

Co-benefits and the Future Climate Regime: A Stepwise Approach

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KEY MESSAGES

In the short-term (post-2012), climate negotiators should consider

1. Expanding the scope of the Clean Development Mechanism (CDM) (with due concern for environmental integrity)
2. Simplifying CDM approval requirements for development-friendly actions
3. Adopting a list of development-friendly actions and/or developing countries qualifying for preferential treatment
4. Strengthening the capacity of CDM Executive Board to coordinate Official Development Assistance (ODA) and carbon finance

In the long-term (post-2020), climate negotiators should consider

1. Graduating some major developing countries to firmer pledge-based commitments
2. Creating multiplication factors for actions with co-benefits
3. Standardizing co-benefits criteria to determine which actions qualify for preferential treatment
4. Using standardized criteria to determine which actions qualify for ODA, carbon finance, or both

Box 1: Issues and Challenges

1. Resources for Engagement

- How can developing countries acquire sufficient resources to implement actions with co-benefits? How can developed acquire sufficient incentives to provide those resources?

2. Preferential Treatment

- Should actions with co-benefits qualify for preferential treatment from the future climate regime? If so, what kind of preferential treatment?

3. Co-benefits Criteria

- What kind of criteria should serve as a basis for preferential treatment?

4. CDM and ODA

- How can synergies between the CDM and ODA be strengthened?

1. Introduction

This issue briefing outlines a stepwise approach for strengthening the future climate change regime's support of climate actions with co-benefits. The approach draws upon consultations the Institute for Global Environmental Strategies (IGES) hosted during the fall of 2008. The consultations convened more than 100 stakeholders from over 20 countries and international organizations to discuss the Bali Action Plan (BAP) and the post-2012 climate regime (IGES 2008a, IGES 2008b).

The briefing is organized as follows. After defining co-benefits, the briefing turns to the issues and challenges listed in Box 1. For each issue and challenge, it a) provides

**This brief reflects the views of participants at the IGES consultations on the post - 2012 climate regime.*

necessary background, b) reviews stakeholder perspectives, and c) reconciles those perspectives. The briefing concludes by explaining why a stepwise approach could move negotiations forward at the upcoming 15th Conference of the Parties (COP 15) in Copenhagen, Denmark. The short- and long-term reforms making up this approach are summarised in the Key Messages Box (on the first page).

2. Defining co-benefits

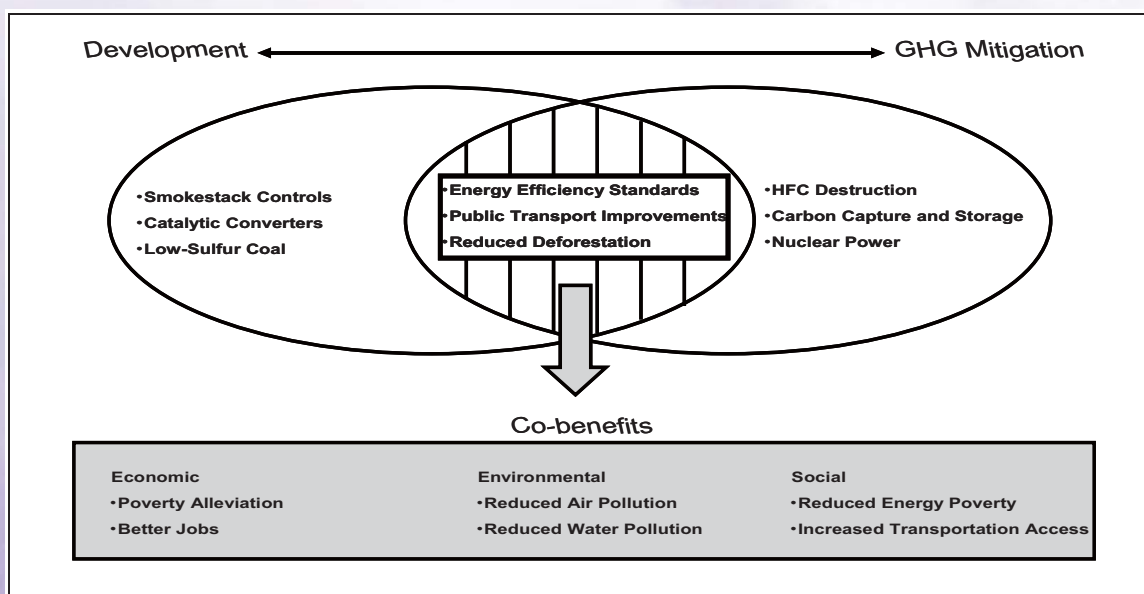
Developing countries are justifiably more concerned with achieving their own development goals than mitigating greenhouse gases (GHGs). Yet some climate actions can mitigate GHGs while contributing to sustainable development. The social, economic, and environmental benefits resulting from these actions are known as “developmental co-benefits.” Devel-

