

Building bridges to 2020 and beyond: the road from Bali

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What would the shape of a realistic, yet ambitious, package for the climate regime after 2012 look like? How do we obtain a package deal starting in Bali but building bridges to a post-2020 climate regime? A fair, effective, flexible and inclusive package deal has to strike a core balance between development and climate imperatives (mitigation, adaptation, dealing with the impacts of response measures, technology transfer, investment and finance) to create bargaining space and establish a conceptual contract zone. Within a continuum of possible packages, two packages in the contract zone are identified: 'multi-stage' and 'ambitious transitional'. The latter is ambitious, combining domestic cap-and-trade for the USA, deeper cuts for Annex B countries, and quantifiable mitigation actions by developing countries. It is transitional as a possible bridge to a more inclusive regime beyond 2020. Multi-stage is defined around mechanisms by which countries move through increasingly stringent levels of participation, and must be based upon agreed triggers. Our assessment of political dynamics is that multi-stage is not yet in the *political* contract zone. Key to this is the absence of a 'trigger from the North', in that the largest historical emitter must act earlier and most decisively. But progress will also depend on continued leadership from Annex B countries, as well as more proactive, incentivized leadership in the South. Agreeing on the transitional stage is the critical next step in the evolution of the climate regime. Negotiating any package will require an institutional space for bargaining, political leadership and trust, and a clear time-frame.

Keywords: Bali; climate negotiations; developing countries; development and climate; multilateral climate policy frameworks; package deals; post-2012; South-North

Quelle forme pourrait avoir un accord global réaliste et ambitieux pour un régime climatique post-2012? Comment pourrait-on obtenir un accord global, à Bali, en vue d'amorcer un régime climatique post-2012? Un accord impartial, efficace, flexible et inclusif doit trouver le bon équilibre entre les impératifs du développement et du climat (mitigation, adaptation, impact des mesures de réponse, transfert des technologies, investissement et finance) pour créer l'espace de négociation et instaurer une zone contractuelle conceptuelle. Deux accords globaux sont identifiés dans la zone contractuelle, le long d'un continuum d'accords possibles: Transition Multi-étapes ou Transition Ambitieuse. La dernière de ces possibilités est ambitieuse, combinant le cap-and-trade interne pour les Etats-Unis, des réductions plus strictes pour les pays de l'annexe B, et des actions de prévention quantifiées pour les pays en développement. Cette transition serait un pont possible vers un régime post-2020 plus inclusif. Une transition multi-étapes permettrait aux pays d'accroître leur participation, selon des mécanismes de déclenchement fixes. Notre analyse des dynamiques politiques révèle que le multi-étapes ne se situe pas encore dans la zone contractuelle politique. Ceci est principalement due à l'absence de « mécanismes de déclenchement » pour les pays du Nord, selon lesquels les principaux pollueurs historiques se doivent d'agir plus tôt et de manière plus décisive. Mais le progrès dépendra aussi du rôle directeur continu des pays de l'annexe B, ainsi qu'un leadership encourage, et plus proactif, au Sud. Un accord sur la transition est l'étape critique dans l'évolution du régime climatique. La négociation d'un ensemble de mesures, quel qu'il soit, nécessitera un espace institutionnel propice à la négociation, au leadership et confiance politique; ainsi qu'un cadre temporel clair.

Mots clés: Bali; négociations sur le climat; pays en développement; cadres multilatéraux de politique climatique; accord global; post-2012

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1. Introduction

The pace of climate negotiations is out of step with the urgency of action required by science. The IPCC's Fourth Assessment Report makes it clear that the science is unequivocal, impacts are already being observed, and little time is left to bend the curve of greenhouse gas emissions downward (IPCC 2007a, 2007b, 2007c). Climate change brings with it the threat of environmental damages and social disruption, and is a fundamental challenge to economic development. Yet negotiations proceed at a slow pace, with progress measured in paragraphs of decisions, rather than breakthrough agreements. The challenge is urgent: to build on the existing climate regime to reach a fair, effective, flexible and inclusive agreement for the period after 2012.

The starting point is clear. 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 allowing development to continue in a sustainable manner. This delicate balance, which we refer to as the ‘development and climate (D&C) paradigm’, is a prerequisite if we want to find a North–South contract zone defined by mutual interest. We do not foresee a deal on the ‘fair use of the ecological space’ in the absence of a deal on giving everyone a ‘fair chance in the development space’.

We argue that what is needed is a paradigm that balances climate and development, and that these provide the parameters for a broad conceptual contract zone. Within that zone, possible ‘packages’ for a future climate regime can be identified. However, any decision will ultimately be a political one. This narrows down the options within the conceptual bargaining range to what we refer to as a political contract zone. Against this background, the central questions addressed in this article are:

- What is the shape of a realistic, yet ambitious, package for a climate regime after 2012?
- How can an agreement on such a package build a bridge to a post-2020 climate regime?
- How do we reach a package deal, starting at COP-13 and COP/MOP-3 in Bali?

