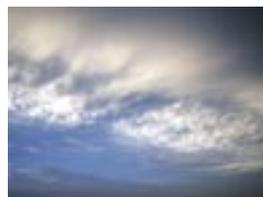


# The Climate Regime Beyond 2012

Reconciling Asian Priorities and Global Interests





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**Reconciling Asian Developmental Priorities and  
Global Climate Interests**

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## Foreword

The year 2007 is likely to be remembered as the year of “climate change,” as it received considerable attention worldwide with the awarding of the Nobel Peace Prize to the Intergovernmental Panel on Climate Change (IPCC), which published its fourth Assessment Report (AR4). The AR4 highlighted the adverse impacts of climate change in the Asia-Pacific region. However, owing to competing priorities such as poverty alleviation, health and education, policymakers in most of the countries in the region have not yet considered the issue seriously in national development planning.

International discussions on climate regime are progressing steadily under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol. Indeed, the “Bali Action Plan”, agreed upon at the 13<sup>th</sup> Conference of the Parties (COP 13) and the 3<sup>rd</sup> Meeting of the Parties to the Kyoto Protocol (MOP3) held in Bali, Indonesia in December 2007, is an important milestone. The Bali Action Plan specifies the modalities and guiding principles for the negotiation of an agreement by 2009 to mitigate greenhouse gas emissions and adapt to climate change impacts for the period after 2012 when the first commitment period of the Kyoto Protocol expires. However, there is a widespread feeling among Asian stakeholders that the current climate regime does not adequately address Asian interests, concerns and developmental aspirations. At the same time, it is widely accepted that the success of the future climate regime rests on policies and measures adopted in the region.

With a view to fostering constructive thinking and consensus-building on ways to strengthen the current climate regime, the Institute for Global Environmental Strategies (IGES) has been organising a series of national, sub-regional and region-wide consultations since 2005. Based on the first two rounds of consultations in 2005 and 2006, two reports were published, and they were well-received by stakeholders in the region as well as by international climate negotiators. The third round of consultations was held in New Delhi (29-30 August 2007) and Beijing (13-14 September 2007), where four specific themes of importance to the region and the future climate regime – sectoral approaches, technology development and transfer, adaptation financing and mainstreaming, and developmental co-benefits of climate actions – were discussed. This report summarises the findings from the third round of consultations.

While the decision to conduct the consultations was entirely that of IGES, the task would not have been possible without cooperation from several partner organisations in the region. I would especially like to thank the staff of the Energy Research Institute (ERI) of China and The Energy and Resources Institute (TERI) in India for facilitating the process, and request their continued cooperation in the future. I hope that the report will provide useful guidance towards constructing a more effective, pragmatic and flexible climate regime over the next two years. IGES welcomes comments on the report regarding the improvements that should be considered in the future.



**Prof. Hironori Hamanaka**

Chair of the Board of Directors

Institute for Global Environmental Strategies (IGES)

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## Abbreviations and Acronyms

