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Geneva, 9-18 December 1996

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Sally Kane	NOAA	301 427-2073
Tom Hourigan	USAID/PPC	202 647-8595
Jim Rubin	DOJ	202 514-4231

17 December 1996

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Climate Negotiations, Update No. 7:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 16/17, 1996

The following contains an informal review of highlights from the on-going climate change convention talks, covering events from the afternoon of December 16 through the mornings sessions on December 17 in the two subsidiary bodies meeting this week. These are the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the AG-13 working group which is addressing issues related to multilateral consultative arrangements as provided for in Article 13 of the Convention. Also included in this package are two different front pages from yesterday's issue of "ECO", the NGO periodical which provides insights/ruminations into daily developments. The reason for their inclusion is explained in this text. The last paragraphs can be used as a DAR item as desired or appropriate.

Climate Negotiations, Update No. 7: December 16/17, 1996:
SBSTA Argues About IPCC and AIJ, while AG-13 Ponders Its Role

Discord over IPCC Issues.....

The morning session of SBSTA on December 17 continued the debate begun the previous afternoon about issues related to cooperation with the Intergovernmental Panel on Climate Change (IPCC), including consideration of the revised 1996 Guidelines for National Greenhouse Gas inventories and on whether and how these guidelines should be used for reporting. This decision could impact on the preparation of the second national communications and additional inventory date which is due from Annex I Parties in April 1997. The debate also covered the question of what advice SBSTA might give to the IPCC concerning the direction of its future work in inventories and its long-term work on emissions profiles. Because there was no consensus on the part of Parties, Chairman Tibor Farago assembled two contact groups to give governments an opportunity to sort out their differences.

Both groups initially met last evening for two hours. The one on inventory guidelines was attended almost exclusively by OECD members. The U.S. representative (Paul Schwengels) reports that there was broad agreement that Annex I Parties should attempt to

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adopt the revised guidelines and to use them for the 1997 communications where possible to do so. Concerning the handling of HFCs, it was suggested that actual emissions should be reported; reporting of potential emissions is to be discouraged.

This contact group met again on the morning of December 17, but we do not as yet have a readout. However, Schwengels and other JUSCANZ members who are attending the discussions believe that a paper will emerge for consideration by the SBSTA plenary in due course.

A more divisive issue concerns the possible advice which SBSTA might give to the IPCC about its long-term work on emissions profiles. The EU and AOSIS appear interested in keeping the IPCC's current plans much as they are. Strong objections to the IPCC doing anything in this regard were voiced by OPEC countries, led by Saudi Arabia and Nigeria. Expressing another viewpoint was Zimbabwe which echoed the views of many G-77 countries by insisting that there should be explicit treatment of Annex I and non-Annex I countries. So significant were the differences among Parties on this issue, that the Malaysian chair of the contact group advised SBSTA Chair Farago that an additional meeting would not be useful. The Chair has undertaken to take "informal" contacts with delegations on this issue, but it appears likely that no decision will be taken by SBSTA on this matter.

.....And About AIJ Bedevils SBSTA

Similar discord is evident in the discussions of Activities Implemented Jointly. Here, most of the developing countries who spoke on this issue late on December 16 and in the morning of December 17 have emphasized that discussion of credit should not be done until the AIJ pilot phase is ended in 2000. There was much concern expressed (as it had earlier in the week) over the great emphasis being allegedly paid to AIJ to the detriment -- they claim -- of technology transfer. There was a great deal of insistence for deletion of that portion of SBSTA's paper on possible AIJ methodologies dealing with consideration of credit once the pilot phase ends. In our detailed remarks, we emphasized the importance of addressing the issue of credit now and offered to co-host workshops (along with the Secretariat) on various topics related to AIJ and JI.

Sensing the delicacy of this problem, the Chair undertook to call for a contact group on AIJ issues (under the Chair of Colombia). This has not met, as yet, because most delegates had not as yet intervened on this topic and because the roundtable on AIJ was scheduled to take place in parallel to the SBSTA morning session. In fact, the roundtable did begin (albeit an hour late in the Chair's wistful expectation that formal interventions on this topic would have been completed prior to its start, which they were not).

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DOE's Rick Bradley gave a well-received update on USIJI activities and used a series of slides (Debbie Stowell served as his 'Vanna White') to explain how the program works. There were several delegates from non-Annex I Parties in the room. We will try to submit a more complete wrap-up of the event with tomorrow's update, if one is ready by the time we go to print.

Bureau Confusion Reigns

As reported in Update 6, elections of bureaus for the SBI and SBSTA were delayed at the request of the Latin American and Caribbean Group (GRULAC) in order, it had been presumed, to ensure a formal endorsement of Colombia as the Vice Chair of SBSTA. The SBI agreed to forego the formal election of its officers until this consultation was completed. The start of the afternoon meetings was the time when these elections were scheduled.

Lest we have at least one decision taken smoothly, in the event, GRULAC could not come to terms over who should get the seat. Although it had been our understanding that a "deal" had been worked out on December 13 whereby all three subsidiary bodies were to have had bureaus elected on December 16, only the AG-13 -- working in blissful ignorance, one presumes, in a chamber in the old wing of the Palais -- elected Uzbekistan (representing Asia) as its Vice Chair, with Slovenia (representing the Economies in Transition) taking over as rapporteur.

Further raising questions about this whole, confusing mess, was a comment made by Japan at this morning's JUSCANZ meeting to the effect that it was Japan's understanding that Asia was nominating Uzbekistan as rapporteur in SBSTA -- not as Vice Chair in the AG-13. So, we will again leave this meeting without formal officers, although Tibor is making full use of Parties to chair various SBSTA contact groups. The question will now allegedly have to wait until the February meeting for another attempt at resolution, although the whole procedure could again be addressed in tomorrow's closing plenary.

NGO Split?

Readers may recall issue number 4 of the NGO rag, "ECO", which we forwarded as an enclosure to yesterday's update. It turns out that that version was really a "second edition." An earlier version, which was briefly placed on the table and then "recalled," contains an interesting difference in the lead article entitled "Missing the Point."

The article in question addresses the advice which SBSTA was debating concerning guidance to the IPCC on the assumptions for emissions profiles beyond the year 2010. In the "orthodox" version which we forwarded yesterday, "ECO" notes that "...there are to be no new commitments for non-Annex I countries....." However, in the earlier version of the same article, "ECO" outlines three possible scenarios which might be considered in developing a position on

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this question: Case 1: that no party take any further action; Case 2: that Annex I Parties alone initiate further action; and Case 3: that both Annex I and non-Annex I Parties initiate further action. "ECO" concludes that Case 3 should be recommended because "...what we are looking for is an idea of what the global picture is, or more precisely, of what it will be."

Copies of both front pages from "ECO" issue number four are included with this report to keep the record straight.

AG-13 Lumbers On

The AG-13 continued its discussion on the role of a consultative mechanism in the Convention. There was a noticeable difference of views expressed during the December 16 discussions about using the AG-13 as some kind of compliance mechanism. Several G-77/China states expressed wariness about using the AG-13 in this way, while the EU suggested that consideration of compliance issues could be considered on a case-by-case basis.

On December 17, the discussion focused on whether the AG-13 should eventually be used to provide legal interpretations. Japan questioned whether this was a suitable function, while the U.S. came forward with a even stronger word of caution in this regard. AG-13 Chair, Patrick Szell, appeared uncomfortable with these positions, apparently wanting to keep his options open in this regard.

Prospects

It is too early to tell if the SBSTA will progress with many concrete recommendations from this meeting. At a minimum, we want to preserve as much maneuver room as possible on the AIJ front, although this is difficult in view of hardline positions being taken by non-Annex I countries generally. There should be some movement on aspects of both the IPCC and methodology discussions, but this will depend largely on the reception accorded to the proposals which will emerge from contact groups on these topics. (A contact group on methodologies has not as yet been proposed; interventions on this item began late this morning and will continue in the afternoon.)

Meanwhile, the AG-13 continues to move through its deliberations in ponderous fashion. It is not clear if Patrick Szell was being truthful when he indicated that he does not expect any specific recommendations at this meeting. However, it appears that he will probably use all of the time allotted to him, thereby preventing the SBSTA from taking advantage of an additional set of interpreters who might otherwise have been used to facilitate its work.

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The following paragraphs can be used as a DAR item as desired or appropriate:

Climate Negotiations, Update No. 7: December 16/17, 1996:
SBSTA Argues About IPCC and AIJ, while AG-13 Ponders Its Role

Perhaps signifying the mood of delegates at these meetings, what we understood was a carefully balanced package deal for the election of officers to the three subsidiary bodies collapsed at the Monday afternoon session when the Latin American and Caribbean countries failed to agree on a candidate for the SBSTA Vice Chair (Colombia had been mentioned.) The AG-13 had gone ahead in the morning and elected officers. A decision on officers for both the SBSTA and the SBI will now apparently have to wait until the February meetings.

The morning session of SBSTA on December 17 continued the debate begun the previous afternoon about issues related to cooperation with the Intergovernmental Panel on Climate Change (IPCC). Because there was no consensus on the part of Parties, Chairman Tibor Farago assembled two contact groups to give governments an opportunity to sort out their differences. Both groups initially met last evening for two hours. The one on inventory guidelines was attended almost exclusively by OECD members and reached broad agreement on next steps.

A more divisive issue concerns the possible advice which SBSTA might give to the IPCC about its long-term work on emissions profiles. The EU and AOSIS appear interested in keeping the IPCC's current plans much as they are. Strong objections to the IPCC doing anything in this regard were voiced by OPEC countries, led by Saudi Arabia and Nigeria. So significant were the differences among Parties on this issue, that the Malaysian chair of the contact group advised SBSTA Chair Farago that an additional meeting would not be useful.

Similar discord is evident in the discussions of Activities Implemented Jointly. Here, most of the developing countries who spoke on this issue late on December 16 and in the morning of December 17 have emphasized that discussion of credit should not be done until the AIJ pilot phase is ended in 2000. There was much concern expressed (as it had earlier in the week) over the great emphasis being allegedly paid to AIJ to the detriment -- they claim -- of technology transfer. In our detailed remarks, we emphasized the importance of addressing the issue of credit now and offered to co-host workshops (along with the Secretariat) on various topics related to AIJ and JI. Another contact group is expected to try to find some common ground on this important issue.

DOE's Rick Bradley gave a well-received update on the USIJI activities and used a series of slides to explain how the program works at the informal AIJ roundtable held on December 17. Despite the fact that this event is being held parallel to the SBSTA

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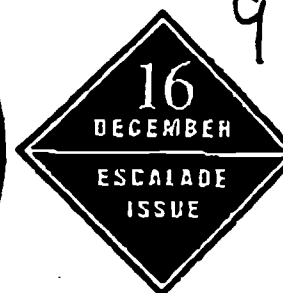
plenary, there were several delegates from non-Annex I Parties in the room.

It is too early to tell if the SBSTA will progress with many concrete recommendations from this meeting. At a minimum, we want to preserve as much maneuver room as possible on the AIJ front. There should be some movement from aspects of both the IPCC and methodology discussions, but this will depend largely on the reception accorded to the proposals which will emerge from contact groups on these topics.

Meanwhile, the AG-13 continues to move through its deliberations in ponderous fashion. It is not clear if the Chair of this body was being truthful when he indicated that he does not expect any specific recommendations at this meeting. However, it appears that he will probably use all of the time allotted to him, thereby preventing the SBSTA from taking advantage of an additional set of interpreters who might otherwise have been used to facilitate its work. (Hambley)

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

ecco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Climate Negotiations in Geneva, December 1996

On Your Marks, Get Set ...

The last session of SBSTA at COP 2 was less than successful by most accounts. No doubt, delegates to this prestigious body would like to prove that SBSTA can actually be a viable vehicle for policy-relevant scientific advice to the convention.

We thought we'd make it a bit easier for you by providing a handy list of objectives for this session:

- In considering "long term emissions profiles," SBSTA should keep firmly in mind the original objective of this work: assessing the implications of different emission limitation proposals on temperature and sea-level rise and the rate of climate change to help the AGBM. It was *not* to conduct an economic analysis of the next century.
- **Revised 1996 IPCC Guidelines for Emission Inventories:** Don't adopt the IPCC Tier 1-B and Tier 2 guidelines for fluorinated compounds as the primary basis for HFC, PFC and SF6 emission reporting by Parties. Keep it simple and verifiable.
- On bunker fuels, the exemption on emissions from international aviation and marine transport needs to be removed. These emissions should be allocated to the Party that sells the fuel. Moreover, the exemption on taxing international aviation fuel needs to be removed.
- The net emissions approach should not be used for the purpose of meeting emissions targets.
- As a basic principle all physical emissions should be reported on a country's inventory. Adjustments or corrections to these should not be undertaken unilaterally. Methodologies for adjustment of national inventories should be approved by the COP.
- Develop a methodology for adjusting inven-

ories for short term variability in order to assess a Party's compliance with emissions targets. Issues such as temperature variability should be dealt with by a simple methodology that all Parties would use.

- A gas-by-gas approach for the setting of targets and verifying of compliance should be taken for now.
 - The harvested wood issue should be deferred, as proposed, for further consideration at an IPCC Technical Workshop and a full analysis of the policy implications be prepared by the Secretariat for consideration by SBSTA.
 - The allocation of emissions from electricity trade needs very careful analysis. The Generator option is closest to the 'polluter pays' principle, but the Bilateral Agreement option may be the fairest, and send the most direct signal to consumers and industry; however its use needs to be directly regulated by the COP. SBSTA should very carefully assess whether or not the source of electricity traded can in fact be traced and verified, given the complex marketing system that would be used in this area. If verification is not possible then the Generator option should be used. Further analysis is needed to reach a sound decision.
- Good Luck.



Of course the new IPCC questions had nothing at all to do with the fossil fuel industry

Missing the Point

The IPCC plenary has identified that it would like to consult the SBSTA on the issue of guidance on the assumptions for emissions profiles beyond the year 2010. The IPCC also specified that there were two questions that needed to be answered.

