



Global climate policy post-Copenhagen: Progress and prospects

Discussion Paper

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SUMMARY AND CONCLUSIONS

This discussion paper examines the outcomes of the Copenhagen climate summit in December last year and more importantly explores the broader trends in climate policy globally. While it is premature to make single track recommendations on global policy frameworks, the paper explores how, in the aftermath of the Copenhagen summit, a 'new multilateralism' could help avoid dangerous climate change.

While the Copenhagen climate summit may not have achieved all of the political and policy objectives that had been hoped, action outside of the negotiations continued apace. The global trend in policy action and investment accelerated in the lead up to and following Copenhagen, particularly in developing countries. Overall, since October 2009, no less than 154 new policy announcements have been made globally. On the back of clean energy measures in national stimulus packages, global investment in clean energy is projected to reach US\$200 billion in 2010.

The major political outcome of the Copenhagen summit was the Copenhagen Accord. If translated into a framework for a legally binding agreement, the Accord could provide a reasonable framework on which to build more ambitious global action. However, there are significant gaps and uncertainties in the Accord and there is still no formally agreed pathway to a legally binding instrument to reduce global emissions.

The most significant achievement in Copenhagen was that for the first time major emerging economies including China, India, Indonesia, Brazil, South Africa, Mexico and South Korea agreed to economy wide targets to reduce or slow emission growth in greenhouse pollution. The agreement by developing countries to have their national actions included in an international agreement goes some way to resolving a key political and institutional barrier to a more effective global architecture.

There are also some hopeful signs that the old multilateralism defined by a deadlock between the USA and the Group of 77 and China (G77+China) was broken in Copenhagen. At the meeting, China, India, Brazil and South Africa emerged from behind the G77+China grouping to provide an independent counterforce to the USA. This saw these four countries, along with other major emerging economies, for the first time commit to economy wide emission targets (a move that has traditionally been blocked by the G77+China bloc).

The weakening of the G77+China grouping also allowed more progressive developing country voices to be heard. Most notably, this included small island developing states and some least developed countries, who emerged from the amorphous developing country block and challenged all large emitters to do their fair share in reducing global emissions. We are also beginning to see the middle powers of Mexico, South Korea and Indonesia find a voice and role for themselves in progressing global action.

It is these shifting geopolitical forces that will hopefully define multilateralism as we move forward. The new multilateralism of climate change will not be defined by a significant change in process itself. To a certain extent it is inevitable that talks will continue through the UN process as well as being undertaken in forums such as the Major Economies Forum on Energy and Climate Change (MEF) and the G20. It is also crucial that this will be underpinned and complimented by domestic policy actions.

In this context, Australia's role in the new multilateralism should be defined by active leadership and engagement with potentially 'progressive' developed and emerging economies, including the EU, Japan, Indonesia, Mexico, South Korea and Brazil.

In the short-term the emphasis must be on building confidence and trust. The focus should be on implementing the elements of the Copenhagen Accord and building global ambition within and outside the UN Framework Convention on Climate Change (UNFCCC). This should include:

1. **Delivering on Finance:** Unless commitments to provide public and private sector financing for low carbon development and adaptation in developing countries are honoured, or “operationalised”, confidence in the Copenhagen Accord will collapse. To meet international commitments and build global trust, Australia should commit an additional \$450-600 million between 2010 and 2012.
2. **Making achievable progress through the UNFCCC:** To build trust and confidence in global cooperation, Australia should maintain its commitment to working towards a two-track “Kyoto-plus” legal outcome.

Within the UNFCCC and using the political guidance of the Copenhagen Accord, ensure progress is made on key substantive issues, including reducing emissions from deforestation and degradation in developing countries, the accounting of land use, land use change and forestry emissions, technology cooperation, finance and the Copenhagen Green Fund. The aim should be to have these issues resolved through a formal decision of the Conference of the Parties in Cancun in December 2010. Early progress on and resolution of elaborating the political compromise on measurement, reporting and verification of national commitments and actions to reduce emissions will also important to build trust and confidence in global cooperation.

3. **Drive low carbon investment through action in other multilateral forms:** Outside the UNFCCC other forums, such as the MEF and the G20, provide opportunities to build confidence and trust between countries and also drive cooperation which unlocks further investment on low emission technology. This is illustrated by the G20 commitment to phase out fossil fuel subsidies, which Australia should begin honouring in 2010. Taking such actions will also be important in building the legitimacy of the G20 as a forum that is capable of tackling global issues more broadly.

Fundamentally, the role of global climate talks is not to reduce emissions. This is the role of national governments and action on this front continues. The role of international agreements is to enhance domestic action by giving national governments the confidence to go beyond what they would be prepared to do in the absence of an international framework.

Over 100 countries have endorsed the Copenhagen Accord and many have submitted emission targets and actions. However, unless these domestic targets and actions are strengthened then the goal of the Accord to limit global warming to less than 2°C will not be achieved.

This is the fundamental tension in the Accord and the current state of play in global climate diplomacy. The Accord is a bottom-up, pledge and review, process, but also includes a top-down overall goal of limiting global warming to below 2°C. The challenge is that currently there is nothing to link (or compel a link between) this overall goal and the pledges being made by countries. Indeed, recent estimates suggest that national pledges, if fully implemented, would still see dangerous global warming of at least 3.5°C.

Given the current state of affairs in the aftermath of the Copenhagen summit it appears unlikely that a new treaty, with legally binding obligations for all major emitters, will emerge from the negotiations in the short-term. Indeed, the hard political reality is that until China and other major emitting developing countries are prepared to accept legally binding international obligations a treaty may be unachievable.

The Climate Institute still sees the key overall strength of a treaty-based approach is that it should provide for more international accountability. Ultimately, this should give countries the confidence they need to make more ambitious emission reduction commitments.

However, while not ideal, the pledge and review approach may be the only viable way forward in the short-term, or until there is sufficient trust between countries to commit to binding treaty obligations. This will also require a broader recognition by all major emitters of the advantages of a treaty-based system of international climate governance.

Time however is running out for the world to avoid locking in catastrophic climate change. Global emissions must peak by 2020 at the very latest to give any reasonable chance of limiting global warming to below 2°C. All analysis shows this requires advanced country emissions to be tracking down from now. How then do we increase national emission reduction ambitions? The Climate Institute recommends concerted action on three main fronts:

- 1. Credible domestic policy is central:** Countries need to put in place credible emission reduction policies that can meet the commitments made in the Copenhagen Accord. Strengthening and implementing the Government's Carbon Pollution Reduction Scheme (CPRS) and/or similar carbon price signals therefore remains central to Australia's credibility internationally and building an effective global climate regime. The Government's recent announcement to delay the CPRS legislation until at least 2013 sends precisely the wrong signal internationally and will undermine efforts to secure a global agreement consistent with Australia's national interest. It will strengthen the hand of vested interests and political forces in other countries who argue against more ambitious global action.

While the Government has reaffirmed its commitment to reduce emissions by 5 to 25 percent below 2000 levels by 2020, this pledge remains hollow in the absence of policies that will deliver this level of abatement. Even when accounting for the impact of the Renewable Energy Target, current policy settings will see Australia's emissions increase to around 20 percent above 1990 level by 2020. Meeting even the 5 to 15 per cent reduction target range will require significant action across the economy. Until such stronger policies are in place serious questions will remain about the ability of the Government to live up to the international commitments it made in Copenhagen.

The Government's publicly stated rationale for delaying the CPRS is that there has been insufficient international action to warrant implementing the scheme in 2011. However this is not supported by the data which shows more countries than ever are now acting on climate change (see analysis below).

All independent analysis to date demonstrates that, based on the actions of other countries and the conditions the Government articulated to the international community for moving beyond the 5 percent target, Australia should be reducing emissions by at least 15 percent on 2000 levels by 2020.

The Government's agreement is also fundamentally at odds with its international objective of building confidence in the Copenhagen Accord. If Australia does not have confidence in the pledges made under the Accord why should anyone else?

Finally, the Government's position ignores the fact that the CPRS was specifically designed to deal with international uncertainty. Several of the key elements of the scheme were designed to allow flexibility in response to international developments. This includes: the targets and emission caps are linked to the level of international commitments; assistance is given to trade exposed industries; independent reviews by

the Productivity Commission and others of this industry assistance in light of international action; and linkages to international markets.

The Coalition's current climate change policy also does not provide a credible platform to help build global action.

The credibility of domestic actions also depends on the longer-term emission pathways that developed countries are advancing. Australia's current 2050 target of a 60 percent reduction in emissions below 2000 levels by 2050 is not a credible contribution to avoiding a 2°C increase in global temperature. The Prime Minister has committed internationally "that the Government would seek an explicit mandate at the next election for this change to our 2050 target." To build confidence in the Copenhagen Accord and in the Government's commitment to avoid dangerous climate change, this new target should be a 90 to 100 percent net reduction in emissions on 2000 levels by 2050.

2. **Remove cost and competitiveness concern barriers to more ambitious action:** Resolution of issues with the UNFCCC talks around how to credibly account for land sector emissions and building regional and an internationally linked carbon market will build political confidence in countries that more stringent emissions targets can be met. In the absence of internationally defined rules for emission reductions, carbon trading and international verification of country actions, the World Trade Organisation may also have an increasingly important role in the arbitration of carbon related trade disputes.
3. **Link the bottom up and top down worlds:** In Copenhagen leaders also agreed that a scientific review of the Accord would be completed "by 2015". This potentially creates a link between the bottom-up world of national commitments and the overall goals of the Accord. Opening up countries' national commitments formally in 2010 carries political risks as it focuses attention on the hard issues and does not allow time for confidence building post-Copenhagen. However, waiting until 2015 will likely rule out limiting global warming to below 2°C. A small group of progressive countries should therefore initiate a process to review the submitted targets and report on their compatibility with the goals enshrined in the Accord, including the possibility of limiting global warming to below 1.5°C. Australia with its partners could establish a "Canberra Commission" type body to facilitate this review. While challenging politically, this review of the level of ambition would inform ongoing negotiations towards the heads of government meetings in 2010, 2011 and 2012 (such as the G20 and the leaders meeting at Rio+20 in Brazil).

1. INTRODUCTION

In the aftermath of last December's Copenhagen Climate Summit, two schools of thought have emerged on the question of whether the conference was a success or a failure. A recent analysis summed this up well by suggesting the outcomes can either be viewed as a glass half full or half empty.¹

The pessimistic view is that Copenhagen did not produce legally binding targets consistent with avoiding dangerous climate change and therefore was a failure. Optimists point to the fact that Copenhagen saw, for the first time, leaders from the USA, China, India, Brazil, and many other countries agree on an Accord that could provide an important springboard toward a more ambitious international agreement at a later date.