opmental co-benefits can include improved local air quality; increased energy security; enhanced employment opportunities; and a host of other near-term benefits (see Box 2).

Though not the focus of this study, some *developmental* actions can also contribute to GHG mitigation or climate-resilient development (wise adaptation). The GHG benefits resulting from these developmental actions are known as “climate co-benefits.” This briefing will concentrate chiefly on the former category, the “developmental co-benefits” of GHG mitigation actions (henceforth referred to as co-benefits).

There are several reasons for focusing on co-benefits. Taking actions with co-benefits can place countries on a low carbon, sustainable development path. They can also offset GHG mitigation costs and allay concerns from developing countries that climate ac-

Box 2: Illustrating Co-benefits



tions will constrain development. Finally and most importantly, pledging actions with co-benefits to a registry in the United Nations Framework Convention on Climate Change (UNFCCC) may become the primary channel through which developing countries engage in the future climate change regime. Yet, as the briefing will demonstrate, there are at least four issues climate negotiators must address to make this possibility a reality.

3. Issues and challenges

Issue 1: Engagement for resources

The first issue involves what amounts to an exchange of developing country's engagement for developed country's resources. Many developing countries lack sufficient financial, technological, and administrative resources to effectively implement climate actions with co-benefits. Meanwhile, many developed countries lack sufficient incentives to provide the resources needed to strengthen these actions' implementation. The BAP clarifies that increasing the levels of climate regime support while increasing the scope of developing country actions could reconcile these perspectives. Developed countries would gain the enhanced participation they seek, while developing countries would gain the enhanced support they seek. There nevertheless remains considerable uncertainty over the reforms needed to make either side's commitment to this arrangement credible.

Stakeholder perspectives

This uncertainty was evident at IGES consultations. During the consultations, a participant from India lamented that the country's Climate Change National Action Plan includes several provisions that integrate

climate change and development, but the current climate regime does not financially reward or otherwise recognize India for those steps (Government of India 2008). A participant from China offered a similar critique of the current climate regime, suggesting that the framework has not facilitated the transfer of co-control technologies needed to realize goals in China's National Climate Change Programme (NDRC 2007). Underlying both sets of comments is the sense that developed countries have not done enough to support development-friendly climate actions.

From the perspective of many developed countries, the above views overlook the drawbacks of supporting developed countries actions. A major concern is financing actions with co-benefits would be equivalent to supporting development actions that are non-additional to what would happen absent the climate regime's support and would thereby weaken the regime's environmental integrity. Yet another specific disadvantage raised by a participant from Denmark was that offering co-control technologies to developing countries without well-defined intellectual property rights (IPR) could discourage research on these technologies. Or to cite a third more fundamental reservation, there is no guarantee that supporting these actions will lead to greater developing country participation in the future climate regime.

Reconciling perspectives

In sum, developing countries have limited resources to implement actions with co-benefits, while developed countries have limited incentives to support those actions. To reconcile these perspectives, climate negotiators should consider a set of short- and long-term reforms. In the short-term, climate negotiators should expand the CDM from a project-based to policy-based mechanism (with due concern for en-

vironmental integrity). This should help increase the flow of resources for actions such as those mentioned in India's and China's climate action plans. But to address developed country concerns, climate negotiators should clarify that the CDM reforms will precede graduating some major developing countries from the scaled-up CDM to firmer pledged-based commitments in the long-term. This should convince developed countries that the increased finance, technology, and capacity building will lead to more significant future commitments.

Issue 2: Preferential treatment

Enlarging the scope of the CDM will increase resources available to developing countries, but it will not ensure resources are targeted at policies with the most significant co-benefits. A second issue involves granting preferential treatment to actions with co-benefits. Preferential treatment can help ensure climate actions with significant developmental impacts move ahead of those with climate-only impacts. It may also help align the level of a policy's co-benefits with the level of climate regime resources. Finally, it is consistent with one of the CDM's two key objectives of promoting sustainable development in developing countries.