1. What assumptions should be made concerning the economic, social and other goals of Annex I Parties between 2000 and 2010 and beyond the year 2010 that are likely to affect GHG emissions from the energy and other sectors?
2. What assumptions should be made concerning the economic, social and other goals of non-Annex I Parties between 2000 and 2010 and beyond the year 2010 that are likely to affect GHG emissions from the energy and other sectors?

To help answering those two questions, there are three case scenarios which are:

Case 1: No further actions are undertaken by any Parties;

Case 2: Annex I Parties initiate further actions; and

Case 3: Annex I and non-Annex I Parties initiate further actions.

It is our view that, as stated in the Berlin Mandate, the current commitments under FCCC are not adequate and that the COP has to set in movement a process that will take us beyond the year 2000, including the strengthening of Annex I commitments, but also recognizing that longer term reductions would never be achieved without developing countries.

We believe that Case 3 should be recommended by SBSTA, since what we are looking for is an idea of what the global picture is, or more precisely, of what it will be.

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

eco



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A Dangerous Scenario

The controversy over the Technical Paper on Temperature and Sea-Level Implications of Proposed CO₂ Emission Limitations is a disgrace. The same dynamics that emerged in the Mexico City plenary of the IPCC are surfacing once again. Once again, basic scientific results that would be extremely useful to inform the AGBM as it considers various policy options are being stifled. This debate is not about whether emissions scenarios are biased but rather whether delegations wish to be properly informed about the fundamental implications of their actions, or lack thereof. Meanwhile, SBSTA is potentially wasting a great deal of the scientists' time and effort.

IPCC Technical Papers are important in that they will be some of the key sources of scientific/technical advice, based on the IPCC Second Assessment Report, through COP3 in Kyoto. In Mexico City, the fossil fuel industry representatives tried to marginalize the importance of Technical Papers. After much debate, it was determined that the Second Assessment Report and previous IPCC special reports, and references therein, were allowed to be used as the basis for Technical Papers. So, Technical Papers can now provide a precise analysis of the implications of the IPCC SAR for specific questions raised by the Climate Convention.

The Technical Paper currently under debate, as noted by Professor Bolin in SBSTA, is merely a sensitivity analysis of the climate system. In other words, it will consider how the environment will react to different rates and quantities of emissions. There is nothing to be scared of: exploring a range of emission profiles will merely illustrate the environmen-

tal implications of a Kyoto Protocol. Isn't that the whole point of all these climate negotiations?

Delegations such as Nigeria, Kuwait, and Venezuela are proposing that the Technical Report be turned into a Special Report. This should be roundly rejected for several reasons:

- If turned into a Special Report, the point of the Technical Paper is lost. This Paper was to inform the AGBM negotiations on the Kyoto Protocol based on the SAR. A Special Report would necessarily have to be released after Kyoto.
- SBSTA should not set a precedent by in effect suppressing scientific results. The fact is that the first draft of this Technical Paper has already been circulated for review.
- The UK, Canada, France, Mexico, Germany and Netherlands already pointed out in Mexico City that a crucial element of the mandate of the IPCC is to meet the needs of the Convention and that this Technical Paper is a critical report for the AGBM process.

So, as we recommended yesterday, the IPCC should just complete the original Technical report, as requested by SBSTA a year ago. Professor Bolin personally pledged in Mexico to ensure that the Technical Paper be politically neutral.

SBSTA should trust the IPCC scientists to complete this fundamental report which will provide Parties with the best scientific assessment available of the environmental implications of the emission limitations proposals to be negotiated by the AGBM in the lead up to Kyoto.

JI - The Way Forward?

by John Lanchbery, VERTIC
and Toni Vidar, CAN-CEE

Today JI comes up, again. This time in a roundtable carefully timed to coincide with a slight hiccup in the AJI pilot phase. Just in case some problems associated with JI are overlooked, here are a few examples of old favourites left over from the last time that the issue surfaced.

First and most importantly, is an ethical problem. Given that the aim of the Convention is to mitigate climate change by reducing greenhouse gas emissions, it sometimes seems a little strange that some states seek not to reduce their emissions but to offset them elsewhere. It is perhaps worth bearing in mind the old G77 point that any mess concerning climate was caused mainly by the northern developed countries and that they should take the lead in cleaning it up - preferably not by underpaying somebody else to do it for them.

Depending on how one views the world, this point may not apply to central and eastern European countries who are strapped for cash. However, most potential "recipients" of JI amongst developed country parties are none too keen to participate on the basis of schemes proposed by the potential donors. JI is not high on the list of priorities of most Central and Eastern European governments. Even where it is, then an equitable system of credit allocation that benefits both donors and recipients must be developed if JI is to work at all.

A number of purely technical problems bedevil the practical implementation of JI. The basis for any JI project is the accurate and reliable estimation of emissions. It is essential to be

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16 December 1996

To: Please See Attached List
From: USDEL/Geneva, Mark G. Hambley
Subject: Climate Negotiations, Update No. 6:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 16, 1996

The following contains an informal review of highlights from the on-going climate change convention talks, covering events on Monday, December 16, in the two subsidiary bodies meeting this week. They are the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the AG-13 working group which is addressing issues related to multilateral consultative arrangements as provided for in Article 13 of the Convention. Also included in this package is the latest issue of "ECO", the NGO periodical which provides their insights/ruminations into daily developments. We are also including a detailed report on Article 4.1 deliberations prepared by DOE's Linda Silverman from the December 11 AGBM session. The last paragraphs can be used as a DAR item as desired or appropriate.

Climate Negotiations, Update No. 6: December 16, 1996:
SBSTA and AG-13 Begin Their Deliberations As Usual:
"SBSTA Slowly and AG-13 Turgidly"

Procedural Issues Slow Down SBSTA Progress

Both the Subsidiary Body on Scientific and Technological Advice (SBSTA) and the AG-13 working group on the consultative mechanism began their discussions in earnest on Monday morning, December 16. The SBSTA Chairman, Tibor Farago of Hungary, had tried to jump-start his group's activities last week by scheduling two poorly advertised (and, subsequently, poorly attended) sessions in which he attempted to outline an efficient work program to get through the four key issues on the SBSTA agenda: (a) organizational issues (and especially the election of officers); and items related to (b) the Intergovernmental Panel on Climate Change (IPCC); (c) methodologies; and (d) activities implemented jointly (AIJ).

At the December 16 JUSCANZ meeting, we were briefed by our regional representative (for the so-called WEOG group; in this instance, the UK delegate) on the results of a December 13th meeting which had been designed to sort out the issue of officers for all three subsidiary bodies, the SBSTA, the SBI, and AG-13. With regard to SBSTA, JUSCANZ was asked to select a representative who could be an understudy to a formal "friend of the chair" whom, it is anticipated, will help Tibor carry out the work of SBSTA with

the assistance of a vice chair from Mauritius and a rapporteur from Colombia. The formal "friend of the Chair" will be Italy (representing the EU); JUSCANZ selected Australia to provide back-up as needed or requested.

In the event, SBSTA lived up to its lamentable reputation, and the election of officers for both SBSTA and for the SBI (which was to have held a 10 minute session to approve its Bureau members, as well) was aborted by Venezuela which indicated that the Latin American and Caribbean Group (CRULAC) had not as yet formally endorsed Colombia. The Venezuelan called for a delay until the afternoon session.

As regrettable as this request was, WEOG, the Asian, and the African regional groups all appeared willing to delay the elections so as to proceed with the heavy workload. Unfortunately, the Chair was not easily persuaded that this was the desired outcome, so some 30 minutes were easily spent before this procedure was agreed. Elections for both SBSTA and the SBI should now take place this afternoon.

Another procedural issue which was raised concerned the organization of work. From past experience, it is evident that if governments are given the floor to make long interventions on each of the three, complicated topics (the IPCC, AIJ, and methodologies), there will be no time for any decisions to be made. Only by resorting to contact groups, in the view of many delegations (including our own) is their expectation that work can be advanced. We made this suggestion to the Chair, but he demurred and noted that this would be considered at the appropriate time. Brazil stated its view that contact groups should only be approved by the plenary, while China noted that multiple meetings disadvantage small countries.

Philippines and China Criticize Emphasis on AIJ and Complain About Treatment of Tech Transfer Issues

The Philippines also criticized the agenda for what its delegate termed excessive emphasis on activities implemented jointly (AIJ). Noting that this will be the topic of a round table on December 17, plus extensive discussion in the plenary, she pointed out that no such equal emphasis had been given to the question of technology transfer, despite the importance accorded to this topic by earlier AGBM meetings and the Conference of the Parties (COP), itself. Echoing her views, the Chinese delegate demanded that the oral report on this topic, being prepared for delivery by the Secretariat, be put into writing and circulated to the plenary.

IPCC First Substantive Topic Raised

Once these matters were dealt with (or at least postponed for the inevitable rehash), the SBSTA moved to address issues related to the Intergovernmental Panel on Climate Change. These include matters related to cooperation with the IPCC, including consideration of the revised 1996 Guidelines for National Greenhouse Gas inventories. In particular, the SBSTA is requested on whether and how to use these guidelines for reporting. This decision could impact on the preparation of the second national communications and additional inventory data which is due from Annex I Parties in April 1997. In addition, the SBSTA is supposed to provide advice to the IPCC concerning the direction of its future work in inventories and its long-term work on emissions profiles. Addressing the SBSTA on Monday morning concerning these items were IPCC Chairman Bolin and the Brazilian Co-chair of IPCC Working Group I.

The AG-13: Off to a Snoring Start

Meanwhile, the AG-13 used its time to elect a new Bureau (with duties currently not specified). Uzbekistan and Slovenia received the nod. The remainder of the morning was given over to sometimes lengthy remarks from the Chair on a myriad of issues, with sometimes equally long retorts from interested delegates on the role of the AG-13 generally. The meeting was surprisingly well attended for most of the morning. (Although we heard one delegate from an EU member state remark to a colleague upon leaving the room that "now I know where to go if I want to fall asleep.") In any case, we will provide a fuller report on AG-13 developments in tomorrow's update.

Things to Look For

While we are fully prepared and ably staffed to sink our teeth into the substance of SBSTA issues, it is not quite clear whether this is also the objective of the G-77/China. As indicated, it will be difficult to forge consensus on the outstanding issues, if we remain as a committee of the whole. It appears that the G-77/China may stall moving into necessary contact groups, especially with the round table on AIJ scheduled for December 17, and in view of the vexation expressed by both China and the Philippines concerning the "short shrift" given to technology transfer. An adroit Chair should be capable of handling these various concerns, and in the current circumstances, one can only hope for lightning to strike.

As for the AG-13, the group's Chair, the UK's Patrick Szell, predicted to a fellow delegate privately that no decisions on any of the outstanding issues are expected. If this morning's discussions are any guide, this outcome can be taken as a given

(which is one reason many delegates wonder if the group might usefully adjourn early in order to give some assistance to the SBSTA which will undoubtedly be in dire straits before reaching the 6 PM closing deadline on Wednesday.

The following paragraphs can be used as a DAR item as necessary or desired:

Climate Negotiations, Update No. 6: December 16, 1996:
SBSTA and AG-13 Begin Their Deliberations As Usual:
"SBSTA Slowly and AG-13 Turbidly"

Both the Subsidiary Body on Scientific and Technological Advice (SBSTA) and the AG-13 working group on the consultative mechanism began their discussions in earnest on Monday morning, December 16. SBSTA began its work slowly, immediately becoming bogged down in procedural issues related to the election of a Bureau (now to be decided at the afternoon session) and over the question of whether to endorse an U.S. suggestion to move immediately into contact groups as the most efficient way to utilize limited time to address the three key substantive issues related to the Intergovernmental Panel on Climate Change (IPCC), Activities Implemented Jointly (AIJ), and methodologies. The Chair demurred, and indicated he will consider the question as the work proceeds.

The Philippines also criticized the agenda for what its delegate termed excessive emphasis on AIJ. Noting that this will be the topic of a round table on December 17, plus extensive discussion in the plenary, she pointed out that no such equal emphasis had been given to the question of technology transfer, despite the importance accorded to this topic by earlier AGBM meetings and the Conference of the Parties (COP), itself. Echoing her views, the Chinese delegate demanded that the oral report on this topic, being prepared for delivery by the Secretariat, be put into writing and circulated to the plenary.

Once these matters were dealt with (or at least postponed for the inevitable rehash), the SBSTA moved to address issues related to the IPCC. These include matters related to cooperation with the IPCC, including consideration of the revised 1996 Guidelines for National Greenhouse Gas inventories. In addition, the SBSTA is supposed to provide advice to the IPCC concerning the direction of its future work in inventories and its long-term work on emissions profiles. The discussion will continue at the afternoon meeting.

Meanwhile, the AG-13 used its time to elect a new Bureau (with duties currently not specified). Uzbekistan and Slovenia received the nod. The remainder of the morning was given over to sometimes lengthy remarks from the Chair on a myriad of issues, with sometimes equally long retorts from interested delegates on the role of the AG-13 generally.

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While we are fully prepared and ably staffed to sink our teeth into the substance of SBSTA issues, it is not quite clear whether this is also the objective of the G-77/China. It currently appears that the G-77/China may stall moving into necessary contact groups, especially with the round table on AIJ scheduled for December 17, and in view of the vexation expressed by both China and the Philippines concerning the "short shrift" given to technology transfer.

As for the AG-13, the group's Chairman predicted to a fellow delegate privately that no decisions on any of the outstanding issues are expected this week. If this morning's discussions are any guide, this outcome can be taken as a given (which is one reason many delegates wonder if the group might usefully adjourn early in order to give some assistance to the SBSTA which will undoubtedly be in dire straits before reaching the 6 PM closing deadline on Wednesday. (Hambley)

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December 11, 1996 AGBM -- Article 4.1 (Continuing to Advance Commitments)

Chairman Estrada began the session by emphasizing that discussions would not involve new commitments for developing countries. He specifically referred to the EU's proposed "Annex X," indicating that this idea should be confined to discussions among Annex I countries, and that this should not be a subject for the AGBM. He then referred to the synthesis document and the comment in the document that non Annex I national communications fall within the scope of "advancing commitments."

