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Analysis and news on trade and environment

VOLUME 8, ISSUE 9 – NOVEMBER 2014



New opportunities in the climate and development agendas

CLIMATE CHANGE

Expanding African trade in the face of climate change

POST-2015 DEVELOPMENT AGENDA

Investing in climate, development action

PREFERENTIAL TRADE AGREEMENTS

Evaluating sustainable development and the environment in CETA



International Centre for Trade
and Sustainable Development

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New opportunities in the climate and development agendas



As the year begins to draw to a close, many in the international community already have their minds focused on the full agenda ahead, with two major international processes set to be concluded in 2015.

UN members are due to hammer out a post-2015 development agenda, with a list of sustainable development goals capable of integrating social, economic, and environmental concerns, slated to take over from the current Millennium Development Goals. In addition, world governments are aiming to clinch a global climate deal, geared towards slashing greenhouse gas emissions and fostering low-carbon growth.

The stakes are high. According to UN data, around one in five persons in developing economies continues to live on less than US\$1.25 a day, biodiversity is in decline across many regions, and global emissions of carbon dioxide have increased by almost 50 percent since 1990. Meanwhile latest warnings from climate scientists have said that climate-related hazards will most affect the world's poorest and vulnerable.

Developing countries face an annual investment gap of US\$2.5 trillion in SDG relevant sectors, found a UN report released earlier this year, which also cautioned that public resources alone will not be able to set the world on a sustainable development path. And in order to avoid the worst effects of climate change, some additional US\$44 trillion worth of investments are needed in clean energy, or more than US\$1 trillion for the next 36 years.

To meet the sustainable development challenges ahead, UN Secretary General Ban Ki-moon has called for new approaches. This issue of BioRes takes a look at potential opportunities for trying something different. Richard Munang and Jessica Andrews from the UN Environment Programme (UNEP) outline a novel ecosystem-based adaptation approach that African economies could use to climate-proof future sustainable production and trade. Such strategies require a simultaneous wielding of economic and environmental tools.

The UN climate summit in September saw an unprecedented level of engagement from private sector actors and investors. In an interview with BioRes, James Cameron of Climate Change Capital, outlines some of the challenges and opportunities for institutional investors in the clean energy field. The interview also touches on how to bring the much-needed contribution of non-state actors into intergovernmental regulatory frameworks.

The landscape of development and climate policy is changing. How will the international system respond in the coming year?

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The BioRes Team

CLIMATE CHANGE

Can Africa expand its trade in the face of climate change?

Richard Munang and Jessica Andrews

Specific adaptation strategies, coupled with smart trade policies, could play a role in helping African economies ensure future climate-proof development pathways.

Africa's share of global trade has increased steadily from 2.3 percent in 2001 – equal to roughly US\$277 billion – to 4.6 percent in 2011 weighing in at around US\$1 trillion. This amounts to a doubling over 10 years. However, while the continent as a whole makes up 20 percent of the world's land, African economies currently account for less than five percent of global trade. The region clearly still has a long way to go to integrate into the global economy. Meanwhile, the ominous threat of climate change looms, a factor that could seriously stunt any future potential growth in the region.

One of the clearest climate change impacts on trade will be on infrastructure and trade routes. Across the African continent, coastal sea level rise is expected to be 10 percent higher than in the rest of the world, and studies have shown that major port cities stand to undergo substantial damages to infrastructure. The port in Dar es Salaam, Tanzania – one the largest in East Africa – could experience asset losses of up to 10 percent of the country's GDP or US\$10 billion. Agriculture is another sector where climate change will take its toll. This will have significant implications for trade in foodstuffs worldwide. In sub-Saharan Africa alone crop yields could be reduced by up to 20 percent by 2050 under a two degree Celsius warming scenario.

Africa lost its status as a net exporter of agricultural products in the early 1980s when prices of raw commodities fell and production stagnated. Since then, agricultural imports have grown faster than exports, reaching a record high of US\$47 billion in 2007. A brief glance at the continent's natural resource and landscape statistics suggests that this should not be the case. Africa holds about 60 percent of the world's uncultivated land and 65 percent of its workforce is engaged in the agriculture sector. Meanwhile, many countries in the region rely on natural resources as an engine for economic growth. But will African economies be able to make more of these endowments in the future when faced with the predicted grave consequences of climate change? The answer is yes. For lasting success, many African nations must pursue development plans that foster structural transformation, industrial productivity, as well as ecological resilience. Fortunately, some examples exist where countries demonstrate how food systems can be adapted to climate change and coastal zones safeguarded against further erosion.

At a time when the global economy needs to make a critical shift towards a low-carbon and energy-efficient development pathway, Africa could forge ahead in this respect, and simultaneously shore up some of its climate vulnerabilities. Based on an approach called ecosystem-based adaptation (EBA), the continent could generate ecosystem goods and services, with future climate-proof sustainable production and trade in mind. Examples of ecosystem goods include food – meat, fish, and vegetables – water, fuels, and timber. Climate boosting services range from clean air, clean water, the natural recycling of waste, to soil formation and pollination. EBA uses biodiversity and ecosystem services as part of an overall adaptation strategy to help people and communities cope with the negative effects of climate change. Unlocking the potential of this approach, however, will require various regulatory and governance changes at local, national, regional, and global levels.

US\$7-15 billion

Adaptation costs per year by 2020 for Africa due to a changing climate, according to the UN Environment Programme (UNEP).

Increasing trade in Africa through use of ecosystems goods and services

Can African countries use their ecosystems to protect the continent's productive sectors from the negative impacts of climate change? Without sufficient adaptation and preparation for climate impacts, African economies could face damages equal to around seven percent of the continent's total GDP, according to a 2013 *Africa Adaptation Gap report*. Beyond the exchange of goods, trade can also have unintended or unaccounted environmental impacts, which under certain scenarios can exacerbate the climate challenge. For example, increasing food production can lead to deforestation, resulting in less carbon sequestration. Such trade-offs may seem economically viable in the short-term but are likely to be costly further down the line. This is where various governance mechanisms and global trade system come into play and there are ways to create win-win scenarios.

Natural resources such as Shea trees provide a range of ecosystem services such as carbon mitigation, soil stabilisation, and the production of non-timber forest products such as Shea butter. Burkina Faso's second highest export product after cotton is the Shea nut. Issues related to the production of quality Shea butter, however, prevent the sector from securing even more gains from international markets. Consequently, in one national project 120 female workers were trained in high quality Shea butter production techniques. The training was a success; the women are now able to generate higher profits and each brings home around US\$18 a month from Shea butter sales. The increase moves these individuals much closer to the average national monthly income of US\$47 for a family of six. At the same time the participants are incentivised to protect five hectares of Shea trees and the associated ecosystem from destruction.

In Mozambique, ecosystem-based adaptation was used to reduce environmental damage along the coastline, which was largely caused by the felling of mangroves. Found mostly in developing countries, mangroves provide ecosystem goods ranging from food to timber and perform essential ecological functions. Mangrove degradation poses a serious challenge worldwide, however, with estimates suggesting these important ecosystems are currently being destroyed at a rate three to five times higher than average deforestation rates and resulting in economic damages of between US\$6 and US\$42 billion annually.

Key hotspots of mangrove loss are in Mozambique and Western Africa, where the coastal forests have been impacted by agriculture, dam construction, pollution, and tourism. In certain instances, however, the EBA approach in Mozambique helped to diversify livelihoods away from practices that resulted in environmental degradation. Communities were able to develop crab and fish farming businesses while also rehabilitating mangroves. In addition to stabilising the coastline, the restored mangrove habitat had the added benefit of reviving fish populations, providing another income from wild fish catches.

An "ecosystem-based adaptation for food security" is a subset of the EBA approach, and entails the harnessing of ecosystems services to enhance the productivity of ecosystems, address climate change, and build resilient food systems. An ecosystem-based adaptation strategy for food security can increase agricultural volumes through higher crop yields generating the potential for more sustainable trade and promotes ecosystem resilience in the face of climate change. In Zambia these approaches have resulted in surplus increases of up to 60 percent per household.

The ecosystem-based approach and the subsequent trade in ecosystem goods offers the opportunity to sustainably increase trade volumes. This is particularly true for African least developed countries (LDCs) where the bulk of people's livelihoods is directly based on their natural environment. By working to scale up ecosystem goods and services African economies can simultaneously move towards sustainable development and climate resilience. To this end, good international policies that help to properly protect and market these ecosystem goods and services and international trade policies that recognise their value globally, will be important.

What needs to be done to boost sustainable African trade?

In addition to removing barriers to trade in various tradable ecosystem goods and services, there are a number of additional ways to boost sustainable trade on the continent, all the while addressing climate challenges. Potential actions would include granting reciprocal preferences and incentives for trade-relevant ecosystem goods and services in Economic Partnership Agreements (EPAs) currently under discussion with the EU. Strong preferences for goods derived from an EBA approach could also help to allay some of the concerns regarding unfair competitive advantages enjoyed by large European firms once such trade agreements are sealed.

