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Outcome of the conference “Biofuels: an option for a less carbon-intensive economy”

Pre-conference event, Rio de Janeiro, 4–5 December 2007

Note prepared by the UNCTAD secretariat

Summary of discussions

1. The conference, jointly organized by UNCTAD and the Brazilian Energy Planning Agency, was a pre-conference event for UNCTAD XII. Some 120 participants from UNCTAD member countries attended. It provided a platform to discuss trade, investment and sustainable development challenges and opportunities arising from measures taken in response to climate change.
2. The following conclusions sum up the technical presentations and discussions held at the pre-conference event. These were circulated to all participants and adopted as a chair’s summary at the closing session.
3. It was stressed that the worst impacts of climate change could still be avoided if decisive collective action was taken. Costs of inaction would far outweigh the costs of taking immediate action. Reducing costs associated with climate impacts and minimizing economic costs associated with climate response measures required cooperation at many levels, among various actors, public and private.
4. As stated in the *IPCC Fourth Assessment Report*:
“...changing development paths will be critical to addressing mitigation and the scale of effort required is unlikely to be forthcoming from the environmental sector on its own. If climate policy on its own will not solve the climate problem, future research on climate change mitigation and sustainable development will need to focus increasingly on development sectors. A better understanding is needed of how countries might get from current development trajectories onto lower-carbon development paths – how to make development more sustainable.”

5. The São Paulo Consensus identified a positive and dynamic trade and development nexus based on three elements – productive capacity, competitiveness and market access. It also identified a virtuous circle between these three elements of trade and development. Since individual and collective response measures to climate change would affect all three, there was a need to ensure that benefits were maximized and costs were minimized for developing countries. Furthermore, climate response measures should be supportive of the Millennium Development Goals and not hamper its realization.

6. In addressing the opportunities and challenges arising from the twin threats of climate change and a looming energy crisis, there was a need for development-friendly responses in moving towards a less carbon-intensive economy. One such response was the promotion of greater penetration of alternative fuels such as biofuels. It was considered that the biofuels option, if well assessed, planned and sequenced, could offer win-win-win opportunities to developing countries – in terms of climate change benefits, rural development, decent work and energy diversification – while leading to a less carbon-intensive economy. If properly introduced and sequenced, biofuels did not need to impair food security and deforestation. The meeting clearly concluded, however, that the biofuels option should be considered in a broader policy and economic context, taking fully into account individual countries' circumstances.

7. The need for unbiased economic analysis, capacity-building and consensus-building on mutually-supportive biofuels policy scenarios that addressed the trade, investment and development implications of climate change were increasingly recognized. There was growing consensus among Governments, the private sector, workers and consumers that future economies would be carbon-constrained. This would likely affect patterns of development and influence development cooperation, investment strategies and the ways in which developing countries' goods and services were traded.

8. Greenhouse gas emissions were influenced by but not rigidly linked to economic growth. Decoupling emissions trends and growth, with the right policies in place, could result in sound economic growth with lower greenhouse gas emission patterns, in the process reducing costs in adapting to a carbon-constrained economy. A cleaner, more sustainable development path should be sought by both developing and developed countries; financial and technology means should be made available, especially for developing countries, so that climate change measures could be mainstreamed into development policies.

9. While unnecessary burdens should not be imposed on developing countries regarding adaptation to climate impacts and the effects of climate change response measures introduced by industrialized economies, win-win opportunities were arising for these countries in the area of new investment and development cooperation favouring lower carbon-intensive economic growth. Biofuels could offer developing countries a unique opportunity to leap forward in this new economic reality, where energy access and carbon intensiveness in production processes became inextricably linked with the achievement of the internationally-agreed Millennium Development Goals. UNCTAD had a significant role to play in assisting developing countries facing the expected shifts in relative prices and relative production costs stemming from the introduction of climate policies and measures. Moreover, UNCTAD could contribute to a smoother transition to a post-high-carbon economy and to a more robust international biofuels market.

10. Climate change was seen as a development challenge, requiring an integrated approach. Sustainable biofuels development policies would necessarily need to be context-specific and attuned with local and national realities. However, several measures were low cost, highly effective and easy to replicate. Synergy should be

sought with relevant non-climate policies – including trade, finance, rural and urban development, water, energy, health, agriculture, forestry, insurance and transport, among others – which might directly or indirectly affect greenhouse gas emissions/sinks.

11. A portfolio of energy technologies, of which biofuels was one, would be required to stabilize greenhouse gas emissions concentration in the atmosphere. With the widespread use of new technologies, it was expected that the costs would decrease through economies of scale. Mitigation costs would thus be determined by the development pathway pursued by countries.

12. As a growing commitment towards more active climate change policy at both the national and international levels was observed, UNCTAD was particularly well placed to address the following issues:

- (a) Trade and development gains and investment opportunities arising as climate change measures are adopted;
- (b) Trade competitiveness aspects of climate change policies;
- (c) Investment promotion and development gains in developing countries under the Clean Development Mechanism of the Kyoto Protocol; and
- (d) Compatibility issues between climate policy and trade rules.

13. In the São Paulo Consensus, adopted at UNCTAD XI, UNCTAD was mandated to address trade and development implications of new and dynamic sectors, specifically in those sectors with particular potential to offer development gains to developing countries. The pre-conference event reaffirmed this mandate and suggested that the following activities be considered for implementation:

- (a) Country assessments should be carried out on the potential for the production, domestic use and trade of biofuels in developing countries, including (i) economic feasibility studies to determine biofuels production costs and eventual subsidy levels; (ii) ways to prevent non-tariff barriers related to trade in biofuels; and (iii) consideration of the use of certification/labelling/verification schemes that are fair and non-discriminatory. Such assessments should be complemented with capacity-building activities for policymakers and key stakeholders, and include the exchange of experiences with other developing countries and the possibility of enhanced South–South cooperation.
- (b) Assistance should be provided for the creation of an enabling and appropriate domestic regulatory and investment environment that enables developing countries to enhance their supply capacity, secure market access and establish their comparative advantages in the emerging biofuels sector, taking fully into account national circumstances (for example, population size, available land, scarce natural resources, competing land uses, dependency on foreign energy resources, climate and social conditions).
- (c) Economic analysis should be carried out on trade and climate change interface, for example by assessing trade and development impacts of specific emission reduction proposals under discussion at the United Nations Framework Convention on Climate Change negotiations for a new commitment period beyond 2012 under the Kyoto Protocol.
- (d) A clearing house should be formed to exchange relevant policy information on biofuels, and international policy forums should be organized to discuss the interface and mutual supportiveness of trade and climate change policy at the international, regional and national levels.

- (e) Training material should be provided on the rules of the clean development mechanism, so that a considerable number of developing nations can attract investment via the mechanism towards energy development projects.
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