

Paris Meeting Report

March 12-13, 2006

Introduction

We met at OECD headquarters, under the chairmanship of Angel Gurría, Secretary-General of the OECD, in a Chatham House rule context. The purpose of the meeting was to assess the hypothesis that a well-prepared, expanded Leaders Summit, in support of the UNFCCC, would generate better results than the current process, and to discuss how such a meeting could best be promoted. Participants included former political leaders and senior officials, serving senior officials as well as representatives of think tanks.

Our questions were whether we can demonstrate the hypothesis that a well-prepared expanded Leaders Summit in support of the UNFCCC would generate better results than the current process, and if so, how can we best prepare such a meeting. Could a mixture of retired Sherpas, opinion makers and leaders (operating outside the normal constraints and the bureaucratic confines) produce elements of an innovative package?

The premise was that viable multilateralism requires a more inclusive and well-prepared Summit process, involving Leaders beyond the G8 (e.g. including Brazil, China, Egypt, India, Mexico, and South Africa) – that regional powers outside the G8 should be included in a reformed Leaders Summit process. An enlarged G8 should lead to more effective and timely decisions to break deadlocked global issues, especially with respect to energy security and climate change. Only Leaders can catalyze the necessary actions, given the nature of global deadlocks, with issues transcending ministers' portfolios and the boundaries of international organizations' mandates.

Our assumption was that a group of experienced people from L14 countries, benefiting from the advice of those with direct experience of the G8 process [retired Sherpas] and the insights of opinion makers and former leaders, would be able to overcome the conventional constraints. Our informal process could go beyond the confines imposed on people that have to act on instructions and within bureaucratic structures and formal negotiating processes. An informal process can exploit personal relationships between Sherpas and develop chemistry between individual Leaders.

Climate change is an issue which spotlights the core concerns of the group - governance. Our goal is not a single-item agenda. It is not a remake of the Interaction Council of the 1980s. We intend a trailblazing meeting of the L14 leaders (or L#?), including China and the US. It is clear to us, that on climate change and most other urgent global issues, the G8 is not inclusive enough to work. G8+5, where the 5 are invited guests and not full members, is not the answer. To deal with global deadlocks on global commons problems requires major emerging powers to be at the table.

There is a political consensus we must increase the effectiveness of international institutions. Political decisions are required; we need a new set of rules; the new code should be developed by all. We need agreement on targets and how to align various carbon trading schemes. We should exploit new ways of learning, networking and sharing of information to arrive at a win-win deal

Several reports and papers provided a departure point for the debate. The documents (at <http://www.l20.org/libraryitem.php?libraryId=28>) include conclusions of the preceding

Breaking Global Deadlocks conference at Langdon Hall, and a Chart summarizing the elements of a package deal, a potential multilateral Grand Bargain. There was also draft papers - “Internationalization of the Nuclear Fuel Cycle” (by Mohamed Shaker), “World Energy Needs, Climate Change and Governance” (by Colin Bradford), “Overview of the World Nuclear Operators Organization” (Pierre Carlier), and a room document on “Approaches to R&D Collaboration on Climate Change” (provided by Shyam Saran).

We must proceed beyond the definition of the problem, and beyond the specification of targets and goals. We do not need more elegant formulations of the problem and the consequences of inaction. A meeting of political leaders can undertake commitments for their own countries; agree to work together in international organizations and create new processes and new organizations. The Langdon Hall conclusions suggested a focus on actions, including the mobilization of the efforts of a wide range of international organizations to contribute according to their areas of competence.

We have to get the diagnosis right, agree on objectives, and move to prescription. Everyone agrees that we must get the world price of carbon right. But we cannot and should not rely only on the market, given the plethora of existing subsidies, imperfections and uncertainties. The current institutions are doing much laudable work, but none have perfectly framed mandates, priorities, and resources. Our approach aggregates a large number of policy proposals in various stages, in different venues. Aggregating them and bringing them to one table – the L14 summit- as a package to gain commitment and initiate action would be both desirable and saleable to the international community

The context

We appear to be in the midst of a paradigm change regarding the global commons. Mindful of the current G8 Chair’s Agenda¹, the Langdon Hall Chart’s draft “Grand Bargain” aggregates a number of climate policy proposals, which have been on many tables for many years (intensity targets, a long-term climate target). Climate negotiators are aware of these, and the IEA and OECD brief international climate policy experts via the Annex I Expert Group on the UNFCCC on these options on a regular basis. The package deal and “actions” proposes highlights many actions that are already underway, in one or another International organization, or are beyond the current mandate of the organization suggested. The presumption is that a Leaders endorsement and mandate of this aggregation would catalyze cooperative action and will help promote an earlier effective agreement.