It will also be important to ensure the inclusion of climate change assessments in all trade negotiations. Although many developed countries now require environmental assessments as part of any trade agreement that they enter into, these assessments tend to focus on national, rather than cross-border or global environmental impacts. In order to move to a more modern approach, which takes account of the reality of global value chains, various platforms such as the UN climate talks, the sustainable development goals (SDGs), or the multilateral trade community could offer support in this area. In particular, certain developing economies would need assistance in building the capacity to conduct such assessments. Completing country trade-climate assessments in developing nations would also be a useful exercise to understand the interaction between trade expansion and climate change impacts. For example, if a country's comparative advantage is found to be in a low-carbon production system, then it could perhaps seek to establish trade preferences based on this finding. This would likely require additional capacity building that could be facilitated through existing international commitments around technology transfer and capacity building.

Evaluating the "demand pull" and "supply push" international incentives for tradable ecosystem goods and services will also be important. "Demand pull" mechanisms are measures that target changes in consumer behaviour. "Supply push" mechanisms work in the opposite direction, in other words, they provide subsidies or other benefits to encourage the production of goods in an environmentally friendly way. The ideal combination of incentives may vary by product or country. African countries should examine the potential benefits and drawbacks of each approach from global, regional, and national perspectives.

Another option would be to explore possibilities for endorsement of ecological production methods. Ecosystem-based adaptation or climate resilience production certification schemes could take place between trading partners either at a bilateral, regional, or international level. Granted, however, the bilateral level may prove to be an easier first step although this raises the question of generating a complex panoply of labelling schemes. African countries could also consider including "like product" verification schemes in trade agreements that do not harm national and local producers and at the same time ensure environmental accountability.

Climate change poses a significant threat to development objectives. As evinced by the latest warnings from UN climate scientists, no society or landscape will remain untouched from its effects, and colossal damages are foreseen for some of the poorest on this planet. There are ways to both limit further impacts and cope with consequences that are already locked in. Africa, with its vast natural resources and potential to leap frog over out-dated technologies and approaches, is well positioned to expand its trade through products derived from EBA strategies. As the world gears up to clinch both a post-2015 development agenda and a global emissions-cutting deal next year, it is worth investing in such strategies, which could help the continent achieve both sustainable development and climate policy objectives.

The views expressed here are those of the authors and do not necessarily represent those of the institution with which they are affiliated. Join the conversation by following Richard on Twitter @MTingem.



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POST-2015 DEVELOPMENT AGENDA

A new architecture for sustainable development

Lara Birkes

What kind of new economic models will be needed to meet the combined imperatives of poverty reduction, sustainable development, while making the shift to a low carbon future?

The world will soon embark on a new sustainable development path. Through the planned conclusion of several multilateral processes by the end of 2015 governments are gearing up to tackle urgent challenges such as climate change and poverty reduction. Next year will mark a convergence of global efforts around the post-2015 development agenda, with its planned sustainable development goals (SDGs), set to replace current objectives. The same year will also hopefully see governments reach a global emissions-cutting deal at UN climate talks slated for Paris, France.

Left unchecked, climate change threatens to hamstring development. UN climate scientists have warned of far-ranging climate consequences based on current growth models, with the poor and vulnerable set to be the most affected. Without a doubt the international development and climate change agendas are inextricably linked.

Economic tools have a crucial role to play in both climate and development policy. These can be wielded to unlock innovation, enable an inclusive trade agenda, transform traditional growth paradigms, embrace low carbon pathways, and foster new inclusive business models.

If achieved both the new development agenda and a universal climate deal would mark a watershed moment for international governance. Ensuring the outcomes are truly successful, however, will only be possible if current challenges are received as opportunities and met with fresh prototypes to confront the status quo. This suggests a clear space for non-state actors, including the private sector, in operationalising both the new climate regime and sustainable development architecture.

Investing in development, climate action

Investors and the private sector are the primary force behind poverty reduction and economic strength in the developing world, accountable for an average 60 percent of GDP, 80 percent of capital flows, and 90 percent of jobs in developing countries.^①

Leveraging the power of financial markets also holds great potential. With US\$62 trillion in global equity markets, small changes to investment allocations can trigger huge progress, if regulations and accounting standards reflect environmental and social considerations.^②

A UN investment report released earlier this year suggests that developing countries currently face an annual investment gap of around US\$2.5 trillion in SDG relevant sectors. The report provides a framework geared towards enhancing private sector contributions with a series of policy options to address the challenges this presents. Overall the message is clear; commitment to an unprecedented scale of investment is required to meet the considerable challenges of both poverty reduction and a low carbon future.

In the same vein, the Global Commission on the Economy and Climate released a report just ahead of the UN Secretary General's climate summit in September, which presents a range of opportunities to simultaneously achieve economic vitality and action on climate change.

Findings point to evidence that the global economy will undergo major transformations in the next fifteen years, including growth projections of more than 50 percent, with around

The year ahead

December 2014: Twentieth Conference of the Parties (COP) scheduled for Lima, Peru. Negotiators aim to reach draft decisions on information to include in national contributions to the global climate deal, pre-2020 ambition, and elements of the draft 2015 deal.

February 2015: Climate delegates meet in Geneva, Switzerland for an extra negotiating session under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), the formal negotiating track for the 2015 climate deal.

May 2015: Intended deadline to table draft negotiating text for overall 2015 climate deal.

June 2015: Annual mid-year UN Framework Convention on Climate Change (UNFCCC) meetings in Bonn, Germany.

July 2015: Ministers gather in Addis Ababa, Ethiopia for the Third International Conference on Financing for Development (FFD).

September 2015: High-level summit to adopt the post-2015 development agenda.

December 2015: Twenty-first COP scheduled for Paris, France where governments aim to seal a universal emissions-cutting deal.

US\$90 trillion to be invested in urban, land use, and energy infrastructure. The report suggests these structural shifts could be met as a chance to foster low-carbon growth trajectories.

Private and public sector actors have the opportunity to work together in this area. For example, financial innovations such as green bonds and similar instruments that align the risk profile of low-carbon assets with the needs of investors could reduce financing costs of low-carbon electricity by up to 20 percent, according to the report.

Meanwhile "We Mean Business," a new coalition of forward-thinking businesses and investors, has a similar objective to accelerate this private sector-led economic transition. The group recently issued *The Climate Has Changed*, a report illustrating the strong link between low carbon investment and lucrative financial returns. According to some of the data provided, the internal rate of return (IRR) for process energy efficiency measures in South Africa is 46 percent and 81 percent for the US, which translates into a good financial argument for action. Generally speaking, the higher the IRR, the more desirable it is to undertake a particular project.

The group's report also calls for the implementation of policies that would help to spur business action and investment. These include eliminating subsidies that incentivise high carbon energy, enacting a meaningful price on carbon, ending deforestation, energy efficiency standards, and structures to scale-up low carbon energy. Finally, the report also suggests that policy regimes dealing with trade-related issues should provide action incentives to encourage the move to a low-carbon future.

As an illustration of the power of putting in place helpful policy frameworks, the report notes that 72 percent of the EU's new power capacity came from renewable sources in 2013, compared with 80 percent from fossil fuels ten years before. The EU's target of boosting renewable energy by 20 percent by the end of the decade is credited with driving this transition.

Without action, climate change will cause damage to facilities, disrupt supply chains, jeopardise global food and water resources, and add overall uncertainty to the marketplace. Businesses and investors alike have a critical role to play in altering this narrative and the most progressive have already recognised the strong business case for addressing climate change. These understand the long-term benefits of climate action to their bottom lines through increased productivity, managed risks, reduced input costs, as well as opportunities created through new technology and innovation.

Partnerships for sustainable development

Back in July a UN working group released a set of proposed SDGs for consideration as part of the post-2015 development agenda. Questions around the means to achieve each goal, which would include topics such as finance, trade and technology, proved contentious throughout the group's talks.

The final proposal represents a compromise with a stand-alone means of implementation (MoI) goal, including various sub-sections, as well as several specific MoI identified under each goal. Trade, wherein businesses are the key ground-level actors, was put forward as one of the possible sources of MoI and included in various sections throughout the framework. The move underlines the potential contribution a revitalised trade agenda could make to the achievement of economic, environmental, and social objectives.

In addition to links through trade, the private sector is mentioned in the preamble of the proposal, and the last goal calls for a revitalisation of global partnerships for sustainable development noting the private sector should be considered as a driver to achieving the new framework's objectives. However, there is room for more concrete recognition of the role of business in realising the overarching objectives of the SDGs, making the inclusion of a multitude of stakeholders essential.

Partnerships are powerful and adept tools for addressing 21st century challenges. Strategic alliances enable scale, allowing for a departure from traditional aid models administered by governments alone, mobilising different mechanisms and new models of co-investment and collaboration by a diverse range of actors. In recognition of the advantages of this model, the first High-Level Meeting of the Global Partnership for Effective Development Co-operation was held in Mexico in April 2014, with the outcome document pointing to business as a partner in poverty eradication and sustainability objectives.

