



## **Future Actions Dialogue 8-10 September 2010 – Brussels, Belgium - Meeting Summary -**

### ➤ **Overview**

The second Future Actions Dialogue (FAD) meeting of 2010 was attended by participants from 25 developed and developing countries as well as international organizations. Discussions focused on nationally appropriate mitigation actions (NAMAs); leveraging private-sector finance for NAMAs; the “road to Cancun”; sectoral crediting and markets; monitoring, reporting and verification (MRV); long-term finance; low-carbon development strategies (LCDS); and the Kyoto Protocol (KP) and legal form.

During the three-day meeting, participants came to general consensus on the following overall conclusions:

- Expectations for Cancun should be realistic, but the Conference of Parties (COP) must show progress.
- A set of operating COP decisions – perhaps linked by an omnibus decision – is the most pragmatic way to move forward in Cancun.
- The debate on whether to have a mandate for producing a legally binding treaty is not helpful (at least one participant disagreed).
- Decisions need to cover REDD+; finance; adaptation; technology; capacity building; MRV; and continuation of the Kyoto Protocol. There should not be a decision on a second commitment period (CP2), but the launch of a new fund needs to be decided.
- Markets and progress on emissions trading/crediting have an important role to play outside and parallel to the UNFCCC (we cannot wait for the UNFCCC), but a single COP decision to create a new market mechanism with a roadmap/timeline would be a big step forward.

### ➤ **Ambitious NAMAs on the Ground (Developing Countries)**

This discussion among developing countries focused on what criteria would define an ambitious NAMA and what kinds of readiness assistance could help developing countries to develop such NAMAs. A presentation by **Costa Rica** on its goal of reaching carbon neutrality by 2021 and its 50-year commitment to get 95% of energy from renewable sources helped frame the discussion. The presenter emphasized UNFCCC support for a study of potential NAMAs (including renewable energy, land use, and transportation actions) and estimated the cost of achieving zero net emissions to be approximately US\$7.7 billion (lower-cost actions are to be funded domestically,

but they do not have a specific NAMA package yet). Among the lessons learned from Costa Rica's experience, she emphasized the need for an educated staff, financial support for studies of mitigation options/costs, and public education about reducing emissions.

Respondents highlighted the need for cross-sectoral actions, government buy-in, political support for ambitious NAMAs, political decisions that are embedded in countries' legislation, increased public awareness about climate change, and greater visibility about funding sources available for developing countries. Other participants underlined the need for private-sector financing for high-cost NAMAs, public financing where no profits are to be made, and domestic host-country funding for inexpensive or negative-cost reductions. Some participants were concerned about focusing on large, ambitious NAMAs due to the precedent of unfulfilled promises for some countries under the Clean Development Mechanism (CDM). Participants reached general consensus that a hybrid approach that couples ambitious funding criteria with regional equity/distribution criteria would be useful but perhaps unfeasible.

#### ➤ **Leveraging Private-Sector Finance for NAMAs (Developing Countries)**

The **UN Environment Program** began this second developing-country-only session with a presentation on possibilities for leveraging private-sector finance for NAMAs. The presenter underscored that business-as-usual (BAU) costs, incremental costs, and soft readiness/transaction costs (policy/analytic support, capacity building, creation of bankable projects) must be considered in financing NAMAs. Domestic demand for financing must be stimulated, absorptive capacity increased, and well-developed national strategies created in developing countries. He emphasized the role of effective (and varied) institutions and developing-country governments in the financing structure. Finally, he outlined the following private-sector constraints to financing: country risk, low-carbon policy permanence, currency risk, and evaluation of overlapping risks.

One respondent discussed a model in which developing countries would contribute to the Green Fund but withdraw more than they contribute. He said developing countries were not ready for this and they see the private sector as a complement to public financing. However, he stressed the role of the private sector as a given, pointing to the promise of sectoral crediting and public-private partnerships. Another respondent asserted that demand for funding will always outstrip supply and that the private sector will contribute to sustainability of funding. Key to this will be showing how profits can be made and risks shared. Other participants questioned the adequacy of the \$100bn by 2020 and the security of financing after readiness steps are taken.

The rest of this session focused on the tradeoff between developing-country priorities and donors' desire for ambition; geographic distribution of financing versus competition between NAMA proposals; and deciding criteria for allocating financing. Participants were generally concerned about the definitions of "ambition" and "nationally appropriate," felt criteria would not likely be decided by Cancun, and suggested that public funding could help remove barriers for NAMAs.