This discussion paper makes a case for the glass half full view of Copenhagen. To sustain this optimism, this paper seeks to move the focus from the outcomes of one (unprecedented) international meeting and draw conclusions from the more important trends in climate policy globally. Given the apparent disconnect between these positive trends and the slow progress within the negotiations, this paper calls for a 'new multilateralism' aimed at unlocking ambitious global action on climate change.

It is important to note that the uncertainties confronting global climate change diplomacy at this point in time mean that this paper does not seek to be definitive and does leave some questions unanswered.

2. WHAT COPENHAGEN DELIVERED

An important starting point for this analysis is to consider what the Copenhagen summit delivered. The two most significant tangible outcomes from the Copenhagen negotiations were the Copenhagen Accord, and an agreement to keep negotiating. Below is a brief discussion of the Accord, with a focus on two key questions – whether the Accord provides a foundation for an effective global agreement and how the mitigation commitments made by countries compare.

2.1 The Copenhagen Accord – A Solid foundation?

Many participants and observers had hoped that the Copenhagen climate change summit would produce a new legally binding international agreement consistent with the goal of avoiding dangerous climate change. This may have been a desirable outcome, but was in fact never guaranteed or even promised. Indeed the 2007 meeting in Bali, which outlined the road to Copenhagen, only called for an "agreed outcome" by December 2009.

In early 2009 it became clear that a new treaty was not going to emerge from the Copenhagen negotiations. Instead political and policy attention shifted to what Copenhagen needed to achieve to provide the best chance of finalizing a legally binding treaty within a reasonable timeframe.

Recognising the emerging political realities, The Climate Institute formed the view that success or failure of the Copenhagen meeting should not be judged on whether it achieved a legally binding treaty.² Instead, the view was formed that we needed Copenhagen to build the foundations for a new agreement to be finalised in 2010. In other words, Copenhagen needed to remove barriers standing in the way of a new ambitious agreement by resolving some of the key political issues.

The main outcome from the last minute talks in Copenhagen was an Accord negotiated by a representative group of 29 heads of government.³ While the Accord gained widespread support at the meeting, a small number of countries including Sudan, Venezuela, Cuba and Bolivia decided to block consensus. This prevented the Accord from being formally adopted and in the end it was agreed that the Conference would only take note of the agreement.

Since Copenhagen, the Accord has received a boost with over 100 advanced⁴, emerging and developing⁵ economies formally associating themselves with the Accord. Many of these countries have also submitted national pledges to tackle greenhouse pollution. Importantly, despite some initial uncertainty, China and India have both made it clear that they should be listed in the chapeau[†] to the Accord.⁶

Table 1 compares The Climate Institute's pre-Copenhagen foundations⁷ for an effective global regime and the Accord. This highlights that, if translated into a framework for a legally binding agreement, the Accord could provide a reasonable framework to build more ambitious global action.

However, there are significant gaps and uncertainties in the Accord. Additionally, an important caveat here is that much of the language in the Accord is vague, and further elaboration is required before a final judgment can be made. It is also important to note that the Accord is not a treaty, and there is still no formally agreed pathway to a legally binding instrument. This is discussed further below in The Road Ahead section.

Recent analysis⁸ of the Copenhagen outcomes by the United Nations Development Programme (UNDP) made similar conclusions:

“The Copenhagen conference fell short of a comprehensive agreement on a future framework on climate change. It did however make progress both in terms of identifying the key points of a potential political consensus on the fundamental issues for the future agreement through the Copenhagen Accord and in terms of clarifying further important technical points related to the implementation of the enhanced action on mitigation, adaptation, technology, and finance. Furthermore, the conference delivered a commitment from developed countries to provide significant finance to support actions in developing countries and facilitated political commitment from developed countries on emission reduction pledges and from developing countries on NAMAs.

These achievements provide a good basis for advancing the negotiations under the UNFCCC ... if Parties were to take the Copenhagen Accord as overarching political guidance on the crunch issues, the technical negotiations under the AWG-KP [Kyoto Protocol] and AWGLCA [UNFCCC] could be significantly advanced and the texts finalised more quickly, while taking into account the concerns of those countries which could not agree to the Accord in Copenhagen.”

* The final talks occurred between the USA, China, India, Brazil and South Africa. The fact that the Accord was not formally adopted by the Conference means that it is not recognised as an official outcome of the UNFCCC negotiations. Tuvalu also did not support the decision to accept the Accord as an outcome of Copenhagen. See Fry (2010), Moving Beyond Copenhagen – A Small Island State's Perspective: <http://climate-institute.org/2010/03/18/guest-article-37-moving-beyond-copenhagen---a-small-island-state-s-perspective/>

† ‘Chapeau’ is the term used to describe the opening section of an international agreement. In the case of the Copenhagen Accord the chapeau lists all of the countries that have formally associated themselves with the Accord.

Table 1: Comparison of The Climate Institute's Copenhagen Foundations and the Copenhagen Accord

INSTITUTE'S COPENHAGEN FOUNDATION	COPENHAGEN ACCORD
Enshrines a political commitment to limit global warming to less than 2°C above pre-industrial levels and to ensure that global emissions peak and begin to decline by 2020.	Leaders agreed to reduce global emissions so as to hold the increase in global temperature to below 2°C. No base year for temperature change (i.e. is it above pre-industrial levels, or some other benchmark) or agreed peak year in global emissions.
Establishment of mechanisms to reduce emissions from deforestation and forest degradation in developing countries (REDD).	Leaders agreed to establish a mechanism for REDD-plus to enable the mobilization of financial resources from developed countries.
Agreement to set binding global emission targets for international shipping and aviation.	No agreement.
The next commitment period, including developed country targets, should not be extended beyond 2017.	No agreement. However, Kyoto Protocol next commitment period talks extended to December 2010 in Mexico.
Commitment to a comprehensive review of the adequacy of collective and individual country commitments to be undertaken and completed by the end of 2015 and based on the most up-to-date scientific assessment.	Leaders agreed a review would be completed by 2015. This would include consideration of strengthening the long-term goal of avoiding a temperature rise of 1.5°C.
A decision to finalise a new legally binding treaty by mid 2010.	No agreement. Governments agreed to extend existing UNFCCC and Kyoto talks to the Mexico summit in December 2010. [‡]
Agreement on binding legal architecture that is flexible to capture common but differentiated commitments for all major emitters, including economy wide targets for developed countries.	Leaders agreed that developed countries would report economy wide targets and developing countries will voluntarily report mitigation actions in a single, non-binding, international document.
Mechanisms to prevent any backsliding on the nature of existing commitments, for example internationally binding economy wide targets for industrialised countries.	No explicit mechanism but developed countries would report economy wide targets and Kyoto parties will 'strengthen' existing targets.
Adoption of a fast-start, pre 2012, finance package of US\$10-20 billion a year to support urgent and immediate mitigation, capacity building/governance and adaptation priorities in developing countries.	Developed countries committed to fast financing approaching US\$30 billion for the period 2010 to 2012.
Commitment to establish one or more innovative mechanisms to substantially scale up predictable post 2012 finance flows to developing countries of around US\$100-200 billion a year public and private sector financing by 2020.	In the context of global action, developed countries committed to mobilise US\$100 billion per year by 2020, from public and private sources. A significant portion of which should flow through the Copenhagen Green Climate Fund. A UN-sponsored Advisory Group on Finance has been established to study the contribution of the potential sources of revenue.

[‡] Note, this was agreed separately to the Accord (see: Draft decision -/CMP.5, 'Outcome of the work of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol' and Draft decision -/CP.15, 'Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention', both available online at www.unfccc.int).

Commitment to expand and deepen the global carbon market as a critical mechanism to reduce global emissions, while ensuring long-term environmental integrity of this market.	No specific agreement on expanding and deepening the role of markets, but the Accord does include a reference to the role of markets to enhance the cost-effectiveness of, and to promote mitigation actions.
Agreement that there will be independent international verification of national emissions inventories.	Developing countries will report national inventories, in accordance with existing and any new UNFCCC rules, through their national communications every two years.
Agreement that there will be a common international approach to accounting, verification, and compliance for international commitments and actions, climate finance, and carbon markets.	Developed country emission reductions and financing will be subject to measurement, verification and reporting. Developing country mitigation actions will be subject to “domestic measurement, reporting and verification” and include “provisions for international consultations and analysis.” Developing countries’ actions that are supported by financing will be subject to international measurement, reporting and verification in accordance with UNFCCC rules.
Reiteration that developed countries will continue to lead efforts including through ambitious and binding economy-wide emission reduction targets, and the provision of financial support to developing countries.	Developed countries committed to submit quantified economy wide emissions targets for 2020 and to provide financing support. Currently not internationally binding.
Agreement to broaden participation in legally binding, but fair, commitments by advanced developing countries.	Developing countries will report and implement mitigation actions. This is voluntary for least developed countries. Currently not internationally binding.
Commitment to sustained support for adaptation to climate change, with priority given to the most vulnerable countries that are least responsible for the problem. Financing to be additional to Overseas Development Assistance (normal aid) budgets.	Fast start finance funding for adaptation will be prioritised for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa. No agreement on the issue of additionality. Some concerns about the linking of ‘response measures’ to adaptation. [§]

[§] The term ‘response measures’ refers to adverse economic impacts occurring in one country due to the mitigation efforts of other countries (e.g. loss of revenue in oil producing countries due to a shift away from fossil fuels). There has been a consistent effort from oil producing countries to tie commitments on adaptation to response measures, with the goal of securing compensation for potential losses in revenue. The linking of these two issues has been used as an excuse by donors to avoid funding adaptation measures (i.e. they do not want their funds to be used to support wealthy oil producing countries).

2.2 National emission commitments

Arguably the most significant outcome of the Summit was that for the first time major emerging economies including China, India, Indonesia, Brazil, South Africa, Mexico and South Korea made international commitments to economy wide targets to reduce or slow emission growth in greenhouse pollution.** This is an important achievement for two key reasons.

Firstly, a much greater share of global emissions (around 80 percent) is covered by the Accord, compared to the Kyoto Protocol, which only covered around 25 percent of global emissions. (See Table 2 and Figure 1).

Secondly and even more critically, the agreement by developing countries to have their national actions included in an international agreement goes some way to resolving a key political and institutional barrier to a more effective global agreement. This has been a major sticking point in international climate change negotiations, and a key requirement for developed countries to make more ambitious commitments for the post-2012 period. All major developed countries – including the USA, Europe, Japan and Australia – have made it clear that they need to see international commitments from emerging developing countries.