A report by the UN High Level Panel (HLP) – a group of experts convened by the UN Secretary General to advise on the post-2015 development agenda – builds on this premise, recommending a global multi-stakeholder partnership for every SDG, to ensure delivery across different sectors, value chains, and at national, regional, and local levels.

Collaboration between the World Business Council for Sustainable Development (WBCSD), the Global Reporting Initiative (GRI) and UN Global Compact (UNGC), also offers an example of a successful non-monetary partnership. The three institutions are developing a guide on impact assessment, key performance indicators selection, and goal setting to support the private sector in aligning business strategies and targets with the final SDGs.

In turn, governments could consider including a role for the private sector in the eventual stand-alone MoI SDG, with specific, measurable, achievable, relevant and time-bound references. This would help to outline a clear path for business to contribute quantifiably and in an accountable and transparent manner.

Another example of a private sector-led contribution to sustainable development is the World Business Council for Sustainable Development (WBCSD)'s Action2020. As a platform for private sector solutions to environmental and social challenges, it sets an agenda for business action on sustainability through to 2020 and beyond, helping to drive scalable, impactful, and measurable contributions from a range of companies. In addition WBCSD's UN climate summit submission outlines 14 solutions aimed at limiting the global temperature rise to below two degree Celsius from pre-industrial levels.

Decisions ahead

Governments are poised at the edge of a key-decision making year. Once the new climate and development agendas are set out, hopefully with enough ambition, thoughts will turn to implementation. Neither the public nor the private sectors alone can bring about the action, scale, and impact necessary to achieve a sustainable future for both society and the environment.

Instead, new investment patterns will be needed to bolster clean energy sources, dated economic incentives overhauled, and new frameworks that favour lower emissions prioritised. Deploying innovative economic tools to address sustainability and environmental challenges will drive forward implementation of the SDGs.

There is an opportunity ahead for the world to embrace a dynamic new architecture for sustainable development, delivering a post-2015 agenda that meets poverty alleviation, as well as climate and broader environmental challenges. The new climate and development agendas have an opportunity to provide the right framing to facilitate fresh economic paradigms that deploy models of partnership, financing, and technology – keeping in mind businesses' contribution and clear role.



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① Sustainable Development Goals and the Post-2015 Agenda: Business Manifesto, signatories as of 19 September 2014.

② Ibid.

BIORES INTERVIEW

Talking clean energy investment with James Cameron



James Cameron

Non-executive chairman of Climate Change Capital. In addition, Cameron is the chairman of the Overseas Development Institute (ODI), a member of HM Treasury's Infrastructure UK advisory council, and a member of GE's ecomagination board. Cameron is also a member of a the E15 Expert Group on Measures to Address Climate Change and the Trade System, and a founding Programme Advisory Board member of ICTSD, the publisher of BioRes.

A UN report issued earlier this year identified nearly US\$200 trillion of assets in the global financial system, some of which could be reoriented towards sustainable development outcomes. Meanwhile, climate governance debates are increasingly seeing engagement from non-state actors, with financial options such as green bonds gaining popularity among investors. But how to ensure sustainable development in the context of divestment? What role can trade play as investors move towards greener finance trajectories? And how to include non-state actors in international climate change regulation efforts? These questions, and more, were put to a leading expert in this field in a BioRes interview conducted in mid-October.

A number of non-state actors engaged in the UN Climate Summit in September. Can you give us an overview of some of the green private sector financial commitments announced on the occasion?

[James Cameron] Briefly, these included announcements from a collation of financial institutions, pension funds, insurance companies, development banks, and commercial banks. A total of 181 representatives from the business and investment communities were present.

Three major pension funds from Europe and North America said they would accelerate investments in low-carbon investments to the tune of more than US\$31 billion by 2020. Commercial banks promised to provide US\$30 billion in new climate finance by the end of 2015 through green bonds and other financing initiatives.

I think one of the more significant aspects of the summit was that institutional investors of various types, including the insurance industry, made significant commitments to deploy capital in climate-smart investments and to decarbonise their portfolios. This, by the way, will require a lot of work in order to figure out what that means and how you implement it. You have examples like AP4, the Swedish state pension fund that has a value of US\$38 billion, declaring that they will decarbonise their entire equity portfolio.

Overall the insurance industry said it would double its green commitments to US\$84 billion by the end of 2015 and increase by a factor of ten by 2020 the current amount placed in climate-friendly development. This marks a substantial shift; for the first time you see the insurance industry using investment to reduce climate risk rather than just using their risk brokerage and underwriting business to deal with the cost of the risk.

What potential impact might these commitments have on world energy markets?

[JC] Some bits are obvious, for example, the divestment movement is clearly going to have an effect on global energy markets, even if it is only modest at this stage and one should not over-exaggerate its impact. So far the divestment pledges represent small amounts of money when compared with total global energy investments. But the effect is nevertheless there.

Green bonds

First issued by the World Bank Treasury in 2008, green bonds were created to tap into the US\$80 trillion global bond market, in order to promote climate-friendly projects. Green bonds are fixed income, liquid financial instruments, which exclusively provide funds for climate-mitigation and adaptation projects, as well as other environmentally beneficial activities. An estimated US\$40 billion worth of green bonds are expected to have been unleashed on global markets by the end of the year.

Then there is the conversation on stranded assets and all of the work on the valuation of fossil fuel assets. There is also a sense that perhaps the mainstream market has not yet really understood the effect of climate change and also the possibility that the valuation methods for fossil fuel companies are not fit for purpose today. They don't take into account the substitutability of one fuel for another – say coal for gas. They don't take account of the highly likely regulation of the fossil fuel industry either through a price on carbon or some other factor that will increase the cost. They don't take account of the fact that huge amounts of capital have to now be deployed in order to extract these reserves when there are other options for the use of that capital that institutional investors are interested in.

Combine all these factors, some of which are related to climate, some of which are cyclical, and you have a situation where world energy markets are going to be under real scrutiny in the foreseeable future to see whether investments already made are valuable and what alternatives exist.

Green bonds are one key tool in this area and have also gained popularity in recent years. Can you give us some of the history behind these and how they might contribute to climate mitigation or adaptation? And how to ensure genuine greenness?

[JC] I've been a proselytiser for green bonds for a long time so it's been nice to see this concept take off from the first issuance by the World Bank in 2008. One of the reasons why I think these are important is they have the potential to carve out a new space in a very big market for the provision of credit and they tend to be attached to physical assets that provide yields for a long time.

Renewable energy is a classic example but it's not the only one. Some of these bond issuances are associated with energy efficiency programmes in cities, while others are to do with how corporations are deploying their own capital to develop business strategies, such as ways to finance electric vehicles. The shape of the bond will of course depend on who is issuing it, what country or region is concerned, and so on. At one level they are income products like any other with some standards attached. The latter have fortunately now have been developed and applied.

Regarding the standardisation of green bonds, both in terms of integrity and transparency, there are a number of options out there. The Climate Bonds Initiative has a good collection. A group of banks have also got together to create the Green Bond Principles. These are voluntary and I think they will stay that way. It is possible that at some stage standardisation becomes mandatory in the sense that if you want to be in the market you have to apply one. But that would be no different from listing securities on exchange markets.

There are financial risks and rewards associated with the transition to a low carbon economy. Could you provide a brief outline of these?

[JC] There are always costs in big transitions and so it's really a question of who bears these. Should it be the public, the incumbent, or does the newcomer in the market carry these in order to displace the incumbent? One of the things that we have probably underestimated in the last few years is the sheer power of the incumbency. They are really dominant in most of the critical markets, such as energy and power, but also in the infrastructure around these. It costs a lot of money to put different infrastructure down and pay for new distribution technology.

In the context of the need to transition to low-carbon economies, how would a global carbon divestment work, within the parameters of equitable, sustainable development?

[JC] This question is all about having real alternatives ready. If you are losing the dividend yield from your fossil fuel investment in equities at the top end of an index, what are you replacing it with? That's why divestment and investment have to be together. Unfortunately we don't yet have a portfolio of clean energy alternatives, although these

are growing, that you can just switch to. If you are an equity analyst and you suddenly re-price the risk of the fossil fuel investments and re-price the alternatives so that they look more attractive, you can't just switch out, because you just don't have enough options. So one of the things we have to do is build those companies.

One thing that might occur as decarbonisation gains traction is convergence across sectors. It's very interesting to see how engaged Google is in the energy sector. Many people are coming out of the internet world with great expertise in hardware-software combinations. They look at the energy sector now and think why do you have to be an expert at digging stuff out of the ground? Why couldn't you be an expert in installing solar panels and making renewable energy work more efficiently because it could be attached to the internet of things? They start looking at how to make these machines perform better because they write the code for the software.

You can really see people coming across into power that have no background in geology, mining, digging or even burning stuff, but do have all the skills for a different type of energy deployment. Many technology companies also have enormous balance sheets to bring to the table whereas the incumbents in utilities are very stretched. And then you have fossil fuel companies allocating staggering amounts of money with no real certainty of returns.

