

GLOBAL COLLABORATION TOWARDS SUSTAINABILITY AND CLIMATE CHANGE

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Tena koutou katoa. I'm honoured to have the opportunity to speak at this conference.

I took up position of Climate Change Ambassador three months ago, so I'm speaking today from the perspective of a newcomer – not jaded or so steeped in negotiations that they have begun to seem normal or rational.

When I thought about the topic I was given to speak on, it seemed a touch ironic. Global collaboration on climate change is something that has by and large eluded us. It is an area of great complexity, in several dimensions – a bit of a Rubik's Cube to try to solve, except that you can't go to Google for a solution yet.

What's the UNFCCC negotiation about?

The Rio Summit gave birth to the Framework Convention on CC in 1992. Since then, the Parties (194 of them) have met annually in an attempt to negotiate a variety of agreements within the framework of the Convention.

If we unpick the UN process, it's an intersection of four components: there's the science of climate change; the economic impact of climate change and the costs and opportunities associated with climate change action; environmental integrity (doing the right thing by Mother Earth); and above all, there's the politics.

In the Arc de Triomphe traffic chaos of this particular intersection, it's often environmental integrity that falls into last place. Few countries are clamouring to accept the cost of mitigating against the impact of climate change, especially at the expense of economic development.

The science tells us that, while not proven absolutely, the balance of evidence points very clearly to the adverse impact of human induced changes to climate in a post-industrial world. But none of us wants to hear bad news: it's a bit like getting a life-threatening illness diagnosed, where we'd all be tempted to go for the second opinion...The science debate has raged to and fro, fuelling both climate sceptics and believers. When weather is changeable daily, but climate trends are long-term, it's also not a clear and present danger. Denying ourselves now for the sake of our children's children seems to be a hard thing to do.

To combat the effects of climate change is going to cost us – particularly in the short term – even though there are clear long-term economic and environmental benefits. And imposing costs on the economy, on consumers, is not a big vote winner. [The infamous incident when a tractor was driven up the steps of parliament in protest against the previous administration's plan to introduce a so-called "fart tax" was a sharp example]

Why is Global Collaboration so Difficult?

As if the intersection of political, scientific, economic and environmental interests weren't enough, there are a few added "degrees of difficulty" to this negotiation.

First, some history. The UNFCCC, agreed in Rio in 1992, has reinforced a fairly rigid "North-South" divide. It introduced the concept of developed country historical responsibility for the impact of GHG emissions (fair enough), and in consequence obliged the "North" to reduce their own emissions, and to support any developing country efforts to mitigate against the impact of climate change, or to adapt to its effects. It enshrined the list of those who were to shoulder the burden in Annex 1 to the Convention (i.e. members of the OECD in 1990), and created a distinction between economy-wide commitments to be undertaken by these Annex 1 countries, as against voluntary actions (nationally appropriate mitigation actions, or NAMAs in the acronym-riddled world of climate change) taken by developing countries – usually with financial support.

The problem now, though, is that the emissions picture has changed dramatically since 1990, reflecting economic growth in the major developing economies. Today, Kyoto Protocol parties account for 27% of global GHG emissions (and

falling), while China alone accounts for close to 20% of emissions (19.1%) – and this is growing at a rate of 10.8% p.a. under its BAU projections. So, even if China managed to halve this annual growth rate to around 5%, as is envisaged in its next 5 year plan, it will be taking up a major proportion of the global carbon budget implied by holding the world to 450 ppm CO₂ e. What does that mean for the rest of us?

The second “degree of difficulty” is the Kyoto Protocol, negotiated in 1997, but only able to enter into force in 2005 when the necessary balance was tipped by Russia signing up. Despite its close involvement in the negotiations, at the 11th hour, the US was unable to ratify, so it’s the only developed economy that has not taken legally binding commitments to reduce its emissions. The KP Parties have signed up to an overall goal to reduce emissions by 5% below 1990 levels, and are part-way through the first 5-year commitment period – ending in 2012.

Then, in 2007 the UNFCCC met for its annual COP and adopted the Bali Action Plan. This created a second track in the negotiations, primarily for developing countries, but also to deal with the US. The so-called LCA (Long-term Cooperative Action) or convention track established negotiations on mitigation, adaptation, technology and capacity building that have been under way since then, although the ultimate goal of these negotiations remains opaque – i.e. what legal form, if any, they might take.

Where will we go with the KP and with the second negotiating track? At the crux of the negotiations is an impasse between the US and China – who between them account for 40% of global GHG emissions.