Stakeholder perspectives

Some participants at IGES consultations, however, raised concerns about offering preferential treatment. The most frequently heard reservation was that reforming the CDM would limit low-cost emission reduction opportunities for developed countries. Most development-friendly actions (energy efficiency reforms) are more expensive to finance than non-carbon offsets (F-gases* and methane recovery). This is why, to paraphrase a participant from New Zealand,

changing the rules governing the CDM could move the mechanism too far from the second of its two key objectives of offering affordable mitigation opportunities to developed countries.

The majority of participants at IGES consultations nevertheless favored some form of preferential treatment. Two types of preferential treatment received the most attention. The first, advocated by a participant from Japan, was making a list of development-friendly activities eligible for fast-track approval from the CDM Executive Board. A second proposal focused on changing the CDM credits themselves. A participant from Cambodia, for instance, argued for the doubling of credits or a special "green credit" designation for development-friendly actions. This suggestion resembles a suggestion from Korea to discount or multiply credits based upon a climate action's developmental contribution (Korea 2008, Schneider 2008).

Reconciling perspectives

In sum, some countries feel preferential treatment will limit the market for more affordable carbon offsets, while others favour varying degrees of preferential treatment. To reconcile these perspectives, climate negotiators should again consider short- and long-term reforms. In the short-term, they should simplify approval requirements and introduce other procedural reforms to the CDM for actions with demonstrated co-benefits. They should also consider allowing developed countries to purchase a defined quota of affordable non-carbon offsets (F-gases and methane recovery) from projects or actions with limited co-benefits in the short-term. In the long term, climate negotiators should consider a more ambitious set of reforms that adjusts the crediting levels based upon an action's co-benefits.

* F-gases or fluorinated gases are commonly used in air conditioning and have a high global warming potential. Mitigating F-gases has a relatively small impact on sustainable development.

Issue 3: Co-benefits criteria

A key consideration in extending preferential treatment is the criteria upon which preferential treatment would be based. While simple co-benefits criteria may seem more practical, they could become more controversial when determining which country and/or action qualifies for different levels or types of preferential treatment. Such a determination would necessarily follow from the recommended altering of credits based upon an action's developmental contribution (in issue 2). The prospect of crediting reforms and related changes to the post-2012 architecture lies behind the different views on criteria that follow.

Stakeholder perspectives

Most countries have backed two different forms of simple criteria. Sri Lanka, for instance, has suggested that the host country should be the chief determinant of preferential treatment from the CDM (Sri Lanka 2008). Thus, least developed countries (LDCs) or Small Island Developing States (SIDS) would be granted incentives for projects or policies before more advanced developing countries. A similar approach would be using a list of activity types. Thus, energy efficiency and renewable energy projects would automatically qualify for priority status, while nuclear power, carbon capture and storage (CCS) or hydrofluorocarbon destruction (HFC 23) would automatically be excluded (Tuvalu 2008, Miguez 2008, UNEP 2004).

In contrast, some stakeholders at IGES consultations suggested a need for more rigorous techniques to standardize measurements of co-benefits. For instance, a participant from a research organisation highlighted the difficulties of comparing co-benefits across actions and countries without more systematic criteria. The need for systematization has also gained

attention in the academic literature on co-benefits (Smith and Haigler 2007). A clear objection to standardized criteria is that they would infringe upon the sovereign right of host countries to define sustainable development. The concern expressed from both developed and developing country participants at IGES consultations, however, was that stringent criteria would increase the costs of measuring the developmental contribution of an action and then overseeing its implementation.

Reconciling perspectives

Developed country investors and developing country stakeholders have a shared interest in minimizing these measurement and oversight costs. To capitalize on this shared interest, climate negotiators should use a positive list of actions and/or countries in the short-term. They should also clarify that these reforms will lead to standardized co-benefits criteria in the long-term. In all cases, the reforms mentioned in the three previous issues will facilitate coordination between the CDM and ODA, the final issue covered in the brief.