Australia's role in facilitating this was important. During 2009 Australia advanced a number of innovative proposals to capture a broader range of commitments in the post-2012 international architecture.⁹ While the legally binding and negotiated nature of these proposals was not captured in the Accord, the spirit of these proposals is in Appendix 1 and Appendix 2 which list developed and developing country targets and actions respectively.

Central to this agreement was the agreement and compromise made on the issue of measurement, reporting and verification of national commitments and actions. Developed countries committed to using a set of "rigorous, robust and transparent" accounting standards for their financial and emission reduction commitments. The Accord also provides guidance on how developing countries should report on actions using an enhanced version of existing UNFCCC structures and a process of "international consultations and analysis."

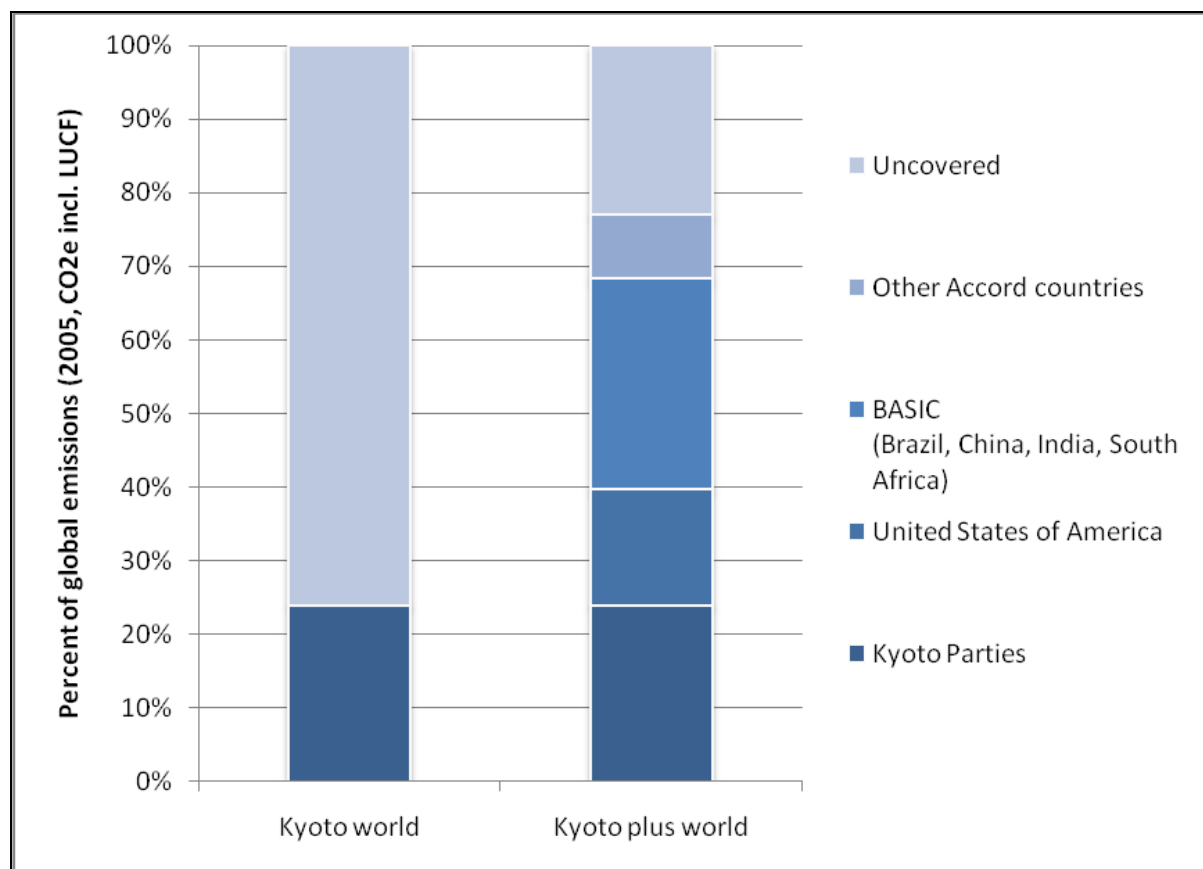
While progressing these issues will involve challenging negotiations, early progress, including through COP decisions in Cancun, would build trust and confidence in global cooperation.

Table 2: Total and per capita emissions from countries associated with the Copenhagen Accord¹⁰

BLOC/COUNTRY	2004 MTCO ₂ e	% OF WORLD	
		TOTAL	2004 CO ₂ e PER PERSON
World	43,190	100%	6.7
BASIC (Brazil, China, India, South Africa)	12,318	29%	4.7
Kyoto Parties (including Australia)	10,347	24%	11.9
United States of America	6,814	16%	23.1
Other Accord countries (incl. Indonesia, Mexico, South Korea)	3,767	9%	6.4

** Note that only Indonesia's, Mexico's and South Korea's pledges would see emissions peak and begin to decline this decade. Brazil's would stabilise and China's and India's would continue to increase in absolute terms. See also box below on a comparison of national pledges.

Figure 1: Emissions covered by the Kyoto Protocol parties and counties associated with the Accord – the Kyoto plus world.¹¹



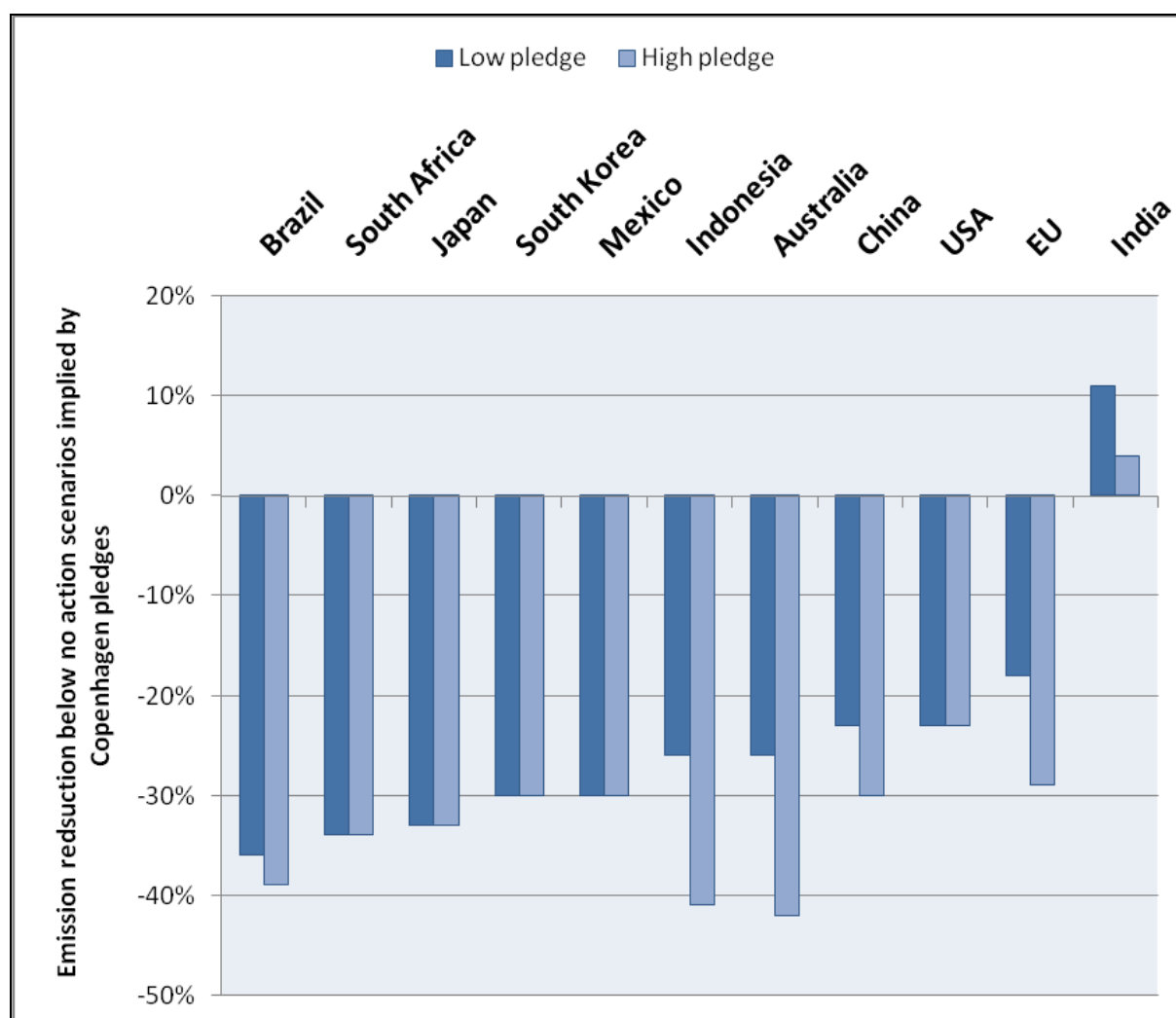
BOX 1: How do individual pledges compare?

A number of independent assessments have been undertaken over recent years trying to define fair targets for countries under a range of overall emission reduction goals.¹² According to these studies, fair targets for Australia range up to a 25 percent decrease on 1990 levels by 2020 as a contribution to an overall developed country reduction of 25 to 40 percent below 1990 levels by 2020. Comparable targets for a fair contribution for the same industrialised country wide reduction for the EU are a -30 to -50 percent reduction by 2020.

Economists at the Australian National University's Crawford School of Economics have estimated how each country's pledge compares to business as usual emission projections (see figure below).¹³ While this is not a measure of the equity or comparable effort in itself, it does provide an indication of the level of effort required by each country to meet its international target.¹⁴ Low pledges include the minimum reductions implied by countries' targets, while the high pledges indicate the level of effort required to meeting the strongest commitments countries have proposed.

Under this assessment, Australia's unilateral 5 percent target is more ambitious than the proposed EU and Indian commitments, but is relatively unambitious compared to some other major emitters including Brazil, South Africa and Japan. However, Australia's 25 percent reduction target would be relatively ambitious compared to current pledges from other major emitters.