What are some potential governance issues that could be addressed to help scale up green energy investment?

[JC] The truth is that we still need effective institutions. We discount this at our peril and we have done over many years thinking that the market will react appropriately when it just doesn't. This is why I'm interested in the rise of green investment banks – there are a few of them around now – these talk to each other and will likely have a prominent role in the future.

We also have to combine relatively small amounts of public money with a lot of private finance. This requires good public policymaking and expertise within government that is actually often hard to find. There are a lot of governments trying to invest for the public good but they are often doing so without the right skills in the relevant departments. Clearly we also have to do more to apply incentives like a price or value for carbon in a way that is trusted and dependable.

How to ensure that developing countries also benefit from foreign direct investment (FDI)?

[JC] This is where the old leapfrog cliché comes to mind. In many instances the new stuff really is better than the old stuff and it is lower cost. If you're using kerosene or wood and now you have solar PV, you displace something more expensive with the less expensive, and it works better. My feeling is that many of these clean energy or sustainable energy alternatives will eventually win on cost in the developing world.

In relation to trade policy, however, there are some ludicrous inefficiencies in the system that partly stem from strange coalitions of interest. Much of the need in developing countries is subject to many old-style rent seeking strategies of those who are in power. The tariff systems are also frequently mad. There's no justification for them whatsoever other than someone is already there providing an energy service and doesn't want any competition.

So what positive role for trade-related policies in levelling the playing field between renewable energy and fossil fuels?

[JC] The standard topics hold true. Perverse subsidies to support fossil fuels continue, some of these are really mad and have been sustained for years, delivering no good to anybody. And while they are usually unaffordable for many developing countries, it can often be difficult for governments to take them away, because certain groups of society get used to them. In the grand scheme of things they have to go though.

Renewable energy subsidies are necessary but they have to be carefully structured so that they don't last forever. You need to make clear that these play a role in a transition period but are not in place to prop up profits for investors. Generating the right balance in these policies again requires effective institutions and the know-how to evaluate where the support boundaries lie.

We do of course also have barriers to trade in various environmental technologies and indeed services. This is crucial and a parallel can be found in telecoms trade. And increasingly these two sectors are related. Mobile phone penetration in East Africa carries with it renewable energy penetration through payment systems for PV.

Following on from this what is the relationship between innovation and investment in the clean energy sector?

[JC] I am quite confident that much of the innovation in this sector will take place in developing economies. What you want to do is break up the idea that all of the clean energy trade is North-South and start thinking about South-South flows. One of the interesting things in this area is that countries like China have deployed a huge amount of capital at low cost into the renewables sector. This places them at a comparative advantage to their equivalents elsewhere because it is the cost of capital that really drives innovation.

It is also the case that many of the pension funds of sub-Saharan Africa are prepared to take more risk with their investments than pension funds in Europe. You can't get innovation and big technology transformation unless you take risk. The conditions might be better for innovation in terms of access to capital in many parts of the South, provided the level of expertise is good enough to take advantage of it, which is a big proviso. This is why China is scaling up PhD programmes in environmental technology and India likewise.

What do you expect from the upcoming UN Framework Convention on Climate Change (UNFCCC) talks? How can the climate regime assert that it is the future from an economic perspective?

[JC] I'm actually very optimistic about the UN climate talks. There will be an agreement and it will be described as a success. Of course whether it really is a success is something different.

My view is that the 2015 deal will be a relatively modest, symbolic, universal agreement and it will only be a real success if it is surrounded by a series of more specific agreements. Some of these may in fact only involve non-state actors. That is to say, there is work ongoing to try and construct the theory, justification, and process for building a non-state actor, sub-federal, and cities framework that would essentially be a networked agreement of commitments on tackling climate change.

These commitments often take the shape of statements of intent with a wide range of enforceability. If you could wrap up the multilateral agreement with this network of parallel, transparent, and accountable commitments, then you'd be starting to get towards real success and not just success on paper. Of course we may not succeed with this work but there is a lot of momentum around it at the moment, namely, two projects now intersecting with origins at Oxford and Yale respectively.

We'll likely see the French presidency of the 2015 climate talk conference create a space for non-state engagement, much like at the recent UN Climate Summit, and I'd like to see this go one step further.

The vision would be to collate, aggregate, structure, and reveal these crucial stakeholder statements in a form that could give people confidence that they are going to be implemented, which would in turn help to spur further investment. In many instances commitments are already logged, for example through the Carbon Disclosure Project, but we also need to collate these to show that we are closing the gap between climate ambition and action.

[Editor's note, see related article in this BioRes edition]

PREFERENTIAL TRADE AGREEMENTS

Inside CETA: Unpacking the EU-Canada free trade deal

Aaron Cosbey

How are sustainable development objectives treated in the latest major preferential trade agreements?

In late September, the European Union and Canada released the long-awaited text of a bilateral free trade pact, five years after launching talks, and almost one year on from announcing they had reached an "agreement in principle" on the subject. The EU-Canada Comprehensive Economic and Trade Agreement (CETA), as the deal is formally known, will still need to be ratified by both sides but negotiations are understood to be more or less complete.

For Canada, the agreement is its most important in terms of trade and investment volumes since the North American Free Trade Agreement (NAFTA). On the other side of the pond, it marks the 28-nation EU's first developed country free trade agreement outside of Europe, and the bloc's third trade pact with a non-EU OECD country. Ottawa has described the deal in glowing terms as "historic" and "by far Canada's most ambitious trade initiative, broader in scope and deeper in ambition than the historic North American Free Trade Agreement." Meanwhile EU officials have added that the agreement contains "all the guarantees to make sure that the economic gains do not come on [sic] expense of democracy, environment or consumers' health and safety." But is such fanfare warranted?

The conclusion of CETA also has wider ramifications beyond its significance as an economic agreement between the EU and Canada. It has been sealed as negotiators continue to try and make headway on the Trans-Atlantic Trade and Investment Partnership (TTIP) talks ongoing between the EU and the US. This planned deal cannot help but be influenced in its starting points and principles by the shape of CETA given the respective parties involved.

More generally, CETA comes at a time when the world's approach to international economic governance is in flux, with multilateral efforts stalled and new mega-regional initiatives such as the Trans-Pacific Partnership (TPP) underway. What sort of snapshot does CETA provide of this moment in the evolution of regional trade agreements and also around their relationship to sustainable development?

CETA sustainable development, environment, labour chapters

CETA contains dedicated chapters on trade and sustainable development, trade and environment, as well as trade and labour. This was not a pioneering move for the EU; the 2012 agreement it concluded with Columbia and Peru, for example, has a chapter on trade and sustainable development that covers environment and labour from which much of the structure and language of the CETA's three corresponding chapters are taken.

Canada's traditional approach – and, in the context of environmental cooperation, an approach also used in many other EU agreements – is to deal with environment and labour considerations through side accords. In the end, however, whether environment, labour, and sustainable development are treated as chapters within the treaty or as a side agreement probably makes little functional difference. Much of the institutional infrastructure created under CETA's trade and sustainable development chapter is identical to what has been created in Canadian side agreements attached to other free trade agreements such as the one sealed with Honduras that entered into force at the beginning of October.

One novel piece of institutional infrastructure in CETA is an as-yet unnamed body on trade and sustainable development composed of high-level officials that will meet on an ad hoc basis to review the implementation of the sustainable development, environment, and labour chapters. The sustainable development chapter also creates a "Civil Society Forum" that will meet annually to discuss sustainable development aspects of the agreement. Both parties also commit to "review, monitor and assess the impact of the implementation of this Agreement on sustainable development in its territory". This self-review may be supplemented by a joint review where the parties so agree. However, while all of these elements have the potential to be significant and positive, this will only be the case if enough political will is dedicated to make them so, as the written mandates alone are not strong enough to guarantee any meaningful impact.

The environment chapter has some standard elements. These include an elaboration of the precautionary principle – which places the onus of proof on proponents of potentially harmful actions or policies to show that they are safe – it promises collaboration on multilateral environmental agreements (MEAs), it obliges parties not to lower environmental standards to attract trade or investment, and it pledges cooperation on environmental issues through, for example, "technical exchanges, exchanges of information and best practices, research projects, studies, reports, conferences and workshops." It also has specific sections on cooperation in the areas of forest products and fisheries.

The labour chapter similarly has fairly standard obligations that national law should respect International Labour Organization (ILO) core principles and that the parties should promote the objectives of the Decent Work Agenda.

None of those commitments are novel for regional or free trade agreements. Only the commitment not to lower environmental standards is binding – the other obligations in the environment chapter are best-effort pledges – and none of the environment or labour chapters' elements are subject to the normal CETA dispute settlement procedures. Nor do the commitments impose any new obligations on the parties beyond their existing international obligations.

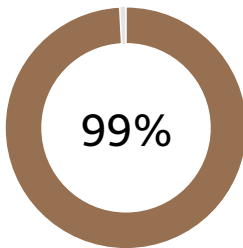
The environment and labour chapters do, however, have a separate process for review in the event of disputes over the implementation of their obligations. In contrast to the NAFTA side agreement – the North American Agreement on Environmental Cooperation (NAAEC) – such disputes cannot be initiated by civil society. CETA procedures in these areas would only be triggered by government-government dispute settlement specific to the relevant chapter. Penalties are limited, as in NAAEC, to naming and shaming.