2. Negotiating a package

Success in the post-2012 negotiations will hinge on our ability to negotiate an overall package. What is meant by a package? Very simply, the negotiations up to 2009 will have to balance all the major interests and concerns, and a package is a combination of different elements of a future regime. A wider package of elements creates the political space for bargaining. And though it may eventually seem as if a contract zone is elusive, the way the negotiating process is designed could facilitate the meeting of vital political requirements, the redefinition of self-interest, and/or a re-orientation of world views, as the case may be.

A negotiating framework and package should allow for direct pay-offs (to compensate or incentivize Parties for taking action), inter-issue trade-offs (where costs under one area are offset by gains in another), side-payments within the climate regime (e.g. preferential access to adaptation or technology funding) or outside it (e.g. linkage between Russian ratification of the Kyoto Protocol and accession to the WTO), and issue linkage (e.g. between benefits in the adaptation area of work and commitments on mitigation, and vice versa) (Vorster, 1998).

A critical precondition for any package is that it must also address the distributional issues that underlie the current impasse. Roberts and Parks (2007) argue that inequality, i.e. ‘the position of countries in the global division of labour’ promotes zero-sum and negative-sum behaviour and reduces the prospects for cooperation (Roberts and Parks, 2007, p. 6). The balance of interests is

reflected in the objective of the Convention itself, with Article 2 aiming at stabilization, but on condition that development is allowed to proceed in a sustainable manner. This delicate balance is a prerequisite if we want to find a North–South contract zone defined by mutual interest. If the balance between stabilization and development is not broadly perceived as being ‘fair’ both in the North and South, then it is likely that there will be a continued spill-over of the much deeper suspicions and structural conflict that are still pervasive in other global issue areas.

In the climate negotiations, establishing a ‘contract zone’ that can accommodate the different interests of North and South is a significant challenge. The contract zone will be the ‘end’, where there is interlocking of political comfort zones, where no one feels (significantly) disadvantaged relative to others, and where legitimate deal-breakers that provide a veto to some Parties are accommodated. In this zone, countries are not only likely to make calculations on the basis of absolute gains or absolute costs, but decisions may also be informed by changes in positions relative to others (Waltz, 1979; Krasner, 1985; Grieco, 1993).

The climate regime will only be credible, legitimate and sustainable if all countries benefit from its rules, mechanisms and resources. The contract zone is, in short, the bargaining space that is perceived as being mutually beneficial by both the North and South, and within the North and South, respectively.

Finding a contract zone is of course no easy task, given the contours of the current political debate¹ and the macro-level political conditions that will have to be met to trigger regime transformation/strengthening. The convergence of two sets of expectations appears critical in establishing a political contract zone. The message from the developing countries has been clear: they take their responsibility seriously and stand ready to do more, but ‘...the trigger to strengthen the regime must come from the North’ (van Schalkwyk, 2007). In addition, given the development deficit, accelerated action will depend on progress with the creation of a more empowering environment. From the North the message is equally clear: they expect an adequate contribution from the South, not only for ‘climate’ reasons, but also to ensure that their economies are not placed at a competitive disadvantage.

The current impasse reflects the deeply entrenched North–South distrust that spills over from the trade and development issue areas, as well as a North–North split based on fundamentally divergent preferences for a future climate regime. Despite relatively strong South–South tactical solidarity, there is also a degree of disparity in Southern expectations for a future regime. The major drivers behind these different positions in the North and South appear to be economic and developmental, rather than environmental imperatives.

One understanding of a package, then, is that it must contain the core elements necessary for agreement between a critical mass of Parties, adequately reflecting their core interests, including equity. It must be balanced in a way that is seen to be fair and that allows Parties with different interests and visions to converge in a ‘contract zone’.

3. Balanced packages

3.1. The parameters of a balanced package

Putting into words the basic shape of a balanced package, and the steps towards that package, may help to conceptualize what a fair, effective, flexible and inclusive framework building on the UNFCCC and its Kyoto Protocol might look like. In this article, we elaborate on some details of possible packages – the parameters that will most probably determine the political acceptability of different packages, the elements that have to go into them, and the process of getting there. The naming of things is important.

First, though, it may help to reflect on what we mean by fair, effective, flexible and inclusive. In our estimation, these are critical determinants of the political acceptability of any package deal. A judgement on fairness will depend on the degree to which both the process and the outcome are perceived to be equitable. The balance between climate and development will be critical. A political assessment of effectiveness will consider both the contribution to the atmosphere and the cost-effectiveness of action. Flexibility will be determined by the degree to which country-specific aspects are accommodated in a regime that is not based on a 'one-size-fits-all' approach. Finally, in judging inclusiveness, policy-makers will consider broader participation in the regime as well as its coverage of emitting sectors.

3.2. A balance of elements

The building blocks for any package must be core elements. A package should be broad enough to include deal-breaker elements and allow trade-offs, but not so broad as to lose focus and reduce our ability to negotiate a deal.

In the past few years of negotiation, the central elements have been discussed. A list that might allow balance would be:

- Adaptation, in particular for poor and vulnerable developing countries and communities, but ultimately for all.
- Mitigation, which should include substantially more ambitious and legally-binding quantified emission reduction targets by all developed countries as well as more urgent, incentivized mitigation action (e.g. reducing emission from deforestation in developing countries; sustainable development policies and measures) by developing countries.
- Managing the unintended consequences of response measures for the economies of other countries.
- Technology development, commercialization and deployment, in support of adaptation and decarbonization of economic activity.
- Investment and finance at the scale required for both adaptation and mitigation.