We are also in a power shift – as mentioned above – where the power to act and those whose actions we will rely upon to combat climate change – are not the G7/8.

¹ Merkel’s Feb 14 Message to GLOBE G8+5, proposed 3 courses of action:

- Bringing about a global and ambitious increase in energy efficiency.
- Expanding the use of renewable energies and CO2-free power plants.
- Creating economic incentives through a global carbon market.

http://www.g-8.de/Content/EN/Artikel/2007/02/2007-02-14-g8-videobotschaft_en.html

Climate change is at the forefront of France's electoral campaign. EU GHG reduction targets and efforts (4 x 20 program) is a signal of political will (there was a suggestion we should do a case study out of this decision).

The issue of 'who pays?' is paramount. There is a scramble for 'old' energy resources (e.g. access to oil in Sudan, etc. by China and others)

China and India are in very different position than 5-15 years ago during Kyoto negotiations (other nations may now expect more from them both in terms of action and payment).

The OECD has spent 15 years servicing the UNFCCC Annex 1 group; they run seminars every year with the BRICS countries. They are doing country reviews and receive visits from the UNFCCC staff. Ministers of Economy and Environment are coming together to the OECD. The OECD is launching an Environmental Outlook next year. It is currently doing a Country review for China, reporting in June on the Chinese request for an independent evaluation.

Challenges in a Leaders' Process

When things move slowly, the cause is objective, substantive differences across countries, and uncertainty - not imperfect process. There is nothing in the package deal highlighting substantive differences. We must explicitly address the issue that costs and benefits of taking action vary across countries. However, we should focus on issues and deadlocks, not global inequality. As a "Track II" process, to be considered seriously by governments, we cannot set our sights at too 'practical' a level - we require bold solutions.

In the last ten years, the G7 did not achieve their objective of coordinating anything on macro economic policies - so why do we expect Leaders would succeed?

Cultural background differences lead to serious Leaders misunderstandings. The question is how to prepare for better meetings.

The chart representing the package deal or "Grand Bargain" is not concise and compelling enough. What is its main message? It should be to get the prices right and use the market. All we have to do is price carbon correctly, including externalities. Correct carbon prices and market environment will lead to massive technological change. The counter was you need the Grand Bargain to establish the market.

We considered Colin Bradford's proposed "Global Energy Council" (designed to fill an institutional gap - there is no forum where producers and consumers together discuss supply issues). It was felt that it could potentially undermine work that is currently being addressed in the G8+5 Dialogue of Finance and Environment Ministers, the International Energy Forum, the Asia Pacific Partnership on Clean Development and Climate and in the IEA. Was it reasonable to expect that OPEC would constructively participate in an organization whose main priority is to "reduce global reliance on conventional coal and oil"?

Composition is substance- L20 may be an excellent idea; but reducing the number to 14 is contentious. Impossible choices have to be made to reduce to 14. (What about Nigeria, Indonesia, etc.?) Some want to debate composition further, others argue the issue is intractable (see link <http://www.l20.org/lessons/Lesson%201.pdf>)

Taking serious steps/measures often translates into sacrificing growth – difficult to sell politically. Financial mechanisms and penalties, are likely to be ineffective –why expect widespread compliance, even with the current cultural paradigm shift?

Comments on the Langdon Hall Chart

The next draft should enhance the focus on energy efficiency and conservation. We should highlight and build on the G8 Gleneagles Plan of Action to cut CO2 emissions. "Fuel efficiency delivers most". The answer to the climate and energy challenge cannot be on supply alone. This is economically unsustainable and ignores analysis showing that more can be done, at lower cost, if we mobilize both supply and demand (IEA's World Energy Outlook, Energy Technology Perspectives, Light's Labour's Lost tell compelling stories on this issue).