Issue 4: CDM and ODA

Many of the proposed CDM reforms have been discussed in the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP). However, some of the support for actions with co-benefits could be delivered more effectively through non-UNFCCC mechanisms such as ODA. There are also possible synergies between ODA and the CDM, for instance, using aid to finance feasibility studies or cover upfront costs for high-risk projects. There are similarly concerns that this ODA could be diverted from core poverty alleviation priorities to help developed countries pursue climate goals (Michaelowa and Michaelowa 2005). Greater institu-

tional coordination between the reforms to the CDM and ODA could help capture these synergies and avoid these trade-offs.

Stakeholder perspectives

There nevertheless has been little discussion of coordination between ODA and market mechanisms when discussing CDM-related institutional reforms. China, for instance, has called for increasing the capacity of the CDM executive board, improving the transparency of the CDM project approval process, and ensuring the continuity of post-2012 Certified Emission Reductions (CERs) (Duan 2008) But the China position runs the risk of overlooking complementarities with ODA-based initiatives and regime-based market mechanisms.

There has also been limited discussion of this coordination with the recent introduction of these ODA-based initiatives in Asia. Japan, for instance, has established a Cool Earth Partnership that is designed to grant concessional finance to ODA projects with GHG benefits (Japan 2008). Korea has also recently created an East Asia Climate Partnership to finance projects

with developmental and climate benefits (UNESCAP 2008). But neither of these initiatives focuses on how to capture complementarities with a CDM that grants preferential treatment for actions based on standardized criteria.

Reconciling perspectives

To capture synergies and avoid trade-offs, climate negotiators should again pursue a stepwise approach. In the short-term, they should ensure that part of strengthening CDM Executive Board entails forging stronger linkages between ODA, national development funds and carbon finance. A long-term goal would be to use the standardized co-benefit criteria to determine which kinds of actions qualify for preferential treatment from national development funds, ODA, the CDM, other market mechanisms, or some combination thereof.

4. A way forward

Box 3 outlines the sequencing of options for each of the four issues and challenges. The listing of op-

Box 3: Sequencing Options

Issues	Status Quo	Short-Term	Long-Term
1. Scaling up the CDM	Project/ programmatic CDM	Policy-based CDM	Some countries graduate to pledge-based commitments
2. Preferential Treatment	No Preferential Treatment	Procedural Reforms	Alter Credits
3. Co-benefits Criteria	No Criteria	List-based	Standardized
4. CDM and ODA	Limited Synergies	Strengthen CDM Executive Board to capture synergies with ODA	Synergies with ODA based on standardized criteria

tions suggests that climate negotiators should divide reforms into discrete short- and long-term options. More specifically, climate negotiators should consider:

- scaling up the CDM before graduating countries to firmer pledge-based commitments;
- pursuing procedural reforms before altering multiplication factors for credits;
- relying on list-based criteria before quantitative criteria for preferential treatment;
- and strengthening the CDM Executive Board to forge synergies between ODA and CDM before using standardized co-benefits criteria to make those judgements.

There are four reasons for recommending a stepwise approach. First, the proposals in the third column of Box 3 are more moderate in scope and impact. They should therefore be easier to negotiate in the time remaining before a Copenhagen agreement. Second, they capitalize on developed and developing countries shared interests. These common interests range from a gradual exchange of engagement for resources (issue 1), minimizing oversight costs (issues 2 and 3), and capturing synergies and avoiding trade-offs between market mechanisms and ODA (issue 4). They should therefore be easier to overcome points of contention that could otherwise undermine negotiations. Third, many of the proposed steps are contingent upon each other. For example, scaling up the CDM will create the opportunity to grant some actions preferential treatment. Meanwhile, determining which actions could be submitted for pledge-based commitments would be aided by standardized co-benefits criteria.

Fourth and most importantly, research on co-benefits is constantly evolving and would benefit from an approach that has defined steps but remains flexible (witness recent interest in capturing co-benefits from

particulate matter (PM)). Many of the proposed reforms will require feeding findings from that research into UNFCCC processes. There has nevertheless been little interaction between those quantifying co-benefits and those engaging in climate negotiations. A stepwise approach will allow researchers to bring their analytical inputs and modeling results into key processes, including but not limited to AWG-KP discussions over reforms of the CDM. This might begin with sampling of co-benefits from a development-friendly sector that has received little attention in the climate change negotiations (such as the transportation sector). But to build the trust that will be needed to move such an approach forward, the first step should begin soon.

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