These elements seem to us to address the core interests of a critical mass of Parties, and leave out no critical 'deal-breaker' elements. Longer lists are of course possible, and the negotiating process may throw up additional elements.

Central to striking a deal is a sense of balance. Balance between elements is needed in several respects. A balance struck between mitigation, adaptation, dealing with the impacts of response measures, technology transfer, and investment and finance will allow for inter-issue trade-offs and pay-offs during the negotiating process. As such it also holds the potential to address the distributional issues that will make a future deal more politically acceptable to the South, and to level the playing field to a degree that ensures inclusive participation from the North. Any package would have to ensure that expectations for an *adequate* contribution from developing countries are met by *adequate* incentives and support. Technology transfer and finance, a balance expressed in Article 4.7 of the Convention, are therefore the cross-cutting or linking elements in any package.

Within the mitigation area of work, a key balance is between mitigation action and the sharing of the burden of mitigation costs by developed and developing countries, whether from their own resources or through a transfer of resources. The extent of broader participation determines environmental effectiveness (Environment Canada, 2005). Broader participation also places greater expectations on some developing countries, which needs to be balanced with greater action by, and inclusion of, all developed countries. This should be balanced with the recognition of action already taken by developing countries, as well as their existing plans for further quantifiable action (see, for example China's NDRC, 2007).

The broadening also requires that the balancing elements outlined above be introduced. What, then, is the deal that is needed? Essentially, it seems to us, developing countries are saying that ‘we will do something if you all do more’. Putting this into a political context, this could read ‘Annex I countries take targets, NAI take actions’. With a little further refinement, the package deal might be that all Annex I countries, including the USA, would take stricter targets, while some non-Annex I countries take more urgent action.

The requirement for balance is raised not only by developing countries. Among Annex I countries, too, a level playing field is critical, one that includes the USA being engaged in comparable quantified emission reduction commitments. The expectation of major developing countries is different – they need to be playing on a different field, one which involves recognizing and incentivizing their tangible contribution to our common responsibilities. In short, the balance must lie between historical responsibility by those who have emitted in the past, and responsibility for the future by those whose emissions are growing rapidly (Zammit Cutajar, 2007).

Our assessment is that this balance will continue to hold in a changing world – except that more effort will be required of all.

3.3. A continuum of packages

Just as there is no single, definitive list of elements, there is no single conception of a balanced package. Indeed, it seems highly unlikely that any single package proposed by anyone would be adopted ‘as is’ by everyone. Rather, it is more helpful to think of several packages along a theoretical continuum. Figure 1 places a range of different scenarios on a theoretical continuum reflecting environmental effectiveness and broader participation. Note, however, that one cannot assess effectiveness based on the *form* of a package alone, without also specifying its *stringency*, in terms of the numerical targets it encompasses. For example, it is at least conceptually possible to construct an ambitious transitional package with very stringent actions that is more effective than a multi-stage package with very low levels of ambition for each stage. What the graph suggests is that, levels of ambition being equal, effectiveness increases along the arrows in Figure 1. The continuum stretches from the status quo to a universal, all-encompassing climate regime. The status quo is characterized by no new commitments for developing countries, no US participation in quantified mitigation commitments, and limited ambition for Annex B Parties.

A small step beyond the status quo would be ‘enhanced status quo’. Under this scenario, the USA would continue to opt out of the Kyoto regime. It may take more proactive domestic action, building on their various ‘partnership’ and bilateral initiatives (see for example, Watson, 2007, for a complete list of these initiatives). Developing countries may scale up their action under Article 4.1 of the Convention, but it would not necessarily be quantifiable beyond participation in traditional CDM and other voluntary domestic actions. Policies and measures to enhance technology transfer and financing/investment under the multilateral regime do not incentivize more stringent action by developing countries. The focus is squarely on development without a significant carbon constraint. In the absence of what is perceived as a comparable effort by the USA and an adequate contribution by major developing countries, the EU’s targets are unlikely to be more ambitious than a linear extension of their first commitment period targets under the Kyoto Protocol (EU Council, 2007). It is also possible that some Annex B Parties may choose to opt out of the Kyoto regime if the USA does not take comparable action to level the playing field. There is a thin line between this scenario and regime collapse.

At the other end of the spectrum is a truly global climate regime. The starting point is quantifying Article 2, seeking broadened participation, and then sharing the burden. Agreeing on a limit for temperature increase (e.g. 2°C) or a stabilization goal (e.g. 450 ppmv) is seen as the Archimedean