UNFCCC

UNFCCC	Set up permanent Bicameral Commission: <p style="text-align: center;"><i>Council of Ministers</i></p> <p style="text-align: center;"><i>Science body</i></p>	Evaluate policies & progress ? Broad based bargaining (e.g. carbon prices, emission fees, tradable permits, compensation) provide peer review policy venue ? Evaluate BAU emission trajectories. Review long term targets. Devise trigger mechanisms and voluntary accession for developing countries
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All agreed that any Leaders' Summit commitment should support the ongoing multilateral efforts under UNFCCC agreements; to work to ensure that the current negotiation process results in an ambitious and comprehensive agreement for concerted international action to reduce GHG emissions. Some felt that a "bottom-up approach" or miscellaneous deals might be inconsistent with this commitment.

We must change the unfortunate wording that the "council of ministers" of the suggested high level body should "negotiate" carbon prices; instead it should agree to practical measures to strengthen and extend the international carbon market.

We should more clearly advocate, (not negotiate) concerted international action towards a global price for carbon (e.g. introduction of globally harmonized carbon taxes and/or linking and extending existing emission trading schemes to ensure global coverage). The L14 might suggest practical measures to strengthen and extend the international carbon

market. The most important message is to get the prices right to reflect the costs of emitting GHGs into the atmosphere. This price should be reflected in all sectors, across all greenhouse gases and countries as far as possible. Making fossil fuels more expensive through a carbon tax instead would be the first best option. Other policies may be needed to complement it or to address market or policy failures, but we are early enough in the negotiations to still focus on working towards the first best solution.

IEA Mandates

IEA	Provide UNFCCC with analytical framework for assessing national packages Extend stockpiling commitments to non-members	Start with North-North reviews & develop simple comparable metrics
& World Bank	Design and negotiate near-term investment guidelines for large coal and fossil fuel fired plants	Allow for carbon capture and sequestration retro-fitting Include monitoring, accounting and liability standards
& IPCC	Design emission credit framework	Codify bilateral agreements

With respect to CO2 capture and storage, the problem is the business case has not yet been made for capture and sequestration (Alberta is a leader in this area) but we believe that it would be prudent to presume the case will be made and we should invest accordingly.

OECD Mandates

OECD	Provide non binding peer review process	
& World Bank	Provide S&T&I signals Advise on actions and policies regarding refugee flows	Advise on clean energy barriers and strategies Monitor & review long term goals

With respect to refugee flows, we see the recent ministerial declaration on “Integrating Climate Change into Development Cooperation” as a necessary start but not sufficient. We believe focussing on the potential refugee flows is a powerful means to capture and focus attention.

OECD and IEA already do review country policies – both individually through country performance reviews and collectively through analysis of policy instruments and sectoral policies (e.g. in the transport area at European Conference of Ministers of Transport (ECMT), on energy at IEA, on trade and on environment in the OECD). This includes analysis of how environmental or other policies influence technological developments, and identification of the barriers to development and diffusion of clean energy. With

respect to peer review, the intent is to promote the OECD work by giving the activity greater prominence. The suggestion to coordinate with the World Bank is intended to amplify the impact of OECD work. We should clarify the additional work being requested and how to better promote the work in the OECD family already being done in these areas.

We must focus on how to better use the results available from existing peer review processes to better support international decision-making over time on the climate issue.

We should reference the Declaration on Integrating Climate Change Adaptation into Development Co-operation from the recent Joint meeting of OECD Environment and Development Co-operation Ministers (April 2006). There was some discomfort with mention of the potential refugee problem.

World Bank Mandates

World Bank	Establish worldwide network of R&D institutions	Follow CGIAR model
& IMF	Devise intermediate options for GHG taxes	Ensure fiscal neutrality, allow for eventual internal uptake & assess implications of nation fossil fuel subsidies
& UNEP	Revise and reinvigorate GEF and CDM	Ensure national development plans are taken into account
& WIPO	Design options for new technology patent rights for developing countries Develop finance mechanism to compensate patent holders	Ensure license fees are non incurred by developing countries
& RDBs	Establish Clean Technology Acquisition Fund	Facilitate developing country technology acquisition

We should mention the OECD work on taxes and with UNFCCC on how flexibility mechanisms (i.e. international emissions trading, CDM and JI) under Kyoto could be extended and harmonized with each other. Add auction of permits (not only taxes) in remit to WB/IMF. Why mix up the IMF and WB in spending revenues?