AAU	Assigned Amount Units	ERU	Emission Reduction Units
ADB	Asian Development Bank	EU	European Union
AF	Adaptation Fund	EU-ETS	European Union Emissions Trading Scheme
AfDB	African Development Bank	FAO	Food and Agriculture Organization of the United Nations
AHP	Analytic Hierarchy Process	FDI	Foreign Direct Investment
AIDS	Acquired Immuno-Deficiency Syndrome	G20	Group of Twenty
AIM	Asia-Pacific Integrated Model	G-77/China	Group of 77 and China
AOSIS	Alliance of Small Island States	G8	Group of Eight
APEC	Asia-Pacific Economic Cooperation	GCI	Global Commons Institute
APERC	Asia Pacific Energy Research Centre	GCP	Global Carbon Project
APP	Asia-Pacific Partnership on Clean Development and Climate	GDP	Gross Domestic Product
AWG	Ad-hoc Working Group of Parties	GEF	Global Environment Facility
ASEAN	Association of South East Asian Nations	GEM	Group of Emissions Markets
BASIC	Building and Strengthening Institutional Capacity	GFDRR	Global Facility for Disaster Reduction and Recovery
Btu	British thermal unit	GGFR	Global Gas Flaring Reduction Partnership
CBD	Convention on Biological Diversity	GHG	Greenhouse Gas
CCAP	Center for Clean Air Policy, USA	GIRIF	Global Index Reinsurance Facility
CCD	Convention to Combat Desertification	GISS/NASA	Goddard Institute for Space Studies/ National Aeronautics and Space Administration
CCS	Carbon Capture and Storage	GLOF	Glacial Lake Outburst floods
CDCF	Community Development Carbon Fund	GNI	Gross National Income
CDM	Clean Development Mechanism	GNP	Gross National Product
CDM-EB	CDM Executive Board	GRI	Global Reporting Initiative
CDQ	Coke Dry Quenching	Gt	Giga tonne
CDT	Climate-wise Development Treaty	GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
CEIF	Clean Energy Investment Framework	HCFC	Hydrochlorofluorocarbon
CER	Certified Emission Reductions	HDI	Human Development Index
CFC	Chlorofluorocarbon	HFCs	Hydrofluorocarbons
CGIAR	Consultative Group on International Agricultural Research	HIV	Human Immuno Deficiency Virus
CISA	Chinese Iron and Steel Association	IAs	Implementing Agreements
CNG	Compressed Natural Gas	IATAL	International Air Travel Adaptation Levy
CO <sub>2</sub>	Carbon dioxide	IBRD	International Bank for Reconstruction and Development
COP	Conference of the Parties	ICAO	International Civil Aviation Organization
COSI	Carbon Offset Sustainability Indicator	ICCTF	International Climate Change Task Force
CRYSTAL	Community-based Risk Screening Tool - Adaptation and Livelihoods	IDA	International Development Association
CSD	Commission on Sustainable Development	IDS	Institute of Development Studies
CSLF	Carbon Sequestration Leadership Forum	IEA	International Energy Agency
CTI	Climate Technology Initiative	IES	Integrated Environmental Strategies
DFID	Department for International Development	IFC	International Finance Corporation
DNA	Designated National Authority	IGCC	Integrated Gasification Combined Cycle
DOE	Department of Energy, USA	IIASA	International Institute for Applied Systems Analysis
EB	Executive Board	IISD	International Institute for Sustainable Development
ecbi	European capacity building initiative	IISI	International Iron and Steel Institute
EGTT	Expert Group on Technology Transfer	IMF	International Monetary Fund
EIA	Energy Information Administration	IMO	International Maritime Organization
ENB	Earth Negotiations Bulletin		
EPA	Environmental Protection Agency, USA		
ERC	Emission Reduction Credits		
ERI	Energy Research Institute, China		

IPCC	Intergovernmental Panel on Climate Change	ppmv	parts per million by volume
IPHE	International Partnership for the Hydrogen Economy	PPP	Purchasing Power Parity
IPR	Intellectual Property Rights	PPP	Polluters Pay Principle
ISDR-AP	International Strategy for Disaster Reduction Asia & Pacific	PRSPs	Poverty Reduction Strategy Papers
ITTO	International Tropical Timber Organization	PSSD	Philippines Strategy for Sustainable Development
JBIC	Japan Bank for International Cooperation	R&D	Research and Development
JI	Joint Implementation	RE	Renewable Energy
JICA	Japan International Cooperation Agency	REDD	Reduce Emissions from Deforestation and Degradation
LDCF	Least Developed Countries Fund	RMU	Removal Unit
LDCs	Least Developed Countries	RPS	Renewable Portfolio Standard
LULUCF	Land-Use, Land-Use Change and Forestry	SBI	Subsidiary Body for Implementation
M2M	Methane to Markets Partnership	SBSTA	Subsidiary Body for Scientific and Technological Advice
MDGs	Millennium Development Goals	SCCF	Special Climate Change Fund
MEA	Multilateral Environmental Agreements	SD	Sustainable Development
METI	Ministry of Economy, Trade and Industry, Japan	SD-PAMs	Sustainable Development Policies and Measures
MLF	Multilateral Fund for the Implementation of the Montreal Protocol	SIDS	Small Island Developing States
MNCs	Multinational Corporations	SPA	Special Priority on Adaptation of the Global Environment Facility
MOEJ	Ministry of the Environment of Japan	TERI	The Energy and Resources Institute, India
MOP	Meeting of the Parties (to the Kyoto Protocol)	TRIPS	Trade-Related Aspects of Intellectual Property Rights Agreement of the World Trade Organisation
MW	Megawatt	TT:CLEAR	Technology Information Clearing House
NAPA	National Adaptation Programmes of Action	UNCED	United Nations Conference on Environment and Development
NCCP	National Climate Change Programme	UNDP	United Nations Development Programme
NDRC	National Development and Reform Commission	UNEP/RISO	United Nations Environmental Programme/Risoe Centre, Denmark
NEAP	National Environmental Action Plan	UNFCCC	United Nations Framework Convention on Climate Change
NEPA	National Environmental Protection Agency	UNU-IAU	United Nations University-Institute for Advanced Studies
NGO	Non-Governmental Organisation	VARG	Vulnerability and Adaptation Research Group
NSSD	National Strategy for Sustainable Development	VER	Voluntary Emission Reduction
NWP	Nairobi Work Programme on Impacts, Vulnerability and Adaptation	WBCSD	World Business Council for Sustainable Development
ODA	Official Development Assistance	WDI	World Development Indicators
ODI	Overseas Development Institute	WI	Worldwatch Institute
ODS	Ozone Depleting Substances	WRI	World Resources Institute
OECD	Organisation for Economic Co-operation and Development	WSSD	World Summit on Sustainable Development
OPEC	Organization of Petroleum Exporting Countries	WTO	World Trade Organisation
PAMs	Policies and Measures	ZETT	Zero-Emission Technology Treaty
PDD	Project Design Document		