- The US Congress will not entertain any proposal to ratify a climate change treaty that does not have China as a party.
- China is in no hurry to sign up to a global agreement committing it to actions, and being subject to international scrutiny of its performance, let alone to a compliance regime.
- Not only that, the US legislative system would make it extremely difficult to sign up to a treaty with compliance provisions. The separation of administration and executive means negotiators could not guarantee that a set of international accounting rules and compliance provisions could be reflected in or consistent with domestic law.

- The ripples of this impasse are spreading out...developing countries see the lack of US climate change legislation as a sign it will not be able to deliver on its promises to reduce emissions by 17%, and have slowed negotiations in consequence; Japan has signaled it will not accept further Kyoto Protocol commitments in the absence of a global deal that includes the US.

The post-2012 future is therefore looking uncertain at the moment. The “I won’t if you won’t” dance could have the orchestra playing for some time to come.

Climate change has been described as “the greatest moral challenge of our times”, and this is more than likely to be true. Describing it in these terms, however, is no guarantee of a great global consensus – or even of any global deal at all. While “mercantilism” is something of a dirty word, it’s going to be essential for a deal, and is certainly implicit in the calls for “balance” that are the theme of the negotiations in the lead-up to Cancun. To find a way through this deadlock, we need to deal with a complex balance of interests: there needs to be something in the package for everyone, and something for the environment...It means not only an assessment by each country of whether others are doing their fair share, but also a balance between the issues on which developed and developing countries respectively are the demandeurs.

Not only is there a need for balance, the last wrinkle in getting a global agreement on climate change is the need for what CC negotiations Minister Tim Groser recently described [in a speech to the International Food and Agriculture Trade Policy Council, or IPC] as a “power grouping”. He pointed out that no multilateral negotiation, from the Congress of Vienna onwards, has been taken to a successful conclusion without the most powerful countries finally shaping the deal. Smaller, less powerful countries can certainly influence negotiations – and can be most useful in coalescing to identify the middle ground – but without a core power group playing a leadership role, we are unlikely to see a result.

Just this year in the climate change negotiations, we have seen the establishment of the Cartagena Dialogue for Progressive Action. It’s a group of more than 30 developed and developing countries – including NZ – which is now successfully fulfilling the bridge-building middle ground of the negotiations.

We are yet to see the emergence of a plausible power grouping, though. We’re still at a stage of factions on the outer ends of the negotiations, where there are

three broad groups of interest: the major emitting developing economies (which are resistant to taking on mitigation commitments); a group of anti-capitalist Latin American countries (Bolivia, Venezuela), holding out for the rights of Mother Earth; and oil exporting countries, seeking to delay or avoid the impact of a carbon constrained world on their economies.

A group of some 20 major economies have started meeting [the so-called Major Economies Forum, or MEF], but there are probably too many around that particular table for it to do the “power group” job. The US and China are engaging regularly on climate change, but the political traction for a deal does not yet seem to be there – and results of mid-term elections may well suggest to China that US traction could be some distance off.

What’s New Zealand Doing?

But it’s definitely not all doom and gloom. Having taken a first set of commitments, Kyoto Protocol Parties have introduced various climate change policies to deliver on their mitigation promises.

New Zealand committed to reduce its emissions to 1990 levels in the period to 2012 – a not insignificant undertaking.

To set the scene, the first thing to be aware of is that together, the methane and nitrous oxide emissions from agricultural activity account for 48% of New Zealand’s gross greenhouse gas emissions. Our population has grown by more than 25% since 1990, and more people means more emissions. Around 70% of our energy is from renewable sources – with a commitment to increase that to 90%. We have a significant plantation forest industry, which is of course both a carbon sink (when the trees are growing) and a source (when they are harvested). Our emissions under a BAU scenario are projected to grow by 40% from 60 million tonnes CO₂ e in 1990 to about 100 mt CO₂e by 2050.

Our comprehensive Emissions Trading Scheme (ETS) is the most significant policy tool we are using to meet our mitigation commitments under the KP. It was introduced and applied to forestry in 2008. The scheme was amended in 2009,

and energy and industrial process emissions were covered with effect from 1 Jul 2010. More sectors are scheduled to enter the scheme in stages – beginning with voluntary reporting, moving to mandatory reporting and then to a surrender obligation. Agriculture (which has limited abatement potential, certainly with today's technology), will be last sector to be covered – in 2015.