The environment chapter also has puzzling text on the right to regulate and levels of protection:

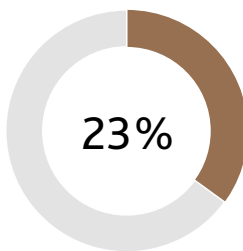
"Recognizing the right of each Party to set its own environmental priorities, to establish its own domestic levels of environmental protection, and to adopt or modify its relevant laws and policies accordingly in a manner consistent with the multilateral environmental agreements to which they are a party and with this Agreement, each Party shall seek to ensure that those laws and policies provide for and encourage high levels of environmental protection and shall strive to continue to improve those laws and policies and their underlying levels of protection." CETA Chapter XX: Trade and Environment, Article X.4.

Much of this is standard text and, like the right to regulate in a manner that doesn't contravene the CETA, is hardly necessary to assert. Moreover it is not entirely clear why the novel requirement was added for such regulation to also be consistent with MEAs to which the regulating country is party. Few MEAs constrain the types of domestic environmental regulations their parties may enact, but in the case of an MEA that did so, what CETA body would decide whether a measure was inconsistent with that separate body of law? What would be the legal status under CETA of a measure that was found

Trade figures



Percentage of removal of customs duties.



Percentage of potential increase in bilateral goods and services trade on both sides as a result of the deal.

Source: European Commission

to be inconsistent with an MEA? Would that measure, for example, be disadvantaged in trying to resort to the environmental clauses in the CETA's general exceptions?

Sustainable development in the whole

CETA has more to say on sustainable development beyond the specific chapters devoted to environment, labour, and sustainable development. Positive elements include the agreement's preamble –the 1998 WTO *US-Shrimp* case showed preambular text to be important for interpreting substantive obligations – which is full of good language on sustainable development as an objective of the agreement.^①

The chapter on general exceptions reiterates what has been established by WTO case law clarifying the WTO's General Agreement on Trade and Tariffs (GATT 1994) text; namely, that environmental measures can be considered measures necessary for the protection of human, animal or plant life, or for health reasons, and that exhaustible natural resources include living organisms.

Elsewhere the chapter on subsidies contains an – albeit extremely weak – commitment to a “resolution to fisheries subsidies”. The dispute settlement chapter has an explicit provision for the submission of non-party opinions in the arbitration process, otherwise known as *amicus curiae* briefs. An annex to the chapter on technical barriers to trade has provisions that might work to strengthen automobile efficiency standards.

There are also some areas that give cause for concern around sustainable development objectives. The chapter on domestic regulation obliges parties to make their licensing requirements – which could include environmental permissions and approvals – “as simple as possible” in their application to all economic activity of each other's nationals or firms. This is an unqualified requirement that could be disastrously interpreted. Meanwhile the subsidies disciplines, like those in the WTO, are not covered by the general exceptions that would shelter “market correcting” subsidies such as those for renewable energy.

In addition some provisions could constrain the ways in which national and sub-national governments can pursue economic development. The creation of “national champions,” or sole actors in a sector, is prohibited by the investment chapter's market access provisions, as are joint venture requirements. The same chapter's provisions on performance requirements also prohibit technology transfer requirements and local content requirements. The latter are, in any case, illegal under WTO rules.

The provisions in the chapter on government procurement, which apply right down to the municipal level for tenders above a *de minimis* level, prohibit the favouring of local suppliers and any other tender specifications that seek to encourage local economic development, for example, local training requirements or licensing of technology. These provisions reflect a deep pessimism about the desirability of industrial policy.

Sizing up the investor state dispute settlement mechanism

The chapter on investment has drawn a great deal of attention for its inclusion of an investor-state dispute settlement mechanism. Consistent with the structure found in other such agreements, the CETA mechanism relies on the judgment of arbitrators who may also be serving as counsel in similar arbitrations, in a clear case of conflict of interest. No standing roster of arbitrators is created from which to draw in regular proceedings. Instead a roster is created from which to choose arbitration chairs in the event of parties' inability to agree. Another shortcoming is that the mechanism contains no effective channels for appeal. In all these facets the investment provisions, like those of other international investment agreements, fall short of the standards established in the context of the multilateral trading system.

Furthermore, the investor protection elements of the investment chapter are not sheltered by the CETA's general exceptions. This may be appropriate, since it is arguable that GATT Article XX – incorporated in CETA general exceptions by reference – is not appropriate for investment dispute settlement. The case law from Article XX is based on exceptions as

applied to traded goods and not investment flows. A case in point is the understanding that "necessary" in Article XX(b) means "least-trade restrictive." But neither does CETA create a custom-made exception provision that is appropriate.

That said the CETA investment chapter seems to have learned some of the lessons from the history of such agreements in practice. The most-favoured nation clause does not allow investors to import procedural obligations from other agreements. The provisions on expropriation have language designed to curtail the use of an indirect expropriation argument – in other words, the argument that measures sufficiently harmful to a firm are tantamount to expropriation, even where there has been no taking of ownership – against non-discriminatory public welfare regulations like environmental laws, though not a full carve out. There are provisions to provide for some measure of transparency, including open public hearings, and respect for the standard set by the new UN Commission on International Trade Law (UNCITRAL) rules on transparency effective from last April.

The provisions on fair and equitable treatment – those most used against public welfare regulations in practice – appear to be carefully worded to avoid the worst kind of over-broad interpretation.² But then they include additional language that allows arbitrators to re-extend some of the most controversial case law on fair and equitable treatment:

"...[A] tribunal may take into account whether a Party made a specific representation to an investor to induce a covered investment, that created a legitimate expectation, and upon which the investor relied in deciding to make or maintain the covered investment, but that the Party subsequently frustrated." CETA Chapter X: Investment, Article X.9(4)

The problem here is the vague notion of a "specific representation," which goes more broadly than written agreements or pledges, and could include for example rhetoric taken from political speeches.

Many have asked whether investor-state dispute mechanisms are even needed in an agreement between countries with properly functioning domestic avenues for legal redress. This misses the point. Both Canada and the EU anticipate eventually signing more free trade agreements in countries where the legal systems are not so well developed and neither would want their respective partners in future agreements citing CETA as precedent for anything less than what they see as strong investor protection.

Trans-Atlantic frontrunner?

Overall the fanfare that accompanied the signing of this agreement seems a bit overdone. CETA is not particularly ground-breaking in its approach to trade and sustainable development; instead it draws on a mix of existing commitments and the standard approaches taken by the EU and Canada to create a sort of hybrid model.

The agreement's approach to sustainable development issues outside the scope of the chapters on sustainable development, labour and environment is a mixed bag. Within the chapters on sustainable development, labour, and environment many of the institutional structures and commitments offer potential for positive results if there is the political will on behalf of both parties to use these to their full potential. And the objectives laid out on environmental and labour cooperation, if they are given due attention and budget, may produce results that will help foster progress in other fora such as the WTO and other regional trade agreements.

But there is also some ground for pessimism. Canada has not traditionally showered funds and enthusiasm on its trade deal-based environmental cooperation commitments. And within weeks of the CETA's finalisation the EU backtracked on its intention to penalise oil and diesel imports according to life cycle emissions – a proposal that Canada had bitterly opposed because it would affect the country's oil sands exports. The onus sits squarely on both parties to show that the CETA institutions and commitments will indeed be used to pursue sustainable development through trade and investment. Will they be up to the task?

Both the EU and Canada will be under scrutiny from various stakeholders and civil society groups eager to answer the question. A wide interest from the trade community should also be expected. Roberto Azevêdo, Director General of the troubled World Trade Organization (WTO) told Canadian press in Toronto in October that "the world is watching" to see how the two parties overcome remaining ratification challenges and implementation procedures for their agreement.

The influence of CETA on the looming TTIP negotiations – much more significant for the EU in terms of trade and investment at almost ten times the volume of merchandise trade—are clear in the negotiating directive issued in October by the European Council. The directive duplicates elements of the CETA approach such as preambular language on sustainable development and commitments on sustainable development, environment, and labour.

But in a number of other areas it moots the possibility of going further than CETA seems to have been able to go. In the area of investment, for example, it considers the possibility of "creating an appellate mechanism applicable to investor-to-state dispute settlement." In the area of regulatory issues and non-tariff barriers it considers discussing equivalency of animal welfare measures. Notably, it does not seem to aim to replicate CETA's problematic language on domestic regulation. Perhaps building on the ongoing plurilateral talks towards an environmental goods agreement, it directs negotiators to consider measures to "facilitate and promote trade in environmentally friendly and low carbon goods, energy and resource-efficient goods, services and technologies." And it considers provisions ensuring "open, transparent and predictable business environment in energy matters," and access to raw materials; new ground on these issues would be significant for sustainable development in ways that could be both positive and negative. Of course these items are simply part of a "wish list," and may not feature in the final negotiated TTIP, but they signal that the EU will likely actively push to move beyond the precedent that CETA has laid down.