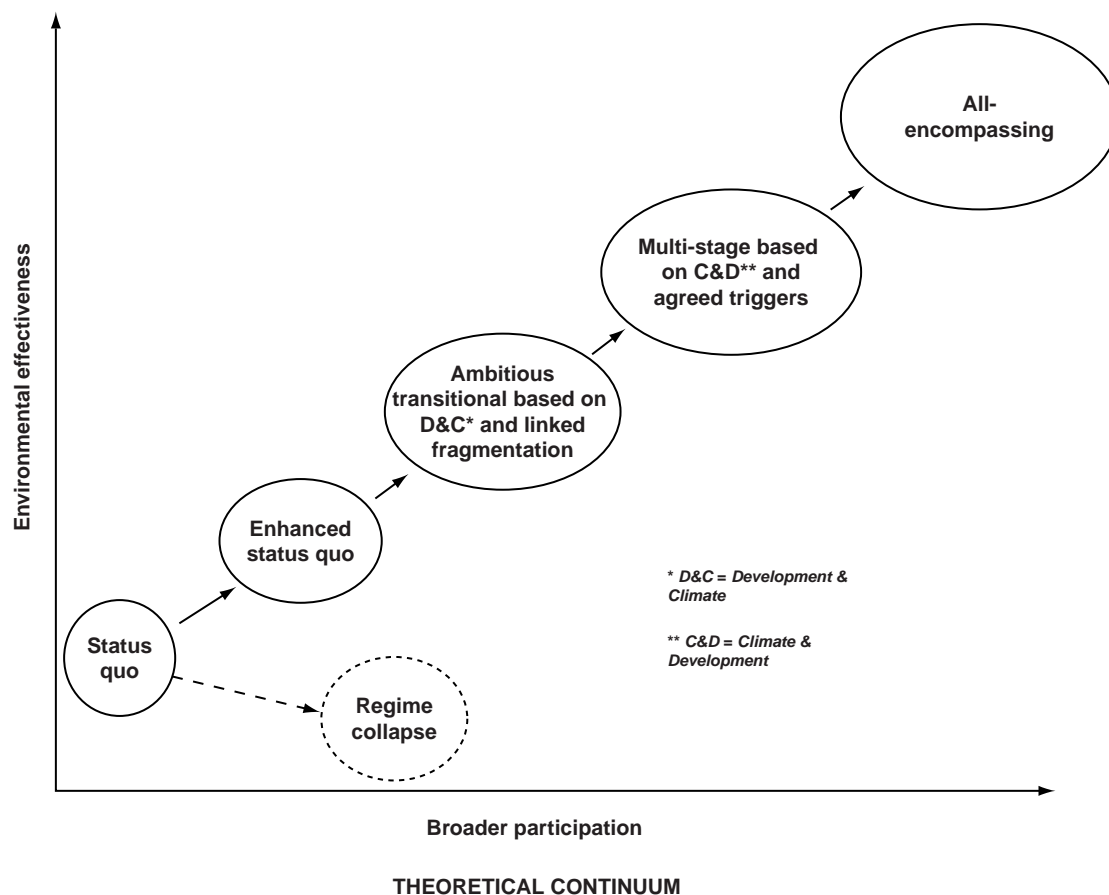


FIGURE 1 Continuum of packages from 'status quo' to 'all-encompassing'.

point from which the whole world can be leveraged. A global carbon budget is calculated from this end-point and one or other formula is applied to allocate emissions to all countries. In its pure form, this 'Climate First' approach does not take seriously the right of the South to develop. Based on our analysis of the current political realities, and in particular because this package does not manage to strike a core balance between stabilization and sustainable development, we would argue that this approach falls outside the contract zone.

4. Two packages in the contract zone

In the bargaining space between 'enhanced status quo' and an 'all-encompassing' regime there are two possible packages. Both seek to balance development and climate. In other words, both recognize the right of the South to continue to grow emissions in pursuit of development. The multi-stage package leans slightly more towards the climate imperative, but the different stages recognize differences in development. One might say it is based on the 'climate and development (C&D) paradigm'. The package we call 'ambitious transitional' turns this around, basing itself on the 'development and climate (D&C) paradigm'. We outline each of these packages in turn, before returning to consider how they might fit into the continuum and the hypothetical evolution of the regime.

4.1. Multi-stage package

The first would be a multi-stage package. 'Multi-stage' in this context means that countries progress from one level of participation to another through different stages. While the definition of the stages differs in various proposals (Höhne et al., 2003; Ott et al., 2004; Den Elzen et al., 2006), the rules for successive stages are always more stringent.

The full multi-stage idea could reflect increasing stringency for developing countries, further along the path of 'bending the curve' of emissions, e.g. (1) growth without a carbon constraint (no new commitments), (2) slow emissions growth (e.g. participate in the CDM, pledge to implement measurable, reportable and verifiable mitigation actions under a SD-PAMs approach, including reducing emissions from deforestation and adopting energy efficiency and renewable energy targets); (3) some commitment to stabilize emissions (e.g. a growth target); and eventually (4) quantified emission limitation or reduction commitments.

In different multi-stage proposals, the stage may not differ that widely, but the rationale can be very different. Competitiveness between and within countries can be addressed by the rules governing the move from one stage to the next. The multi-stage package we are proposing here is based fundamentally on the need to 'bend the curve' of emissions. Imagine a typical curve of emissions that initially grows rapidly, then slows, flattens out at a later point, and declines. The fundamental need indicated by science to work towards emission reductions is one rationale for progressively stringent stages.