The key features of our ETS are:

- The obligation applies upstream in the production process wherever possible
- There are binding measures – a “make good” and financial penalty – in the event of non-compliance
- The primary domestic unit as an NZU (which is backed by a Kyoto unit – AAU)
- The scheme operates under NZ's Kyoto cap, with buy-and-sell linkages to Kyoto markets [e.g. the Clean Development Mechanism – CDM]
- There are no limits on banking units
- It uses self-assessment for monitoring and reporting

To kick the ETS off, the government established a 2-year transition phase to 2012. During this phase, there's a 50% obligation (matched by a 50% allocation of units) for emissions intensive, trade exposed sectors: energy, industrial processes, and liquid fossil fuels. There's also a fixed price option for scheme participants of NZ\$25 per tonne. Other than the forest sector, export of units is not permitted before 2013.

While it's early days, we can already see some effects from the scheme, with an increase in net forest planting from 2010, and a shift in new electricity investment from thermal to renewable energy since 2009 [from 44% to 80% of consent applications for new generating plants].

Now that the scheme is up and running, it will be possible for the government to “turn the dial” as may be appropriate after the initial transition phase.

The ETS will be reviewed five-yearly, with the first review to take place next year. Progress with the international negotiations will be an important consideration [for trade competitive reasons, we want to make sure other countries are taking

action]. The development of international markets will be crucial for the effective operation of NZ's scheme – so the government will be watching with keen interest what happens across the Tasman.

The EU, of course, has had an ETS amongst its 27 Member States (plus some neighbours, such as Norway) since 2005. But, there have been some legislative set-backs this year, with the US, Japan and Australia all failing to pass through climate change legislation that would have introduced domestic trading schemes. At the same time, a number of significant economies in the Asian region have signalled their intentions to introduce emissions trading: Korea, Singapore, China and India, for example.

And I guess that's the other important thing to note: while enlightened self-interest is probably not going to solve the global climate problem, many, many countries are taking unilateral actions, for a variety of reasons.

Take China for example:

It has offered a non-binding carbon intensity target – a reduction by 40-45% compared with 2005 levels, to be achieved by 2020. It's motivated first by the desperate need to deal with pollution problems, second by wanting to shore up energy security by reducing its reliance on imported fossil fuels [it now accounts for 47% of global coal consumption]. Climate change impacts are a happy by-product of these more pressing objectives. Rather than economic growth at all costs, China these days is looking for sustainable economic development. In 2009, China spent almost twice as much as the US on clean energy investments and finance (China invested US\$34.6 billion in the clean energy economy, while the US total was US\$18.6 billion).

Australia has hosted two mitigation workshops in the margins of the latest UNFCCC negotiating sessions – with countries like Japan, Costa Rica, UAE, Colombia, Switzerland, and Korea making presentations on their low emission development strategies and mitigation policies.

Looking ahead to 2020, New Zealand has tabled an emissions reduction target of -10% to -20% against 1990 levels. This target range is conditional, and the conditions to a large extent define our negotiating priorities in the UNFCCC negotiations:

- We want an agreed global goal – to limit the temperature rise to 2°C or less – so we can know what we’re aiming for (as determined by science) and track how we are collectively progressing.
- We want all developed countries to be taking comparable economy-wide commitments
- And, we want major emitters in the developing world to commit to taking on their fair share of mitigation action
- Finally, we want to ensure we’ve got a fully functioning international carbon market. As a small economy, with limited domestic abatement potential, it’s crucial to us.

Where have the negotiations got to?

The last year has been a bit of a roller coaster ride.

From the perspective of politics: It started with the circus of the Copenhagen Summit. People I work with who were there still visibly blanch and start muttering incoherently when they think about their 2 weeks in Copenhagen last December. The expectations were incredibly high, the negotiating process horribly undercooked – a real recipe for disaster. And a disaster is what the political and public perception of the summit still is. If political and public support wane, then the UN process could be in trouble.

Nonetheless, from the chaos, the Copenhagen Accord rose phoenix-like from the ashes. Negotiated at the 11th hour, the 3 page Accord (impressive in its brevity) may not be perfect, but it contains a good internal balance, and represents the key elements of a potential legally binding outcome under the LCA. As of today, 140 countries, representing 87% of global GHGs have associated with the Accord, and many have recorded mitigation pledges in an annex to it.

From the perspective of science: Climate change science was dealt a blow, with the controversy about inaccuracies in the IPCC’s latest report. While the faults didn’t impinge on the report’s findings, they gave climate sceptics some traction. The IPCC moved swiftly to have its processes reviewed, and appears to have contained the damage.

Then, looking at the year through an environmental integrity lens: The Copenhagen Accord signals a move to more of a “bottom-up” than a “top-down” approach to a multilateral agreement – so-called “pledge and review”. A number of studies have analysed the inscribed pledges, and all have concluded that there’s a gap between even the top end of the promised actions, and a global goal to limit temperature rise to 2° or less.