Interventions basically fell within two camps -- developing countries and developed countries.

G-77 and China. The countries within the G-77 and China block took a hard line in their interventions on this issue, emphasizing that Annex I countries were neglecting their commitments to provide financial resources and technology transfer to developing countries. They reminded delegates of the importance of the principle of "common but differentiated responsibilities." Costa Rica, who spoke on behalf of G-77 and China, and all other developing countries who spoke, indicated their concern that Annex I countries were taking a narrow view of Article 4.1 commitments, focusing only on Art. 4.1 (a) and (b), while neglecting the commitments outlined in 4.1 (c) through (j), which were being poorly implemented by Annex I countries. The G-77 and China also linked Art. 4.1 commitments with that of 4.3, 4.5 and 4.7, all of which Annex I countries were failing to implement. Several developing countries mentioned that AIJ should not be linked with "advancing commitments;" others cited the need for Annex I support for vulnerability and adaptation activities. The Philippines was the most forceful when the delegate stated that developing countries were "bearing the brunt of developed countries consumption practices," that she "deplored current moves by developed countries to impose the veiled threat" of withholding financial resources if developing countries do not accept AIJ (although she also stated that she was still interested in what AIJ may offer), and that there is a "gross misconception" on the part of developed countries in believing that developing countries are doing nothing domestically and regionally to address climate change. In addition to Costa Rica and the Philippines, the following developing countries spoke in support of the G-77 and China position: Malaysia, Marshall Islands, Micronesia, Iran, India, Zimbabwe, Venezuela, Nigeria, Brazil, Indonesia and Thailand.

Norway, whose intervention was praised by several developing countries, emphasized that advancing the commitments of developing countries will depend on international cooperation and support for developing countries in accordance with Articles 4.3, 4.5 and 4.7. It also cited the need for effective functioning of the GEF in helping developing countries to implement their commitments. Referring to access by developing countries to climate friendly technologies, Norway indicated that technology transfer must be promoted, but that the proper framework and incentive structure to attract private sector investment is necessary. AIJ was mentioned as a mechanism that could effectively be part of a global strategy, as was new information technology to facilitate the rapid exchange of information.

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The European Union and Iceland emphasized that Annex I countries must take the lead in combating climate change and that advancing commitments in Article 4.1 is the responsibility of all parties. These interventions also cited the opportunities offered by transferring and diffusing technology, the development of AIJ, and the need to get multilateral development banks and the private sector more involved in the objectives of the FCCC. The EU did not mention "Annex X" in its 4.1 intervention.

Mexico, Turkey and the Russian Federation all provided an explanation of their national circumstances, stating that they were fulfilling their commitments under Article 4.1, but that doing more was the responsibility of Annex II parties.

The U.S. submission was by far the most innovative and contentious of the day on this topic. The U.S. pointed out that developing countries emissions are projected to rapidly increase, that preparing national communications should not constitute "advancing commitments," and that developing country national communications should be subject to national reviews. These reviews could provide the opportunity to assist developing countries to identify and implement no regrets and cost-effective mitigation measures and to identify key sectors and technological options to facilitate technology diffusion. Under next steps, the U.S. suggested consideration of revising Convention annexes (that establish which parties assume which commitments) to reflect that vast global changes since 1992 and of reaching agreement on a mandate for future agreement to agree. Chairman Estrada had a sharp reaction to the U.S. suggestion to review annexes, which he cited as falling under Article 4.2 (f), which is outside of the Berlin Mandate. The U.S. came back to say that its proposal was not under Article 4.2 (f) but that it was important to consider a graduation concept in the Kyoto agreement.

Australia noted the U.S. intervention, while Japan spoke only of its recent workshop with its Asia and Pacific neighbors to discuss national communications.

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

eco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Climate Negotiations in Geneva, December 1996

On Your Marks, Get Set ...

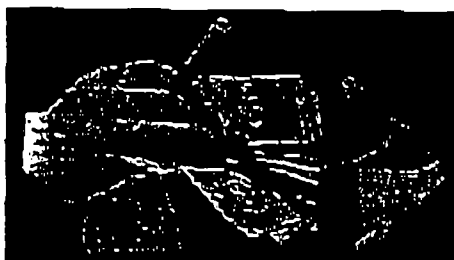
The last session of SBSTA at COP 2 was less than successful by most accounts. No doubt, delegates to this prestigious body would like to prove that SBSTA can actually be a viable vehicle for policy-relevant scientific advice to the convention.

We thought we'd make it a bit easier for you by providing a handy list of objectives for this session:

- In considering "long term emissions profiles," SBSTA should keep firmly in mind the original objective of this work: assessing the implications of different emission limitation proposals on temperature and sea-level rise and the rate of climate change to help the AGBM. It was *not* to conduct an economic analysis of the next century.
- Revised 1996 IPCC Guidelines for Emission Inventories: Don't adopt the IPCC Tier 1-B and Tier 2 guidelines for fluorinated compounds as the primary basis for HFC, PFC and SF₆ emission reporting by Parties. Keep it simple and verifiable.
- On bunker fuels, the exemption on emissions from international aviation and marine transport needs to be removed. These emissions should be allocated to the Party that sells the fuel. Moreover, the exemption on taxing international aviation fuel needs to be removed.
- The net emissions approach should not be used for the purpose of meeting emissions targets.
- As a basic principle all physical emissions should be reported on a country's inventory. Adjustments or corrections to these should not be undertaken unilaterally. Methodologies for adjustment of national inventories should be approved by the COP.
- Develop a methodology for adjusting inven-

ories for short term variability in order to assess a Party's compliance with emissions targets. Issues such as temperature variability should be dealt with by a simple methodology that all Parties would use.

- A gas-by-gas approach for the setting of targets and verifying of compliance should be taken for now.
 - The harvested wood issue should be deferred, as proposed, for further consideration at an IPCC Technical Workshop and a full analysis of the policy implications be prepared by the Secretariat for consideration by SBSTA.
 - The allocation of emissions from electricity trade needs very careful analysis. The Generator option is closest to the 'polluter pays' principle, but the Bilateral Agreement option may be the fairest, and send the most direct signal to consumers and industry; however its use needs to be directly regulated by the COP. SBSTA should very carefully assess whether or not the source of electricity traded can in fact be traced and verified, given the complex marketing system that would be used in this area. If verification is not possible then the Generator option should be used. Further analysis is needed to reach a sound decision.
- Good Luck.



Of course the new IPCC questions had nothing at all to do with the fossil fuel industry

Missing thePoint

Wading through the quagmire of document FCCC/SBSTA/1996/18 on Cooperation with the IPCC, the issue of "Long-term emission profiles" is listed. This seems to refer to the Technical Paper entitled, "Temperature and Sea-Level Implications of Proposed CO₂ Emissions Limitations," which was plainly intended to report on the environmental implications of emission reduction and/or limitation proposals, and was requested in time to provide an input into the Berlin Mandate negotiations. Answering the two questions raised in the SBSTA document is not relevant to the Berlin Mandate process at this stage and will further delay the technical report from the IPCC by "decades to centuries" as they say.

The first question (on assumptions about the economic, social and other goals of Annex I Parties from 2000 to 2010 and beyond that are likely to affect GHG emissions) should already have been answered during the now-ended analytic phase of the Berlin Mandate. It has no relevance to assessment of emissions limitations proposals, as, in making proposals, Parties have already made their own judgments on this.

The second question (on assumptions about goals of non-Annex I Parties) is similarly non-relevant to an assessment of the emission limitation proposals. Obviously, there are to be no new obligations for non-Annex I countries under the Berlin Mandate. Moreover, answering the question would entail a major new scenario generation exercise which is to be part of the Third Assessment Report process.

Both questions ask the IPCC to go beyond the mandate recently agreed in Mexico City: that all technical reports are to be based on the SAR.

SBSTA should ask the IPCC to complete the original Technical report using the IS92a scenario and 1005 CO₂ stabilization scenario, where appropriate, in time for AGBM 7.

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

Allocate or be Damned

by Bill Hare, Greenpeace

What do Pratt and Whitney (the jet engine manufacturer), ICAO* and the European Union have in common? It seems that all would prefer that international civil aviation emissions are allocated anywhere but to a Party's accounts.

SBSTA is to consider the allocation of international civil aviation and marine transport emissions (bunker fuels). Currently these are, in effect, exempted from control under the climate convention.

There appears to be no basis for this apart from successful lobbying by the air transport industry: bunker fuels should be allocated to the Party that sells the fuel and included within the overall emissions allowance of that country. It is important that these emissions are brought within the overall economic allocation system for greenhouse gas emissions – there is little or no justification for exempting them. Leaving them out means that these emissions are unconstrained, and the longer they are out the harder it will be to get them back into a system where their overall levels can be controlled.

Of the Secretariat's proposed options only two seem workable in terms of ensuring that emissions are controlled in a verifiable way. Option 3 (Allocation to where the bunker fuel is sold) would apply to both international marine and civil aviation fuels. Option 5 (Allocation according to country of departure or destination) may be workable for civil aviation but not for marine transport.

Real leadership is needed now to stop this issue descending into an embarrassing farce for the convention. Allowing this loophole to remain open up would create the precedent for other exemptions – would international road and rail transport be next?

* International Civil Aviation Organization but could be nicknamed "International CO₂ Allocation to the Oceans Organization"

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That Sinking Feeling

Net versus gross emissions is on SBSTA's agenda this week. While NGOs strongly support the end to deforestation and the protection and enhancement of sinks we believe that using tree planting or other sinks to "offset" fossil fuel related emissions will not allow parties to meet the objective of the Convention, or the terms of the Berlin Mandate, for two main reasons:

1. the substantial uncertainties in estimating land use change and in the forestry sector mean that a net emissions approach will not enable the quantification of emissions limitations and reductions
2. more fundamentally there are the long term risks from climatic change itself to the terrestrial biosphere; these include drought, forest fires, pests and disease, and could release significant stores of forest and soil carbon back to the atmosphere. Carbon would have to be stored across geological timescales to be equivalent to leaving it in the ground.

On the first point: the secretariat noted in SBSTA documents prepared for COP2 that some parties "questioned the appropriateness" of taking an approach where emissions and removals are aggregated to give a net figure.

For example CP/1996/12/Add.1 noted "The majority of those parties indicated that the high level of uncertainty was an obstacle in presenting reliable estimates in their first communications." (par 32).

Ireland (for the EU), Switzerland and Australia (in part) all raise questions in the SBSTA Misc 5 document over the net approach; the US AOBMS non-paper also raises the "significant technical difficulties" in measuring sinks.

Parties cannot ignore the second fundamental issue of the consistency of a net approach with Article 2 of the Convention. While it will eventually be dealt with as a policy question, we believe it is critical that SBSTA request expert help from the IPCC to consider the question of the scientific credibility of this approach.



Delegates have been taking advantage of their last weekend in Switzerland for the foreseeable future



Léman spent all weekend outside the EU bunker waiting to give an important message to the French delegation, but when everyone came out, not one Frenchman was to be seen. Did

they leave by the back door? Or weren't they there at all?

By the way, surely it can't be true that MITI is actually paying for Japanese business NGOs to come here? Who have they come to lobby? Surely this cannot indicate any difference of opinion within the Japanese delegation.

Wed, 12/18/96, 3 PM 001

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cc: JAF
RP
mm

Agenda for Meeting on December 18

1. What Happened in Geneva

- Dynamics of Meeting
- Implications for future policy

2. Schedule: December to March

- text
- further work on global trading system
- further work on developing country continuum
- target development, including key model assumption

*Copied to
Mr
Grogan*

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Geneva, 9-18 December 1996

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13 December 1996

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Climate Negotiations, Update No. 5:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 12/13, 1996

The following contains an informal review of highlights from the ongoing climate change convention talks, covering events from the afternoon of Thursday, December 12, through the morning deliberations on Friday the Thirteenth. While most of this report (like its predecessors in this series) contain largely the reporting officer's impressions and views, the section in this report entitled "Final Observations and Assessment" reflect the input of many USDEL members, including Reifsnyder, Pershing, Leggett-Emil, Bradley, and Whitman. David Doniger was returning to Washington at the time this paper was drafted. We are also including a page from the latest "ECO" which captures the flavor of NGO views. The last paragraphs can be used as a DAR item as desired or appropriate.

Climate Negotiations, Update No. 5: December 12/13, 1996:
AGBM Instructs Chair to "Compile" Paper for Next Session;
Additional Text and Submissions Due from Parties NLT Jan. 15

AGBM Concludes with Instructions for Next Session

The Ad Hoc Working Group on the Berlin Mandate (AGBM) wrapped up its program on Thursday afternoon, a day ahead of schedule. After a mildly contentious altercation with the Chair, Ambassador Estrada, who tried to include a paragraph quoting only that portion of the convention related to "no new commitments for non-Annex I Parties," Estrada relented and the entire passage was incorporated into the text. This followed a firm objection from the U.S., which was supported (with varying degrees of enthusiasm by Canada, Norway, the EU and -- most surprising -- by China.

Under the arrangements adopted by the plenary, the Chair, assisted by the Secretariat, is requested to prepare a framework compilation, incorporating textual proposals from Parties, as well as other proposals from Parties for the elements of a protocol or another legal instrument. These are to be identified by their source, although the U.S. noted that this practice, while acceptable at this stage in the process, was not to be taken as a precedent, and that future iterations of the text should be included without specific attribution.

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This text will receive in-depth consideration and serve as the basis for further proposals by Parties at the March meeting. In addition, the plenary invited Parties to submit further proposals, especially proposals incorporating draft text for the instrument, by January 15. These will be included in a Misc document which will be prepared by the Secretariat. It was acknowledged that some kind of preliminary text will have to be available for circulation to Parties by June 1, 1997 in order to meet the six month rule. A Secretariat official remarked that this will require that the submission be ready by April 15, in order to accommodate UN rules on the translation of documents into the organization's six official languages.