Technologies which respond to the requirements and resource endowments of developing countries (e.g. biomass energy) do not merit significant R&D effort. The position is not dissimilar to that prevailing in the pharmaceutical sector, where R&D on treatments for tropical diseases, such as malaria, attracts insignificant resources owing to poor purchasing power and modest fiscal outlays for such purposes. The current global Intellectual Property regime remains a barrier to increased access to sustainable technologies by developing countries. Increased investment in R&D, as well as access to patented technologies may be addressed by various collaborative R&D arrangements, such as a global network of R&D institutions, to undertake specific R&D projects or a custom tailored Venture Capital R&D Facility or Fund at the World Bank.

UNFCCC already considers various design issues related to Clean Development Mechanism (CDM) and Joint Implementation (JI). However, several participants believe the CDM is an unmitigated disaster. The mechanisms already set up under UNFCCC' JI

and CDM are not up to the task. There is a need to reinforce ongoing efforts by having other competent organizations suggest options to resolve design issues.

WTO Mandates

WTO	Establish positive incentives Recommend offset packages Work with National Trade and Agriculture Ministers	Reject border taxes and avoid punitive trading Replace food production subsidies with incentives for bio-fuel crops
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There was disagreement voiced regarding the idea of providing incentives for bio fuel crops. OECD analysis suggests that most current biofuel production, with the exception of ethanol production in Brazil, is economically inefficient and may have limited environmental benefits. It also competes with land use for agriculture for food – leading to social impacts such as the recent high price of corn tortillas in Mexico. Best to let the market chose the appropriate fuels once carbon is fully priced into fuel/energy choices. Doing away with traditional agricultural subsidies was deemed certainly recommendable, having been worked towards for many years, but “replacing them with subsidies for biofuels does not make sense.”

While biofuels and ethanol production are economically inefficient (even in Brazil) and have limited environmental benefits, the issue is the prospect of doing away with traditional agricultural subsidies. Finance ministries have worked fruitlessly on these subsidies for many years, proving that politics trumps first best economic analysis . The issue is whether promoting biofuels- which have an energy security dimension – is a second best solution. There is a fine line between pragmatism (in accepting that it will be a long time before carbon and externalities are priced fully into fuels, letting the market choose) and capitulating too early in accepting political foolishness.

L14 Ministers Mandates

L14 Ministers	
Finance	Promote new multilateral approach for LNG infrastructure financing
Environment	Promote viable plan for slowing deforestation & develop conservation campaigns
Transportation	Develop bio-fuel standards and targets
Finance & Science	Establish R&D forum; coordinate negotiations on energy R&D investment
Energy	Propose schedule of ambitious renewable energy standards

Environment ministers are not best placed to implement this campaign.

Suggestions to coordinate/negotiate financing of energy infrastructure, to set renewable energy standards are premature if not counter productive.

Miscellaneous deals

Miscellaneous Deals

- ? Work with IAEA to internationalize nuclear fuel cycle with adequate guarantees
- ? Work with Russia to guarantee availability of natural gas to China
- ? Trigger viable plan for slowing deforestation in Brazil
- ? Develop plan for mitigating impact of massive flooding in Bangladesh

Internationalization of the nuclear fuel cycle could be an important dimension of the “Grand Bargain”. To prevent nuclear-weapon proliferation and at the same time promote peaceful nuclear co-operation, the L14 could streamline and accelerate negotiations to effect multilateral oversight over sensitive parts of the nuclear fuel cycle. The L14 could instruct their ministers to work together to devise and implement a credible guarantee of the supply of nuclear fuel for nuclear generated electricity as well as the setting up of multilateral repositories for spent nuclear fuel. The L-14 could invite the IAEA to establish its own virtual reserves of nuclear fuel through binding and reliable contractual agreements with supplier States of long duration as a first step towards an actual multilateral nuclear fuel bank.

The IAEA could be invited to establish a multilateral network of spent fuel repositories that would be run and supervised by the IAEA in a number of safe and secure locations. This network could be built around carefully selected existing national locations.

Regarding calls for promoting gas deals with China (presumably to help reduce reliance on coal) the question was whether an L14 invitation could change the nature of China's appetite for natural gas. The notion is that China's appetite for gas would increase dramatically if the infrastructure existed to guarantee supply.

Other Interesting Observations

Points made during the meeting included:

We should move the debate from climate to governance processes. We will need senior government officials and media at meetings. We should arrange wider participation, especially from Africa. We must include doubters. Most important is a champion.

Climate change is a good example of an area where the OECD can encourage policy convergence with the emerging global players, to reduce frictions in a range of policy areas, and to develop solutions to problems we all face.

