



# High Drama and a Way Forward in Bali

International climate change talks in Bali produced a process for a climate treaty to take effect after the expiration of the Kyoto Protocol. The road to get there was rocky. **Ross MacWhinney**, Carbon Markets Analyst with Evolution Markets, reports the final result will likely be shaped by political shifts within the United States.

*Forget an eleventh hour compromise. Bali can now coin the art of the thirteenth hour compromise. A long final night of negotiations spilled over into a full additional day before the United Nations Framework Convention on Climate Change (UNFCCC) conference yielded the Bali Roadmap to a post-Kyoto global climate treaty.*

*The Roadmap sets guidelines for international negotiations to discuss plans to reduce greenhouse gas emissions post-2012. The documents outlining the Roadmap will be the subject of debate and negotiations, as governments attempt to hammer out by 2009 a plan to address greenhouse gas emissions and mitigate the effects of global climate change.*

*Despite the high profile of the final day's conflicts over mitigation commitments, many decisions had already been made in the previous two weeks of negotiations in Bali. These included core agreements on several points of the four building blocks of the Bali Roadmap (Mitigation, Adaptation, Technology transfer, and Finance), as well as developments in avoided deforestation and an update in the commitments of the Clean Development Mechanism's Executive Board. However, the positions of the United States delegation on two issues held much of this progress in limbo for a period during the final Friday and Saturday. These positions included the United States' refusal of specific targets for reductions and its objections to India's proposed phrasing of text addressing the support of mitigation efforts in developing countries.*

## End Game Drama

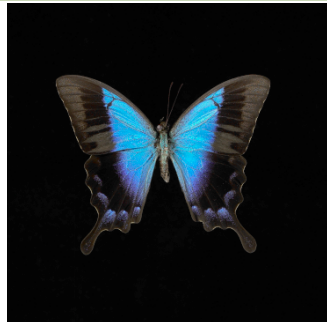
Throughout the two weeks of the conference, US delegates repeatedly expressed their opposition to the inclusion of specific reduction targets in the Bali roadmap. These statements were often made in response to European Union (EU)-led efforts to include mid-term and long-term reduction levels for developed countries. The EU pushed for a midterm goal of cuts in greenhouse gas emissions to 25 to 40% below 1990 levels by 2020 (one of the recommendations made by the In-

tergovernmental Panel on Climate Change's (IPCC) recent 4th Assessment Report). Also included was a reference to a long-term reduction target of 50% below 1990 levels by 2050.

These reduction targets were included in preliminary drafts of the Bali Roadmap and had begun to anchor expectations of reductions targets. At one point in the conference German and EU officials threatened to boycott President Bush's Major Economies Meeting (a US-initiated series of climate talks) in January if the US did not accept the proposed range of emissions targets. Nevertheless, both targets were struck from the preamble of the document during late night negotiations stretching into early Saturday morning, leaving only a footnote reference to the midterm target. The concession may have been influenced by a speech given by Al Gore Thursday night, in which he urged delegates to reach a consensus on a roadmap, stating that, "...over the next two years, the United States is going to be somewhere it is not now."

When the Parties reconvened at 8:30 AM, the following morning a second rift developed more publicly as India's delegation unexpectedly asked for a change in the text outlining mitigation efforts in developing countries. India's proposed revision placed more emphasis on the role of development and technology transfer as supported by other parties. This was backed by the Chinese delegation, and the plenary disbanded to allow for a meeting of the G77 (the largest organization of developing states under the UN) countries on the issue. When the plenary reconvened before the G77 had ended their meeting, the Chinese delegation accused UNFCCC Executive Secretary Yvo de Boer of attempting to sabotage their efforts and demanded an apology. Mr. de Boer, taxed from the stress of the prolonged negotiations, said that he was unaware of the conflict in meetings and left the plenary visibly distressed.

When the plenary finally reconvened that afternoon, the United States expressed that it was not willing to accept the changes to the text proposed by India and the G77. This was met by boos from delegates and even the press, protests from several developing countries, and a particularly effec-



tive statement by Papua New Guinea to the United States asking, "if you are not going to lead, then please get out of the way." Appearing to sense the isolation in its stance, the United States delegation, lead by Paula Dobrian-sky, agreed to the terms of the Roadmap minutes later amid loud cheers.

### Middle Game Developments

While the focus of this drama, and of ongoing dissatisfaction with the United States' position, was on the commitments for mitigation in developed and developing countries, Bali produced a set of other decisions worth noting. The Roadmap itself includes four building blocks: Mitigation, Adaptation, Technology Transfer, and Finance.

#### Adaptation

Despite resistance from the Least Developed Countries (LDC), it was decided that the United States-based Global Environment Facility (GEF) will manage an adaptation fund, which will support projects in developing countries that assist in adapting to the impacts of global warming. The adaptation fund will be financed using a 2% levy on clean development mechanism (CDM) credits and will become operational in early 2008. The fund currently is estimated to be worth about \$36 million, but could increase rapidly considering the number of projects in the CDM pipeline.

#### Technology Transfer

The GEF was also chosen to manage a program to scale up investment for the transfer of mitigation and adaptation technologies to developing countries. The program is intended to give extra support to demonstration projects; to create more attractive environments for investment; and to provide incentives to the private sector for technology transfer. The GEF will work with international financial institutions and representatives of the private financial sector to set up this program.

#### CDM

There was also degree of activity surrounding the CDM that took place early in the conference. While no decisions were made to alter the status of HFC-23 emissions or carbon capture and storage (CCS) with regards to the CDM, the conference decided to double the limit on small-scale reforestation and afforestation projects to 16,000 tonnes of carbon dioxide per year.

There were also decisions made on "further guidance related to the clean development mechanism." These included statements that the Executive Board members should have financial, environmental, and other relevant "required qualifications", that they have "sufficient time" for their workload, and that they place more emphasis on their executive and supervisory role. The statement also encourages improvement and simplification of the CDM review process, and encourages predictability and consistency with regards to the CDM. These statements came after several project developers criticized the CDM's lack of transparency and slow processing of projects for registration.

#### Reducing Deforestation

The Bali conference involved a major focus on Reducing Emissions from Deforestation in Developing countries (REDD). Tropical deforestation was noted as responsible for 20% of human-caused CO2 emissions, but methods to address this were missing from the original Kyoto agreement. The Bali Roadmap will include forest conservation in any future discussions and the REDD program will aim to pay developing nations with tropical forests to refrain from logging their forests, thereby maintaining forests as carbon sinks. Whether this will be achieved via a fund, by issuing tradable credits for forest conservation, or through some other means will be the subject of debate in further negotiations.

#### Where Next?

The Bali Roadmap has kept alive negotiations for a post-Kyoto agreement. However, it is unclear how the conflict over reduction targets for developed countries will be reconciled. This issue is clearly related to the United States' reluctance to sign on to mandatory constraints without similar requirements for countries like China and India. It is possible that progress on the issue may come from the Major Economies Meetings, the next of which will take place in Hawaii in January, 2008. It is more likely, however, that substantive negotiations on binding carbon reduction targets will have to wait until after the next US presidential election in 2009.

Evolution Markets Inc.  
10 Bank Street  
White Plains, NY 10606  
T: +1 914.323.0265

<http://www.evomarkets.com>

EVAN A. ARD (editor)  
DIRECTOR, MARKETING and COMMUNICATIONS  
[eard@evomarkets.com](mailto:eard@evomarkets.com)

ROSS MacWHINNEY  
CARBON MARKET ANALYST  
[rmacwhinney@evomarkets.com](mailto:rmacwhinney@evomarkets.com)



EVOLUTION  
MARKETS