Finally, the Chair was requested to explore with interested delegations the concept of differentiation and the criteria for differentiation in the hopes that this discussion could form the basis for a roundtable on this topic at the March meeting. The Chair also solicited -- indeed, welcomed -- additional proposals from Parties to advance the negotiating process.

We understand that the G-77/China was meeting on the morning of December 13 in order to do just that. However, it appears likely that they, in fact, may be preparing language for some of the specific proposals offered by developing countries earlier in the week, including Malaysia's call for additional annexes to Art. 4.1 which would clarify the specifics of financial and technical assistance and training related to climate change.

Friday the Thirteenth was given over to meetings by the OECD Annex I group and the CTI process, in addition to several regional group meetings. SBSTA will convene on Monday, along with AG-13. The first day of SBSTA's proceedings will be focused on government statements on the various topics at hand. The remaining two days will be devoted to working out decisions, if possible, on such matters as studies for the IPCC to undertake. If work progresses true to past form, we doubt that SBSTA will complete its agenda in the time allotted.

Business Amicably Smug: NGO's Despondent

USDEL briefed both industry and environmental NGOs on both Tuesday and Thursday evenings. The overall demeanor of the two groups on both evenings was equally divergent: amicably smug on the part of business and quite despondent on the part of the NGOs.

In our 30 minute meeting with some 70 business representatives on December 13, questions were quite similar to inquiries we had received earlier in the week. In particular, they were interested in our views about the six month rule and the kind of text we believe is necessary to accommodate this requirement. They also asked additional questions about Article 4.1 and about how seriously we took the linkages issue: What are we prepared to give up in Kyoto in order to reach agreement?

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There was little of the nervous excitement exhibited at earlier sessions. Everyone (well, almost everyone) was amicable, while many betrayed a smugness which one of Congressional staffers attributed to: (a) their (the business reps) conviction that they can stop any agreement in the Senate, and (b), their belief that the differences in view expressed at this meeting, by their nature and magnitude, preclude any result in Kyoto.

The environmental NGOs were more thoughtful. The U.S. NGOs uniformly expressed their concern about U.S. policy and misgivings about the direction they see the overall process going. They are concerned that our policies are not sufficiently verifiable and quantifiable. They are worried that our "radical" view about actions towards developing countries under Article 4.1 will undermine the process. Some voiced misgivings about JI, while others complained that our proposals are not consistent with the President's remarks in Australia.

We also met on Thursday night (at Alden Meyer's request) with about 25 international NGOs, including representatives from the Climate Action Network's overseas affiliates, Greenpeace, WWF/Germany, one southern NGO from Bangladesh, the Sierra Club/Canada, GCI, and the World Conservation Network. All of these representatives pounded us with rhetoric, some appealing, all passionate, which tended to picture the U.S. as backsliding from the positive tone of the Geneva Declaration.

It is obvious that many of these NGOs had not carefully studied our proposals or listened closely to our interventions. Nevertheless, the meeting was useful, as it underscored the heightened sense of despondancy and, in some cases, genuine anger, over what several described to us as U.S. "inconsistency" and "betrayal" since the Geneva COP. The front-page of ECO aptly captures the flavor of NGO views towards the U.S. and towards other participants in the negotiations, although the temperature and the tone of their remarks to us does not percolate through these articles.

StaffDel Views

These are best discussed once we return to Washington. Suffice it to say that the three staffers in Geneva, David Garman (Murkowski), Susan Sheridan (Dingle), and Cathy Van Way (Shaefer) are all among the most knowledgeable individuals on the Hill. They attended the Tuesday NGO and business briefings, and also the Thursday business briefings, too. Only Garman stayed on for the international NGO marathon, where he took copious notes on his word processor.

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Final Observations and Assessment:

One year from today, on December 13, 1997 the Parties to the Framework Convention on Climate Change will have completed their negotiations with a new binding agreement designed to curb greenhouse gas emissions and, potentially, some kind of new "Kyoto Mandate." With the Parties to the AGBM now having put forth their views on the various features which they would like to see in this agreement, it is clear that there is little consensus except in two areas:

-- First, the science. As one non-Annex I delegate told our Canadian colleague on December 12, some success can be attributed to the latest session (of AGBM-5) because, for the first time, there was no questioning of the science or questioning about whether it might be premature to proceed with an agreement by any delegation.

-- And second, there seems to be unanimity that whatever future steps are taken must be legally binding -- at least no delegation suggested otherwise.

On other aspects of the debate, however, there is little shared agreement, and it is difficult to see how all of the pieces of this particular negotiating puzzle -- complicated in and of themselves -- can be put into place within the one year of time (and 20 days of formal negotiations) remaining before Kyoto.

Country groupings remain essentially unchanged, but with some noteworthy points. The EU, while showing some strain, is moving forward with a framework text; JUSCANZ shows broad agreement except on differentiation; the Eastern European countries were essentially silent, although Russia made some positive soundings in favor of emissions trading and JI; the G-77/China shows new factions emerging, with new-found cohesion among a geographically broad range of OPEC countries, new voices from China, and some signs of flexibility from China. Following are our observations concerning the key pieces of the legal instrument which will have to be negotiated, and our assessment of where Parties stand on each and their prospects:

Policies and Measures

Interventions of Parties to date reflect two broad camps: The EU which favors at least some mandatory PAMs, and other Parties led by the U.S. but including Australia, New Zealand, and many leading G-77/China members who are either hostile to the idea (e.g., the U.S.) or do not favor them for trade reasons (e.g., Brazil). Other countries, including Canada and to a lesser extent, Japan, also do not favor mandatory PAMs but appear willing to compromise on the issue in limited, non-controversial ways, by seeking to find areas such as public education where a few common policies might be

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harmonized. Aviation and bunker fuels seem to be the key interest in PAMs in the EU; some in JUSCANZ have also favored PAMs as a mechanism for engaging developing countries.

Prospects: In the end, this may be the least controversial area to be negotiated. The European suggestions are completely unacceptable, but one gets the sense that they will in the end not hold to the extreme tax policies which they are suggesting be harmonized. The immediate concern is Chairman Estrada who wants to begin compiling lists, only one of which would be controversial. The issue will be what Parties are asked to do with these lists, and with three sessions remaining, there is much time for mischief -- e.g., establishing a mechanism in the instrument for further efforts over time to work towards "harmonization."

Quantified Emission Limitations and Reduction Objectives (QERLOS or Targets and Timetables)

The only text which has been presented which specifies numbers is that submitted by the AOSIS countries. Neither the EU nor the U.S., Japan, or Russia have indicated any specific numbers. The public pressure on the EU to come up with a significant reduction scenario (such as 5-10 percent reductions by 2005 or 10 to 15 percent by 2010) is considerable, as is evidenced by the strong expectations voiced by the European NGOs. One suspects that realism may very well be cast out the window by EU Ministers this Spring. In part, this may be in reaction to the view, common among EU delegates, that the U.S. has backslid on its commitment and will come up with a number so modest as to receive worldwide derision and opposition. Sensing that the negotiations will fail as a result, the EU may decide it can afford once more to adopt a high-minded hortatory position, knowing full well that this position will not be adopted and that it need not fear having ever to implement it. Moreover, our call for "legally binding" targets seems no longer to moderate European rhetoric in the absence of strong proposals on "compliance." To some extent, Europeans see "legally binding" targets as little different from an "aim" -- a point brought home to us quite bluntly in our December 12 discussion with international NGOs.

On the structure/form of the target, several delegations appear to be quite intrigued by our multi-year concept. Even Chairman Estrada had positive things to say about it. We will have to amplify what we mean and provide details, but this concept appears to us to be a winner, although "borrowing" ran into strong skepticism. Our rejection of near-term targets also came under repeated barrages of fire from Europeans and NGOs, who equate our position with a rejection of near-term action.

Prospects: We will have trouble with the level for the reasons stated; we should not have difficulty in the concept of a multi-year target (although the EU and others would like to see one running from 2005-2015, rather than one from 2010-2020. It is not likely that negotiations in March will yield any conclusive results on this issue, although expectations are high that additional options for targets will be presented at that session.

Differentiation: We will need to find a better response to the differentiation issue if we are to come to agreement by Kyoto. With our own JUSCANZ house sharply divided over this issue (Norway sharply criticized our categorical rejection of the concept on the floor -- the only country to do so), and with other countries wanting differentiation in one form or another, we find it difficult to see how we can dismiss differentiation out of hand. This is particularly the case with Australia aggressively (and with some impact) working this issue on the margins with both Annex I and non-Annex I countries.

Among the countries which have articulated their support for some kind of differentiation concept are: Norway, Australia, Japan, Russia, Canada, France, Mexico and Korea to name just a few, along with a number of developing countries who may be thinking about their future commitments. We will also have to confront differentiation directly in considering how to bring in Korea and Mexico, and perhaps Turkey.

Prospects: Hopefully, we will see some additional text from the proponents of differentiation telling us how the concept would work. We expect considerable intersessional work on this issue, strongly pushed by Norway and Australia. Perhaps we need to run some of the numbers for the existing proposals or come up with our own proposal in order to slay this dragon. However, the manner in which we bat down differentiation is at least as important as the substance of our arguments. We cannot win in this negotiation without a core of countries supporting our positions. At the moment, our differences over differentiation are dividing us from countries who would normally be allied to our efforts -- or who could be persuaded to come on board.

Joint Implementation and Emissions Trading: Joint implementation with credit (along with our graduation concepts under Article 4.1) received the greatest resistance from developing countries. They simply do not appear willing at this point to accept the concept. Even the EU is somewhat cool to the concept, and we do not believe they will -- in the end -- back up those countries which are strong proponents (including the U.S., New Zealand, Norway, and to a somewhat lesser extent, the Dutch and the UK). Emissions trading appears to be a less controversial subject. Most countries want to know more about it, but there is not the vocalized resistance to this concept as it is not yet well understood.

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Prospects: As indicated in an earlier report, JI will be a tough sale. Emissions trading is eminently doable, provided we follow-up soon with a clear and uncomplicated proposal outlining how the system could work internationally. However, in order to ensure the strong opposition to JI does not prematurely remove the option from consideration, the U.S. will need to make bilateral discussions -- including one with Chairman Estrada -- a priority.

Banking and Borrowing: Both concepts took a number of direct hits from a variety of sources, with most of the verbal criticism continually heaped on borrowing. Our careful explanations of the restrictions which would need to be developed to ensure compliance and verifiability did little to assuage the large number of skeptics.

Propects: Banking is probably a doable concept, while borrowing looks extremely difficult at this point. No one else supports it, and many have spoken against it both publicly and privately. We need to flesh out what we mean by both concepts if we are to bring more countries on board.

Advancing Article 4.1

It was fortunate that the EU came up with Annex "X", a kind of graduation mechanism which took most of the direct criticism from the G-77/China, rather than our own proposals. Whether these attacks were coordinated and deliberate are unknown. It seemed to us that the G-77 was browbeating the EU into submission, in the hopes that this would ease their task in confronting the U.S. proposals. At least the first part of this strategy (if there was one) worked: the EU has muttered something about Annex X referring only to prospective OECD members, although we are still not clear as to what they mean and, we suspect, the EU does not as yet know itself.

Propects: This is one of two issues which Chairman Estrada bluntly told us were non-starters in this round of negotiations (the other being JI with credit). We told him equally bluntly otherwise, but it took a fight on the floor on December 12 to even get us the possibility of a further hearing on this key issue.

With persistence and additional discussion, we can probably work out something along our "continuum" concept, although at this point, it is not clear exactly where. For the first time, however, thought seems now to be given in some quarters to the possibility of a "Kyoto Mandate", as a result of our position.

In any case, it will be incumbent upon us to work with other willing countries (developed and developing) to get some constructive proposals on the floor to move us forward -- possible but difficult. (An example might be the renewal of the ever-popular country studies program or others related to capacity building.)

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Protocol or Another Legal Instrument:

Korea is the only country which has (privately) expressed its preference to us for an amendment. Most other countries (including the EU, Japan, Russia) have come out in favor of a protocol. Others (like China, India and key G-77/China members) have tended to take our view that substance should be decided before form.

Prospect: It seems likely that a protocol will be the end result and certainly would be compatible with our various proposals. We would probably get some points if we could announce our support for a protocol sooner, rather than later -- especially keeping the consideration in mind that we can always fall back on an amendment idea if this seems more appropriate by Kyoto. Some critical legal issues, including those with respect to overlapping responsibilities of possible protocol and convention institutions (e.g., the COPs, subsidiary bodies) need to be resolved.

Compliance: We are thus far the only country to have addressed the compliance issue in any detail. There is general interest in many of our ideas. Japan has a proposal mirroring the IEA country review process, building on existing FCCC mechanisms.

Prospects: We are currently in the driver's seat on this issue. Provided we can back it up in terms of actual text by the next meeting, we can probably remain the principal drafters of this portion of the anticipated agreement.

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The following paragraphs can be used as a DAR item as desired or appropriate:

AGBM Concludes with Instructions for Next Session

The Ad Hoc Working Group on the Berlin Mandate (AGBM) wrapped up its program on Thursday afternoon, a day ahead of schedule. After a mildly contentious altercation with the Chair, Ambassador Estrada, who tried to include a paragraph quoting only that portion of the convention related to "no new commitments for non-Annex I Parties," the Chair relented and the entire passage was incorporated into the text. Under the arrangements adopted by the plenary, the Chair, assisted by the Secretariat, is requested to prepare a framework compilation, incorporating textual proposals from Parties, as well as other proposals from Parties for the elements of a protocol or another legal instrument. In addition, the plenary invited Parties to submit further proposals, especially proposals incorporating draft text for the instrument, by January 15. These will be included in a Misc document which will be prepared by the Secretariat and used as the basis for the March meeting.

With the Parties to the AGBM now having put forth their views on the various features which they would like to see in this agreement, it is clear that there is little consensus except in two areas:

-- First, the science. As one non-Annex I delegate told our Canadian colleague on December 12, some success can be attributed to the latest session (of AGBM-5) because, for the first time, there was no questioning of the science or questioning about whether it might be premature to proceed with an agreement by any delegation.