Equity, however, requires that the progression through stages is based not simply on time and current/projected emissions, but also on income levels, population size, historical responsibility, and the potential to mitigate. While it is clear that the urgency of the climate challenge requires more urgent mitigation action from all countries – developed and developing – simply locking developing countries into fixed stages with automatic graduation will not be a realistic political proposition. The logical consequence for developing countries of such a simplistic formula is that they would soon be required to reduce emissions in absolute terms, *while they are still relatively poor* (Baer et al., 2007).

A fair approach to a multi-stage package must explicitly take into account the income levels and other national circumstances of developing countries and acknowledge that developed countries built their wealth without carbon constraints. Thus the rationale for a multi-stage approach cannot simply be developed countries' perception that 'Kyoto is unfair' because developing countries have no caps. There is good reason why the first principle listed in the Convention exhorts Parties to protect the climate 'on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities' (UNFCCC, 1992, Art. 3.1).

The practical upshot of this distinction in rationales is how triggers for graduation are conceived. Multi-stage approaches often assume automatic graduation – once a country reaches a threshold, it should graduate to the next level of commitment. Such formulations assume that multi-stage is a rule-based evolution (Den Elzen et al., 2006); i.e. graduation happens automatically, according to a formula, as predetermined rules are applied. With such an approach, multi-stage becomes a 'pathway towards a global regime in which developing countries participate in a commitments regime in several stages' (Bodansky et al., 2004).

However, triggers leading to increased stringency for developing country commitments can also be seen differently. They can be agreed politically, and 'may include conditions for both developing and industrialized countries' (Winkler et al., 2006). Agreed triggers would mean that reaching a threshold triggers the consideration by a country as to whether it joins the next stage. Graduation is not automatic, simply because no sovereign country would simply accept the result of a formula. This is true not only for non-Annex I but also for Annex I Parties. The São Paulo

Proposal suggests that, upon reaching a trigger, a country can either graduate or opt out of the regime (BASIC Project, 2006). Opting out would, however, have certain consequences, which could include trade sanctions. If countries opt out of the sequence of stages, then the multi-stage package might not be much more effective than one that can be called 'ambitious transitional'.

4.2. Ambitious transitional package

An 'ambitious transitional' package assumes more urgent action by all. More specifically, it is premised on a larger group of countries taking on quantifiable commitments, albeit not (immediately) of the same kind. In 1997 in Kyoto, 'common but differentiated responsibilities' meant that industrialized countries took on QELROs (quantified emission limitations and reduction objectives), and developing countries did not. In 2007, the bar must be raised for everyone if we are to deal with the challenge of climate change. All industrialized countries must take more stringent, binding emission reductions, and developing countries must act more urgently, in a quantifiable way, and within a more empowering technology and investment framework.

This package assumes, however, that there is no participation by the USA in an international, legally-binding cap-and-trade regime in the second commitment period, and that major developing countries do not agree to graduation under a multi-stage approach. But both the USA and developing countries do more under a more ambitious regime. This is why a transitional package may be necessary. On the other hand, this package goes further than 'enhanced status quo' by weaving together three mitigation strands into one multilateral framework:

- It links more urgent domestic action by the USA and other countries that cap-and-trade outside the Protocol with other domestic and/or regional cap-and-trade regimes. The link could also be to Kyoto compliance markets if methods are comparable.
- Annex B Parties as a group achieve –30% reductions below 1990 levels, going beyond the –20% unilateral reduction indicated by the EU (EU Council, 2007).
- It recognizes and provides incentives for much enhanced mitigation action by developing countries. Although developing countries do not take on quantified mitigation targets, some do commit to take meaningful quantifiable mitigation actions. This can take various forms for countries with differing characteristics within the non-Annex 1 group. Positive incentives enable more active leadership of the South, while taking due cognizance of the widely varying national circumstances of developing countries.

A range of possible quantifiable actions, some being market-based and others being policies and measures (PAMS), could be undertaken by developing countries on a differentiated basis and according to their respective national circumstances. This could include sustainable development policies and measures (SD PAMS), for example domestic targets for energy efficiency or renewable energy, cleaner use of coal, or reduced emissions from deforestation (REDD); 'no lose' sectoral targets; or traditional, programmatic, policy or sectoral CDM.

On the demand side of the carbon market equation, long-term commitments and deeper emission cuts by all developed countries will be critical to maintain price levels and provide adequate time horizons to dramatically increase investment in low-carbon economic growth in developing countries. The linking of fragmented carbon markets or cap-and-trade regimes could further fuel demand. On the supply side, the creative development of market-based instruments could support developing countries to do more.

Fragmentation implies that different approaches exist in parallel. It accommodates current political realities and different national preferences, as well as 'greater variation among parties

when it comes to type of commitments, types of caps as well as coverage of the national trading schemes' (Tangen and Hasselknippe, 2004). However, it is possible to find bonding elements and political convergence within a fragmented world (Zammit Cutajar, 2007). Linked fragmentation assumes that we can design a regime that then gradually extends its coverage, moves to greater standardization, reduces fragmentation, and leads to a common carbon price. Defragmentation would also address issues of competitiveness. A first step would be to find a common metric – in other words to harmonize emissions accounting and the measurement of emissions reductions; and then, at market level, the development of mechanisms that link separate carbon markets. Politically speaking, this would enable a judgement on the fairness of the regime and the adequacy of commitments – despite the fragmentation of action and commitments.