Figure 2: Change in absolute emissions relative to business as usual scenarios based on Copenhagen Accord pledges^{††}

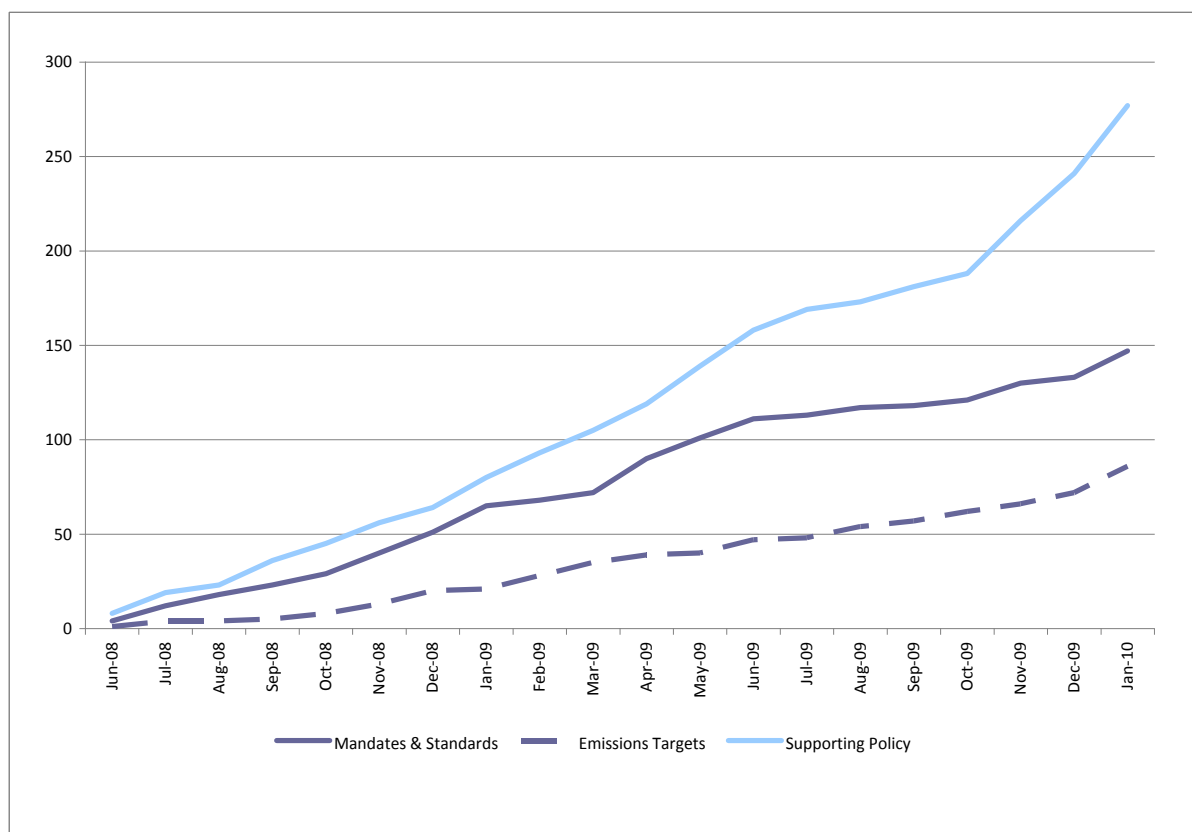


3. MEANWHILE, BACK IN THE REAL WORLD

While the Copenhagen climate summit may not have achieved all of the political and policy objectives that had been hoped, action outside of the negotiations continued apace. Indeed, the global trend in policy action and investment accelerated in the lead up to and following Copenhagen, particularly in developing countries. This was partly a result of national economic stimulus programs focussing on clean technologies, as well as effort to improve energy security by diversifying energy supply mixes. No doubt the unprecedented public and political attention focused on climate change in the lead up to the Copenhagen summit and the agreement reached at the meeting also played a role. (Figure 3)

^{††} Note that it is important to acknowledge that there are a wide range of plausible BAU reduction estimates. For example, China's emission pledge has been controversial. For discussion see Howes (2010), China's energy intensity target: On-track or off? <http://www.eastasiaforum.org/2010/03/31/chinas-energy-intensity-target-on-track-or-off/> and Jotzo (2010), How might China achieve its 2020 emissions target? <http://www.eastasiaforum.org/2010/04/12/how-might-china-achieve-its-2020-emissions-target/#more-11309>

Figure 3: Global Policy Momentum - Deutsche Bank track policy announcements to reduce emissions and promote clean energy made by governments.¹⁵ “Emission targets” aim to reduce emissions by a certain amount by a certain year and may be supported by carbon pricing. “Mandates and standards” include policies such as sectoral greenhouse targets, renewable energy targets and minimum energy efficiency standards and codes. “Supporting policies” includes mechanisms to meet targets and mandates and covers policies providing financial incentives to reduce emissions (e.g. feed-in-tariffs, tax credits, loan guarantees, etc.). Since October 2009, no less than 154 new policy announcements globally have been made. This is the highest number of new government initiatives Deutsche Bank have recorded in a four month period.

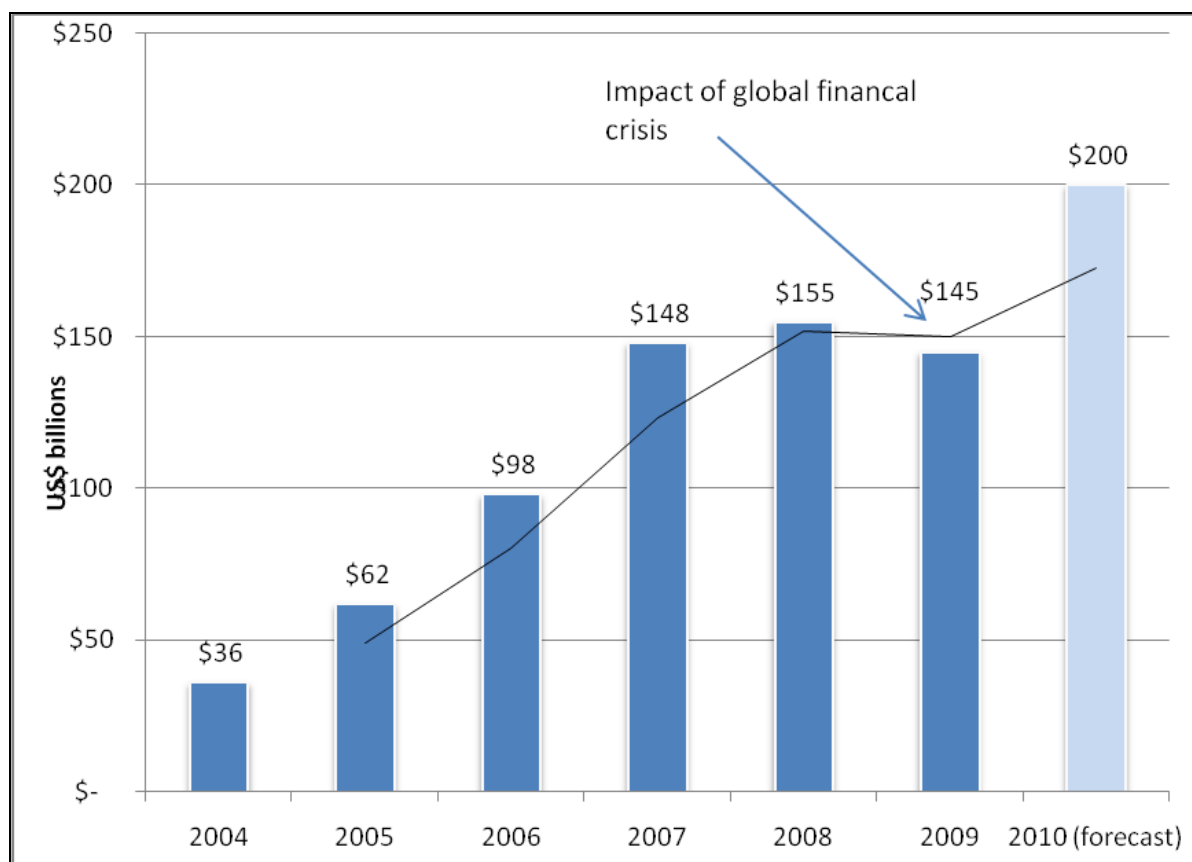


Global momentum towards action on climate change has been building for some time. A recent Worldwatch Institute report¹⁶ highlighted that in 2008:

1. Investment in new renewable power capacity in 2008 exceeded that for coal, oil and gas technologies by an estimated US\$30 billion.
2. Developing countries have accounted for a growing share of global clean energy investments, with China alone responsible for just over 10 percent (US\$15.6 billion) of the 2008 total.
3. Also for the first time, both the United States and the European Union installed more power capacity from renewable technologies than from all fossil fuels and nuclear combined.

A report to the World Economic Forum by New Energy Finance¹⁷ which includes 2009 data tells a similar story. They suggest that despite the recent economic downturn and on the back of clean energy measures in national stimulus packages global investment will reach US\$ 200 billion in 2010. (Figure 4)

Figure 4: Total Global Annual Investment in Clean Energy 2004 to 2009 and projected for 2010 (US\$ billions) - Clean energy investments are increasingly dominating global investments in energy. After stalling in the first quarter of 2009 due to the global financial crisis, investments have rebounded and activity in 2009 was only 6.5 percent behind the total for 2008.



It is critical to note that climate change is not the only driver of domestic policies to reduce emissions, nor the only factor behind the growth in global clean energy investment.

For example, across the 12 largest economies, over US\$177 billion of economic stimulus packages has been earmarked for clean energy initiatives.¹⁸ The USA (US\$ 67 billion) and China (US\$ 47 billion) are the biggest investors. Some suggest that the USA is already halfway to meeting the target they submitted under the Copenhagen Accord through the existing policies and measures in place at the state and regional level.¹⁹

Asia is emerging as the global powerhouse of low carbon investment. China, for example, has made it very clear it will continue to press ahead with a mandatory target to reduce the emissions intensity of its economy by 40-45 percent by 2020.²⁰ In fact, some analysts suggest that China's current and announced policies to reduce emissions and improve its low carbon competitiveness may see this target surpassed.²¹

As Asia's largest investment bank recently noted, China in particular has judged it to be in the country's interest to continue taking strong action to drive low carbon growth.²² Authorities are aware that the country is particularly vulnerable to climate change and China already suffers significant GDP losses from climate extremes. Environmental degradation is becoming a significant source of civil unrest and increasing industrialisation worsens degradation and increases such tensions.²³

In addition, South Korea recently approved a bill enabling emission trading²⁴ and the government aims to put “green growth” at the core of its growth strategy (along with a commitment to invest two percent of GDP per year in green technologies). Under the Copenhagen Accord, South Korea has committed to reducing its economy wide emissions by 30 percent below business as usual levels by 2020.

Closer to home, the Indonesian Ministry of Finance Green Paper muted the implementation of a carbon tax/levy on fossil fuel combustion would be important in meeting the country’s ambitious emission reduction and clean energy targets.²⁵ In addition, as part of the Copenhagen Accord, Indonesia has pledged to reduce its emissions by at least 26 percent below business as usual levels by 2020 and by as much as 41 percent with financial and technical support from the international community.