## Executive Summary

1. Since 2005, the Institute for Global Environmental Strategies (IGES) has organised three rounds of stakeholder consultations in Asia at the national, sub-regional and regional levels. The consultations held in 2005 solicited concerns, interests and priorities of various Asian countries for the future climate regime, while those held in 2006 examined whether various proposals for the post-2012 climate regime adequately addressed developmental concerns and aspirations of developing Asia. The outcomes of both rounds of consultations were published and posted on the IGES web site and disseminated at previous meetings of the Conferences of the Parties (COP) to the UNFCCC and the Commission on Sustainable Development.
2. The third round of consultations was held in New Delhi and Beijing in 2007. The aim of these consultations, supplemented by questionnaires and interviews with key informants and literature reviews, was to find ways to reconcile Asian developmental priorities identified in earlier rounds of consultations with global climate protection interests, and to bridge gaps in the perspectives of developed and developing countries on four themes related to post-2012 climate regime – sectoral approaches, technology cooperation, adaptation financing and mainstreaming, and developmental co-benefits of climate actions. The perspectives of developing Asia on the future climate regime were also examined.
3. Participating stakeholders in both China and India reaffirmed their interest in accelerating their countries' transition towards a low-carbon economy in the long run, but stressed that the future regime should not constrain sustainable development in developing Asia. A few participants stressed that the design of the future regime should aim to change energy-intensive lifestyles and consumption patterns, and consider a new set of carbon standards to promote such a transition in all countries. Participants underscored the need for (a) ambitious targets for the reduction of GHG emissions by developed countries based on the principles of historical responsibility and capability; and (b) preferential support for climate actions that are consistent with economic and social development in developing Asia.
4. A few participants suggested that the future climate regime should focus on mitigation, adaptation, technology and financing in a more balanced manner than before and that developing Asia would prefer a whole package of measures rather than focusing exclusively on mitigation targets. It was also recommended that implications of the various post-2012 climate regime proposals and targets (e.g. 50% GHG reduction by 2050) on future prospects for development of various Asian countries should be examined thoroughly. Other participants argued that international commitments based on energy intensity may not necessarily serve the interests of developing Asia due to difficulties in predicting the future growth rates of different sectors and their shares of GDP, and due to close links between energy intensities and natural resource endowments in particular economies.
5. Participants emphasised that the climate change regime should provide credible policy signals to enable long-term low-carbon investments in developing Asia, and that the basic principles (e.g. common but differentiated responsibilities) underpinning the current climate regime should

continue to be applied to the future regime. Participants called for a regime that adequately recognises domestic climate policies and measures taken in developing Asia, including financial investments in energy conservation and renewable energy, promotion of clean development mechanism (CDM) projects, and the creation of domestic institutions that would strengthen carbon trading and adaptation in the future.