The ambitious transitional package has a stronger bottom-up character than the multi-stage package, recognizing differentiated efforts, rights and obligations. For a transitional period, it accepts some level of fragmentation, while seeking to create mechanisms to link different components of the regime. This package is 'transitional' in that it assumes that the second commitment period would be a bridge to a more inclusive regime beyond 2020. The introduction of a cap-and-trade regime in the USA would then build the confidence after 2012 that could open the door for the USA to join a Kyoto-type regime at some point in the future, but not later than 2020. Likewise, any of a range of quantifiable actions taken by developing countries, including 'no lose' sectoral targets, sectoral, policy or programmatic CDM, or even some categories of SD-PAMs, could be linked to global, regional or national carbon markets during this transitional period.

4.3. Evolution of the regime

How might the future of the climate regime evolve over time? Having considered two packages within the conceptual contract zone, it seems to us that a critical factor that will determine whether there is a political contract zone, besides the balance between D&C imperatives, is a trigger from the North. This is a fundamental political condition based on equity considerations. It needs to be complemented by more urgent and incentivized action from the South, structured in a way that addresses distributional issues, thereby allowing adequate space for the narrowing of the North–South development gap.

Of the two packages outlined above, the multi-stage package may appear to lead more certainly to more stringent action, since it defines a mechanism of agreed triggers by which countries move to increased levels of action. It must be remembered that environmental effectiveness depends critically on the level of ambition in each of the packages and on broader participation.

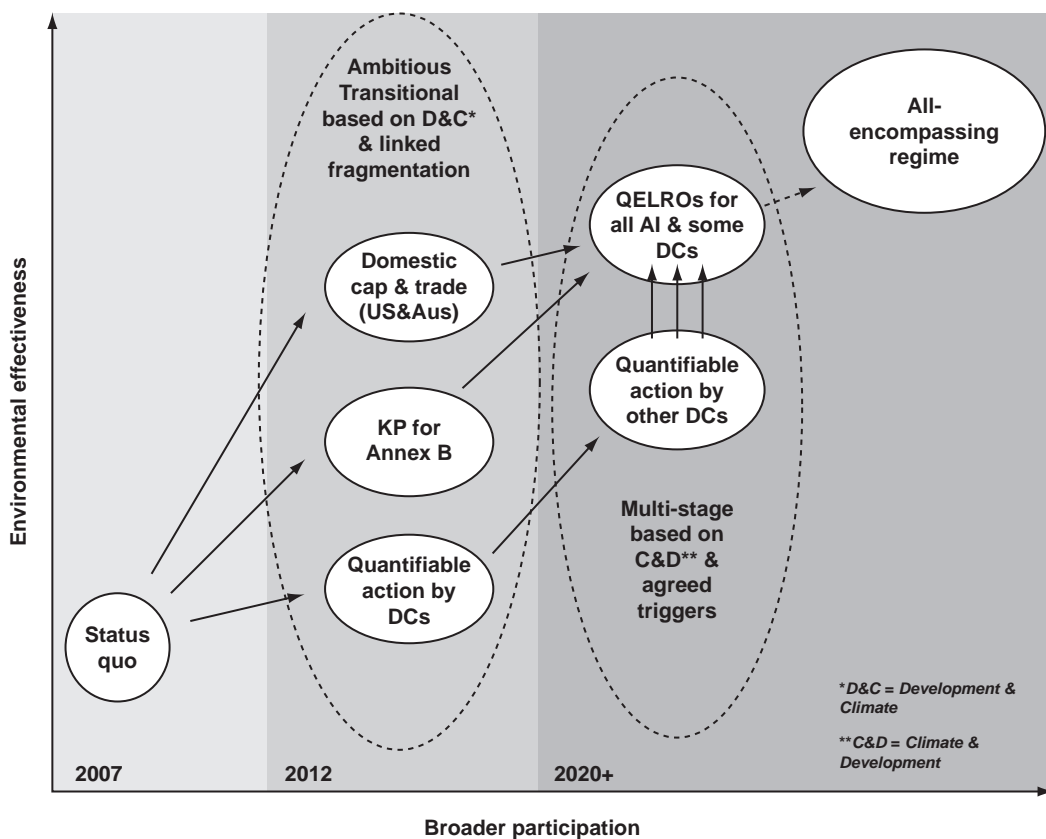
Without US re-engagement in a multilateral regime that contains legally binding, quantified emission reduction commitments under the Kyoto Protocol, it seems neither likely that major developing countries would commit to a multi-stage package, nor indeed fair to expect them to do so. Without giving the USA a veto over all climate action, it is equitable that the largest emitter (current and historical), the largest economy and most powerful nation should take the lead in reducing emissions. Such leadership must mean both taking stronger action and doing so earlier. The current US administration seems determined not to live up to this challenge. But perhaps the next administration will provide the 'trigger from the North'.

In addition, the South has not been empowered (yet) to take on quantified mitigation targets. Though developing countries indicate that they take their responsibilities seriously, the message is clear that their quantifiable mitigation action cannot be of the same kind as that for developed countries. The legitimate reason is that space for development is needed, or in the language of Article 2, to 'allow economic development to proceed in a sustainable manner'. Yet the scale of the mitigation challenge is so daunting, and the vulnerability of developing countries themselves

so pressing, that enhanced action by all countries, including developing countries, is needed urgently. More proactive leadership is needed within the South. But developing countries continue to stress that the largest historical emitter (the USA) must act most decisively and first.