An important point that is often missed in public discourse is the impact that these investments and policies will have on the politics of climate change. In Kyoto, countries had implemented relatively few domestic policies and measures. Now nearly all major economies have active policy implementation and discussion including carbon pricing, mandated targets and fiscal incentives. Investments in low-carbon technologies and industries is building political constituencies (low-carbon vested interests) that are increasingly demanding long, loud and legal policy signals to provide longer-term business decisions. This will be an increasingly important political counter voice to vested interests who seek to slow national action to reduce emissions.

4. ARE WE ON TRACK FOR A SAFE CLIMATE?

While over 100 countries have endorsed the Copenhagen Accord and many have submitted emission targets and actions, unless targets and actions are strengthened then the goal of the Accord to limit global warming to less than 2°C will not be achieved (see Table 3). Some, in particular the most vulnerable countries, argue that even these levels would constitute dangerous levels of warming and argue for limiting global warming to no more than 1.5°C. However, current pledges from developed and developing countries risk putting both these goals permanently out of reach.²⁶

Fundamentally, the role of global climate talks is not to reduce emissions. This is the role of national governments and action on this front continues. The role of international agreements is to enhance domestic action by giving national governments the confidence to go beyond what they would be prepared to do in the absence of an international framework.^{‡‡}

From this point of view Copenhagen was not a major success. The EU came to the meeting with two targets – a 20 percent reduction on 1990 levels by 2020 regardless of the outcome of the meeting and a 30 percent reduction with ambitious global action. Most other developed countries including Australia and Japan also took a similar approach.

^{‡‡} A related issue is the role international agreements can have in reducing the cost of abatement. If a country has access to measures like international trading which reduce the costs of abatement it is potentially more likely to sign up to more ambitious targets. Also, international rules can ensure that all countries are playing by the rules by setting minimum standards for accounting and verification that are broadly perceived as being fair and effective by most parties.

Table 3: Estimates of the impact of the international pledges

Citation	Developed country reductions (including LULUCF)	Developing country reductions	Projected increase in global temperature (above pre-industrial)	Mitigation gap to be consistent with ~450ppm-e pathway
Climate Analytics (2010)	6 to 14% below 1990 levels by 2020 ^{§§}	1.5 billion tonnes (GtCO ₂ e) inducing reducing emissions from deforestation	3.5°C by 2100 (2.8 to 4.3°C)	4 to 8 billion tonnes (GtCO ₂ e)
Project Catalyst (2010)	0.8 to 3.9 billion tonnes (GtCO ₂ e) below business as usual by 2020	4.2 to 5.3 billion tonnes (GtCO ₂ e) below business as usual by 2020	3°C or more	5 to 9 billion tonnes (GtCO ₂ e)
Peterson Institute for International Economics (2010)	10 to 14% below business as usual by 2020	6 to 9% below business as usual by 2020	2.4°C (1.9 to 3.0°C) ^{***}	-
International Energy Agency (2010)	-	-	~3°C ^{†††}	-

While there is ongoing discussion within the EU around moving to their 30 percent target based on the Copenhagen outcomes²⁷, no country has taken the opportunity to increase their level of ambition by moving to the top end of their ranges. This can in part be explained by a failure of political commitment to more ambitious global action, a lack of confidence in the Accord itself and by Copenhagen not defining some of the detailed rules which will affect the cost of achieving targets (e.g. the role of the carbon market and how the accounting of land sector emissions will be resolved).

In January of this year Australia reconfirmed its target range of 5-25 percent below 2000 levels by 2020, but also introduced new conditions for moving beyond 5 percent.^{†††} By introducing these new conditions, Australia signalled to the rest of the world that it does not have confidence in the Copenhagen Accord as a foundation for a global agreement. This represents a missed opportunity by Australia to support the Accord as a springboard for ambitious global action.

All independent analysis to date²⁸ demonstrates that, based on the actions of other countries and the conditions the Government articulated to the international community for moving beyond the 5 percent target, Australia should be reducing emissions by at least 15 percent on 2000 levels by 2020.

^{§§} Developed country reductions excluding LULUCF are estimated to be 11-19% below 1990 levels by 2020. This may be as low as -3% with current with loop holes remain in architecture. An additional 1.7 GtCO₂e of reductions from developing countries is conditional on external financing.

^{***} Current pledges consistent with a ~490 ppm-e stabilisation scenario.

^{†††} Current pledges consistent with a 550 ppm-e stabilisation scenario.

^{†††} See Minister Wong's press release on Australia's submission to the UNFCCC on the Accord: <http://www.climatechange.gov.au/en/minister/wong/2010/media-releases/January/mr20100127.aspx>. The Government deny these are new conditions, rather "clarifications" but most independent observers see these as new conditions.

5. THE ROAD AHEAD – DEFINING A MORE AMBITIOUS GLOBAL RESPONSE

The international community is at a critical juncture in its efforts to establish an effective global response to climate change. At this point in time it appears that two broad alternatives are possible.

The first approach is to strengthen and expand the international legal regime, either by building on the UNFCCC and Kyoto Protocol, or through new treaty architecture. The second approach relies on a system of pledge and review, whereby countries make voluntary commitments to reduce emissions which are then subject to international review. These pledges would be supported by national laws and policies to reduce emissions which may or may not be domestically binding.

At this point in time it would be unwise to predict with certainty which of these two approaches will unfold. However, given the current state of affairs in the aftermath of the Copenhagen summit, and the non-binding nature of the Copenhagen Accord, it appears unlikely that a new treaty, with legally binding obligations for all major emitters, will emerge from the negotiations in the short-term. Indeed, the hard political reality is that until China and other major emitting developing countries are prepared to accept legally binding international obligations, a treaty may be unachievable.

While not ideal, the pledge and review approach may be the only viable way forward in the short-term, or until there is sufficient trust between countries to commit to binding treaty obligations. This will also require a broader recognition by all major emitters of the advantages of a treaty-based system of international climate governance.

While the pledge and review model does rely on voluntary commitments, this does not mean there is necessarily a shift away from international collaboration and coordination. In fact both approaches involve some degree of international collaboration and coordination. The difference is that the first approach seeks a legally binding outcome, while the second is built on political agreement.

Others have raised the prospect of effectively a two tiered global regime. Kyoto Parties would take on further legally binding commitments for a second Kyoto commitment period while leaving the USA and China to implement voluntary emission pledges.²⁹ In countries or regions with established carbon pricing regimes and stronger political constituencies backing low carbon development, such an approach may be politically possible and would further position these countries at a competitive advantage in the emerging low carbon economy. However, in countries like Australia, Japan and Canada this proposition would be very politically challenging.

Regardless of the form of the agreement, ultimately the goal is to stimulate and coordinate global action that is strong and urgent enough to avoid dangerous climate change^{§§§}. With this goal in mind, each of the two approaches has some potential strengths and weaknesses. While it is beyond the scope of this paper to explore these strengths and weaknesses in detail, Table 4 provides a snapshot of some of the key issues.

^{§§§} Note that this also includes action to address adaptation to climate change in the world's most vulnerable countries.

Table 4: A comparison of treaty-based vs pledge and review architecture

KEY TEST	TREATY-BASED APPROACH	PLEDGE AND REVIEW APPROACH
Defining shared global objective	<ul style="list-style-type: none"> Not necessarily a feature of a treaty, but can be included as a provision, most likely as the overarching objective. Article 2 of the UNFCCC outlines the Treaty's objective which is to avoid "dangerous" human interference with the climate system. 	<ul style="list-style-type: none"> This can be agreed to in a political accord endorsed by leaders. In the Copenhagen Accord leaders agreed to "reduce global emissions so as to hold the increase in global temperature below 2 degrees Celsius".
Agreement on collective abatement task	<ul style="list-style-type: none"> This can be achieved through a treaty. Article 3 of the Kyoto Protocol, for example, includes a reduction commitment for developed countries to reduce their overall emissions of greenhouse gases by at least 5 per cent below 1990 levels in the commitment period 2008 to 2012. 	<ul style="list-style-type: none"> This can be achieved through a political accord. There are no references to the collective abatement task in the Accord. For example, a discussed 80 percent reduction in developed countries emissions by 2050 was not included.
Allocation of individual responsibility	<ul style="list-style-type: none"> This can be achieved through a treaty. This would establish legally binding, quantifiable commitments for countries. Signing up to an international, legally binding instrument, provides a strong spur to domestic action and as a way to overcome domestic political resistance to action. Crucially, these commitments must be agreed to by all other signatories in order for the treaty to be concluded. This opens up the prospect that countries may use diplomatic pressure to increase each other's level of ambition. Note that the legal nature of these commitments can place downward pressure on the level of ambition countries are prepared to take as countries generally don't take on legal commitments without confidence that they can be met. The opposite can also be true as a collective legal commitment will increase confidence that countries will not free ride on the efforts of others. Annex B of the Kyoto Protocol lists individual country commitments for developed countries. 	<ul style="list-style-type: none"> This can be achieved through a political accord. Any public pledge binds a country diplomatically (Note it does not deliver is irrevocability which a legal treaty does). Countries voluntarily pledge commitments, which are not legally binding. This may mean there is less diplomatic pressure to increase ambition. These commitments <u>do not</u> have to be agreed to by other signatories. Allocation of responsibility is essentially self-nominated by parties, though influenced by peer-pressure. There is no requirement to adhere to standing principles, accepted practice or overarching legal frameworks like the UNFCCC. Appendix I and Appendix II list developed and developing countries pledges respectively.
Verification and compliance	<ul style="list-style-type: none"> Through the treaty, countries agree to formal verification and compliance procedures. Detailed rules would then need to be formulated to administer these provisions of the treaty. 	<ul style="list-style-type: none"> Under the pledge and review model countries may agree to some verification processes, but would not necessarily be bound by them. Application of these verification procedures would rely on countries' voluntary participation. It is difficult to imagine countries agreeing to compliance mechanisms which are not part of a formal treaty.

The key overall strength of a treaty-based approach is that it should provide for more international accountability. Ultimately, this should give countries the confidence they need to make more ambitious emission reduction commitments. However, in the short-term, it appears that the opposite may be true.

Amongst major emerging economies there is little support for transcribing national commitments into a new or expanded treaty regime. Allowing voluntary international commitments has, therefore, been crucial to encouraging these countries to put forward abatement pledges. If, in the lead up to Copenhagen, developed countries had demanded that all national commitments be captured in a treaty it is unlikely that China, India, Brazil and other major emitting developing countries would have been forthcoming with abatement pledges. The overall result would have been a significantly weaker global abatement outcome.