The numbers go like this: the world is at 52 gigatonnes of CO₂ e. It needs to be at 44 gigatonnes, and the CA gets it to 48 gigatonnes – with luck and a following wind. The pledge and review approach (where countries make their best offer and promise to try harder next time) – while less than ideal – is probably a better option than to keep waiting for the “all singing, all dancing” treaty.

Finally, from the perspective of economics: it’s been a mixed bag here, too. On the one hand, the GFC allowed the EU to very comfortably reach its target, due to reduced industrial activity. On the other, China took its foot off the pedal in the crisis, and is now scrambling to meet its domestic undertakings in its current 5-year plan.

What are the prospects for Cancun?

Expectations for Cancun have waxed and waned over the course of the year. The euphoria (this might be overstating it!) of the Copenhagen Accord, as countries progressively associated with it, meant negotiating meetings in the middle of the year had a pretty positive tone. They took a turn for the worse after some clear signals that BASIC country negotiators were distancing themselves from the Accord, despite their leaders having signed up to it. At the same time, while progress on the negotiations under finance, adaptation and technology headings looked good, things were lagging behind when it came to mitigation and the associated transparency provisions. In the push to try and re-balance negotiations, things started to unravel, and the LCA draft text – festooned with square brackets – has doubled in size since June.

Expectations – that were too high last year – were adjusted sharply downwards: there will be no legally binding outcome from Cancun. On the other hand, it appears the pendulum may have swung too far, and hopefully we’re about to have another go at self-correction. In August, we all agreed we need a balanced

package of decisions at Cancun. The recent pre-COP in Mexico City was a slickly run meeting, with the Mexican Presidency taking a firm hand, but working in close partnership with the secretariat, and in an open, transparent manner. It won't be easy, but the shape of a deal is now beginning to emerge.

The main components under the LCA track are: mitigation; MRV; climate change finance for developing countries; adaptation to the effects of climate change, REDD+ (reducing deforestation); technology transfer and capacity building. The nub of the Cancun meeting will be the linkage between mitigation commitments under the LCA and the signals about a second commitment period under the KP. The Kyoto Protocol has iconic status, particularly for developing countries, who say a second commitment period is quite simply a legal obligation for Annex 1 countries. For their part, the KP Parties won't sign up to further commitments without having a legally binding agreement for all countries firmly in their grasp.

Anchoring the Copenhagen Accord pledges, agreeing the broad shape of transparency provisions, advancing developing country interests (such as the establishment of a Green Fund for climate finance), and progressing the Kyoto Protocol rules, particularly on accounting for land use and forestry – are the building blocks for a successful outcome at Cancun.

Where might it go?

As we sit at this intersection in the negotiations, it's possible the road could branch off in one of three directions:

- The Kyoto Protocol could continue with a second commitment period after 2012, matched by a legally binding agreement for all other Parties under the LCA track – although it would be risky for the two regimes to be substantially different;
- We could have a new, legally binding treaty encompassing mitigation commitments by all countries – replacing the KP;
- Or, if no multilateral agreement can be reached, we might see a “coalition of the willing” with some activity on a bilateral or regional basis.

Whatever the outcome, though, climate change won't go away. And, already, around the world we see government policies, investment decisions and consumer preferences all changing.

Conclusion: moving to a carbon constrained world

In the last couple of years, there has been a marked increase in interest in the “green economy”, perhaps sparked by the GFC – in the face of which more than \$470 billion worldwide has been invested in green economy initiatives.

Consumers are increasingly demanding goods produced in an environmentally responsible way. Chains like IKEA, Walmart and Marks and Spencers have responded – and in doing so have made sure they emphasise this as a point of difference from their competitors. Companies like Air New Zealand are looking for ways to reduce their business costs that are also beneficial to the environment.

Rather than economic development at all costs, the watch-word seems to be sustainable economic development. Food security, energy security, and water security are three fundamental priorities for all governments around the world.

Considerations for New Zealand are, first, our economic prosperity is closely tied with our “clean, green” reputation. We also need to be ready to respond competitively if alternative goods and services, with a lower environmental footprint, become available in our key export markets. And, we will want to capitalise on the innovation and creativity we’ve shown – for example, in the development of clean technologies and efficient agricultural production techniques.

But, there’s no real substitute for global collaboration on climate change if we are going to make a serious dent in emissions. As a small economy, New Zealand needs the big guys to play their part, and we need the certainty of a set of agreed rules within which to operate. Not only that, a failure in the UNFCCC could deliver a near-mortal blow to multilateralism more generally. That’s why we’ll keep doing what we can to broker global collaboration on climate change, and will aim to play a constructive in Cancun.

We live in hope.