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- ❶ See paragraphs four, five, six, nine, and ten in the CETA Preamble Text. The WTO case cited is *United States — Import Prohibition of Certain Shrimp and Shrimp Products*, (WT/DS58/AB/R). For analysis of the Appellate Body ruling in that case, see Robert Howse, *The Appellate Body Rulings in the Shrimp-Turtle Case: A New Legal Baseline for the Trade and Environment Debate*, *Columbia Journal of Environmental Law* 27, 491 (2002).
 - ❷ CETA Chapter X: Investment, Article X.9(2) gives a specific list of characteristics that would define a measure that breached the obligation for fair and equitable treatment. It is, however, not specified whether this is an exhaustive list; if an arbitral tribunal decides that it is not, then the list's value in reining in broad interpretations of the provision is greatly reduced.



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CLIMATE CHANGE

Bonn climate talks aim to set stage for Lima meet

Climate negotiators met in October for the final pit stop ahead of this year's annual UN climate conference. While some progress was made, commentators say much remains to be addressed in December.

Following a week of discussions in October, UN climate negotiators meeting in Bonn, Germany were able to reach two updated draft decisions on national climate action contributions and pre-2020 climate ambition, respectively, for delegates to consider when they meet this December in Lima, Peru.

The talks are part of an ongoing effort by nearly 200 nations under the umbrella of the UN Framework Convention on Climate Change (UNFCCC) to seal a new multilateral agreement on climate change by December 2015, which would replace the current regime, known as the Kyoto Protocol, when it expires at the end of this decade.

During their 2011 meet in Durban, South Africa, governments gave themselves until the 2015 Conference of the Parties (COP), scheduled to be held in Paris, France, to complete the task. Discussions have since been undertaken in a formal negotiating track known as the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP).

"Governments are keeping the negotiations on track towards Paris 2015 and doing so with an increasing level of engagement, clarity, and creativity on how that agreement is likely to look," said Christiana Figueres, Executive Secretary of the UNFCCC Secretariat after the October ADP session.

"All eyes will now be on [this December's COP in] Lima where the key litmus test of that engagement and ambition will be the emergence of a concise and credible draft agreement to be further refined in 2015," the UN climate chief continued.

On track?

At last year's COP in Warsaw, Poland, negotiators were instructed to hammer out three key areas in time for the Lima conference. These include a decision on the information parties should be expected to outline in their national contributions; progress on elements of a draft 2015 agreement; and a decision on accelerating pre-2020 climate ambition.

While some sources indicated satisfactory progress in Bonn, namely on clarifying possible areas of convergence and divergence around a potential 2015 deal, others suggested that not enough initial textual negotiation took place with delegates instead reading out long position statements.

Rather than finalising the two draft decisions, as ADP Co-Chair Kishan Kumarsingh had called for at the opening of the meeting, delegates will instead re-visit updated drafts in Lima.

Meanwhile word also emerged throughout the week of a disagreement on procedural issues, namely over whether negotiations should continue based on updated draft decisions and a non-paper prepared by the co-chairs, which were released in July.

Resolution on this issue was allegedly not forthcoming by the end of the meeting and some experts suggest this could prove to be a tricky area to navigate at the start of the Lima talks in five weeks' time.

Draft decisions on the 2015 agreement were tabled for the first time by the ADP co-chairs at the annual mid-year UNFCCC session in June, at the time causing a stir among some delegates, while also welcomed as a useful way to facilitate detailed discussion by others. (See BioRes, [17 June 2014](#))

"All eyes will now be on Lima where the key litmus test of that engagement and ambition will be the emergence of a concise and credible draft agreement to be further refined in 2015."

In an information note released in early October, the co-chairs stressed that the ADP will need to deliver a negotiating text of the 2015 deal by next April at the latest, in order for it to be translated into all UN languages by May in time to meet the December Paris deadline. Additional ADP sessions are thus slated for next year, with the first taking place in February in Geneva, Switzerland.

National contributions

Differences also reportedly emerged around the scope of the intended nationally determined contributions (INDCs), as the deal's building blocks are formally known. These will outline various actions countries will take to address climate change for the period beyond 2020. (See BioRes, [24 November 2013](#))

Parties reportedly disagreed on whether the INDCs should focus on mitigation only – a position held by a number of developed countries – or whether these should also detail areas such as adaptation, finance, and technology, a view more common among some developing countries.

The draft INDC text issued on Friday afternoon says specifically that all parties should include a mitigation component, which would represent a break from the current regime where only developed countries are required to cut emissions.

The text reiterates past decisions that the INDCs should be submitted to the UNFCCC Secretariat by next March for countries that can, while requesting that parties able to do so provide support to developing countries as they prepare their national contributions.

At this stage, the text invites countries to communicate in their INDCs the type of contribution they will make, time frames and periods, scope and coverage, expected outcomes, as well as any references and accounting approaches used.

Despite the alleged troubles, discussions in this area received a boost on Friday morning, with news that EU heads of state and government meeting in Brussels had reached political agreement overnight on a new climate and energy policy framework for 2030. A headline target of a 40 percent greenhouse gas emissions cut was viewed by some commentators as enough to provide momentum for other major economies to come forward with their contributions. (See BioRes, [27 October 2014](#))

Pre-2020 ambition

In addition to securing climate action beyond the end of this decade, the post-2015 agreement is also set to ramp up ambition for the remaining years of the Kyoto Protocol. Co-chairs released a revised [draft text](#) on the second last day.

Among other things, the draft text calls on parties to ratify and implement the Doha Amendment to the Kyoto Protocol, which puts in place commitments for the second part of the current climate regime, and calls on parties to provide resources to the Green Climate Fund (GCF), the Global Environment Facility, and the Technology Mechanism.

At their 2009 climate meet, developed countries agreed to provide US\$100 billion per year by 2020 to help poor countries cope with the effects of climate change. The GCF, set up a year later, has been slated as the institutional home for this pledge, but the fund currently only boasts US\$3 billion worth of commitments.

A number of developing countries have said that capitalisation of the fund to the tune of US\$10 billion in time for Lima will be a critical enabler of the talks and a formal pledge summit is on the agenda for 19-20 November in Berlin, Germany.

The revised pre-2020 text also recognises the role that a series of technical expert meetings held over the past year have played, particularly in engaging stakeholders. The most recent meeting at the October Bonn session focused on carbon capture use and storage, as well as on non-GHGs including methane and hydrofluorocarbons. Delegates reportedly remain unsure, however, as to the modalities for carrying forward this work beyond the end of next year.

Draft elements, legal form

Some discussion took place at the October meet on a non-paper on parties' views and proposals on elements of the draft 2015 agreement. Co-chairs will provide a new version in time for the Lima COP.

Ahead of the meeting, the UNFCCC Secretariat published an [information document](#) addressing questions on the 2015 deal's legal and institutional aspects. Governments have said that the new climate deal should be a "protocol, another legal instrument or an agreed outcome with legal force under the Convention."

During the October discussions, the LDC group and a group of Latin American countries called for a legally-binding protocol, while China reportedly said this should depend on the agreement's substance.

Meanwhile, comments made by US State Department climate change special envoy Todd Stern in a [speech](#) delivered at Yale University earlier this month suggest the US will seek an agreement that is legally binding in some areas, but not others.

"We think the most interesting proposal on the table is New Zealand's, under which there would be a legally binding obligation to submit a "schedule" for reducing emissions, plus various legally binding provisions for accounting, reporting, review, periodic updating of the schedules, etc. But the content of the schedule itself would not be legally binding at an international level," Stern explained.

Climate reports

As the UN talks closed in Bonn, scientists and delegates converged in Copenhagen, Denmark to edit a summary of reports released over the last year on latest climate trends. The series has warned of the expected far-ranging impacts of climate change and need to scale up mitigation ambition. (See BioRes, [14 April 2014](#))

While the clock continues to tick down for climate negotiators, engagement from stakeholders and civil society is picking up speed. A high-level UN climate summit held in September saw an unprecedented level of engagement from the private sector, in particular, including a number of fossil fuel divestment and clean energy finance pledges. (See BioRes, [30 September 2014](#))

"We are seeing a groundswell of climate action building at all levels of society which can encourage governments to make bolder commitments as part of the 2015 global climate agreement. It is clear they cannot meet the challenge alone – they need the support of all relevant stakeholders, and they need to know where there is greatest potential to curb emissions," Figueres said after the October ADP closing session.

ICTSD reporting

Additional sources, ENB,
IISD REPORTING SERVICES,
REUTERS, RTCC

CLIMATE CHANGE

EU leaders reach agreement on proposed 2030 climate, energy goals

In a much-anticipated move, the 28-nation bloc has set climate and energy targets out to the end of the next decade.

