

### **Frustration as parties fail to agree on expanding sources of Adaptation Fund**

Poznan, 15 Dec (Hira Jhamtani) --The discussion on extension of the share of proceeds arising from the carbon market and joint programs to be used for financing climate-related adaptation activities collapsed without agreement during the final part of the Poznan Climate Change Conference, which ended past midnight on December 14.

The extension of the share of proceeds from Joint Implementation and emissions trading was discussed in the agenda item, "Second Review of the Kyoto Protocol, pursuant to its Article 9", under the Meeting of the Parties to the Kyoto Protocol (CMP 4). Joint implementation, emissions trading and Clean Development Mechanisms are flexibility mechanisms under the Kyoto Protocol to help developed (Annex 1) countries meet their obligations to reduce greenhouse gas (GHGs) emissions.

The review of the Kyoto Protocol (KP) is one of the most contentious issues since before the Bali Conference last year. There was a divergence of views where developed countries wanted a review of the "architecture" of KP while most developing countries wanted the review to focus on the implementation of the Protocol, while maintaining its basic rules and architecture.

At COP 14/CMP 4 in Poznan, following contact group sessions and informal discussions, a draft decision on this issue was produced on December 6, 2008. It consisted of five substantive parts: (1) extending the share of proceeds to assist in meeting the costs of adaptation to joint implementation and emissions trading; (2) relevant procedural elements for inscribing commitments for Annex 1 Parties in Annex B to the Kyoto Protocol; (3) privileges and immunities for individuals serving on constituted bodies established under the Kyoto Protocol; (4) the scope, effectiveness and functioning of the flexibility mechanisms, including ways and means to enhance an equitable regional distribution of clean development mechanisms projects; (5) the

minimization of adverse effects, including the adverse effects of climate change, effects on international trade, and social, environmental and economic impacts on other Parties, especially developing country Parties and in particular those identified in Article 4.8 and 4.9 of the Convention, taking account Article 3 of the Convention.

On point 1, i.e. the extension of share of proceeds, three options were provided. Option 1 said that beginning in the second commitment period (for Annex 1 countries) of the KP, the share of proceeds from emissions trading and projects under Article 6 of KP (joint implementation) shall be used to assist developing countries that are particularly vulnerable to meet the costs of adaptation. To operationalize this, Parties with a commitment inscribed in Annex B of the KP shall, as soon as possible, upon issuance of the assigned amount units (AAU) and removal units, transfer two percent of those units to the appropriate account of the Adaptation Fund.

Option 2 said that the share of the assigned amounts will be auctioned to provide revenues for developing countries to meet the costs of adaptation. To operationalize this, each Party with a commitment inscribed in Annex B shall transfer two percent of the AAU and removal units to the appropriate account of the Adaptation Fund. Another sub-option (within this Option 2) for operationalization is to issue directly two percent of the AAU and removal units directly to the Adaptation Fund. In both options the word "two percent" is in brackets, meaning it was still under discussion.

Option 3 recommended that the issue be taken up under the Ad hoc Working Group on Long-term Cooperation Action under the Convention in the context of other possible options for raising funding for adaptation purposes.

After further deliberations in informal sessions, another draft was produced on December 11 in

which the options for deciding on the share of proceeds and its operationalization had been deleted. Instead, the draft merely agrees that a share of the proceeds from emissions trading and projects under Article 6 would generate substantial funding for the Adaptation Fund. It then requests the SBI to recommend concrete proposals to mobilize such funding and to adopt a decision on this matter at the fifth session of the CMP. This draft is therefore much weaker than the first, with no concrete agreed actions for adding to the funding sources to meet the costs of adaptation particularly in developing countries.

The issue of extension of share of proceeds became one of the stumbling blocks in the negotiation, together with the operationalization of the Adaptation Fund. The issue of the Adaptation Fund was agreed on at about 9 PM on December 12, and the President of the COP 14 called for a final plenary session, while the informal group on share of proceeds tried to reach an agreement.

By about 11 pm it was clear that no agreement could be reached on this agenda item. The President of the COP/CMP then conducted the final session of the CMP. But he had skipped agenda item 13 on Article 9 and went on to the next item on the agenda, which was capacity building. Once the decision on capacity building was passed, China asked the chair what had happened with agenda item 13 which was second review of the KP pursuant to its Article 9.

The President said that the agenda item on the review of the KP could not be completed. The issues were taken up at informal consultations but could not result in an agreement. The CMP 4 then decided that the second review of the KP is completed.

As the informal consultations had continued on even during the COP/CMP closing session, no draft decision had been circulated to the Parties. But at the corridors some delegates interpreted the situation to mean that the second review of the KP is considered completed without results, and that this issue will not be continued in CMP 5 next year in Copenhagen.

At the plenary session, several developing countries expressed their regret that there could be no agreement on issue of extension of share of proceeds, which thus prevented an expansion of income to the Adaptation Fund.

