

Remarks by the South African Minister on an “international framework for climate change”, Session III (Competitiveness, eco-innovation and climate change), OECD Environment Ministerial, Paris, 29 April 2008

General reflections

1. What would the shape of a realistic, yet ambitious, package for the climate regime after 2012 look like? A future regime must be based on equity. The objective of the Convention spells out a clear goal – stabilizing atmospheric concentrations of greenhouse gases at ‘safe’ levels – while adapting and allowing development to continue in a sustainable manner. The building blocks are clearly outlined in the Bali Action Plan: adaptation, mitigation, technology and financing.
2. The UNFCCC is the appropriate forum to negotiate issues related to climate change, and the WTO to negotiate trade-related issues.
3. Any discussion on strengthening the climate regime must be based on the UN Framework Convention on Climate Change and its Kyoto Protocol. A starting point is therefore recognition of the established principles of equity and common but differentiated responsibilities and respective capabilities. The responsibility of OECD countries to take the lead, not least through funding and technology transfer to developing countries, will be a key ingredient in building trust. The overriding priorities of developing countries are poverty eradication and economic and social development.
4. On mitigation, the balance between paragraphs 1b(i) and 1b(ii) of the Bali Action Plan (BAP) will remain central in defining the architecture of the climate regime after 2012. There is no “major economies” category in the UN Framework Convention or the BAP.
5. The level of ambition (relative deviations from business-as-usual) one can expect from more proactive, incentivised leadership of the South will depend on developed countries taking the lead. This includes:
 - a. Re-engagement by the US in multi-lateral, legally binding emission reductions.
 - b. Commitments by industrialised countries that are real increases on those for the first commitment period, towards the upper end of the range of -25% to 40% below 1990 levels by 2020. South Africa, as a developing country, can only accept an aspirational long-term goal as part of a shared vision, if all developed countries agree to a credible mid-term goal, i.e. one in this range.
6. Technology for both mitigation and adaptation is critical to the future of the climate regime. A “balanced” package will require that developed countries seriously address the means of implementation (funding and technology) in a measurable, reportable and verifiable (MRV) way.

Competitiveness, carbon leakage and sectoral approaches

7. Competitiveness may be *an* issue in the climate negotiations, but it is not *the* issue to be addressed at this stage. A focus on sectoral approaches as a tool to address competitiveness and leakage concerns may in fact undermine trust in the current negotiations. It may be perceived as an attempt to level the playing field between developed and developing countries in trade-

exposed sectors, thereby diluting the principles of equity and common but differentiated responsibilities and respective capabilities.

8. A focus on sectors may not become the basis for imposing trade barriers, punitive trade measures, benchmarking or standards. The core focus of climate negotiations should be emission reductions and adaptation, as well as opportunities and incentives, as opposed to competitiveness and leakage.
9. Sectoral approaches should complement, not replace, absolute binding targets for developed countries. Sectoral efforts might be used to meet those objectives, but they cannot substitute quantified emission limitation and reduction objectives (QELROs) for Annex I Parties.

Trade issues

10. An important outcome of the WTO negotiations would be to promote the development of environmental sectors in developing countries. Under the General Agreement on Trade and Tariffs (GATT 1994), tariffs remain a legitimate policy tool for countries to use to develop their industries, and as such, the elimination of tariffs, as envisaged by the EC and US on an extensive list of environmental goods and services, including, but not limited to climate-friendly goods and services, could in some instances rather result in a situation where developing countries remain dependent on developed countries for environmentally-sound technologies and goods.

Framework for technology development, application and diffusion, including transfer

11. UNFCCC and BAP should be the starting point when we discuss technology. In the Framework Convention Annex II Parties agreed to:
 - a. provide “adequate and predictable” financial resources for agreed full incremental cost of mitigation, adaptation and reporting (Art 4.3)
 - b. technology transfer (Art 4.5), including promoting and financing technology transfer, facilitating access to technology, support for the building of internal technology related capacity
12. A **core balance** in the Convention is in Article 4.7, in that the extent of developing country action is dependent on the provision of finance and technology by developed countries. This core balance is also expressed in the **Bali Action Plan**, which raises the bar on MRV on both sides of the equation: mitigation action & enabling/supporting conditions (financing & technology). BAP 1(b)(ii): “Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner”
13. In responding to the question for this session, we can distinguish between three sources of funding: 1) carbon market, 2) other private sector financial flows and 3) scaled-up public investment.
14. **Carbon market:** We must focus on both the demand (ambitious targets for all developed countries) and supply (creative development of market mechanisms) to drive investment in low carbon economic growth and technology deployment in developing countries. *Policy signals must be loud, long and legal.*
 - a. Demand side: secure the carbon market by sending a clear market signal about the post-2012 climate regime; more ambitious mitigation targets for all developed countries; long term goals underpinned by mid-term targets informed by IPCC (25-40% below 1990 by 2020); commitments must be long term – because investment in low carbon technology

and infrastructure has long return-on-investment cycles; need to be ambitious to generate and maintain carbon price levels that will lead to meaningful financial and technology flows

- b. Supply side: significantly up-scale action; evolution of CDM; creative development of other market mechanisms

15. But, we must acknowledge that carbon markets can drive technology transfer only up to a point. We also need to look at other public and private funding sources in a future architecture. Carbon markets can provide some incentives for commercial technologies that are in the market; but it needs to be supplemented by **scaled-up private sector financial flows and public investment**.
16. Looking beyond participation in Kyoto carbon markets to further enhance developing countries' meaningful participation in the climate regime, South Africa has proposed the sustainable development policies and measures (**SD-PAMS**) approach, supported by technology and enabled by finance, under which developing countries could identify, measure, report and verify mitigation actions consistent with their sustainable development objectives. SD-PAMs should be supported primarily by **scaled up public investment**, not the carbon market. If other market mechanisms can generate funds (e.g. donated drawing rights), those could also support financing.
17. In considering mechanisms and funding for technology, we need to consider the three **stages of technology maturity**. The continuum for technology innovation starts with R&D and is completed with the full commercialisation and deployment of an innovation. Technology transfer mainly deals with the 2 stages in between, namely, the demonstration and pre-commercialisation stages. A suite of funding mechanisms, investment structures and policy tools will be required for (i) existing technologies, (ii) promising near term technologies and (iii) long term technological breakthroughs.
 - a. Funding for deployment of existing technology. Issue of incremental costs links the difficult areas of intellectual property right (IPR) barriers and trade. Multilateral Technology Acquisition Fund for deployment of existing privately-owned, climate-friendly technology in developing countries.
 - b. Venture Capital Fund to commercialise emerging technology; demonstration and pilots.
 - c. Public and private investment in long-term R&D for new technology. Collaborative R&D, with sharing of IPRs between developing and developed country institutions. Focused programmes for research, development and deployment of technologies in particular sectors, eg. clean coal technology, biomass fuels, and solar thermal electricity, which all hold much promise for developing countries.