In the absence of these fundamental political conditions being met, the 'ambitious transitional' package outlined above is likely to be the only politically realistic package for the climate regime in the commitment period starting in 2013. That is the political contract zone.

Rather than thinking about 'multi-stage' and 'ambitious transitional' as alternative choices, however, they could also be understood as part of an evolution of the regime over time. Figure 2 shows the two packages in the contract zone within the overall continuum. Thought of in this sense, Figure 2 shows how it may be possible to design an ambitious transitional architecture for the climate regime after 2012 – a period during which the USA will take its first steps towards integration with a truly global regime by adopting domestic quantified emission reduction commitments, Annex B Parties to the Kyoto Protocol will commit to deeper emission cuts, and developing countries will act on their differentiated responsibility by taking further quantifiable and incentivized mitigation action of a different kind. Australia in this scenario could re-join the Kyoto track, assuming a new administration in 2008, or could remain outside the Kyoto regime



REALISTIC BUT AMBITIOUS PROGRESSION ALONG CONTINUUM

FIGURE 2 The relative positions of 'ambitious transitional' and 'multi-stage' packages within the continuum.

and at least introduce an ambitious domestic cap-and-trade regime in 2012. The dashed lines between the three elements comprising the ambitious transitional package indicate that linkages are possible between the fragmented pieces (see Figure 2). This transitional period from 2012 to 2020 will then be important to build the trust and confidence required to incrementally strengthen the regime from 2020 onwards.

5. Building bridges to 2020 and beyond

Building bridges is a task that will need urgent attention up to 2020 and beyond. Considering the continuum in Figure 2 as an evolution over time, one can imagine progressive strengthening of the climate regime in a stepwise manner. The ambitious transitional period after 2012 could evolve into a multi-stage approach after 2020, which in turn could be the bridge to an all-encompassing regime by mid-century, or once the development gap has been sufficiently narrowed. In the next phase, and by no later than 2020, the USA would join Annex B and adopt quantified emission reduction targets. Other Annex B Parties would take on more ambitious levels of reductions than in the transitional phase. And enhanced or quantifiable developing country action could become quantified commitments for some developing countries – albeit on a differentiated basis once they reach the agreed-to thresholds and make a calculated decision not to opt out of the regime. This could be on the basis of a commonly established index combining measures of responsibility, mitigation potential and capability. Political negotiations based on principles and criteria would determine which countries move along. This is shown by the vertical arrows in the multi-stage package in Figure 2. It is not foreseen that the least developed countries (LDCs) would take on quantitative mitigation commitments under the multi-stage package.

If our analysis is correct that ambitious transitional and multi-stage packages are currently in the conceptual contract zone for 2012, 2020, and beyond, then how do we get there? A package ‘deal’ of elements does not exist in abstract. It requires:

- an institutional space for discussion, binding together a diversity of processes
- political will, leadership and trust
- a clear time-frame, including an end-date

To reach a deal on an ambitious transitional package, followed by multi-stage, negotiations have to take place within the appropriate UN body, namely the UNFCCC. We do not have the luxury of time to reinvent this platform and its legal instrument (Kyoto Protocol). Nor can we afford to bypass the multilateral process. Ultimately decisions must be taken by all nations together – otherwise it would be neither inclusive nor fair. Those most vulnerable to the impacts of climate change and least responsible will be left out of decision-making, and those responsible for the problem may be let off the hook on the adaptation side of the equation, if only the so-called major emitters or major economies are engaged on the mitigation side.

That being said, other processes can add value at various levels, as long as they feed back into the negotiations under the UNFCCC. Informal Ministerial meetings, the G8+5 process, various partnerships and the US-initiated ‘major economies’ dialogue can all add value in various ways. If they are designed to contribute to the central negotiations, these processes would also help to build trust, which in the North–South context will be a critical determinant of success.

Fairness in both process and outcome is critical to mobilizing political will. As we stated at the outset, we do not foresee a deal on the ‘fair use of the ecological space’ in isolation of a deal on

what is 'fair in the development space'. To get to a climate deal, we will also need to strike a development deal. This is essentially in the hands of the North. They must make a serious and substantive offer – and discontinue behaviour that only serves to fuel existing distrust and suspicions (e.g. not delivering on existing commitments on technology transfer and financial resources, or pushing for an inequitable framework for the governance of the Adaptation Fund). Trust, as a basis for further agreements, will firstly depend on the meeting of existing commitments, and secondly on future commitments to address developmental challenges in general, and distributional issues within the climate regime specifically. In the absence of these political conditions it is not foreseen that world views in both the North and South will be sufficiently transformed to get to consensus on a D&C paradigm.

A clear time-frame is a powerful spur to negotiations. Significant impetus is created by setting an end-date. Part of this is the negotiating process itself, in which the agreement to finish creates momentum. The post-2012 architecture will essentially be negotiated between 2007 and 2009.