Colombia said it must express that it feels deeply frustrated. It regretted that the COP had not been able to hear from the victims of climate change. "We regret that the pain cannot be expressed" the Colombian delegation said. It emphasized that it is not asking too much. The only source of financing for adaptation at this point is the two percent proceeds from CDM projects in developing countries....Here we talk about solidarity, emergency and greater equity. But the scenarios for mechanisms about more equity have been rejected. We regret the bad news and the bad signal". Colombia hoped that what has happened will serve as an inspiration for reflection in Copenhagen. It hoped that the voice of those affected by problems of climate change that they did not cause will be heard in Copenhagen. And it hoped that there will be greater harmony between speeches, documents and promises with the real action on the ground.

**Belarus** said it is also very disappointed. "Our colleague from Colombia has made a stirring statement" it said. Belarus reminded that a lot amount of work has been done on the issue and it cannot be left hanging in the air. Agreement had been reached on parts of the draft conclusion. With so many points on procedural elements agreed, it shows that the KP procedures and approaches are out of date and need to be changed. "It is high time we do this" Belarus said.

[Some observers at the CMP noted that this was an indication that Annex 1 countries wanted to change procedures of the KP that would oblige developing countries to cut GHG emission but are not willing to make commitments that would provide more funding for adaptation.]

**South Africa** expressed agreement with the strong sentiments of Colombia. It had thought that the outcome could at least be a recommendation to do further work and then to make a decision at COP 15 next year. "We now have an Adaptation Fund but no funds", it said. The only source of funding for adaptation is currently part of the proceeds from the CDM. Thus developing country adaptation is funded by developing countries.

It further said that we are on the road to Copenhagen, and talking and trying to build trust, with broader discussions on financial mechanism and technology transfer. "But we cannot see a strong

*15 Dec 2008*

signal that this will be agreed on. We need positive signals". A good outcome would be to agree to identify new, additional and reliable source of funding to be provided to the Adaptation Fund.

**Costa Rica** said this agenda item has failed on the issue of the extension of share of proceeds. We have discussed the problems for two weeks in the wonderful city of Poznan. However, given the content of the issue, it should be discussed in one of the most vulnerable countries, in a country that faces the problem of adaptation every day. Costa Rica added that we talk so much about adaptation, that the word has almost lost its meaning. But the reality is that families lose homes, farmers lose water supply and children are becoming orphans due to climate-related disasters. Adaptation is the human tragedy of climate change. Most developing countries have been forced to do adaptation activities in silence and continue to bear the financial burden of adaptation. The cost of adaptation is not about compromised texts and strategies, it is about human lives.

**Brazil** echoed the disappointments of many countries on the failure to reach an agreement on the expansion of share of proceeds. This gives a negative signal to Copenhagen, it said. Brazil called on all Parties, especially Annex 1 Parties, to move forward in a way that allows for the operationalization of adaptation through agreement on concrete actions.

**India** said that regretfully Parties have to conclude that the second review of the KP has been completed without meaningful results. It hopes that this will send a clear signal about the need for results. The Indian delegate said he has attended 12 COPs and this is the saddest moment he has witnessed. He emphasized that the discussions on Article 9 fell apart for only one reason – the refusal of some Parties to lose miniscule income from trading carbon while millions of people are losing their homes, livelihoods and life due to climate change.

India asked: What are developing countries asking for? That in facing this tragedy the world provides some measure or relief. This is not something unique. Right from the time when the CDM was conceptualised and agreed on, developing countries agreed to set aside some share of the proceeds to provide resources for countries facing adaptation problems. And it is being done. This is the only

source of funding for adaptation now. What do we hear from some Parties? That they cannot agree to part with some small amount of funds until we can agree on the overall architecture of the instrument. We can see clearly what lies ahead at Copenhagen, India concluded.

**Gabon** said that heads of delegation at the opening ceremony had used grave words about the seriousness of climate change and uttered promises to shape actions. But the outcome is a disappointment. Climate change is not a question of finance, it is not about carbon. It is about humans, the future of our children. Unfortunately for far too long these cries have not been heard. There is a great vision gap and that is not a good sign for the future. We need solidarity if we are to build a new world order. If we have got the financing mechanism wrong, we should not be afraid to put the issue back on the table and make it work again.

**Venezuela** said that without addressing adaptation funding, it would be difficult to visualize the road to Copenhagen. **Maldives** said that in the small meeting room, what we heard indicated that our partners were willing to give the wrong signal. Adaptation is a matter of real urgency for us, and we have been calling parties to address this as an urgent and immediate need. We have submitted 38 National Adaptation Plans of Action (NAPAs) and in Marrakech we agreed to implement actions on the ground for adaptation. Today, we are still talking about it.

Outside the meeting room, delegates from developing countries could also be heard expressing their disappointment and frustration. One of them said that the collapse of the talks on this topic is an indication of what lies ahead in Copenhagen. Several delegates felt that the developed countries want to change the rules of the KP so as to oblige developing countries to make more commitments to reduce emissions. But when developing countries want procedures to be changed to facilitate funding for adaptation, the developed countries refused the requests. "Developed countries have said they are willing to take the leadership in combating climate change, but the collapse of talks on this agenda item shows, that the commitments do not match the rhetoric for public consumption," said a frustrated diplomat.