EU heads of state and government reached a political agreement at the end of October on a new climate and energy policy framework for 2030. After some reportedly late night haggling, the 28 political leaders endorsed a binding 40 percent greenhouse gas (GHG) emissions reduction target by 2030 from 1990 levels, an EU-wide binding renewable energy target of at least 27 percent, and an EU-wide indicative energy efficiency target of at least 27 percent. The new package will take over from the bloc's current "20-20-20" goals – which set emissions reduction, renewables usage, and energy efficiency targets for the end of this decade.

"It was not easy, not at all, but we managed to reach a fair decision. It sets Europe on an ambitious yet cost-effective climate and energy path," said Herman van Rompuy, President of the EU Council, the bloc's highest decision-making body. Rompuy's remarks point towards deep divisions that emerged between member states in the past months over the shape of the framework. Poland, whose economy relies on emissions-intensive coal for much of its electricity, was said to have galvanised a group of eastern European states to protest against the level of ambition. Meanwhile, Portugal and Spain also allegedly threw up red flags, calling for the strong language on building an interconnected EU energy market.

Road to Paris

The move has been closely watched by the international community due to its potential significance for the ongoing multilateral climate talks. Conducted under the umbrella of the UN Framework Convention on Climate Change (UNFCCC), nearly 200 nations are working to seal a universal, binding emissions-cutting deal, in time for a meeting in Paris, France next year. The EU has traditionally been characterised as a leader in this area following comparatively strong efforts to tackle climate change and engagement in past UN climate talks. Furthermore, any mitigation action by the group is considered significant in economic terms, given that it accounts for 24 percent of global GDP and represents the world's largest single market. One objection voiced by various participants in the UN climate process over the years is the fear that unilateral climate action could hamper growth and the competitiveness of exports on world markets.

The October summit conclusions on the 2030 framework open with a reference to the UNFCCC process, underlining that the EU will revisit its new targets after the Paris conference.

Cutting emissions

According to the Council conclusions, all EU member states will participate in the target, balanced by calls for solidarity and equity. The emissions-cutting target agreed in October follows a proposal put forward by the EU's executive branch in January. (See BioRes, [23 January 2014](#))

José Manuel Durão Barroso, President of the out-going European Commission, welcomed the development. "When we tabled our strategy back in January, many said it was the wrong thing to do at the wrong moment. Tonight we proved those doubters wrong," Barroso said in a press conference, referring to some critics' suggestion that the EU's sluggish economy would not be able to cope with the proposed 40 percent reduction.

Carbon market

Leaders agreed at the October summit that 43 percent of the emissions reduction target would be met using the EU's Emissions Trading System (ETS). According to media reports, free carbon allowances were offered to countries such as Poland in order to sweeten the overall deal. The Council conclusions on the proposed framework grant member states with a GDP per capita below 60 percent of the EU average the flexibility to hand out free ETS allowances to the energy sector. However, the document notes that the maximum free hand out should be no more than 40 percent of a member state's auctionable allowances. A call is made for an improvement on transparency from the current modalities of free allocation.

The conclusions also endorse the channelling of funds from two percent of the total EU ETS allowances for the period to address some of the structural energy transition challenges facing poorer EU nations. Proceeds from the new reserve will be used to improve energy efficiency and modernise energy systems in member states with a GDP per capita below 60 percent of the EU average. The document calls for an eventual fund set up by the reserve to be managed by beneficiary member states with input from the European Investment Bank (EIB). This allegedly follows concerns by some member states that structural funds in the current climate and energy legislation are being misappropriated to prop up the fossil fuel industry.

Energy connectivity, security

In a win for countries such as Spain and Portugal, the conclusions make a bid to bolster energy connectivity between member states. The conclusions renew commitments to take urgent measures to achieve a minimum target of ten percent of existing electricity interconnections. The Commission is also mandated to report regularly on the process and technical needs of this planned integration in order to arrive at a target of 15 percent intra-EU export of generation capacity by 2030.

This ambition would see the bloc invest in new pipeline and grid infrastructure across EU borders. Lisbon and Madrid reportedly pushed hard in the final stages to ensure the inclusion of such language in order to export the region's excess wind and solar power across the Pyrenees. A specific mention of both countries is made in the document alongside the Baltic States.

Over the past 10 months, the situation in Ukraine has also put considerable pressure on the shape of the new framework, with the EU's eastern European members raising specific concerns around energy security. A third of the region's gas is imported from Russia, with almost half passing through Ukraine.

The conclusions reaffirm statements made by the European Council in June around the Commission's proposed European Energy Security Strategy (EESS). The two targets on energy efficiency and renewable energy are also pitted as key instruments in shoring up energy access.

Will it be enough?

Both of the renewables and energy efficiency targets will not be binding on individual member states and the energy efficiency target is voluntary as it is in the current regime, a decision that has been criticised by some environmental groups. The European Commission had initially proposed a 30 percent binding EU-wide energy savings target for 2030. (See BioRes, [4 August 2014](#))

Meanwhile consultancy Ecofys has cautioned that a 40 percent reduction would not be enough to keep the EU on track towards its stated ambition of reducing emissions by 80 to 95 percent by 2050.

Moving forward the European Council has invited the Commission to table a legislative proposal to translate the conclusions into formal legislation. This will be undertaken by the new EU executive body headed up by Jean-Claude Juncker and is expected to be unveiled in 2015.

ICTSD reporting

Additional sources, EURACTIV, FINANCIAL TIMES, REUTERS, THE CARBON BRIEF

The newsroom

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EU Commission proposes new fish catch limits

The EU's executive arm has proposed new catch limits for several stocks located in the Atlantic and North Sea for the coming year. These quotas will be based on principles set out in the bloc's new Common Fisheries Policy (CFP) that advocates a commitment to not fish beyond maximum sustainable yield (MSY) levels. Where possible, scientists advise what these levels should be, in a bid to restore dwindling global fish stocks.

According to the proposal, a cut in catch limits is proposed for 40 stocks, while catch increases are suggested for 29 stocks. Fish stocks that would benefit from decreased quotas include cod from the Irish sea, where stocks are slated as in a "dire state," according to Commission officials.

The Commission said that its proposal only concerned some stocks in the relevant waters, however, due to ongoing negotiations with international partners where stocks are transboundary. The proposal is set to be discussed by EU ministers in December.

Brazil unveils new rainforest protections

The Brazilian government in October confirmed that it had placed a large area of the Amazon rainforest under federal protection. The new reserve covers some 6680 square km of ecologically rich forest, much of which has never been touched by human activity, according to government officials. Forest clearing and similar development will now be banned in the area, known as Alto Maues. In addition to protecting valuable ecosystems, reducing deforestation serves to combat climate change, given that wood fuel is the main cause of carbon emissions in Brazil.

A number of environmental groups welcomed the news. Conservation organisation WWF said that Alto Maues is home to at least 13 species of primate and more than 600 species of birds that would now receive necessary protection.

However, the organisation also said that assigning the reserve status to the area would not alone guarantee its integrity, with illegal logging remaining a persistent threat.

Call to integrate private sector in SDG financing

This year's World Investment Forum, an annual event organised by the UN Conference on Trade and Development (UNCTAD), saw participants size up the role the private sector could play in financing the forthcoming sustainable development goals (SDGs). More than 2000 representatives from governments, the UN, and businesses converged in Geneva, Switzerland for the four-day meet. A number of participants said that a lack of investment in addressing financing needs in developing countries could seriously hamper efforts to attain sustainable development objectives. Several sessions were dedicated to addressing this challenge, with speakers considering ways to increase investment in key areas such as infrastructure, energy, health, and education.

Discussion was also geared towards bolstering work by the UN Global Compact, UNCTAD, and the Principles for Responsible Investment towards developing a sustainability toolkit for institutional investors and financial actors.

South Africa panel weighs legalising rhino horn trade

The South African government announced in October that it had set up a panel geared towards studying whether or not to legalise trade in rhino horns. Names of panel members have not yet been released but the body is slated to outline its findings and proposals by next March. Officials in Pretoria are reportedly considering proposing a liberalisation of horn trade at domestic and international levels. The move, if pursued, promises to be a landmark case in evaluating whether trade bans or legal trade models should be used to protect fragile wild species. Illegally traded rhino horns currently fetch prices higher than gold in Asian markets. Poachers have killed at least 769 rhinos this year in South Africa. The country is home to 73 percent of the world's wild rhino populations.

News also came in October that American federal prosecutors were charging two South African brothers in relation to an illegal rhinoceros hunting racket, targeting clients in the US. The US government indicated it would be seeking the brothers' extradition from South Africa.

India moves to end diesel subsidies

The Indian government announced in October that it would be allowing diesel prices to be determined by market forces, in a significant shift in policy aimed at spurring energy-related investment and reducing the fiscal burden of subsidising the industry. With the global price of oil having tumbled in recent months, supporters of the move have said that it will help save money for the government while actually leading to a lower price in oil for consumers. Along with de-regulating diesel and ending the associated subsidies, the administration of Prime Minister Narendra Modi has also decided to raise the price of natural gas from US\$4.2 per million metric British thermal units to US\$5.61, with the change expected to take effect at the beginning of November.

