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Budget/Studio

Leg Mtg 5/24

Last mtg before Bonn; unresolved items on list.

-8: Joint implementation: under Art 6 - project activities b/w/among countries w/ targets (unlike CDM). Doesn't require rules/procedures ∴ more flexible, more self executing than CDM. JI is a project that reduces emissions w/ benefits shared by parties; we see that if both countries in compliance w/ other obligations, no need to have a project-specific measure of additionality. This makes it more like trading. If you take a project specific approach, no diff b/w JI and CDM. ~~Developing countries~~ [illegible] / enviros etc. oppose this.
(in other words, if they both have targets, we don't care about exactly what reductions is, because the parties have to allocate b/w them anyways: it's self-enforcing and it's just an allocation scheme; basically it's trading.
- why deal with at Bonn?

-9.: just developing modalities is not back-door implementation. OK.

-10: support Iceland res. aluminum smelter since they are umbrella group member and been helpful.

- Other issues that we may want raise in Bonn: (even if raised only strategically to be given away). Such as:
  - put 4 flex. mechs on table as our need in EU bubble and East German hot air, in addition to trading, JI and CDM. Response to EU cap decision.
  - EU wants project by project-based CDM we could say no and ask for more flexible test. This might be seen by developing countries as a gesture to them.
  - Hit them on their interp of 4.5 which is that you can't trade if you're out of compliance.

?

- Nuclear - we have been silent on Nukes qualifying for CDM. Should we engage/vocalize in favor of including it?
- Hydro - how to differentiate. Other ways to limit? Ex-im etc.

ENVIRONMENT CENTER

USAID

Need mtg on this.

Memo

To: Distribution

From: David Hales

Date: 05/24/99

Re: Japanese Proposal re ODA and CDM

The Japanese proposal to use ODA for CDM projects could raise several serious issues for USG policy.

1. Redirection of ODA from current program emphases: ODA totals have declined significantly since 1992, and the trend is unlikely to be reversed in the near future. If the Japanese proposal redirects their funding from current patterns of investment, there will be direct consequences for other donors and for recipients. Aside from the political costs in the context of climate negotiations of such an action by the Japanese, we need to understand the substantive implications (i.e. which countries and which programs will receive reduced funding) before making a decision to support.

2. Tied Aid Issues: Depending o the approach to be used by Japan, the proposal could raise serious "tied aid" issues. The USG has serious concerns about the use of development assistance that generates exports of goods and services in ways that distort markets or lead to subsidized dominance of market sectors.

   Questions will arise in several contexts:

   a) Japanese market advantage; Japanese ODA investment could induce CDM partners to invest in ways that are not competitively determined by price, quality or service, and which are not consistent with country climate strategies, National Environmental Action Plans or National Economic Strategies. The result could be subsidized enhancement of market share in key sectors of emerging economies, as well as strengthening the competitiveness of japanese domestic firms. US nterests would suffer in both instances.

b) Conflict with the principles of the 1992 Helsinki Agreement: 1) Tied aid should not be used for commercially viable projects, **especially projects in the energy sector, and** 2) higher income developing markets should be ineligible for tied aid.

Projects that are larger than $3M in non-LLDCs (least developed countries) must be notified to the OECD and may be challenged by other OECD members.

Depending on the approach taken by Japan, their actions may well engage aggressive responses by the US Ex-Im Bank via the Tied Aid Capital Projects Fund, or the Tied Aid Credit Authority. Policy and Budget implications should be considered before supporting the Japanese proposal.

3. ODA definitional problems: ODA is defined as **financial flows** to **recipients** from **official agencies** which:

    a) have the **primary objective of promoting sustainable development of recipients**, and,

    b) is concessional, that is it involves a transfer of financial resources that will not have to be repaid - a grant element – of at least 25%.

Depending on the details of the proposal, funds used as the Japanese propose may no longer qualify as ODA, on either or both points. There is nothing we can do in the FCCC context to address this definitional issue. Japan will have to define their case and appeal to the OECD Development Assistance Committee for permission to continue to count assistance that produces CERs used to meet national emissions reductions targets as ODA. The closest analog is Germany's request to count domestic investments made in support for Bosnian refugees as ODA. The DAC allowed a percentage to be counted for two years and this year rejected a German request to continue the practice.

POLICY-LEVEL ISSUES FOR JUNE SUBSIDIARY MEETINGS

Key Positions

1. Seek to defer indefinitely, and in any event until the second commitment period, any decision to count emissions from international aviation and maritime transport as part of national totals.

2. Seek to begin to work on guidelines for the 2nd national communications of non-Annex I Parties.

3. Explore ways to continue the pilot phase for project based activities until the CDM becomes operational and, for such activities among Annex I countries, until the first budget period.

4. Work to establish a process for considering policy and procedural questions that allows for the inclusion of broad set of land use change and forestry activities under Article 3.4.

5. Proceed to elaborate emissions trading and the CDM independently, but do not agree to conclude CDM before emissions trading is concluded.

6. Continue privately to query Japan on how it would respond to concerns about using ODA to fund CDM projects, and on how it would define ODA in this context. Also privately query Japan on whether continuing to press this issue may lead to demands for setting an ODA baseline, such as 0.7 percent of GDP. However, support Japan in avoiding a decision at this time that would foreclose using ODA under the CDM.