-- And second, there seems to be unanimity that whatever future steps are taken must be legally binding -- at least no delegation suggested otherwise.

On other aspects of the debate, however, there is little shared agreement, and it is difficult to see how all of the pieces of this particular negotiating puzzle -- complicated in and of themselves -- can be put into place within the one year of time (and 20 days of formal negotiations) remaining before Kyoto. This kind of cautious skepticism is common at this point in most negotiations, so we intend to keep our powder dry and move full speed ahead in anticipation that current and future hurdles can somehow be surmounted. (Hambley)

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

eeco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Climate Negotiations in Geneva, December 1996

The Tasks Ahead

Homework Assignments for the New Year (to be graded at AGBM 6)

Japan: You show promise, but you must work harder to complete your protocol project. It's nice of you to offer your house for our graduation ceremony, but we need a road map of how to get there. Stop your family squabbling on different agency positions — it's frightening the other children. You, of all parties, must serve as a role model for your peers.

EU: Your framework protocol to the framework convention is still too much of a framework. We suggest re-studying the AOSIS protocol and adding some meat to your proposals. Your X-amples are confusing your classmates; try to be more clear when you speak.

United States: You showed great promise at COP2, but your behavior in class is once again becoming a problem. You must concentrate on your studies, particularly on ecological indicators and the precautionary principle, and come to the next class prepared to make a real contribution. Your efforts to "borrow" your classmates' personal property are troubling; drop them. Rather than worrying about others' graduation, you should focus on your own performance; you're in serious danger of being held back.

Australia: Stop bringing Megabear to class; he's rude and disruptive. Try to get along better with your classmates; stop claiming you're the one most burdened by class assignments.

Canada: You're starting to pick up bad habits from the student who sits just South of you. Work on setting targets for yourself. Your understanding of demography is deficient; if it doesn't improve, you should stop raising it in class.

France: You seem to have problems getting along with the rest of your team, and it's affecting your overall performance. Your interest in the subject of per capita emissions is laudable; but

you have to learn how to apply it in the real world.

Norway: You have a good grasp of algebra, but you have problems completing your papers. Without more specifics, your classmates will have a hard time evaluating your ideas.

Saudi Arabia: Your concern about the survival of your small island classmates is touching, but you need to show more support for their efforts to improve their chances. Your understanding of environmental studies is still weak; maybe you could join the United States in a refresher course.

Brazil: You're to be congratulated for your thoughtful comments in class. You have a good grasp of world problems, and your willingness to collaboratively work on long-term solutions is admirable. But don't lose sight of the task at hand: when we get to graduation, we want to be sure we have no regrets.

AOSIS: Your ideas are very good, and your
continued on back page, col. 3



NGOs have been impressed by certain countries' openness to suggestions

Canada Misses Cuts

Provincial and federal energy and environment ministers met in Toronto December 12 to assess progress on meeting Canada's international climate change commitments. The result: few new measures to reduce Canada's skyrocketing greenhouse gas emissions.

Canada's 1995 greenhouse gas emissions are 9.5% above 1990 levels. Per capita emissions of greenhouse gases have risen from 20 tonnes per capita in 1990 to 21 tonnes per capita in 1995. Greenhouse gas emissions per dollar of Gross Domestic Product (GDP) have increased from 809 kilograms per thousand dollars in 1994 to 816 kg/\$1,000 in 1995.

Assessing progress on Canada's climate program was the only agenda item December 12. A consortium of consultants was hired to prepare an evaluation of Canada's progress. The consultants attribute emissions growth between 1990 and 1995 to the oil and gas industry. Between 1990 and 1995, production increased by 35%, while exports of natural gas to the United States doubled.

Canada's National Action Program on Climate Change (NAPCC) is primarily a voluntary program. The Voluntary Challenge and Registry is so poorly structured that the con-
continued on back page, col. 1

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Geneva, 9 to 10 December 1996

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12 December 1996

To: Please See Attached List

From: UCBEL/CONVOC, Mark O. Hambler

Subject: Climate Negotiations, Update No. 4:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 11/12, 1996

The following contains an informal review of highlights from the ongoing climate convention talks covering events from the afternoon of Wednesday, December 10, through the morning deliberations on December 12. The last paragraphs can be used as a DAR item as desired or appropriate. Also included are more detailed reports prepared by various working groups on some of the early meetings and workshops.

Climate Negotiations, Update No. 4: December 11/12, 1996:
AGBM and SBI Conclude "Substantive" Discussions

The Subsidiary Body on Implementation completed its work in a short, late evening session on December 11 with its approval of a (very modestly) revised document related to the annex for the financial mechanism. State's Dan Reifsnnyder and Treasury's Tommy Semans received gold stars for their endurance and persistence in shepharding this effort through to a palatable conclusion.

The Chair Consults: We dispute

There was no afternoon session of the Ad Hoc Working Group on the Berlin Mandate (AGBM) on December 11. Instead, the Chair held private consultations with various groups of Parties on proposed outcomes from this meeting and on a 90-minute informal meeting to discuss the EU Protocol.

During his discussion with us, Chairman Estrada suggested that there is "no way" that joint implementation with credit will be approved by the AGBM. Moreover, he gave his view that the Berlin Mandate does not permit the type of graduation formulae being suggested by the U.S. He also indicated his interest in the multi-year target and asked for more details.

In response, Estrada was told in no uncertain terms that we disagree with his interpretation of the Berlin Mandate. Without JI and firm steps to advance the implementation of the commitments of "all" Parties, the U.S. would not support a new protocol or other legal instrument. We managed to deflect Estrada's stated interest in a multi-year target which, at one point, looked like we would be asked for a detailed exposition of the concept at a meeting on December 12. We told Estrada we will have additional details early next year.

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Amicable Discussions on Protocol or Another Legal Instrument,
but Differences between Us and the G-77 Reiterated

In any case, the Chair continued his consultations throughout Wednesday afternoon and until after 11 AM on Thursday (he last consulted with China), at which point, discussion was resumed on the last substantive item on the agenda, discussion of a protocol or other legal instrument. Altogether, some 24 countries spoke to this issue, including for the first time, several African countries (such as the Gambia, Ghana, and Sierra Leone) and several AOSIS countries (including Dominica). The latter (and some of the African countries such as Ghana) stated their support for the AOSIS protocol and called upon the AGBM to give it appropriate attention.

Most AOSIS countries -- joined by other G-77 members such as the Philippines -- also raised the by now tiring refrain about the slowness of Annex I action/response to the problem of global warming. The Marshall Islands delegate was particularly eloquent in an intervention delivered in the obnoxious, yet usually humorous, style which has become his predictable trademark.

Costa Rica, speaking for the G-77 and China, indicated that "substance" should determine the basis for the eventual agreement. The delegate made four additional points: (a) the basis for the agreement should be drawn from the convention's preamble and Articles 4.2(a) and (b) (which relate to developed country commitments); (b) the scope of the agreement should include both policies and measures (PAMs) and QERLOS which should be "interrelated" and continuing to advance Article 4.1 obligations; (c) the review mechanism should reflect that contained in Article 4.2(d) of the convention; and (f), to the extent possible, existing institutions (including, apparently the COP and the Secretariat, although he was not clear on this point) should be utilized to execute and service any future protocol or another legal instrument.

China reiterated the G-77 spokesman's points and stressed once more that the eventual agreement should not deviate from the climate convention ((Comment: This is short-hand, we believe, for a view widespread amongst non-Annex I concerning their current rejection of JI with credit and of either the EU's call for an Annex "X" (a kind of mild graduation mechanism) or for aspects of our "continuum" approach to our efforts to ensure the advancement of Article 4.1 commitments by all Parties. End Comment.))

China also called on the Chair, in cooperation with the Secretariat, to "compile" all of the papers issued into a document, noting the source of the various proposals, and to circulate this paper prior to the March meeting. China emphasized that it is too early for actual text now.

These sentiments were echoed throughout the morning by several other G-77 countries, including by India, the Gambia, Iran, and

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Venezuela. New Zealand noted that a protocol might be the preferred instrument and expressed the hope that trade sanctions would not be considered in any future compliance regime. The Kiwis also expressed support for the view (also made by the U.S.) that this new instrument should pave the way for future global action.

A few new (and not especially helpful) ideas were disclosed during the discussion. Malaysia, for example, proposed four new annexes for Article 4.1, each of which would further detail the specific amounts of assistance and provide additional details for the various programs currently encouraging technical transfer, scientific and other types of research, ((Art. 4.1(g)), the exchange of various types of relevant information ((Art. 4.1(h)), the promotion of cooperation in education, training, and public awareness, and so forth.

The Chair indicated that he would discuss his plans for handling the follow-up to this meeting at an informal on the afternoon of December 12. He expressed the hope that the AGBM could wrap up its work within "an hour or so," and thereby let the remaining two subsidiary bodies (AG-13 and SBSTA) begin their discussions on Friday. Depending on the extent to which he accepts advice and includes our points, he may get his wish. However, his insistence on doing everything "consistent with (his interpretation) of the Berlin Mandate" could complicate matters for us.

The EU Unfolds Its Protocol: The Reaction

There is no time to detail the EU protocol which is not exceptional, in any case, because it contains no numbers and rather confusing lists of mandatory and voluntary policies and measures. It also contains the now infamous Annex "X" which has been commented on in earlier reports.

With the Irish Chairing the session, questions were fielded by Bert Metz of the Netherlands and Cornelia Quenett of Germany. The room (one of the large conference rooms) was filled to capacity, and after a short introduction, Bert and Cornelia were bombarded with questions on almost every line in their formula.

In their responses, they were less than clear on their definition of Annex "X", although they once more talked about it in terms of the OECD (which vexed the Koreans, to be sure!) NGO's questioned the absence of a specific target and why certain PAMS were included, while others were not.

Our impression is that the EU scored a procedural point by having text available which will now clearly have to be on the table for the March meeting. However, from our initial soundings, they have apparently failed thus far to win over any non-EU converts to their position (which is not actively endorsed, in any case, by some EU member states, in particular France, Sweden, and Spain).

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Report on the Fourth Meeting of Subsidiary Body for Implementation (SBI)
of the Framework Convention on Climate Change
Geneva, December 12, 1996

1. The SBI, through an informal negotiating group of developed and developing country members, met to resolve conflicts between developed and developing countries on arrangements between the Conference of the Parties (COP) and the Council of the Global Environment Facility (GEF) to determine the level of GEF funding "necessary and available" for climate change activities. The arrangements will affect negotiations for the next and subsequent GEF replenishment. A deadlock on the arrangements could spill over into the AGBM process, decreasing the possibility to advance non-Annex I country commitments through a follow-on agreement to the Convention.
2. The GEF Council had already adopted a text on the arrangements, as an Annex to the Memorandum of Understanding between the GEF and the COP. However, the G-77 has rejected that text and tabled an alternate Annex with arrangements that would significantly increase their power in replenishment negotiations.
3. After a long and tense set of informal negotiations, developed countries led by the U.S. succeeded in rebuffing the objectionable G-77 demands. Pushing the SBI meeting deadline to the last minute, a compromise Annex text was agreed, referred to the full body of the SBI, and adopted. The text has now been referred to the GEF Council for consideration, and the SBI has recommended its adoption by the COP in Kyoto.

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Summary of AGBM Session, Tuesday morning, December 10, 1996

DISCUSSION OF STRENGTHENING COMMITMENTS OF DEVELOPED COUNTRY/OTHER PARTIES: ELABORATION OF POLICIES AND MEASURES

Chairman Estrada opened the session, recognizing two documents to support the discussion: the Synthesis Report of Parties' Proposals, prepared by the Chairman and FCCC Secretariat, and the new IPCC technical report on Technologies, Policies and Measures. Most Delegations welcomed the synthesis report, and many -- especially developing countries -- expressed appreciation for the IPCC report as a useful guide. The Annex 1 Experts Group of the OECD described its contribution through the Project on Common Measures. Reports should be available by AGBM 6 in March.

The EU reiterated their approach of including three annexes in the new agreement, including mandatory policies and measures (P&M) in Annex A, high priority P&M in Annex B which Parties would work to coordinate, and priority P&M in Annex C. The annex approach would lend itself to regular review and revision. The EU also tabled an initial list of P&M for inclusion in Annexes A and B. The Parties listed in a proposed Annex X, which would include Annex 1 Parties plus others that voluntarily joined (intended to include Korea and Mexico, as new members of the OECD). Switzerland also supports mandatory P&M.

Further discussion in this AGBM session of possible elaboration of policies and measures was dominated by G77 and China opposition to 'shifting the burden of developed country emission reduction commitments to developing countries' through the EU's Annex x, or Joint Implementation or GHG trading. Notable was Korea's statement opposing enlargement of the Annex 1 group (which Mexico repeated). Costa Rica, on behalf of the G77 stated that JI should be among developed countries only (echoed by India, Saudi Arabia).

The US reiterated its opposition to prioritized, harmonized or mandatory P&M, stressing the need for implementation to be specific to national circumstances, and skepticism of the need to include a menu. Only Australia also expressed opposition to a menu. Sympathy for a menu or non-mandatory approach came from Korea, Brazil, Japan, Malaysia, Estrada as Chairman, Marshall Islands, New Zealand, Venezuela, Mauritius.

Parties that spoke in favor of some coordination of P&M included: Canada, Samoa, and Chili.

The Japanese tabled a proposal that would leave specific P&M up to Parties. However, it identified five classes of P&M for which the Conference of the Parties would develop indicators, and Parties would report progress according to these indicators. Iran and the Chairman found this proposal interesting.

Several countries, including New Zealand, Saudi Arabia and Iran felt that the existing list of measures was too focused on the energy sector, and did not include important options in other sectors and non-CO2 gases.

Lead by Saudi Arabia, a number of developing countries expressed concern about the possible impact of developed country actions on developing countries.