This current situation raises important questions about the strategic value of putting too much emphasis on a treaty as the short-term priority. While a treaty must still be longer-term objective, in the short-term the focus should be on using the pledge and review model to raise the level of global ambition.

It is important to note that a pledge and review system may inevitably lead to a new or expanded global treaty regime. Assuming that countries do live up to their voluntary pledges through stronger domestic policies and regulations, then it is likely that advantages of a strong global treaty will become more apparent. This includes providing a unified set of rules to facilitate and regulate international carbon markets, which will help to reduce transaction costs. This is analogous to the history of international trade law, which arose because countries saw the economic benefits of having agreed rules and dispute resolution procedures. Ultimately this led to the formation of the WTO architecture, which despite the current impasse within trade negotiations, continues to provide an effective framework for trade liberalisation.

What are the next steps required internationally to secure more effective global action and build international ambition? To a certain extent it is still too close to Copenhagen to answer this question with any certainty. However, a number of broad conclusions can be drawn. These are described in detail below.

5.1 Credible domestic action is the foundation for global action

The Copenhagen Accord, as it stands, is a political agreement for countries to voluntarily submit or “pledge” targets and for progress towards these targets to be reviewed by 2015. Countries will be monitoring each other’s moves closely to ensure national governments are putting in place credible policies to meet their emission targets (particular attention will be paid to trade competitors).

While this is particularly true for the USA-China relationship, it is also relevant to the Australian policy debate. Indeed it is now more important than ever for Australia to implement credible policies to meet the emission targets pledged in Copenhagen.

Implementing and strengthening the Government’s Carbon Pollution Reduction Scheme and/or similar long-term carbon price signals remains central to Australia’s credibility internationally. The Government’s recent announcement to delay the CPRS legislation until 2013 sends the wrong signal internationally and will undermine efforts to secure a global agreement consistent with Australia’s national interest.

While the Government has reaffirmed its commitment to reduce emissions by 5 to 25 percent below 2000 levels by 2020, this pledge remains hollow in the absence of policies that will

deliver this level of abatement. Even when accounting for the impact of the Renewable Energy Target, current policy settings will see Australia's emissions increase to around 20 percent above 1990 level by 2020. Meeting the lower end of the Government's target range will require significant action across the economy. Until such policies are in place serious questions will remain about the ability of the Government to live up to the international commitments it made in Copenhagen.

To illustrate, if across the economy all reasonably socially cost effective energy efficiency options were implemented in the residential, commercial and industrial sectors national emissions would be still around 5 to 8 percent above 1990 levels in 2020.^{****} This would require up to an estimated \$30 billion dollars of public or private sector investment to 2020 and be on top of existing policies and measures such as the Renewable Energy Target. This scale of investment will not occur without long, loud and legal price signals, high levels of government budget expenditure and/or stringent regulations to force businesses and households to invest in energy efficiency..

This is not to say that achieving ambitious targets is not achievable. As analysis by The Climate Institute, the Treasury, the Garnaut Review and others³⁰ has show Australia could achieve a 25 percent reduction under a scenario where an economy wide price signal is introduced. Without an economy wide price signal to achieve reductions at least cost the Government will be under pressure only to commit to its lowest targets as was recently seen by its backtracking on international commitments to emission targets. This will strengthen the hand of vested interests and political forces in other countries who argue against more ambitious global action.

The Government's publicly stated rationale for delaying the CPRS is that there has been insufficient international action to warrant implementing the scheme in 2011. However this is not supported by the data which shows more countries than ever are now acting on climate change (see analysis above). It is also fundamentally at odds with the Government's international objectives of building confidence in the Copenhagen Accord. If Australia does not have confidence in the pledges made under the Accord why should anyone else?

Finally, the Government's position ignores the fact that the CPRS was specifically designed to deal with international uncertainty. Several of the key elements of the scheme were designed to allow flexibility in response to international developments. This includes: the targets and emission caps are dependant on the level of international action; assistance is given to trade exposed industries; independent reviews by the Productivity Commission and others of this industry assistance in light of international action; and linkages to international markets.

The Coalition's climate change policy also lacks international credibility for similar reasons and because it offers no certainty that even the weakest of Australia's pledges will be met. The Coalition's policy also relies on uncertain and non-internationally compliant soil carbon offsets and does nothing to build confidence in emerging global carbon markets.³¹

The credibility of domestic actions also depends on the longer-term emission pathways that developed countries are advancing. Australia's current 2050 target of a 60 percent reduction in emissions below 2000 levels by 2050 is not a credible contribution to avoiding a 2°C

^{****} Based on analysis using The Climate Institute's greenhouse gas emission reduction model of the Australian economy and assuming all options with a five to ten year payback in the residential, commercial and industrial sectors are implemented.

increase in global temperature or stabilising atmospheric concentrations of greenhouse gases at 450 ppm-e.

The reviews of the Intergovernmental Panel on Climate Change suggest an 80 to 95 percent reduction in emissions for developed countries as a group would be a fair contribution to stabilising concentrations at 450 ppm-e.³² Professor Garnaut's review concluded that Australia's should commit to a 90 percent reduction by 2050 to contribute to the same global goal.³³ Researchers at CSIRO and The Climate Institute have concluded that a reduction target of zero net emissions (carbon neutral) by 2050 is achievable and affordable.³⁴

While 2050 targets may seem remote they do have some resonance internationally. For example, the USA – in an attempt to build confidence in its emission targets – outlines in its submission to the UN on the Copenhagen Accord that “[t]he pathway set forth in pending legislation would entail a 30% reduction in 2025 and a 42% reduction in 2030, in line with the goal to reduce emissions 83% by 2050.”^{††††}

The issue of longer-term targets is also pivotal for China and other emerging economies. In Copenhagen, while China supported the 2°C global goal they refused to accept a 2050 target of a 50 percent reduction in global emissions or the proposed 80 percent reduction target in this time frame for developed countries. Implicit in this rejection is the fact that once developed countries lock in a 2050 emission pathway developing countries would be accepting responsibility for the rest of the global abatement task. From this point of view China and other emerging economies are of the view that an 80 percent reduction by developed countries as an inequitable contribution to avoiding dangerous climate change. As Professor Garnaut points out, these targets would see each person in developed countries still entitled to emit 2 – 6 times more than each person in developing countries in 2050.³⁵

The Prime Minister has committed internationally “that the Government would seek an explicit mandate at the next election for this change to our 2050 target.”³⁶ To build confidence in the Copenhagen Accord and in the Government's commitment to avoid dangerous climate change this new target should be a net reduction in emissions of 90 to 100 percent on 2000 levels by 2050.^{††††}

5.2 Implementing the Copenhagen Accord

In Copenhagen, leaders agreed to operationalise the Accord immediately. Implementing the commitments captured in the Accord will require action on a number of different fronts, including:

1. Delivering on international finance to support low-carbon growth in developing countries
2. Remaining committed to the UNFCCC negotiations to ensure progress is made of issues of common agreement
3. Building confidence through action in other multilateral forms
4. Facilitating coalitions to advance specific elements

^{†††} See http://unfccc.int/files/meetings/application/pdf/unitedstatescphaccord_app.1.pdf

^{††††} These targets would be net of internationally recognised carbon sequestration activities and international emission trading.

Delivering on finance

The issue of unlocking public and private sector finance for low carbon development in the world's poorer countries has been significant roadblock in the negotiations.³⁷ The Copenhagen Accord commits countries to a range of financing obligations, including:

1. New and additional financial resources from developed countries for developing countries approaching a total of US\$30 billion for the period 2010-12.
2. In the context of global action, developed countries committed to mobilise US\$100 billion dollars/year by 2020 (from public and private sources).
3. A mechanism to support reducing emissions from deforestation in developing countries, through the mobilisation of financial resources from developed countries.
4. A High Level Panel to study the contribution of the potential sources of revenue towards meeting the 2020 goal.
5. A Copenhagen Green Climate Fund under the UNFCCC.

Unless these commitments are honoured or "operationalised", confidence in the Accord will collapse. Others have come to similar conclusions:

*With many countries having formally supported the Copenhagen Accord, there are good prospects for advancing the negotiations this year. However, negotiators still need to overcome the damage caused by the lack of agreement in Copenhagen. Significant efforts will be needed on all sides for rebuilding trust among the Parties. ... in this context, the pace and the success of the international negotiations will depend to a large extent on how fast and effectively developed countries follow through on their financial commitments made in Copenhagen to support fast-start action in developing countries.*³⁸

Initial pledges to fast-start financing³⁹ have progressed with, for example, the US Administration moving their commitments through budget appropriations.⁴⁰ However, Australia, Canada and other major emitting developed countries have yet to announce their contributions to global short-term finance efforts.^{§§§§}

Under the leadership of UN Secretary General Ban Ki Moon, UK Prime Minister Gordon Brown and Meles Zenawi Asres the Prime Minister of Ethiopia, a High Level Advisory Group

§§§§ Australia has committed to fund its fair share of global fast start contributions. At the Commonwealth Heads of Government Meeting in 2009 that also indicated that fast start financing should be governed by five principles:

1. Fast start funding should represent a substantial increase on existing climate change funding allocations and use existing distribution channels to ensure fast start finance is not delayed.
2. Fast start funding should focus on the most vulnerable, least developed countries – a large number of these are small island states – including by identifying a separate Small Island State Funding Stream within fast start allocations.
3. Fast start funding should ensure adaptation activities are adequately and transparently funded separately from mitigation activities.
4. Fast start funding should focus mitigation finance on time critical activities including reducing deforestation and forest degradation (REDD).
5. Fast start funding should increase the capacity of developing countries to absorb significantly scaled up climate finance in the post-2012 funding arrangements, including through leveraging private investment flows.

on Finance has also been established to study the contribution of the potential sources of revenue towards meeting the 2020 goal.⁴¹ Australian Member of Parliament, Bob McMullan, is on the Panel.

This group is an important forum to discuss and make conclusions on the strengths and weaknesses of new innovative financing mechanisms, including carbon pricing on international shipping and aviation, carbon markets, the use of emission trading revenues and the redirection of fossil fuel subsidies. This would provide an important contribution to ongoing UNFCCC negotiations, as well as other plurilateral and bilateral talks on climate finance.

(Note that Norway and France have initiated a similar process for discussing issues and policy responses to reducing emissions from deforestation and degradation in developing countries.⁴²)

To meet international commitments and build global trust, Australia should commit an additional \$450-600 million^{*****} between 2010 and 2012 to fast start financing and begin phasing out fossil fuel subsidies in line with G20 commitments. As fossil fuel subsidies are removed a proportion of this finance should be directed towards Australia's contribution to long-term financing needs (around \$1.5 to \$2 billion a year in public and private sector finance in 2020).