7. Continue to oppose quantitative caps on the flexibility mechanisms, avoiding a public confrontation with the E.U. if possible. If publicly initiated by others, forcefully oppose quantitative caps. Oppose dedicating a share of the proceeds from emissions trading and joint implementation to adaptation.

8. Continue to maintain that joint implementation projects can be undertaken without a project-specific determination of additionality, provided that both Parties are in compliance with their measurement/reporting obligations.

9. Support a work program for the prompt design of Protocol components, bearing in mind that some aspects of the monitoring and reporting systems may not be completed by COP-6.

10. Continue to support Iceland's request for a single project exemption.

Policy Questions

1. Should large-scale hydro and nuclear projects be eligible activities under the CDM?

2. How should project-specific additionality be determined under JI -- via guidelines or post-facto Article 8 review?

3. How should we deal with the Bubble?

4. What should be our policy on CDM baselines?

– *DRAFT* –

Discussion Paper: OPEC Strategy

(5/12/99)

This paper does not deal with our longer term objective of bringing OPEC countries into the global system of legally binding, quantified greenhouse gas limitation commitments and the global emissions trading regime. Instead, it suggests a number of medium term and near term objectives in our dealings with these countries.

Background

Of OPEC's 13 members (Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela), about seven (Algeria, Indonesia, Iran, Kuwait, Nigeria, Saudi Arabia, Venezuela) participate actively in the climate change negotiations, and four seem to work actively to promote OPEC's interests (in order of importance, they are: Saudi Arabia, Venezuela, Nigeria and Iran). Three (Saudi Arabia with Al-Saban, Venezuela with Herrera, and Iran with Salamat) have extremely skillful negotiators with substantial history in the negotiations.

OPEC has members in three of the five U.N. regional groups (Africa, Asia and Latin America). In addition, key OPEC countries (e.g., Saudi Arabia) can extend their influence at times through appeals to Islamic solidarity (for example, in opposing climate meetings during Ramadan). Often, OPEC can count on Chinese support for some of its positions, and OPEC has effectively used the G-77's consensus procedure to insist on recognition of its interests by the broader group. Collectively, OPEC produces about 40 percent of the world's oil, holds about 77 percent of the world's oil reserves and contains nearly all of the world's excess oil production.

Medium Term Objectives

- Move climate up on the agenda of our bilateral relations with "friendly" OPEC members (e.g., Saudi Arabia, Venezuela, Indonesia) through, for example:
  - High-level engagement (visits, letters, calls) that raises climate change issues
  - Discussing opportunities to diversify economies heavily dependent on oil exports
  - Increased environmental cooperation (e.g., through EPA, NOAA)
  - Exploration of CDM opportunities (e.g., modernizing Saudi Arabia's desalinization plants)
- Weaken the "alliance" between OPEC and AoSIS by:
  - showing how OPEC positions are inimical to AoSIS interests

- working with AoSIS members to address their adaptation concerns

- demonstrating (through empirical studies) that Annex I actions will not significantly affect the economies of most developing countries

• Lessen OPEC's influence within the Group of 77/China by:

  - Helping others to find their own voices (e.g., Africa, Latin America, AoSIS)

  - Promoting strong Annex I (and developing country) resistance to G-77 positions known to by inspired by OPEC

  - Anticipating and working to co-opt likely targets of OPEC efforts to win support on particular issues (e.g., Saudi efforts to resist holding COP-6 in 2001, citing concerns that the IPCC Third Assessment Report will lead to greater calls for developing country participation)

• Avoid needlessly and/or inadvertently giving OPEC points around which to rally others (e.g., holding climate meetings during Ramadan)

Near Term Objectives

• To resolve outstanding issues related to the UNFCCC's Rules of Procedure (which have been "applied" but never adopted, through four COPs to date):

  - Consider supporting Saudi Arabia's view that decisions must be taken by consensus (in the absence of Rules of Procedure, this is the case anyway, and it did not block adoption of the Kyoto Protocol)

  • consider urging both AoSIS and OPEC to find representation on the UNFCCC Bureau within existing regional groups (i.e., consider not supporting a separate seat for AoSIS because OPEC then insists on a separate seat for itself)

  • If prepared to make any concession on these issues, consider what we would want in exchange from Saudi Arabia/OPEC (e.g., finding an acceptable solution to the Article 4.8/4.9 issue, securing OPEC support for including sinks in the Kyoto mechanisms, securing OPEC opposition to caps on the Kyoto mechanisms)

• In the Article 4.8 and 4.9 negotiations:

  - Continue to insist on the analytical and policy differences between adaptation to the adverse effects of climate change and the adverse impacts of response measures

- Continue to insist that Parties alleging economic harm from the adverse impacts of response measures have the burden of demonstrating these impacts or the potential for them (i.e., not the Parties adopting responnse measures)

- Consider agreeing that, if a valid case for harm is established, it would be reasonable for Parties to consider potential alternatives that could minimize or avoid the harm, provided they would achieve identical environmental benefits

- Work to identify ways and means to address the concerns of the Least Developed Countries under Article 4.9 to weaken OPEC calls for far-reaching action under Article 4.8