Only Thailand expressed a view that might oppose trading among Annex 1 Parties, although Samoa expressed a concern that too much flexibility might not result in achievement of obligations.

AGBM-5 -- Tuesday afternoon**Summary of QELRO discussion**

Chairman Estrada introduced the topic by listing the questions parties must address regarding quantitative emission limitation and reduction objectives (QELROs) -- i.e., targets and timetables. The following is a summary of country statements on various QELRO questions:

Legal character of the QELROs: Many countries, both developed and developing, spoke in favor of the next step targets being legally binding. No country urged non-binding targets, although New Zealand noted that the binding nature of targets raises important compliance and dispute settlement issues; these will be important to parties in determining what targets they will be willing to undertake. (U.S. to make similar points but in later discussion of compliance.)

Differentiation: More attention was paid to differentiation than any other topic. Among OECD countries, Norway, Australia, Japan, France, and Iceland stated that differentiation among Annex 1 countries was necessary in the next step target; Canada said differentiation should be "explored." But specific proposals differ and are inconsistent.

Australia proposed that five core indicators be used: GDP growth, population growth, emissions intensity, fossil fuel trade, highly energy intensive exports. The first step, Australia said, was to negotiate a collective Annex 1 target, and then to negotiate a differentiation "rule" based on the five factors to allocate shares of this collective target, all by Kyoto. Australia argued that reaching agreement on differentiation would be less difficult than agreeing on a flat rate target, and that differentiated targets would add up to more reductions collectively than a flat rate target.

Norway proposed a three-factor formula: efficiency (GHG emissions per unit GDP), responsibility (GHG per capita), and capability (GDP per capita). These values would be based on projections for the target year (not 1990 values). A weighting would have to be negotiated. Norway also envisioned a collective target.

Japan proposed a two-formula approach, with each country choosing one formula. The first formula calls for a "p" percent change in per capita emissions. The second formula calls for a "q" percent change in total national emissions. "P" and "q" were not specified and do not have to be the same.

Iceland stated the need to recognize low GHG emissions intensity in assigning future targets (reflecting their use of geothermal energy)..

France called for a formula recognizing their low GHG emissions intensity, in their case due to nuclear power. France suggested an approach under which GHG emissions per capita would be required to converge by 2100, starting with the next step.

The U.S. opposed Annex 1 differentiation on the basis that no mutually agreeable formula could be agreed to by Kyoto (see US statement). The EU said it would consider differentiation proposals; the EU also proposed an Annex "X" specifically to bring in new OECD countries (presumably with commitments different from other Annex 1 parties). Outside the OECD, Russia said there was need to treat economies in transition differently than other Annex 1 countries.

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Among developing countries, Korea (contemplating its potential assumption of Annex 1 status) spoke of the need for a different basis for itself, perhaps a target for improving GHG emissions intensity. Samoa (for island countries) opposed Annex 1 differentiation in this next step. Many other developing countries (e.g., Venezuela) spoke in general terms in favor of differentiation (perhaps looking ahead to their future role). Brazil suggested an Annex 1 differentiation formula based on countries' relative contribution to warming. Egypt suggested a per capita approach, adjusted for land area, extreme heat or cold, renewables, etc.

Levels and Timetables: Ireland (for the EU) supported binding targets starting as early as 2005, and also for 2010 and 2020, but did not produce EU-wide target levels. The EU noted that insufficient short-term reductions could require severe later reductions, and possibly make some objectives impossible. AOSIS (island) countries reiterated their proposal for a 20% reduction by 2005; said that dangerous interference with climate system is already occurring, noted need for 50-70% CO2 reductions to stabilize atmospheric concentrations at near current levels, and endorsed safe corridor approach. Russia noted that countries in transition have made a real contribution to emission reductions, for economic reasons; Russia proposed limiting emissions of economies in transition to 1990 levels in 2010. Other Annex 1 speakers (US, Canada, New Zealand) spoke against short-term (2005) and in favor of medium-term targets. No new proposals were made about specific levels.

Flexibility issues: A number of Annex 1 countries spoke in favor of *multi-year targets* (US, Japan, Canada, New Zealand). New Zealand could be understood to be seeking a multi-decade cumulative target. Japan suggested 5 year periods. No country spoke against the multi-year approach in principle, although few others commented on specific proposals.

The U.S., Canada, and the EU specifically supported *banking*, and no one spoke against it. Only the US proposed *borrowing* (albeit while recognizing concerns about deferring action and securing repayment). Egypt opposed borrowing, and Malaysia asked if an interest rate would be charged and a fund set aside to compensate countries harmed by climate change impacts brought about by reductions deferred through borrowing.

Most Annex 1 speakers supported *emissions trading and JI* (e.g., US, Norway, Canada, Australia, New Zealand, Iceland, Ireland for EU) although none other than the US indicated that it was essential. Australia and Norway emphasized that emissions trading and JI are useful but no substitute for differentiation. The EU proposed trading and JI among Annex "X" parties (Annex 1 plus new OECD parties). The EU also noted that they considered emissions trading a Policy and Measure. Russia indicated strong interest in JI and trading. Norway and the U.S. specifically argued that JI would bring benefits to non-Annex 1 countries, but non-Annex 1 countries uniformly rejected JI except between Annex 1 parties (note that this occurred even with Costa Rica as chair of G-77). Brazil advised the Annex 1 countries to consider the targets they'd accept with JI set aside.

Comprehensive approach: Most Annex 1 countries spoke in favor of including *all gases and both sources and sinks*. The EU addressed the need to hold total GHG concentrations below 550 ppm, noting the need to limit methane and nitrous oxide, but did not otherwise address comprehensiveness. The US emphasized quantification issues that must be solved in connection with comprehensive approach. AOSIS countries expressed concern that the comprehensive approach compromised verifiability. Several other developing countries (e.g., Argentina, Chile) advocated a gas-by-gas approach, with separate requirements for CO2 and methane.

W. H. R. P. H. M. J. R.
2
11 December 1996

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Climate Negotiations, Update No. 3:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 10/11, 1996

The following contains an informal review of highlights from the ongoing climate convention talks covering events from the afternoon of Tuesday, December 9, through the morning deliberations on December 11. The last paragraphs can be used as a DAR item as desired or appropriate. We are also including a detailed report prepared by DOE's Rick Bradley on highlights from Monday's roundtable on country proposals, plus the first page from "ECO" which gives one a good flavor of NGO views.

Climate Negotiations, Update No. 3: December 10/11, 1996:
Disputatious Discussion of Targets/Timetables and on Article 4.1
Provide the Key Highlights

The Ad Hoc Group on the Berlin Mandate (AGBM) discussed quantified emissions and limitation reductions objectives (QERLOS or "targets and timetables") at its afternoon session on December 11, moving on to complete its discussion on Article 4.1 commitments during its morning session on December 11. The Subsidiary Body of Implementation broke off into a contact group over the issue of proposed G-77/China amendments to the annex for the financial mechanism, a somewhat daunting task which was continued again in the morning. The SBI is scheduled to review the situation at a 4 PM meeting on Wednesday afternoon.

No Consensus on Targets

Most delegates, however, attended the debate in the AGBM on QERLOS and the subsequent discussion on Article 4.1. Our lengthy intervention on QERLOS focused on both the form of the target portion of our proposals paper, plus our points on joint implementation and emissions trading.

The one topic which caused the greatest interest among delegates was JI. Almost without exception, every G-77 country which took to the floor expressed their opposition to JI between Annex I and non-Annex I Parties. Some, like Argentina, indicated their acceptance of JI among Annex I Parties; others, like Brazil, opposed JI with credit period. Malaysia expressed support for activities implemented jointly (AIJ), but indicated that it opposes our suggestion that this be terminated in the year 2000.

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Among Annex I Parties, joint implementation and emissions trading were wholeheartedly backed by Canada and Norway (albeit for different reasons). The EU accepted the concept of emissions trading within the context of PAMs (policies and measures), but said it was remaining neutral on the concept as to how trading would work.

In evident response to the recent visit of Abe Haspel and others to Russia, the Russian Federation endorsed both joint implementation and emissions trading, although the delegate also called for flexible treatment for Russia and the other economies in transition with respect to a future target.

Korea, too, apparent took our misgivings about their earlier statement on PAMs and redeemed themselves with a better intervention on QERLOS. Here, they basically said they supported some process of differentiation. (We are planning to meet with the Koreans at lunch on Thursday to further express our views about their positions, now that they are an OECD member.)

The EU appeared to be in some disarray on this issue, with France taking the floor (in addition to Ireland) to indicate its view that a uniform, binding emissions target would be inequitable. The French delegate and talked about a differentiation scheme which seems to share points in common with Norway's.

For its part, the EU skirted the question of a level for a target and, in a noteworthy development, tried to calm the rash of attacks against its concept of Annex "X" which appears in its protocol proposal. It did so by apparently retreating from what had been the view of many delegates (including ourselves) that Annex "X" is designed to provide a kind of graduation mechanism for non-Annex I parties. This interpretation had led to a flood of criticism on Tuesday. Clarifying, Ireland (speaking for the EU) said that Annex "X" is only meant for countries applying for OECD membership. (Comment: This backdown appears foolish in the extreme. Aside from its premature timing, all it will accomplish is to provide a firm disincentive for countries to apply to the OECD! End Comment.)

Article 4.1: "Agreeing to Disagree?"

The morning discussion on Article 4.1 commitments followed predictable lines. OPEC (other than Iran and Nigeria) made few noises, but others in the G-77/China all made the same points: (a) Article 4.1 must be read in conjunction with the obligations imposed on developed countries to provide financial assistance and technical transfer to the developing countries; (b) credit must be given to the many activities being taken by developing countries to advance their implementation of commitments; (c) Annex I should live up to its obligations first before calling on non-Annex I to adopt policies and measures.

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Some thoughtful remarks on this topic were made by Zimbabwe, among others, while the Philippines called (without direct attribution) many of the recent proposals by some Annex I countries as "grossly mistaken." Thailand was among those countries echoing this sentiment.

The EU made a statement on this topic noteworthy by what it did not say. Canada, Norway, and Australia all spoke in somewhat gentle terms about the need to find ways to advance the commitments of all countries. The U.S. laid out its continuum view. In his only editorial comment of the day, Chairman Estrada (perhaps deliberately) dismissed our graduation concept as involving Article 4.2(f) which calls for a review of the annexes of the convention no later than 1998. Estrada said this review is not part of the AGBM's mandate. We clarified our point and -- noting that the concept of graduation should be considered in the Kyoto outcome -- stressed our view that we believe that discussion of this point is legitimate within the AGBM.

At the morning's end, the Chair indicated that there would not be time to discuss the final substantive item on the agenda, that related to a legal instrument. This said, he then let the EU speak on the issue, thereby allowing them to introduce their proposed text for a protocol. Although no numbers are mentioned, it does provide proposed text, or ideas for text, in most areas under discussion. The EU's protocol will be the topic of an informal discussion scheduled for this afternoon. Other countries will intervene on this topic tomorrow.

The afternoon sessions are given over to wide-ranging consultations among regional groups (both WEOG and JUSCANZ will be meeting), plus smaller group discussions with the Chairman on proposed outcomes from this session. The U.S. and four JUSCANZ partners are the first group being so honored, we are told.

Comment

On the basis of discussions to date, it is clear that acceptance of joint implementation with credit will be a very tough sale. Similarly, despite the careful language chosen for our 4.1 discussion, it is also quite apparent that the G-77/China are not willing at present to budge from their position. As for the issue of a target/timetable, as the discussion has indicated, there is no hint of consensus on either the form or the level of a target -- at least, not for the moment!

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The following paragraphs can be used as a DAR item as desired or appropriate:

Climate Negotiations, Update No. 3: December 10/11, 1996:
Disputatious Discussion of Targets/Timetables and on Article 4.1

The Ad Hoc Group on the Berlin Mandate (AGBM) discussed quantified emissions and limitation reductions objectives (QERLOS or "targets and timetables") at its afternoon session on December 11, moving on to complete its discussion on Article 4.1 commitments during its morning session on December 11. Our lengthy intervention on QERLOS focused on both the form of the target portion of our proposals paper, plus our points on joint implementation and emissions trading.

The one topic which caused the greatest interest among delegates was JI. Almost without exception, every G-77 country which took to the floor expressed their opposition to JI between Annex I and non-Annex I Parties. Among Annex I Parties, joint implementation and emissions trading were wholeheartedly backed by Canada and Norway (albeit for different reasons). The EU accepted the concept of emissions trading within the context of PAMs (policies and measures), but said it was remaining neutral on the concept as to how trading would work.

In evident response to the recent visit of Abe Haspel and others to Russia, the Russian Federation endorsed both joint implementation and emissions trading, although the delegate also called for flexible treatment for Russia and the other economies in transition with respect to a future target. Korea, too, apparent took our misgivings about their earlier statement on PAMs and redeemed themselves with a better intervention on QERLOS. Here, they basically said they supported some process of differentiation.

In a noteworthy development, the EU tried to calm the rash of attacks against its concept of Annex "X" which appears in its protocol proposal. It did so by apparently retreating from what had been the view of many delegates (including ourselves) that Annex "X" is designed to provide a kind of graduation mechanism for non-Annex I parties. This interpretation had led to a flood of criticism on Tuesday. Clarifying, Ireland (speaking for the EU) said that Annex "X" is only meant for countries applying for OECD membership.

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6

given to the many activities being taken by developing countries to advance their implementation of commitments; (c) Annex I should live up to its obligations first before calling on non-Annex I to adopt policies and measures.

Some thoughtful remarks on this topic were made by Zimbabwe, among others, while the Philippines called (without direct attribution) many of the recent proposals by some Annex I countries as "grossly mistaken." Thailand was among those countries echoing this sentiment.

The EU made a statement on this topic noteworthy by what it did not say. Canada, Norway, and Australia all spoke in somewhat gentle terms about the need to find ways to advance the commitments of all countries. The U.S. laid out its continuum view which provides a range of options which Parties might consider.

