contributions will be deployed between now and 2012.^{iv}

Address emissions from the destruction of tropical forests (REDD)

- Establish global initiative to protect tropic forests
- Ensure robust accounting
- Provide a pathway to scale up forest carbon protection initiatives globally.
- A new international program was formally established to reduce emissions from deforestation and forest degradation (REDD) in developing countries.
- This program will be implemented in three phases: (i) development of national strategies and action plans; (ii) implementation of these strategies and action plans along with capacity building and demonstration projects; and (iii) scaling up of REDD activities.
- Countries agreed to establish 'robust and transparent' national forest monitoring systems. However, it is likely that further work will be required to strengthen of accounting rules for REDD activities.
- The third phase of the REDD program remains contentious. Further negotiations will be needed to agree on the most effective means of scaling up forest carbon protection activities in the medium to long-term. This will need to include consideration of whether market or fund based activities are most appropriate.

Adaptation

- Establishment of global adaptation framework to promote cooperation to build resilience to climate change impacts.
- The Cancun Agreement formally established a program – the Cancun Adaptation Framework – to coordinate adaptation support for the world's most vulnerable countries.
- A key part of this program will be capacity building and financing to enhance the resilience of those 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 (e.g. insurance and compensation).



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Technology cooperation

- Establishment of a framework to deepen technology cooperation between countries.
- A new Technology Mechanism was formally established to accelerate and enhance global cooperation on clean energy technologies, and other technologies to address climate change.
- This Mechanism will provide a framework to facilitate the spread of low pollution technologies through training, support and engagement with private sector, including through the funding of national and regional technology centres.

Kyoto Protocol

- Recognition of Kyoto Protocol country targets in formal UN decision
- Amendment of land sector accounting rules
- Amendment of other rules for the second commitment period (e.g. carryover of surplus credits, base year etc.)
- The Cancun Agreements included a decision that anchors countries' pledged targets in a formal UN decision under the Kyoto Protocol. While negotiations will continue to agree on a final target for the Kyoto Protocol second commitment period, including the current pledges in a UN decision is an important step forward. Most importantly it sends a clear signal to developing countries that there is a commitment to participate in a second commitment period.
- Importantly, it was also decided that countries' final second commitment period targets will be set after taking into account impacts of amendments to the accounting rules, including land sector accounting rules and rules associated with the carryover of surplus credits from the second commitment period.
- Countries were unable to agree on amendments to the Kyoto Protocol land sector accounting rules in Cancun. Instead it was decided to review the implications of emissions from logging forests for national targets and launch a more focused round of negotiations in 2011, with a view to agreeing on new accounting rules at the next climate summit, in South Africa in December 2011.
- It was decided to keep 1990 as the base year from which to measure countries' targets for the second commitment period. Negotiations will continue on all other rules.

Legal form

- Provide a clear mandate on legal form, specifying that countries will negotiate a new legally binding treaty
- This issue was placed on the agenda for the first time in Cancun, which was an important step in its own right given this is a contentious issue. However, countries could not agree on a mandate to negotiate a new treaty. Instead it was decided that the discussion of different legal options would continue 2011, with view to the final legal form being decided at the next climate change summit.

ⁱ New Energy Finance (2010), *Renewable energy investment opportunities and abatement in Australia*, commissioned by The Climate Institute and Westpac, <http://www.climateinstitute.org.au/images/reports/renewableenergyinvestment.pdf>

ⁱⁱ Vivid Economics (2010), *The implicit price of carbon in the electricity sector of six major economies*, The Climate Institute, <http://www.climateinstitute.org.au/our-publications/reports/744-putting-a-price-tag-on-pollution>.

ⁱⁱⁱ The Climate Institute (2010), *Cancun Climate Summit: Building on the Foundations*, http://www.climateinstitute.org.au/images/reports/tci_cancunclimatesummit_policybrief.pdf.

^{iv} For details on Australia's funding program during the fast start period see: <http://www.climatechange.gov.au/en/media/whats-new/~media/publications/international/australias-fast-start-finance-progress-report.ashx>

^v The Climate Institute (2010), *Polluter Responsibility Key to Limiting Taxpayer Exposure*, http://www.climateinstitute.org.au/images/reports/tci_cancunclimatesummit_policybrief.pdf.