The next step in the formal negotiating process will be COP-13 and COP/MOP-3 in Bali in December 2007. Bali will have to create the space to conclude negotiations on the climate regime after 2012 by 2009, whilst building a bridge to the post-2020 regime. Political space needs to be created through leadership and trust. Bargaining space can be created if Parties see prospects for a balanced package deal based on the greater convergence of world views.

COP-13 and COP/MOP-3 in Bali might therefore launch a 'road map'. A road map should guide the participants to a destination, at an expected time of arrival. A time-line with an end-date is part of this, as are key milestones along the way.

Parties meeting in Bali should 'begin with the end in mind'. They might envisage that 'end' in the form of a package outlined in Figure 2, or any number of other forms. But describing the final outcome in detail should be kept open until the political contract zone is better defined. Rather than agreeing a mandate, Parties might rather design an open-ended or partially open-ended process.

Nonetheless, the Bali Road Map should outline the key principles that provide parameters for the negotiations, the core elements to be balanced in a package deal, as well as the time-frames and forums that will create the space to make rapid negotiating progress towards a fair, effective, flexible and inclusive climate regime after 2012.

6. Conclusions

We started off by posing three central questions: 'What is the shape of a realistic, yet ambitious package for the post-2012 climate regime?', 'How can an agreement on such a package build a bridge to a post-2020 climate regime?', and 'How do we get to a package deal, starting at COP-13 and COP/MOP-3 in Bali?'

Our starting point was that a package deal that is fair, effective, flexible and inclusive would have to strike a core balance between development and climate imperatives. These are the vital parameters that will determine the broad political acceptability of a future regime. To mobilize the support of a critical mass of Parties, a package would also have to balance a set of core elements in an equitable way, allowing the interests of Parties to converge in a 'contract zone' that is perceived as being mutually beneficial by both the North and South, and within the North and South, respectively.

A balance struck between mitigation, adaptation, dealing with the impacts of response measures, technology transfer, investment and finance will also create bargaining space, in other words, it will allow for inter-issue trade-offs and pay-offs during the negotiating process. It also holds the

potential to address the deal-breaker distributional issues, which is a political requirement from the South.

We have identified two possible packages in a conceptual contract zone, namely 'multi-stage' and 'ambitious transitional'. We have also assessed the political plausibility of these packages for the post-2012 regime. The ambitious transitional package accepts some level of fragmentation, while seeking to create mechanisms to link different components of the regime. This package is 'transitional' in that it assumes that the second commitment period would be a bridge to a more inclusive regime beyond 2020. The multi-stage package seeks to 'bend the curve' by designing a mechanism by which countries move through increasingly stringent levels of participation. Two central issues to this package are *ex ante* agreement on a set of indicators that provide an equitable basis for negotiating who does what. Once a country reaches the benchmark for the next level, this triggers *ex post* negotiation of the move, rather than automatic graduation.

Our assessment of the current political dynamics suggests that the conditions do not (yet) exist for multi-stage. Given the absence of a 'trigger from the North' and any meaningful progress in addressing the South's legitimate concerns about the development gap between North and South, multi-stage does not fall within the current political contract zone. Positive incentives will be needed to enable more active leadership of the South. From a 'climate' vantage point, multi-stage might be the first-best option within the conceptual contract zone, but the political conditions do not appear to be in place for such an agreement to be reached for the second commitment period.

What appears to be within reach by 2009 is a formal agreement on an ambitious transitional climate architecture for the period 2013–2020. This could be underpinned by a political understanding on what might happen beyond 2020, but that would seem to be a bonus outcome. Agreeing on the transitional stage is the critical next step in the evolution of the climate regime.

Negotiating this package will require an institutional space for bargaining, political leadership and trust, and a clear time-frame. Negotiations have to take place within the UNFCCC, and we need to build on the Kyoto Protocol. Decisions must be taken by all nations together. Fairness in the process will be as important as equity in the outcome.

Trust, as a basis for further agreements, will firstly depend on the meeting of existing commitments, and secondly on future commitments. These commitments by the North should acknowledge the North–South development deficit and address the distributional issues in the climate regime by means of a substantive and credible offer on technology and financial transfers. In short, to get to a climate deal, we will also need to strike a development deal. A clear signal is needed from the North, complemented by more urgent incentivized climate action by the South. In the absence of these political conditions, it is not foreseen that world views in both the North and South will be sufficiently transformed to reach consensus on a development and climate (D&C) package.

Bali will have to create the space to conclude negotiations on the climate regime after 2012 by 2009, whilst building a bridge to the post-2020 regime. The Bali Road Map should outline the vital principles and parameters for the negotiations, the core elements to be balanced in a package deal, as well as the time-frames and forums that will facilitate rapid negotiating progress towards a fair, effective, flexible and inclusive climate regime after 2012.

Note

1. See, for example Brazil (1997), Pinguelli Rosa and Kahn Ribeiro (2001), La Rovere et al. (2002), Ott et al. (2004), Sethi (2006), van Schalkwyk (2006, 2007), Abe (2007), Australia (2007), Carlgren (2007), de Boer (2007), EU-Brazil (2007), G8+5 (2007), IBSA (2007), NDRC (2007), Pershing (2007), Ray (2007).

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