Energy has long been a point of concern for India, with over 300 million consumers lacking access to power. Along with the above-stated policy changes, increasing the share of renewables in India's energy mix has been one of the top stated priorities of the new Modi government. However, India has also said it remains committed to using coal where needed to meet the country's energy needs, a statement causing concern among climate watchers.

Pentagon warns on climate change

The Pentagon, the homebase of the US Department of Defense, in October released a report detailing various threats posed by climate change to national security. The report calls on the US military to account for the impacts of a changing climate, which could cause flooding in military bases, boost the number of disaster relief missions, and require additional operations in the Arctic. It also cautions that climate related impacts could cause instability in other regions due to a squeeze on water and food systems. The US Department of Defense established a climate change working group in 2012. The report, however, calls for broad cooperation on the issue and US officials have subsequently said that the military will work with various other branches in government and international organisations to tackle potential climate impacts.

The move comes as the international community gears up for a year of intense negotiations towards sealing a global emissions-cutting deal. Meanwhile greenhouse gas concentrations, reached a new high in 2013. In addition new US data suggests that the country's carbon pollution rose 2.5 percent last year.

EU Commission report on bloc's energy subsidies

The European Commission has released a report detailing a dataset on the level of energy costs and subsidies found across the 28 member state bloc. The data fills an existing information gap on the level of energy support in the EU and is geared towards helping member states better understand the landscape of policy interventions in this area.

The findings reveal the level of various public interventions in different power generation technologies, with total energy support in EU nations in 2012 weighing in between €120-140 billion (US\$150-180 billion). Renewable energy sources took the lion's share of this sum. Solar and onshore wind technologies came out top receiving an EU-wide total of €14.7 billion and €10.1 billion respectively. Biomass drew €8.3 billion and hydropower €5.2 billion.

The bloc currently has in place a target of boosting the share of energy consumption from renewable sources by 20 percent as part of its climate and energy targets for the end of the decade. The study's findings will likely fuel the debate as to the level and type of support needed to foster low-carbon economic development, a topic that is much debated among various member states.

Regions climate summit issues declaration

A climate conference dedicated to regional, sub-state, and private sector actors took place in October in Paris, France. The meet, known as the World Summit of Regions for Climate, was the first of its kind and brought together over 1000 participants. The event reviewed climate commitments by key stakeholders, as well as assessed major projects and initiatives geared towards reducing emissions. Participants reportedly expressed conviction that a wide-range of stakeholders and local systems were the driving force behind the transition to a green economy. In a video address, UN Framework Convention on Climate Change (UNFCCC) Executive Secretary Christiana Figueres said that the pursuit of low-carbon opportunities by non-state actors served to invigorate intergovernmental negotiations on tackling climate change.

The meeting culminated in the signing of a declaration by participants, which elaborated sub-national and private sector commitments and action, and called on governments to clinch a global climate deal by the end of next year. The Paris Declaration is set to circulate among local actors in various constituencies worldwide in the year ahead in order to bolster support for the UN process.

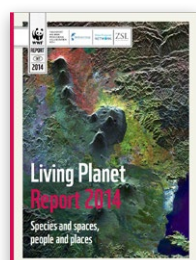
Publications and resources



Improving Access to International Climate Finance within Sub-Saharan Africa – ODI – September 2014

This paper, published by the Overseas Development Institute (ODI), looks at how countries in sub-Saharan Africa access international public funding to secure public policy goals such as dealing with the impacts of climate change. The author focuses on the concept of direct access funding, which originates from multilateral sources, and considers how access to procedures might be improved.

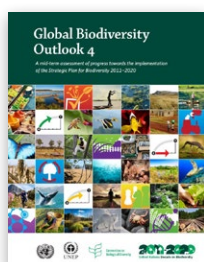
This report can be accessed at <http://bit.ly/1rrHGKu>



Living Planet Report 2014 – WWF – September 2014

This report by the WWF deploys a series of indicators to assess the health of the environment and impact of human activity. Adopting a natural capital approach, the report also offers a series of case studies presenting win-win solutions for conservation and the economy, within the parameters of equitable and sustainable development.

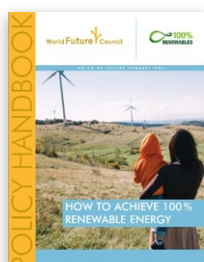
This report can be accessed at <http://bit.ly/1wfls1j>



Global Biodiversity Outlook 4 – CBD, UNEP – October 2014

This report, the fourth edition of the flagship series by the Convention on Biology Diversity (CBD) and the UN Environment Programme (UNEP), summarises the latest data and trends on biodiversity. Released at the latest Conference of the Parties to the CBD, the publication is designed to help governments take stock implementation of the agreed-upon Strategic Plan for Biodiversity 2011-2020 and the Aichi Biodiversity Targets. The evidence presented suggests that while progress has been made in some areas, others require much greater attention moving forward.

This report can be accessed at <http://bit.ly/1rnaMeN>



How to Achieve 100% Renewable Energy – WFC – September 2014

This policy handbook, published by the World Future Council (WFC), suggests that achieving 100 percent renewable energy is both financially and economically feasible. Drawing findings from the various case studies, the handbook is geared towards encouraging a scale-up in policies that drive renewable energy diffusion, and stresses the importance of engaging with a wide range of stakeholders.

This report can be accessed at <http://bit.ly/1nAf3PR>



Green Industrial Policy: Managing Transformation Under Uncertainty – DIE – October 2014

This discussion paper by Deutsches Institut für Entwicklungspolitik (DIE), or the German Development Institute, explains the theory behind green industrial policy and compares it with conventional industrial policy to highlight the challenges the former is facing and measures to be taken to overcome these. The paper draws lessons from case studies examining where government intervention for sustainable objectives has been successfully deployed as well as where it has failed.

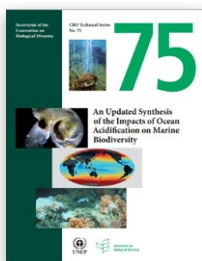
This paper can be accessed at <http://bit.ly/ZJ3haq>



Governing the Transition Away from Fossil Fuels: The Role of International Institutions – SEI – October 2014

This paper published by the Stockholm Environment Institute (SEI) analyses the role of international institutions in governing a shift away from fossil fuels. It provides an overview of existing how institutions govern fossil fuel extraction and the crossovers between various governance approaches. The author then examines the potential role some of these institutions could play in helping the world move away from dependence on fossil fuels, including options such as addressing supply side drivers, notably within the United Nations Framework Convention on Climate Change (UNFCCC) and the WTO.

This paper can be accessed at <http://bit.ly/ZOYgh6>



An Updated Synthesis of the Impacts of Ocean Acidification on Marine Biodiversity – CBD – October 2014

This review, published by the Secretariat of the Convention on Biological Diversity (CBD), provides an overview of the latest research on ocean acidification. Based on available data, the report concludes that while the world's waters have acidified before, current changes are happening much faster than at any other time in the past 66 million years. Using modelling research, the report outlines the possible impacts of ocean acidification, suggesting that the ecological and financial cost of current trends could run to the tune of nearly US\$1 trillion per year by the end of this century.

This report can be accessed at <http://bit.ly/1DBuqLY>



Moving to a Low-Carbon Economy: The Financial Impact of the Low-Carbon Transition – CPI – October 2014

This report by the Climate Policy Initiative (CPI), compares the costs of low-carbon electricity and low-carbon transportation systems with existing systems in order to assess the impacts of a potential transition. The paper looks at the investment required to make this shift and how the financial system might respond. The authors consider potential gains and losses while arguing that switching to low-carbon use has substantial financial benefits depending on policy choices. For example, certain approaches could result in an increase in the capacity of the global financial system by as much as US\$1.8 trillion between 2015 and 2035.

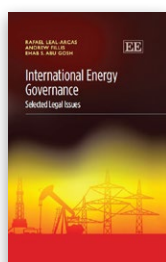
This report can be accessed at <http://bit.ly/1z1ueFP>



Moving to a Low-Carbon Economy: The Impact of Different Policy Pathways on Fossil Fuel Asset Values – CPI – October 2014

This report, published by the Climate Policy Initiative (CPI), explains the risk of losses in the financial value of existing fossil fuel assets, as countries make the switch to low-carbon consumption to address climate change. Using regional and global economic models for each fossil fuel industry, the authors examine the distribution of cost between governments and investors and among various countries regarding these stranded assets, evaluating the risks based on different policy scenarios.

This report can be accessed at <http://bit.ly/1uOqvEU>



International Energy Governance – Edward Elgar – Forthcoming 2015

This book, authored by Rafael Leal-Arcas, Andrew Filis, and Ehab S. Abu Gosh, focuses on selected legal issues related international energy governance. The authors argue that existing international legal structures are not well equipped to handle energy policy issues due to its fragmented and multi-layered nature. Several chapters in the book focus specifically on areas where greater cooperation is needed, namely, energy and trade, as well as trade, environment, and energy.

The book can be accessed ordered at <http://bit.ly/1t84nsy>

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