At the morning's end, the Chair indicated that there would not be time to discuss the final substantive item on the agenda, that related to a legal instrument. This said, he then let the EU speak on the issue, thereby allowing them to introduce their proposed text for a protocol. Although no numbers are mentioned, it does provide proposed text, or ideas for text, in most areas under discussion. The EU's protocol will be the topic of an informal discussion scheduled for this afternoon.

The afternoon sessions are given over to wide-ranging consultations among regional groups (both WEOG and JUSCANZ will be meeting), plus smaller group discussions with the Chairman on proposed outcomes from this session. The U.S. and four JUSCANZ partners are the first group being so honored, we are told.
(Hambley)

7

Notes on National Approaches to the Protocol or other Legal Instruments

The AGBM on the occasion of its fifth session conducted a roundtable on national submissions cocening possible elements of a protocol or other legal instrument. Delegations which had submitted comments to the secretariat were invited to make ten minute presentations on their views. These views were available in FCCC/AGBM/1996/10 and in FCCC/AGBM/Misc.2/Add.3. Fourteen countries make presentations. The most significant of those statements are summarized below.

Australia

Australia recalled the FCCC and BM sections which spoke to differentiation, noting that the Berlin Mandate required differentiation in any ultimate agreement. Differentiation takes into account equity and therefore increases support for the Convention. Because of increased support for the FCCC process, differentiation obtains more for environment than equal percentage reduction approaches. They favor an approach to differentiation that leads to per person equalization of welfare loss across Annex I countries, i.e., countries of similar income levels incurs the same losses in terms of per person economic welfare. The application of five core indicators which are applicable across all parties and gases and are measurable will achieve this.

The indicators proposed are tied to magnitude of task, unit cost of abatement, terms of trade impacts, and international investment effects: GDP growth, population growth, emissions intensity of GDP, emission intensity of exports and net trade in fossil fuels. Emissions intensity correlates to unit cost of abatement. Australia doesn't envision uniform formula for weighting.

Gambia

The varying national circumstances should be accounted for, particularly special attention should be paid to poorer economic circumstances of poorer countries. QELROs and P&M should not restrict developing country growth. Gambia called for legal instrument as soon as possible, since their country study indicated that their fishery will be destroyed by sea level rise.

Ireland on behalf of EU

The EU indicated that a protocol is most suitable way forward. They called for a dynamic protocol that can change with the science. It should provide for parties other than existing Annex I to take on commitments by creating an Annex X. Note: Although unstated, this new annex is met to apply to countries like Korea. The new agreement should provide for P&M of different types according to their original proposal for three annexes. JI important mechanism for ultimate objective, however, it may be used after evaluation of pilot phase and be used with any parties willing to be bound by QELROs. The EU indicated that they will make proposals on other appropriate sections of a new agreement at a later time.

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Japan

The Japanese indicated that each Party included in Annex I shall select either an objective based upon the total emission or an objective based upon emissions per capita. Japan believes that other QELRO proposals should come forward.

On P&M, Japan believes that each country should be free to choose the P&Ms most appropriate to their own national circumstances. However, countries would choose appropriate P&M in each of the following areas: efficient use of energy, introduction of carbon free or low-carbon energy, innovative technology development, international technological cooperation and technology transfer, and protection and enhancement of sinks and reservoirs. They propose that the agreement include accepted indicators of progress of P&Ms.

New Zealand

NZ noted that a least-cost approach: equalize marginal cost of emissions abatement. Flexibility with uniform targets, not differentiation is required. They favor cumulative targets, that allow changes in technology and capital stock turnover. Flexibility in time does not imply delayed action. It would be possible to have intermediate milestones to ascertain whether we are on track for target. It is also possible to define an emissions envelope which could get more stringent over time. Banking should be allowed. However they do not support borrowing against future commitments

Mandatory P&Ms are inconsistent with least cost objectives. There are few exceptions, although phase-out of fossil fuel subsidies and a treatment of bunker fuels may be an exception. The ultimate agreement must recognize developing country emissions and they invite developing countries to suggest appropriate transition to global regime

Norway

Norway favors differentiation that might include indicators with appropriate weighting and evolution over time. Possible indicators are emissions per GDP (efficiency criteria), emissions per capita, GDP per capita. They favor a collective target with formula to devise individual targets on baseline projections.

Russia

Russia opposes mandatory P&M. They look at JI as a possible mechanism.

Samoa (on behalf of AOSIS)

AOSIS reiterated their original proposal.

Saudi Arabia

Made an extensive presentation on the possible damage that could be done to oil exporting economies by inappropriate measures in Annex I.

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Switzerland

Switzerland wants legally binding QELROs and P&Ms in the form of protocol. They support EU proposals. The highest per capita countries should take the lead in emissions reductions. They believe that harmonized, mandatory should be adopted. They have submitted a list of eight including reform of subsidies.

United Kingdom

The UK presented their original protocol proposal favoring a ten percent reduction by 2010.

USA

The U.S. made the final presentation based on their non-paper.

CLIMATE NEGOTIATIONS GENEVA DECEMBER '96 NGO NEWSLETTER

eco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Climate Negotiations in Geneva, December 1996

Who says we can't change the World?

Invigorated by COP 2, the AGBM has got off to a fresh start. The US has promised solutions tomorrow, or possibly the next day, or possibly the day after... provided that we are all flexible about almost everything. With the aid of JI, emissions trading, borrowing, etc., we can confidently expect the climate problem to be solved sometime within the next few millennia, say by the year 3,000. Eco feels confident that with the active (and so far only) support of Canada these proposals are bound to be adopted (or adapted, as Saudi Arabia would prefer).

The new Franco-Japanese initiative on per capita based commitments has met with almost universal approval within the trade ministries of the two nations although, strangely, some states have been reluctant to accept the concept immediately.

Amongst other proposals which, co-incidentally, particularly suit those who propose them, are the Australian fairness criteria for differentiation.

In a recent innovative development to try and convince Japan, Australia has tinkered with its MEGABARE model to show Japan that rather than being the least affected, it will be

nearly as badly affected as itself. We will surely all agree that high GDP, population and Toyota growth are essential prerequisites for having minimal commitments, especially if one is already a very well-off country.

Eco is seriously considering the draft fairness criterion based on kangaroos per square kilometers. Also under consideration is the minke whales per capita criterion proposed by Norway. The only problem is that both countries seem as determined to reduce these as fast as possible as they are to increase their emissions.

Alas, the EU machinery has temporarily stalled due to a Spaniard in the works, or possibly a Swede, or possibly something Gallic. Silence from the Atlantic Fringe has been interpreted as an impending parliamentary interregnum compounded if not caused by an outbreak of Mad Cow disease.

Amongst all of these innovative and imaginative ideas, it was clear that the AOSIS suggestion to consider their "old hat" proposal containing real figures for QUELROs was bound to fail. Who says that the AGBM is getting nowhere?

Japan – 4 out of 10, must try harder

At the end of COP-2 Eco set some homework for the delegates. For Japan we suggested assertiveness and leadership training. Well, we have examined the homework Japan has handed in at AGBM5 and we are not impressed. A good leader is prepared to upset everybody to do what's right for the Convention and the environment. In contrast, Japan wants to negotiate the Kyoto Protocol by trying to please everybody by letting them choose the Ps and Qs that make life easiest. What true leadership means is setting an overall goal to substantially reduce CO₂ over the next 10 years so that all these expensive meetings will actually do something to protect the climate. No doubt some Parties will be upset, no doubt some Parties will complain, Saudi Arabia may even have to exile a prince or two, but deep down inside everyone will know the leader was right and respect their leadership.

Japan says that its proposal is "neither comprehensive or final", so at least there is something positive to be said about it. Isn't it sad that the nation (and ministry) most known for innovation and technology development is ready to raise the white flag to climate change. Japan could lead the negotiations and win the international technology race to reduce greenhouse gases. But on current form, it must try much harder between today and Kyoto.

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Eco offers a cordial welcome to even more of our colleagues from the fossil fuel industry

Recipients' List
for Periodic Sitreps
from the Climate Negotiations
Geneva, 9-18 December 1996

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David Sandilow	NSC	202 456-2710
Sally Kane	NOAA	301 427-2073
Tom Hourigan	USAID/PPC	202 647-8595

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10 December 1996

To: Please See Attached List
From: USDEL/Geneva, Mark C. Hambley
Subject: Climate Negotiations, Update No. 2:
Meetings of the Ad Hoc Group, Berlin Mandate (AGBM)
and Its Subsidiary Bodies, December 9/10, 1996

The following contains an informal review of highlights from the ongoing climate convention talks covering events from the afternoon of Monday, December 9, through the morning deliberations on December 10. The last paragraphs can be used as a DAR item as desired or appropriate.

Climate Negotiations, Update No. 21: December 9/10, 1996:
"Post-COP 'Honeymoon' Ends as Parties Stake (or re-stake) Out Their Positions"

AGBM and SBI Convene: SBI Struggles with the Financial Mechanism, while Parties Take off their Gloves over PAMs in the AGBM

Both the Ad Hoc Group on the Berlin Mandate (AGBM) and the Subsidiary Body on Implementation (SBI) held their first substantive meetings on the morning of December 10. The rather sparsely attended SBI session featured an often tedious discussion by the U.S., the Philippines, India and others discussing G-77/China proposals to amend the annex to the MOU between the Conference of the Parties and the Council of the Global Environment Facility on the determination of funding necessary and available for the implementation of the climate convention.

Meanwhile, the AGBM began to discuss policies and measures (PAMs), using the synthesis report provided by the Chair as the key point of reference. Although much of what was stated was predictable, it emphasized what most observers had expected: That the honeymoon provided by the positive sentiments which flowed from the Geneva Declaration issued at the Second Conference of the Parties last July is clearly over.

The EU Provides a Few More Details

The EU, as promised, provided some additional elaboration of policies and measures for possible inclusion in Annexes A & B of its proposed protocol. These include such unpalatable suggestions as a minimum excise duty on fuels, to proposals referring to

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aviation fuel taxes and/or efficiency standards, to the introduction of a framework for of an environmental taxation scheme for all Annex I countries. The U.S. reiterated its view that we do not support the notion of harmonized, mandatory requirements to adopt specific policies and measures.

While the G-77/China Put Down Markers on Article 4.1

Speaking on behalf of the G-77/China, Costa Rica launched the theme which will be highlighted, we suspect, at each of the AGBM's sessions: Costa Rica categorically rejected any references to Article 4.1 in the context of additional commitments for non-Annex I Parties. The delegate emphasized his group's view that the purpose of these talks is to focus on developed country commitments. He said that the AGBM process should focus on "substance" and should not be diverted into discussions on such issues as emissions trading and JI which are premature. Similarly, he indicated his opposition to entertaining discussion of the future of the process post-Kyoto. Such a discussion is inappropriate, according to the G-77/China, in part because developed countries have not yet taken the steps they are obligated to take under the terms of the Convention.

The G-77/China spokesman was then followed by a long chorus of G-77 states, all of whom made similar points. China said that the most important item is to focus on how QELROS and policies and measures (PAMs) can be used to assist the developed countries meet their obligations. India reiterated that both QELROS and PAMs could be discussed only in the context of Annex I. Claiming that emissions trading had never been discussed in the context of PAMs, he said that only a few developed countries even had any experience with emissions trading, and that this experience is relatively new. The Indian delegate implied that it is not appropriate for emissions trading to be considered in the context of the current negotiations.

Brazil also stressed that we must stick with the Berlin Mandate and should not go "one millimeter" outside of it in our discussions. With an obvious (if unstated) reference to many of the points contained in our non-paper, he said that, as a result, we need not even mention several of the ideas which have been raised (e.g., joint implementation and emissions trading). He did agree with the U.S., however, that policies and measures should be as flexible as possible, and not harmonized or otherwise mandated.

Gabon, Zimbabwe, Senegal, Thailand, Samoa, North Korea, and the Marshall Islands were among several G-77/China members who took to the floor to reiterate their opposition to any suggestion that non-Annex I Parties will be subjected to additional commitments at Kyoto. The EU's proposed Annex "X" which mildly suggests measures which certain non-Annex I countries might adopt was savaged by several of these and other speakers.

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OPEC Sings from the Same Sheet of Music

OPEC, which caucused early on December 10, arose en masse, to make these points and to add a call for a study of the impact of policies and measures on non-Annex I Parties. Among those who spoke in this regard were Saudi Arabia, Iran, Algeria, Venezuela, Nigeria, and Kuwait. They also indicated their opposition to mandatory policies and measures as a possible constraint to trade.

Others Oppose Mandatory PAMs

Australia, New Zealand, and Japan all trashed the concept of mandatory policies and measures (albeit, some in blunter terms than others). Canada, in a new and still developing position, noted that flexibility is needed to reach the target. However, Canada suggested that a gradualist approach might be considered with regard to policies and measures. Indicating that it is willing to develop this concept with like-minded countries, Canada suggested that some harmony might be possible on less intrusive measures, such as those related to public education.

At the morning JUSCANZ meeting prior to the plenary, Canada said that this idea might provide a way in which developing countries might gradually be brought on board. Indeed, later in the morning, Malaysia -- which also voiced support for voluntary PAMs (while also strongly endorsing G-77 views on the narrowest of interpretations of the Berlin Mandate) -- indicated that some harmonized measures in the area of education and training would be "useful." The Malaysian also commented that he supported the notion that the countries with economies in transition should be treated differently from the other Annex I Parties.

Mexico and Korea Talk Out of School

Carefully avoiding this debate (for reasons which are not clear) were Russia and the other countries with economies in transition. Most disappointingly, this could not be said of either South Korea or Mexico. Mexico was the briefer but basically indicated that it supports the G-77/China view that the focus of the negotiations should be on Annex I commitments and obligations.

Korea, which followed India in the order of presentations, appeared to have forgotten the understandings it undertook when joining the OECD. It expressed reservations about the EU's "Annex 'X'" and otherwise indicated that Annex I Parties, alone, should be the focus of discussion. The delegate did profess his support for the menu approach to PAMs. We have asked the delegate for a copy of his statement to ensure that he was not misinterpreted. Thus far, he has not provided one, but we will persist.