6. Participants noted that market mechanisms such as CDM are beginning to have a positive impact on developing Asia and argued for the reform of the carbon market through simplified methodologies and the inclusion of additional sectors at the international level. At the national level, participants stressed the need for developing transparent information systems for enterprises and for strengthening the laws governing emission reduction purchase agreements. A few participants noted that the Asian private sector should play a much greater role in GHG mitigation, and that multi-national corporations (MNCs) operating in developing Asia could take the lead in such efforts by agreeing to cross-national binding emission reduction targets.
7. Participants agreed that sectoral approaches offer a promising way to reduce GHG emissions while aligning with developmental policies in industrial and land use sectors in developing Asia. Providing incentives and encouraging developing country goals within a framework of cooperation across key sectors could reduce transaction costs, accelerate transfer and deployment of low-carbon technologies and broaden the participation of countries. However, several policy and technical challenges, especially for crediting purposes, must be addressed to smooth the implementation of sectoral approaches. A few participants cautioned that sectoral approaches could only be a part of a solution and stressed the need to continue to pursue economy-wide reductions in the Kyoto Protocol.
8. Participants underscored the need for flexibility and diversity in choosing sectors, as harmonisation of intensity targets and other benchmarks within and across countries remain a major challenge. Sectoral approaches may be most successful if applied first in sectors that cater principally to domestic markets. In sectors that serve international markets, trans-national targets set by MNCs and industrial associations may succeed. In developing Asia, coal-fired electricity generation, iron and steel, cement and forest conservation appear to be good candidates for the sectoral approach, although specific challenges remain in each sector.
9. Participants highlighted the importance of carefully designing sectoral approaches to address concerns related to international competitiveness, environmental integrity and cost effectiveness. Effective integration in a post-2012 climate regime requires considerable progress on at least three fronts: (a) step-wise institutionalisation at both national and international levels, (b) preferential support and reliable incentives, and (c) sector-specific initiatives by MNCs. Collecting valid data from the energy emissions and technology standpoints to develop sector-specific benchmarks and performance indicators, building synergies between the UNFCCC and other initiatives, and accumulating useful lessons from programmatic CDM are crucial to moving forward with the implementation of sectoral approaches in Asia.

10. Participants stressed that progress in development, transfer and deployment of low-carbon technologies in developing Asia remains far below the levels required to change the GHG emissions growth trajectory in the region, and that the current climate regime has had only a marginal influence on current emission trends. A few participants noted the need for channelling more sustained investments into research, development and deployment of low-carbon technologies based on natural resource endowments of developing Asia, and suggested that the future regime must be aligned with the long-term business investment cycles so that investments can be justified commercially.
11. Participants noted that further progress in the rapid uptake of low-carbon technologies would be feasible in developing Asia if the future climate regime can improve finance to accelerate technology cooperation, promote synergies between technology initiatives within and outside the climate regime, and enhance the flexibility of the intellectual property rights (IPR) regime for low-carbon technologies. It was stressed that the post-2012 regime should consider political feasibility (in terms of the self-enforceability, the provision of side-payments, the fit with domestic interests and domestic institutional arrangements) of technology-oriented proposals, paying particular attention to the interests and capacity of sub-national governments. The provision of preferential incentives for national and sub-national initiatives that are intended to facilitate the transition to low-carbon pathways in developing Asia was also highlighted as being important.
12. To enhance total investments and financial flows in the development and deployment of low-carbon technologies, both creating a global research and development (R&D) fund and linking financial contributions with emissions reduction commitments have some merits, but the provision of side-payments (e.g. granting preferential treatment to companies based in donor countries) might enhance their political feasibility. The creation of venture capital funds for nearly commercialised technologies in developing Asia was also suggested. Likewise, making non-UNFCCC project activities with significant technology components eligible for preferential treatment under the CDM would help to take advantage of domestic interests and institutional infrastructure in developing Asia. However, expansion of the scope of CDM would obviously require deeper emission cuts by developed countries and an effective enforcement mechanism.
13. Participants affirmed that the future climate regime should create additional incentives for countries willing to move towards low-carbon technology pathways and adopt international technology standards. Compulsory licensing of high priority technologies may be considered along the lines of initiatives such as the US Clean Air Act but it is critically important to assess whether and to what extent IPRs are barriers to technology transfer depending on the stage of technology development or the nature of the technology itself. A domestic policy push including specification of contemplated climate actions by public authorities to the private sector, a flexible IPR regime, administrative coherence within developing countries and incentives from developed countries are all crucial to making vertical and horizontal technology deployment economically and politically feasible.