## ➤ Road to Cancun

This first session of the joint dialogue began with a presentation by **Mexico** on a reasonable set of objectives and outcomes for COP 16 in Cancun. The presenter asserted that the credibility of the UN process is at stake and that a soft-law approach could be better than a new Kyoto Protocol treaty. He highlighted progress being made in key areas (especially REDD+) as well as the need for operational decisions at Cancun (perhaps linked with in an omnibus decision), goals for post-Cancun, and an increased private-sector role. He noted increasing confidence among Parties but was concerned about parallel processes undermining momentum for Cancun. Finally, he laid out the possibility of mandates for continued work or an agreement and declared that there will be no Mexican text (a la Danish text at COP 15).

Participants came to general agreement that expectations for Cancun must be realistic but not lowered and felt that a mandate for a legally binding agreement would not be productive (one preferred a Copenhagen Accord focus). They highlighted the importance of a balanced set of operational decisions in Cancun (on REDD+, adaptation, structure of the Green Fund, etc.), condensed text and signs of compromise in Tianjin, and a concrete strategy for 2011. The big challenge in Tianjin will be to begin lining up operational decisions if the text process is impeded so that Parties do not “limp into Cancun” needing a last-minute, Bali-style effort. Some felt framework decisions would give the LCA direction to do operational work, but an all-or-nothing package deal would not be workable. Many participants also felt that no CP2 can move forward without an agreement that a parallel legally-binding agreement will come out of the LCA.

## ➤ Sectoral Crediting and Markets

**CCAP** opened this session with a presentation on the state of play in negotiations on markets and discussed recent developments outside the UNFCCC on markets. The presentation discussed three options for progress on markets: 1) agreement on text and COP decisions on new mechanisms, 2) decisions on reformed CDM, and 3) expansion of domestic market activity in developed and developing countries with mutual recognition. Possible COP decisions at Cancun could include establishing new market mechanisms and a specific work program or less ambitious steps. CCAP outlined options and design issues for sector crediting/trading and tradable intensity standards and proposed an alternative “dialogue of the willing” (elements: common vision among key players on role of markets, harmonized MRV, common methods for reference levels).

The group seemed to agree with the view that progress could be made on the KP text but that final decisions on new Annex 1 targets, a CP2, and one track versus two tracks would not be resolvable at Cancun. Participants commented that the alternative path forward (bilateral offsets markets) is the default path that is currently taking shape irrespective of progress within the UN. There was extensive debate on implementation of sectoral intensity-based trading, setting/harmonizing baselines, and the risk of

fragmentation. Participants saw a clear need for transparency, methods of agreeing a ton equals a ton, and new mechanisms, given waning CDM confidence, and they pointed to negotiations deadlock in preventing progress. Despite assumptions that carbon market progress will not happen until the COP acts (perhaps in Cancun), participants felt that Parties should not wait on the UNFCCC to make progress. Key outcomes of this discussion were that: 1) market decisions under the UNFCCC will be difficult, 2) working outside the UNFCCC could be possible but minimum international standards and emissions/performance accounting requirements will be needed, 3) work plan decisions could be possible, and 4) a mechanism to assess quality and comparability of emissions trading systems would be necessary. Minimum market elements could include an effective transparency/MRV system, protection against double counting, ambitious Annex 1 targets to drive demand, a filter to weed out poor programs, and readiness training for developing countries.

### ➤ **Monitoring, Reporting & Verification**

An initial presentation by **CCAP** in this session looked at what should be “MRV’ed” and the current LCA text on MRV. It summarized CCAP work in Mexico on developing an MRV system for greenhouse gas (GHG) reductions from NAMAs and laid out a straw proposal for MRV of unilateral, supported, and credit-generating NAMAs. Questions that were proposed in the presentation focused on the registry, MRV of hybrid NAMAs (bundles of unilateral and supported), whether MRV of NAMAs must be international, and whether third-party institutions could perform international verification. Finally, CCAP enumerated several possible decisions on MRV topics that could be taken by the COP in Cancun, including: international MRV, national communications, NAMA reports, international consultation and analysis (ICA), and MRV of support commitments. The **Mexican Accreditation Entity (EMA)** also presented on their experience in accrediting verifiers for other pollutants and their nascent GHG program, which will have both voluntary and mandatory paths for certification. The EMA model is an example of how “international” verification could be done by a domestic body that has been internationally recognized.

Discussion among respondents and participants led to general agreement, with some exceptions, that MRV would be a learning-by-doing process, that MRV should cover both individual NAMAs and overall country performance on emissions, that NAMAs should be reported under national communications, that inventories are the cornerstone of MRV, and that international rules should apply to both supported and credited NAMAs. Participants articulated a need for pilot projects and a consistent structure for robust MRV. At least one participant preferred a broader policy/emissions focus versus the straw proposal and felt ICA should be addressed. The group felt inventories should be submitted every two years, with full national communications submitted every four years. Some developing countries were concerned about the costs of new requirements and inventories, although one solution could be to develop supported NAMA proposals to finance MRV. The group seemed to like the ISO/EMA model for verification, which would not be a substitute for expert review teams.