Make progress through the UNFCCC

It is evitable and important that negotiations continue to occur through the formal UNFCCC processes. Major developing countries – in particular China, India, Brazil and South Africa – have made it clear that they want these negotiations to continue. The UNFCCC is also the only formal setting where the world's most vulnerable countries have a strong voice on climate change.

The UNFCCC is also an important forum where the political guidance in the Accord can be operationalised in the formal sense through the codification of elements of the Accord in 'soft' international law, such as COP decisions. For example it is likely that formal COP decisions would be required to institute the Copenhagen Green Fund.

However, it is important to recognise that key a reason why Copenhagen did not live up to many expectations, is that it simply attempted to do too much. There were too many issues to resolve in too short a time. As countries move forward it will be critical to operationalise the agreements made in Copenhagen. This must be done in ambitious but achievable steps. For example, in Copenhagen many negotiators felt that on a number of issues, including reducing emissions from deforestation and degradation and technology cooperation, governments were reasonably close to agreement.

Taking opportunities within and outside the UNFCCC to make agreements will be important to build confidence in global cooperation. In many areas, the Accord agreed in Copenhagen gives political direction to guide these discussions, as well as emphasising the key issues that should be the focus of UNFCCC negotiation over the next two years. This includes reducing emissions from deforestation and degradation in developing countries, technology cooperation, finance and the Copenhagen Green Fund, and critically the measurement, reporting and verification of national commitments and actions.

^{*****} Assumes a 1.5 to 2 percent contribution to global funds. Note the Garnaut Review and others have suggested up to a 3 percent contribution.

However, in the absence of a looming deadline, as was provided by Copenhagen, there is a real risk that global action will now drift.

In theory the Cancun meeting in Mexico in December 2010 should see the conclusion of talks over both new commitments for Kyoto Protocol parties and an “agreed outcome” under the Convention. In reality, in the absence of a new treaty under the Convention – which China and India are unlikely to accept in the short-term – the USA and other parties including the EU, Japan and Australia are unlikely to accept new legally binding commitments under the Kyoto Protocol. Assuming that countries don’t fall back into the trap of accusing others of attempting to “kill the Kyoto Protocol”, attempting to push this issue now would seem to be counterproductive.

Mexico should seek to achieve concrete decisions in areas that would see the elements of the Copenhagen Accord implemented and set in train further negotiations to conclude a final agreement in South Africa in 2011. This final agreement need not revisit the national emission pledges put forward in Copenhagen. The level of ambition of these national pledges would likely be better addressed at the highest political level in 2011 (in forums such as the MEF and G20) and by the Rio+20 leaders meeting in Brazil the following year at the latest⁺⁺⁺⁺. The issue of the legal form of the post-2012 agreement (i.e. a new treaty or some other form of agreement) must also be resolved at the leaders level. (See below discussion on other forums.)

In this context it will be important for Australia to maintain the commitment made in Copenhagen in working towards a two track legal outcome. Specifically, this means committing to participating in the second commitment period of the Kyoto Protocol, while also pursuing a second, legally binding agreement that includes commitments from the USA and major emitting developing countries. Anxiety about the future of the Kyoto Protocol amongst developing countries diverted substantial political attention during the second half of 2009. This should not be allowed to happen again.

Build confidence in other multilateral forums

There is a misconception that all the diplomatic efforts leading up to the Copenhagen Summit occurred within UNFCCC forums. In reality, other parallel forums were equally important. This included the Greenland Dialogue, the G20 and the US-led Major Economies Forum on Energy and Climate Change⁴³ (MEF). During 2009, these meetings were important forums for countries to share views and build understanding on key political issues.

The MEF has been a particularly important forum for leaders to engage on key issues. For example, the July 2009 meeting which involved heads of government saw the first agreement that governments should seek to avoid a 2°C increase in global temperature.⁺⁺⁺⁺ In 2010 the MEF has the potential to provide a venue for progressing technology

⁺⁺⁺⁺ On 24th December 2009 the UN General Assembly passed a resolution agreeing to hold a 'Rio+20' Earth Summit in 2012. The resolution outlines four areas of focus for a UN Conference on Sustainable Development in 2012 including a review of commitments, emerging issues, green economy in the context of poverty eradication and sustainable development and institutional frameworks for sustainable development. See <http://www.un.org/News/Press/docs/2009/ga10909.doc.htm>

⁺⁺⁺⁺ Note that the use of these forums also created tensions with the UNFCCC talks as some of the countries most vulnerable to the impacts of climate change felt that their concerns were not being heard. Leaders should be mindful of these concerns and find ways to involve a broader cross-section of voices.

cooperation^{§§§§§} as well as sectoral agreements in areas like aluminium or steel. Technology cooperation is already on the MEF's agenda for 2010.

Ultimately, the MEF may also be the forum where leaders may need to address the inadequate level of global ambition. To do so, this forum and any others that address global emission commitments will need to include representatives of the more vulnerable countries to have political legitimacy.

Climate change also featured on the G20 agenda in 2009⁴⁴ and during the meeting in Pittsburgh⁴⁵ countries, including Australia, agreed to:

“To phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest. Inefficient fossil fuel subsidies encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change. ... We will have our Energy and Finance Ministers, based on their national circumstances, develop implementation strategies and timeframes, and report back to Leaders at the next Summit.”

This agreement on subsidies has the potential to help remove a barrier to low carbon investments at a global level, by levelling the playing field for lower-emission fuel sources.

The removal of fossil fuel subsidies is also an existing legally binding commitment on Australia under the Kyoto Protocol.^{*****}

At the time of the Pittsburg G20 summit the Australian Government suggested that the agreement would not have major implications for Australia.⁺⁺⁺⁺⁺ This appears to ignore subsidies such as fuel and diesel tax credits and the tax concessions for private use of company cars which are worth around \$5 billion and \$2 billion a year respectively.⁴⁶

^{§§§§§} The MEF has developed Technology Action Plans focused on Advanced Vehicles; Bioenergy; Carbon Capture, Use, and Storage; Energy Efficiency – Buildings; Energy Efficiency – Industrial Sector; High-Efficiency, Low-Emissions Coal; Marine Energy; Smart Grids; Solar Energy; and Wind Energy. See <http://www.majoreconomiesforum.org/articles/statement-of-the-chair-of-the-leaders-representatives-of-the-major-economies-forum.html>

^{*****} Article 2.1(a)(v), “Progressive reduction or phasing out of market imperfections, fiscal incentives, tax and duty exemptions and subsidies in all greenhouse gas emitting sectors that run counter to the objective of the Convention and application of market instruments.”

⁺⁺⁺⁺⁺ Treasurer Wayne Swan told the Meet The Press program that, “It is aimed particularly at some massive subsidies elsewhere in the world which do need to be removed over time.” <http://www.smh.com.au/environment/end-to-fossil-fuel-subsidy-wont-affect-australia-20090927-g7qp.html>

Box 2: Climate change and the WTO

The World Trade Organisation (WTO) is also likely to play an important role in the future, given the threat of trade measures such as border tax adjustments to be used in the absence of a coordinated global response to climate change. For example, any significant and economy wide legislation in the US is likely to include provisions to tax imports from countries without similar carbon constraints.⁴⁷ India also recently proposed a levy on domestic and imported coal to fund the development of clean energy.⁴⁸

There are also questions as to whether the emission intensive trade exposed industry assistance package in the proposed CPRS is compliant with Australia's obligations under the WTO.⁴⁹

Less hypothetically in December 2009 the Air Transport Association of America (ATA) and three of its individual airline members – American, Continental and United – filed a legal action in the United Kingdom challenging the first stage of the UK's extension of the EU's Emissions Trading Scheme (EU ETS) to airlines. The ATA believe the EU ETS contravenes the Chicago Convention which in that it potentially sees the EU regulating airlines outside its airspace.⁵⁰ This illustrates the impact that one government's policies can have on the industries of another.

These examples raise questions about what role the WTO may need to play in the future arbitration of carbon related trade disputes⁺⁺⁺⁺⁺ and highlights the need to move further dialogue a greater level of engagement of the WTO on this issue.⁵¹ Professor Garnaut, for example, has called for a WTO agreement to resolve trade related concerns, which continue to undermine an effective global response to climate change.⁵²

Build coalitions on specific issues

While in an ideal world the UNFCCC would be the ultimate forum for implementing international agreements, consensus based decision making is likely to slow progress in the short-term until the political will exists to agree a fully fledged multilateral treaty. To advance specific issues informal or formal smaller groups of countries will be important. Action to address deforestation and degradation emissions from developing countries is a good example of this potential cooperation as emissions are concentrated among a small group of countries. Similarly regional and bilateral agreements to link emerging emissions trading systems would build coalitions for action and may help drive additional low carbon investment.

However, the level of ambition agreed in Copenhagen remains its critical failing. Despite recent media attention focused on climate change deniers and questions regarding the Intergovernmental Panel on Climate Change reports,^{§§§§§} the hard reality is that climate change is likely to be more severe than previously projected.⁵³ The domestic and international actions are yet to meet this challenge and it is critical that a clear timeline and milestones be established to review progress on the Accord before 2015. Failure to increase the level of government ambition will put the 2°C goal articulated in the Accord out of reach.

This is the fundamental tension in the Accord. The Accord is a bottom-up, pledge and review process, but also includes a top-down overall goal of limiting global warming to below

+++++ Garnaut (2008) suggested that "A World Trade Organization agreement would support international mitigation efforts by establishing rules for trade measures to be taken against countries doing too little on climate change."

§§§§§ See RealClimate's excellent critique of recent denial attacks on the Intergovernmental Panel on Climate Change: <http://www.realclimate.org/index.php/archives/2010/02/ipcc-errors-facts-and-spin/>

2°C. The challenge is that currently there is nothing to link (or compel a link between) this overall goal and the pledges being made by countries. Indeed, recent estimates suggest that national pledges, if fully implemented, would still lead to warming of at least 3.5 °C. To address this gap between global ambition and national pledges, in Copenhagen leaders agreed to a scientific review of the Accord to be completed by 2015.

WWF International has usefully suggested that the UNFCCC Secretariat, or a similar government “owned” body, should be empowered to do a technical review of the submitted targets and report on their compatibility with the 2°C limit enshrined in the Accord.⁵⁴

The European Commission⁵⁵ has suggested that, *“With a broad range of pledges for targets on the table, the negotiations should now focus on a clarification of those pledges, a discussion of their overall level of ambition and how this ambition could be further strengthened. This would be the first priority of the UN process.”*

This approach would be consistent with Australia’s position that national commitments “... be negotiated.... allow[ing] countries the opportunity to reflect on comparability of effort. There would be a set length of time for this consideration and assessment period.”⁵⁶

However, as discussed above opening up countries national commitments formally in 2010 carries political risks as it focuses attention on the hard issues and does not allow time for confidence building post-Copenhagen. However, waiting in 2015 will likely rule out limiting global warming to below 2°C and a small group of progressive countries could have an important role to play in facilitating discussions on the adequacy of current commitments.