14. Participants stressed that mainstreaming adaptation concerns into development planning and assistance and financing of adaptation deserve the highest attention from Asian policymakers and negotiators. The progress in mainstreaming was very slow in many Asian countries, due to several institutional, informational, participatory and incentive-related barriers. Participants suggested that the future climate regime should facilitate mainstreaming by providing practical examples, improving capacities and requiring all development policies undergo an “adaptation check”. Creation of effective incentive schemes at various levels was considered crucial for mainstreaming adaptation.
15. Participants noted that very few of the post-2012 climate regime proposals can raise sufficient funds to meet the costs of adaptation in developing Asia. Hence, options for mobilising new and additional financial resources for adaptation both within and outside UNFCCC must be explored based on the “polluter pays” and “climate change winners pay” principles. It was suggested that public resources at national and international levels must play a larger role in financing initially, while gradually encouraging the private sector to become more proactively involved in adaptation efforts. The need for (a) building synergies of adaptation plans with disaster risk management and MDG achievement plans, (b) developing flexible, customised credit schemes including microfinance and (c) providing alternative climate-insensitive income generating activities in Asia was highlighted.
16. The role of the insurance sector in facilitating adaptation to climate change in developing Asia has been minimal so far due to barriers such as a lack of relevant information on climate risks at the local level. However, the demand for weather-related insurance instruments is expected to increase as climate change proceeds. Robust insurance mechanisms, including an “Asian Catastrophic Risk Insurance Facility”, should be established to enhance vulnerability and adaptation assessments and promote public-private partnerships in adaptation.
17. Despite the fact that the UNFCCC, the Kyoto Protocol, and various COP decisions contain numerous references to sustainable development, participants noted that the current climate regime does not recognise and reward developmental co-benefits. Sustainable Development Policies and Measures (SD-PAMs), which was proposed by the Republic of South Africa, operationalises how these co-benefits could be recognised and rewarded more explicitly than other post-2012 proposals. It could nonetheless be enhanced with systematic criteria to evaluate the contribution to sustainable development of pledged policies and well-defined linkages between climate-related resources and domestic developmental needs.
18. To further strengthen the recognition and rewarding of co-benefits in the future regime: (a) researchers should standardise rapid analytical methods to evaluate the developmental contribution of pledged policies (to be verified by an international sanctioned body with more rigorous analytical tools), (b) policymakers should conduct an assessment on integrated policies that stand to benefit the most from regime-related financial and technical support, and (c) climate negotiators should gradually scale up these institutional reforms in multiple stages, beginning with voluntary pledges, piloting of standardised tools and rewarding of integrated policies.

## Recommendations for Strengthening The Climate Regime beyond 2012 from an Asian Perspective

1. The design of the future climate regime should not constrain sustainable development in developing Asia. In view of the region's growing energy demands and GHG emissions, the international community should make earnest efforts to support Asia in its transition towards an energy efficient, low-carbon economy. Aligning Asia's developmental priorities with global climate interests is, therefore, urgently warranted.
2. Climate negotiators should strive to provide credible policy signals for the continuity of market mechanisms while ensuring equity, environmental integrity and cost effectiveness. Efforts to refine and expand carbon markets, and to broaden the involvement of Asian countries in mitigation efforts through the careful design of sectoral approaches and other innovative methods should be accelerated, while paying due attention to institutions and incentives that can ease enforcement at the local level.
3. Future climate regime discussions can facilitate the rapid uptake of low-carbon technologies by creating regulatory frameworks and legislation that is designed to improve finance, build synergies between technology initiatives and enhance the flexibility of the intellectual property rights regime. However, the political feasibility of technology agreements (in terms of self-enforceability, the provision of side-payments, and the alignment with domestic sub-national interests and institutions, among others) must be fully considered.
4. The future climate regime should facilitate the mainstreaming of adaptation concerns in development planning and assistance across Asia by providing practical examples, improving capacities and requiring all development policies to undergo an "adaptation check." Further efforts to mobilise funding for adaptation, for instance, by offering opportunities for the active involvement of the private sector and encouraging public-private partnerships in adaptation efforts, must be pursued while making effective use of climate insurance instruments.
5. The recognition and rewarding of developmental benefits can strengthen the development and implementation of climate actions in Asia. Climate negotiators should consider gradually scaling up Sustainable Development Policies and Measures (SD-PAMs) in multiple stages, beginning with voluntary pledges, piloting of standardised tools, and rewarding of prioritised integrated climate and development policies.
6. A clear and ambitious long-term climate framework, which treats mitigation, adaptation, technology and financing in a more balanced manner than before, should be agreed upon as soon as possible. The framework should have a menu of options and diverse approaches so that all nations can commit to measurable, reportable and verifiable climate actions consistent with national circumstances and UNFCCC principles.