### ➤ **Long-Term Finance: the Copenhagen Green Climate Fund**

**CCAP** began this discussion with a presentation on long-term finance and the Green Fund. Two basic options were laid out with respect to the governance and launch of a fund: 1) an open process for delegates to develop a framework document laying out criteria, instruments, access to finance, and details about launching the fund (could be coupled with an expert advisory body to provide coordination and overview of financing from other sources), or 2) creation of a permanent finance committee by the COP with balanced membership to do these functions. The text has to date suggested delegating criteria for NAMA funding decisions to a body, but CCAP questioned whether criteria for funding could make progress in Cancun. Participants agreed that COP decisions must move us toward the full launch of a Green Fund by January 2012, while recognizing that there will continue to be many other financial actors (and tools to leverage private capital).

Participants reached broad agreement that the fund board should have balanced representation and should make financing decisions. There was also considerable agreement that the Subsidiary Body for Implementation (SBI) or other existing bodies are not effective ways to perform ICA functions. The group supported the idea of having a balance between funds distributed on a geographic basis and funds distributed competitively to encourage ambitious NAMAs (independent of size). There was also support for direct access options and creating a small number of windows within the fund (perhaps mitigation, adaptation, and REDD). Participants felt the fund should complement existing development finance efforts but did not reach agreement on how the Green Fund would carry out the coordination role.

### ➤ **NAMAs and Low-Carbon Development Strategies**

**CCAP** started this session with an overview of NAMAs, advantages of low-carbon development strategies, potential functions of the NAMA registry, and NAMAs versus the CDM. This presentation proposed that unilateral and supported NAMAs should capture “low-hanging fruit” while credit-generating NAMAs would be for higher-cost reductions (these types of NAMAs not discussed in this relationship in text). Supported NAMAs that compete for financing could create a “race to the top” versus the CDM, which encourages weak baselines (and bypasses many countries). The presentation concluded that LCDS can bring important benefits but should not be mandatory. It also raised the issue of double counting between NAMAs and CDM and proposed “walling off” CDM projects from NAMAs. CCAP concluded that NAMAs (in addition to offsetting) are an important part of the climate solution. Potential COP decisions that were raised related to: guidelines for NAMAs, the role of LCDS, clarity on capacity building, and the relationship between NAMAs and the CDM.

**Korea** served as a respondent, highlighting their 5-year green-growth plan and the priority areas for mitigation they have identified. Another respondent mentioned an overemphasis on what constitutes a NAMA and felt actions should be underway without worrying about definitions. The ensuing discussion among participants in general

focused on the role of the registry (database, autonomous versus NAMAs seeking support, matching role) with little agreement among participants. One participant questioned why CDM projects should be walled off from NAMAs, while another asked whether quality performance standards and competitive elements could be built into NAMAs. Participants agreed that LCDS should not be a precondition for financing, that discussion about coexistence of NAMAs and CDM must continue.

➤ **Kyoto Protocol and Legal Form**

In an opening presentation to provoke discussion, the **European Commission** suggested that the Kyoto Protocol system continues without targets (only targets end on 1/1/2013, with institutional structure, CDM, and MRV continuing unless countries withdraw). He outlined four components of legal character: 1) legal form of the agreement, 2) legal form of the commitments within the agreement, 3) specific and prescriptive nature of commitments, and 4) procedures designed to hold Parties accountable. A new treaty would be needed for the commitments themselves. Key ideas that arose out of this were whether there could be agreement on targets and reporting without a KP renewal, whether this could get us to Copenhagen Accord target implementation without ratification problems, and whether buyer-country efforts could help design a linked system (with national communications and inventories as the basis for reporting).

Participants discussed a “big bang” versus incrementalism (regarding progress before a full treaty is complete); one versus two tracks; the willingness of Parties to move ahead with trading systems and domestic programs without the KP; and the use of soft law until a treaty becomes realistic. The responses varied from a view that a legally binding outcome is needed (versus a political agreement), that the KP should move to a second commitment period with new targets and improved rules, and that a dual protocol outcome as a package is needed. There seemed to be agreement that a CP2 would be useful, but may be unrealistic. One participant laid out three main threats, which must be overcome for success in Cancun: 1) the fight over CP2, 2) the fight over a mandate, and 3) the fight over fast-start financing.

**\* The next FAD meeting is scheduled for February/March of 2011.**