At a minimum, the Australian Government should support, and potentially host informal initial consultations, a technical review of the submitted targets and report on their compatibility with the 2°C limit enshrined in the Accord. This review of the level of ambition would inform ongoing negotiations towards the heads of government meetings in 2011 and 2012 (including Rio+20 in Brazil).

This is similar to Professor Garnaut’s suggestion that *“Australia, alongside others who are willing to play this role, could ... appoint representatives to a group that is given the task of developing detailed proposals that add up to a range of different concentrations objectives.”*⁵⁷ It is also analogous the role Australia played in disarmament talks through the establishment of the Canberra Commission on the Elimination of Nuclear Weapons. *****

***** See http://www.dfat.gov.au/cc/cc_report_intro.html

Box 3: The global carbon market

Building confidence in global carbon markets is another area where small groups of countries can advance significant action. The global carbon market has expanded from volumes worth around US\$1 billion in 2004 to a projected US\$122 billion in 2009. Beyond providing an incentive for investors to finance and drive low emission technologies, a credible global carbon market is central to building ambitious global action.

If a country has access to measures like international trading which reduce the costs of abatement it is more likely to sign up to more ambitious targets. The absence of international offsets reduces country ambition, and this was likely a factor in the Australian Government's recent backsliding on its national emissions pledges.

Some are critical of governments using international emission trading to meet international obligations. For example, under Treasury's estimates, around 15-25 percent of Australian emission targets are met by investing in clean energy and reducing emissions from deforestation in developing countries (note between 75 and 85 percent occurs domestically).

Some questions around the effectiveness of international emission trading are legitimate. For example, real questions have been raised as to whether some of the investment that has occurred through the Kyoto Protocol's Clean Development Mechanism would have occurred regardless of international climate action. These concerns are warranted and should ideally be addressed by international rule making to ensure that all countries are playing by the rules by setting minimum standards for accounting and verification.

As the world moves forward it will be important to continue to build confidence in robust global carbon markets to build national ambition, drive low carbon investments and facilitate private sector finance flows in low emission technology to developing countries. In the absence of an emission trading system, Australia will be limited in the role it can play.

Through the proposed CPRS or another emission trading system, Australia could work with the EU to meet its ambitions for an OECD wide market by 2015. This would involve bilateral talks to pursue the linking to other established systems in the EU and New Zealand and emerging markets regional in Japan, South Korea and/or the USA.

Through all forums which it is working the Government should also work diplomatically to ensure recognition of the critical role that the global carbon market can play in reducing global emissions. This should include working to accelerate the process to expand the scope of market mechanisms, including a shift from project-based carbon finance to more ambitious sectoral approaches. These forums would include UNFCCC and other discussions around reducing emissions from deforestation and degradation, the High Level Panel on long-term finance, G20 discussions on low carbon growth and the Major Economies Forum on Energy and Climate Change (for example on the role of markets in technology diffusion).

6. CONCLUSIONS

This discussion paper examines the outcomes of the Copenhagen climate summit in December last year and more importantly explores the broader trends in climate policy globally. While it is premature to make single track recommendations on global policy frameworks, the paper explores a how, in aftermath of the Copenhagen summit, a 'new multilateralism' could help avoid dangerous climate change.

While the Copenhagen climate summit may not have achieved all of the political and policy objectives that had been hoped, action outside of the negotiations continued apace. The

global trend in policy action and investment accelerated in the lead up to and following Copenhagen, particularly in developing countries. Overall, since October 2009, no less than 154 new policy announcements have been made globally. On the back of clean energy measures in national stimulus packages global investment in clean energy are projected to reach US\$200 billion in 2010.

The major political outcome of the Copenhagen summit was the Copenhagen Accord. If translated into a framework for a legally binding agreement the Accord could provide a reasonable framework to build more ambitious global action. However, there are significant gaps and uncertainties in the Accord and there is still no formally agreed pathway to a legally binding instrument to reduce global emissions.

The most significant achievement in Copenhagen was that for the first time major emerging economies including China, India, Indonesia, Brazil, South Africa, Mexico and South Korea agreed to economy wide targets to reduce or slow emission growth in greenhouse pollution. The agreement by developing countries to have their national actions included in an international agreement goes some way to resolving a key political and institutional barrier to a more effective global agreement.

There are also some hopeful signs that the old multilateralism defined by a deadlock between the USA and the Group of 77 and China (G77+China) was broken in Copenhagen. At the meeting, China, India, Brazil and South Africa emerged from behind the G77+China grouping to provide an independent counterforce to the USA. This saw these four countries, along with other major emerging economies, for the first time commit to economy wide emission targets (a move that has traditionally been blocked by the G77+China bloc).

The weakening of the G77+China grouping also allowed more progressive developing country voices to be heard. Most notably, this included small island developing states and some least developed countries, who emerged from the amorphous developing country block and challenged all large emitters to do their fair share in reducing global emissions. We are also beginning to see the middle powers of Mexico, South Korea and Indonesia find a voice and role for themselves in progressing global action.

It is these shifting geopolitical forces that will hopefully define multilateralism as we move forward. The new multilateralism of climate change will not be defined by a significant change in process itself. To a certain extent it is inevitable that talks will continue through the UN process as well as being undertaken in forums such as the Major Economies Forum on Energy and Climate Change (MEF) and the G20. It is also crucial that this will be underpinned and complimented by domestic policy actions.

In this context, Australia's role in the new multilateralism should be defined by active leadership and engagement with potentially 'progressive' developed and emerging economies, including the EU, Japan, Indonesia, Mexico, South Korea and Brazil.

In the short-term the emphasis must be on building confidence and trust. The focus should be on operationalising the Copenhagen Accord and building global ambition within and outside the UN Framework Convention on Climate Change (UNFCCC). This should include:

1. **Delivering on Finance:** Unless commitments to provide public and private sector financing for low carbon development and adaptation in developing countries are honoured, or "operationalised", confidence in the Copenhagen Accord will collapse. To meet international commitments and build global trust, Australia should commit an additional \$450-600 million between 2010 and 2012.

2. **Making achievable progress through the UNFCCC:** To build trust and confidence in global cooperation, Australia should maintain its commitment to working towards a two-track “Kyoto-plus” legal outcome.

Within the UNFCCC and using the political guidance of the Copenhagen Accord, ensure progress is made on key substantive issues, including reducing emissions from deforestation and degradation in developing countries, the accounting of land use, land use change and forestry emissions, technology cooperation, finance and the Copenhagen Green Fund. The aim should be to have these issues resolved through a formal decision of the Conference of the Parties in Cancun in December 2010. Early progress on elaborating the political compromise on measurement, reporting and verification of national commitments and actions to reduce emissions will also important to build trust and confidence in global cooperation.

3. **Drive low carbon investment through action in other multilateral forms:** Outside the UNFCCC other forums, such as the MEF and the G20, provide opportunities to build confidence and trust between countries and also drive cooperation which unlocks further investment on low emission technology. This is illustrated by the G20 commitment to phase out fossil fuel subsidies, which Australia should begin honouring in 2010. Taking such actions will also be important in building the legitimacy of the G20 as a forum that is capable of tackling global issues more broadly.

Fundamentally, the role of global climate talks is not to reduce emissions. This is the role of national governments and action on this front continues. The role of international agreements is to enhance domestic action by giving national governments the confidence to go beyond what they would be prepared to do in the absence of an international framework.

Over a 100 countries have endorsed the Copenhagen Accord and many have submitted emission targets and actions. However, unless these domestic targets and actions are strengthened then the goal of the Accord to limit global warming to less than 2°C will not be achieved.

This is the fundamental tension in the Accord and the current state of play in global climate diplomacy. The Accord is a bottom-up, pledge and review, process, but also includes a top-down overall goal of limiting global warming to below 2°C. The challenge is that currently there is nothing to link (or compel a link between) this overall goal and the pledges being made by countries. Indeed, recent estimates suggest that national pledges, if fully implemented, would still warming of at least 3.5°C.

Given the current state of affairs in the aftermath of the Copenhagen summit it appears unlikely that a new treaty, with legally binding obligations for all major emitters, will emerge from the negotiations in the short-term. Indeed, the hard political reality is that until China and other major emitting developing countries are prepared to accept legally binding international obligations a treaty may be unachievable.

The Climate Institute, still sees the key overall strength of a treaty-based approach is that it should provide for more international accountability. Ultimately, this should give countries the confidence they need to make more ambitious emission reduction commitments.

However, while not ideal, the pledge and review approach may be the only viable way forward in the short-term, or until there is sufficient trust between countries to commit to binding treaty obligations. This will also require a broader recognition by all major emitters of the advantages of a treaty-based system of international climate governance.

How then do we increase national emission reduction ambitions? The Climate Institute recommends action on three main fronts:

1. **Credible domestic policy is central:** Countries need to put in place credible emission reduction policies that can meet the commitments made in the Copenhagen Accord. Strengthening and implementing the Government's Carbon Pollution Reduction Scheme and/or similar carbon price signals therefore remains central to Australia's credibility internationally and building an effective global climate regime. Both the Government's and the Coalition's current climate change policies do not provide a credible platform to help build global action.
2. **Remove cost and competitiveness concern barriers to more ambitious action:** Resolution of issues with the UNFCCC talks around how to credibly account for land sector emissions and building regional and an internationally linked carbon market will build political confidence in countries that more stringent emissions targets can be met. In the absence of internationally define rules for emission reductions, carbon trading and international verification of country actions the World Trade Organisation may also have an increasingly important role in the arbitration of carbon related trade disputes.
3. **Link the bottom up and top down worlds:** In Copenhagen leaders also agreed that a scientific review of the Accord would be completed "by 2015". This potentially creates a link between the bottom-up world of national commitments and the overall goals of the Accord. Opening up countries' national commitments formally in 2010 carries political risks as it focuses attention on the hard issues and does not allow time for confidence building post-Copenhagen. However, a small group of progressive countries could facilitate and begin informal and formal reviews of the submitted targets and report on their compatibility with the 2°C limit enshrined in the Accord. This review of the level of ambition would inform ongoing negotiations towards the heads of government meetings in 2010, 2011 and 2012 (such as the G20 and the leaders meeting at Rio+20 in Brazil).

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