Should we have an even broader agenda to allow a more complicated bargain? Include the UN Security Council and the IMF.

What will the costs be of the better outcome of a more inclusive process (granted that more voices will lead to more or more effective policy packages)? We should describe alternative outcome- a G8 policy stuffed down others' throats- not implemented, delays.

To be sure we are being innovative enough (all kinds of groups and meetings are going on – India-Russia- China Summit; APEC) we should tabulate and do an analytical appraisal of the various intergovernmental processes in train. We should determine if the biggest gap is the lack of a G5 process.

Trailblazing has had its run. We have completed the advocacy group function- injecting G8 Summit reform and the L20 concept into the public domain. Perhaps it's time to establish a network of promising junior officials G8 note takers from the L14 or L# countries to review specific areas – Rockefeller's new faces conference.

We require a map of functional, potential and broad linkages between trade, finance and private sector with existing global institutions (with reference to energy).

Secretariats are important; hosting summits puts pressure on national capital to succeed

The “clout” of Leaders is high, the clout of Finance Ministers is medium -high, the clout of Environment Ministers or Energy Ministers is low!

We must learn from past failures – global governance regimes that discriminate or concentrate power will break down eventually.

Encourage the G5 to impose conditions for their participation, yes, but it's their club; go slowly.

Nuclear - are we safer with a fair (equal) or the current (unequal) bargain?

Ideas to move the idea forward in a more structured way

Climate change is the most compelling, most global problem; it could be the engine to reform global governance. Migration is a possible future topic.

The public understands that sacrifices are required. We should begin to create a consensus with the limited number of actors that represent 85% of the problem.

We should send an open letter to the G5 Sherpas. The G5 does not exist as an organization.

We are an embryonic network of networks, which should be strengthened. We should reach out to think tanks, and build on the OECD. Political leadership sees the OECD as an organization serving the bureaucracy- there is an opportunity for mutual strengthening.

We should explore the unanswered question “what three things in the Grand Bargain would the Annex 1 group want in and what would they want out?”

Media are creators and multipliers of public opinion. Plan an op ed on German outreach now. Engage Japanese and Italians. Write a book- get a Gore forward.

What will the costs be of the better outcome of a more inclusive process (granted that more voices will lead to more or more effective policy packages)? We should describe alternative outcome- a G8 policy stuffed down others' throats with delays in implementation.

We must expand participation and engage the private sector- especially in the field of energy. We should be publishing more.

Conclusions

It is essential that any L14 commitment should support the ongoing multilateral efforts under the UNFCCC to reach an ambitious and comprehensive agreement for concerted international agreement. While a bottom up approach is not optimal, "the perfect is the enemy of the good"; bottom up activities can be encouraged as a complement to concerted international action. Indeed in North America, actions by states and provinces are providing welcome pressure on senior governments and will ultimately assist in leading to a concerted approach.

A global price for carbon is needed. We agree with the priority of international action towards globally harmonized carbon taxes and linking emission-trading schemes to ensure global coverage. Making fossil fuels more expensive through a carbon tax is the first best option. It is prudent to include other policies – it is unrealistic to assume away market or policy failures. The caution is to craft any subsidy, financing or standard setting activity so that it is not captured by special interests and is sunsetted.

We will convene a panel co chaired by Paul Martin and President Cardoso on the margins of the Clinton Global Initiative (CGI) in September in New York. Participants would include influential people attending the CGI event. The purpose would be to publicize the findings of the work to date and gain support for Summit Reform.

We are considering pursuing three further strands, to widen and deepen the work completed. The first strand is how to network think tanks, to improve the flow of their research findings on policy options to decision making bodies and to an expanded summit in particular. We will examine a more systematic networking of think tanks (including international civil society organizations) that have a substantive research capacity in energy security and climate change). We could invite principals from several complementary exercises trying to catalyze the UNFCCC process – IUCN, IIASA, the Stockholm Environment Institute / Chinese Economists 50 Forum, the GLOBE G8+5 Dialogue, and the UN Foundation / Club of Madrid.

The second strand is how to promote more involvement of media opinion leaders, how to best present the results to influence public opinion and political leaders. We are considering an October meeting in Toronto on the Margins of CIGI 07. The third is how to convince American political leaders that summit reform and improved international machinery is in their own national interest. We are considering a November meeting at White Oak in Florida, comprised mostly of advisers to the US presidential contenders.