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Summarizing all of this, AGBM Chairman, Ambassador Estrada, said that no progress can be made with one group of parties calling for mandatory PAMs while a second, equally vocal one, rejects them. He said that he had intended to write draft conclusions of this discussion. Having heard the sentiments expressed, he will now consult with various Parties in the hope of producing a conclusion which will help make progress. Noting the long litany by so many G-77/China representatives about no new commitments for non-Annex I Parties, Estrada quipped that perhaps they could put together one group statement this afternoon to spare the plenary from a repetition of this view. We doubt that his remarks left an impression.

Roundtable: Laborious but Interesting

At the roundtable on country positions held on the evening of December 9, several countries made presentations on their positions ranging from Australia to Zaire. Dan Reifsnnyder, speaking on behalf of the U.S., did a superb job in summarizing our position and received plaudits from a number of observers for his deft way of responding to questions. Among the issues which sparked particular interest was the notion of "borrowing" (roundly criticized by NGOs and some governments. Norway questioned our opposition to differentiation, the EU asked a question related to compliance, while a Canadian NGO asked what steps we consider taking prior implementation of a medium range target. Nothing was mentioned about Article 4.1 -- perhaps in recognition of a comment by the Chinese delegate: "We will save our comments for tomorrow." How true!

The EU Fails to Agree on Numbers

Several key EU representatives joined the discussions on December 10, including Germany's Cornelia Quennet, and the Netherlands' Bert Metz. Cornelia confirmed that talks had ended on Monday without any resolution of the numbers issue. We will be getting a full debrief later on.

NGO Meeting Tonight

We will be holding the first of our regular NGO and business debriefs this evening. We have agreed to a session with international NGOs on December 11. Also scheduled for this evening is a roundtable, to be chaired by Ambassador Estrada himself, on the impacts on non-Annex I Parties.

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The following paragraphs can be used as a DAR item as appropriate or desired:

Climate Negotiations, Update No. 2: AGBM and SBI Convene: SBI Struggles with the Financial Mechanism, while Parties Take off their Gloves over PAMs in the AGBM

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Although much of what was stated was predictable, it emphasized what most observers had expected: That the honeymoon provided by the positive sentiments which flowed from the Geneva Declaration issued at the Second Conference of the Parties last July is clearly over. The EU, as promised, provided some additional elaboration of policies and measures for possible inclusion in Annexes A & B of its proposed protocol. These include such unpalatable suggestions as proposal to introduce a framework for of an environmental taxation scheme for all Annex I countries. The U.S. reiterated its view that we do not support the notion of harmonized, mandatory requirements to adopt specific policies and measures.

Meanwhile, speaking on behalf of the G-77/China, Costa Rica launched the theme which will be highlighted, we suspect, at each of the AGBM's sessions: Costa Rica categorically rejected any references to Article 4.1 in the context of additional commitments for non-Annex I Parties. The delegate emphasized his group's view that the purpose of these talks is to focus on developed country commitments only. He said that the AGBM process should focus on "substance" and should not be diverted into discussions on such issues as emissions trading and JI which are premature.

Similarly, he indicated his opposition to entertaining discussion of the future of the process post-Kyoto. Most of the G-77/China countries which followed him reiterated this view. Those that did address PAMs tended towards a voluntary approach. OPEC, which caucused early on December 10, arose en masse, to make these points and to add a call for a study of the impact of policies and measures on non-Annex I Parties.

Australia, New Zealand, and Japan all trashed the concept of mandatory policies and measures (albeit, some in blunter terms than others). Canada suggested that a gradualist approach might be considered with regard to policies and measures. Korea, which

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United States Department of State
Assistant Secretary of State for Oceans and
International Environmental and Scientific Affairs
Washington, D.C. 20520

AM
RP
MM

December 5, 1996

MEMORANDUM

TO: *See Distribution
FROM: OES - Eileen B. Claussen *E. Claussen*
SUBJECT: Climate Change: Non-Paper, Summary Talking Points
and Q&As

Attached are the final versions of the non-paper, the two-page summary paper and a set of Q&As on the U.S. non-paper for the December meeting of the Ad Hoc Group on the Berlin Mandate (AGBM). This version incorporates all comments that were received by 4:30 p.m. this afternoon. We thus assume that these documents can be used (including by the Deputies) to provide appropriate responses to all general questions with regard to U.S. views.

Thank you for your prompt and helpful responses to these papers, and more critically, for your work in the development of the underlying U.S. position.

Attachments:

- (A) Non-Paper
- (B) Summary of paper
- (C) Questions and Answers

**Climate Change: U.S. Non-Paper
December 1996**

TALKING POINTS

- The fourth meeting of the Ad Hoc Group on the Berlin Mandate (AGBM) will take place in Geneva from December 9-13.
- This group was set up by the Parties to the Climate Convention at their first conference in April 1995; the AGBM is working toward an agreement on next steps to deal with the threat of climate change in the period after the year 2000.
- We expect that the AGBM will meet three more times (March, August and October 1997) before the Parties to the Climate Convention meet for their Third Conference (in December 1997 in Kyoto, Japan), where the agreement will be adopted.
- The U.S. Position for the December AGBM Meeting builds upon the U.S. statement at the Second Conference of the Parties last July in Geneva, and reiterates our view of key variables under consideration.
 - It includes a three-part framework for the target (that the target be binding, that it focus on the medium term, and that there be national flexibility in implementation), and our view that it will be critical to include developing countries in next steps, as finding a solution to the climate change problem will require a concerted global effort.
 - In our view, all four of these concepts are linked, and all four must be included in the legal instrument.
- The U.S. Position also builds on the U.S. paper submitted to the Convention secretariat in mid-October this year which outlined the elements we believe the new agreement should include.
- The U.S. Position Paper does not propose a specific target.
 - We have been engaged for some time in an intensive interagency analysis and assessment effort to consider what level of target would be realistic and achievable.
 - That effort is continuing, and we will have more to say on this issue later next year.
 - The U.S. Position does discuss key design features of a target that we believe merit careful consideration if the target is to be realistic and achievable.
- The U.S. Position:
 - rejects a single point target, supports a multi-year target, and urges consideration of banking and borrowing;

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- rejects differentiated targets within developed countries (Annex I);
 - continues support of an approach that includes all greenhouse gases, sources and sinks;
 - states that activities implemented jointly (AIJ; a pilot program to evaluate the feasibility of joint implementation) has no role beyond the year 2000, supports emissions trading within Annex I, and supports joint implementation (JI) between developed and developing countries with credit after the year 2000;
 - provides a full discussion of possibilities for advancing the implementation of commitments of developing countries, ranging from reviews of developing country programs, through implementation of cost-effective measures, to the creation of a new category for countries that are more developed and could assume a target appropriate to their circumstances (e.g., Korea, Mexico);
 - provides a full discussion of compliance elements ranging from structuring the commitments with less ambiguity, to ways to ascertain compliance (i.e., through reporting and review), to dispute settlement options.
- We are providing copies of the U.S. Position Paper to Congressional offices and to representatives of the U.S. environmental community and private sector before the Geneva meeting; we will also distribute copies of the paper in Geneva to other countries at the AGBM meeting.
 - We look forward to positive discussions in Geneva as all countries strive to address the serious threat that climate change poses to our planet.
 - As you may know, the Intergovernmental Panel on Climate Change (IPCC) -- the foremost scientific assessment body of over 2000 of the world's leading scientists -- concluded in December last year that "the balance of evidence suggests a discernible human influence on global climate."
 - In the U.S. view, the potential for impacts of climate change on natural systems, the economy and the quality of life for future generations is truly significant, and scientific evidence suggests that it could be detrimental for human health, ecosystems, food security and water resources in many regions of the world. Therefore, we believe the science provides a compelling basis for action to address climate change.

QUESTIONS/ANSWERS

Question 1: What do you think will happen at the December AGBM meeting?

Answer: Governments will express their views, and will continue working toward a new agreement on steps to address the threat of climate change in the initial period after the year 2000. We anticipate three more sessions of the AGBM following this meeting prior to the Conference of the Parties in December 1997 in Kyoto.

Question 2: What result to you expect from the Geneva meeting?

Answer: Based on the December discussions, we expect governments to ask the Convention's secretariat to develop a draft negotiating text that will form the basis of discussion at the March 1997 meeting.

Question 3: Will the U.S. either propose itself, or agree to other proposals for a target for reducing greenhouse gas emissions in December?

Answer: No. We are continuing to analyze and assess what level of a target would be realistic and achievable, but the results of this effort will not be available until later next year. We have already rejected proposals that call for near-term targets. Short term targets, (i.e., before 2010) are unrealistic, and we cannot accept them. We will instead call for a medium term, multi-year target, which includes national flexibility in implementation and consideration of banking and perhaps borrowing.

Question 4: Will these negotiations lead to a harmonized carbon tax for industrialized countries?

Answer: No. We support a binding target for greenhouse gas emissions, but each country must have the flexibility to implement the target as it see fit, and we have rejected proposals for "harmonized" policies and measures.

Question 5: Will the United States urge that all countries adopt the same standards for automobile emissions, emissions from electric utilities or the energy efficiency of office buildings?

Answer: No. We will continue to stress that each country must have the flexibility to implement the target in ways that make sense for that country -- and we will continue to oppose proposals that would limit such flexibility.

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Question 6: Why do you insist so much on national flexibility when it would probably make sense for aircraft manufacturers, for example, to build engines with the same emissions specifications worldwide?

Answer: We do not oppose efforts that originate in specific industries to develop common approaches that make economic sense. However, we do not want to use the Climate Convention for this purpose because an instrument this broad cannot adequately take into account the specific circumstances facing different industries in different countries with different markets.

Question 7: Why do you advocate a target that would limit the greenhouse gas emissions only of developed countries -- why aren't developing countries included also?

Answer: We believe that developing countries must also take steps to address the global threat of climate change, but the steps they take should be consistent with their levels of development and their abilities to respond. All countries must participate in this effort. Developed countries should take the lead, and all countries, including developing countries must advance their existing commitments.

Question 8: Why should we pay developing countries to take steps to mitigate climate change, when they are only acting in their own interest?

Answer: We all share an interest in protecting our global environment. Developing countries are willing to join in this effort, but they have significantly fewer resources to respond than countries in the industrialized world. With options like joint implementation, industrialized countries can promote environmental protection cost-effectively, while helping developing countries to achieve a better standard of living in ways that lessen the problems we -- and they -- will otherwise face in the future.

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Question 9: Since the science of global warming isn't yet clear, wouldn't it be better to resolve the uncertainties before taking far-reaching action that could harm our economy?

Answer: We have no intention of taking action that would harm our economy, but there are many steps that we can take now to insure against the serious potential impacts of global warming. Many involve planning ahead and stimulating technology development with huge opportunities for American business. Environmental protection and economic prosperity are not mutually exclusive. If we wait to act, we may limit the options available to us in the future, and make them more expensive; if we act prudently now, we will increase our future options and lower the cost.

Question 10: Even if you can reach agreement by December of next year, is the Senate likely to give its advice and consent to it if it imposes significant costs on American business or consumers?

Answer: Congress and the American people share the same concern for protecting our environment. We are seeking to safeguard the earth's climate system in ways that make sense, that are cost-effective and that are fair to all countries. We meet regularly with Members of Congress and their staffs to keep them appraised of developments in the negotiations. If we are able to reach a sensible, cost-effective and fair agreement by December of next year, we believe it will be very much in the interest of the American people, and their elected representatives, to embrace it.

Question 11: Why is the U.S. supporting joint implementation and emissions trading?

Answer: The United States believes commitments adopted in Kyoto must be structured so as to allow Parties flexibility to achieve their emissions target as cost-effectively as possible. Provisions for international greenhouse gas emissions trading and joint implementation allow Parties to meet the new commitments at the lowest cost.

**Climate Change: U.S. Non-Paper
December 1996**

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I. Introduction and Background

At the second meeting of the Conference of the Parties (COP-2) to the United Nations Framework Convention on Climate Change (FCCC), the United States called for next steps under the Climate Convention for the post-2000 period to reduce the threat of climate change consistent with economic prosperity. For developed countries, these steps should include verifiable, binding medium term targets that are realistic and achievable, designed with maximum flexibility, and implemented through national programs. The U.S. position also underscored the need for all nations, including developing nations, to take actions to limit greenhouse gas emissions. Finally, we called for continued work on a longer-term global concentration goal (e.g. 50-100 years). We continue to believe that this is the approach that will produce a successful outcome at the third session of the Parties in Kyoto in December 1997.

To this end, we would like to call attention again to the conclusions of the IPCC Second Assessment Report, which found that "the balance of evidence suggests a discernible human influence on global climate." In the U.S. view, the potential for impacts of climate change on natural systems, the economy and the quality of life for future generations is truly significant; the scientific evidence suggests it could be detrimental for human health, ecosystems, food security and water resources in many regions of the world. In our view, all Parties should act on the conclusion Ministers reached last July: that the science provides a compelling basis for action to address climate change.

Notwithstanding the evidence compiled so far, we must continue our efforts to further develop and refine our understanding of the science of climate change, even as we seek to ameliorate its impacts. Such understanding, coupled with advances in the development and application of new technology, will ultimately enable a more efficient and successful long-term approach to addressing this pressing problem.

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We believe that next steps must be as cost-effective as possible. Our analyses completed to date suggest that more flexible approaches offer significant cost-saving opportunities, and these must be brought into the Convention's basic framework. Flexibility includes allowing Parties nationally to determine the most appropriate policies and measures to meet the agreed target, and allowing emissions trading and joint implementation between Parties to minimize the cost of reductions.

The United States arrived at this basic framework for a number of reasons. It is clear that the Convention's existing framework of a non-binding "aim" is not working, even though, at the national level, numerous voluntary partnerships with industry are working well. Most developed countries, including the United States, will not achieve the goal of returning emissions in 2000 to 1990 levels. A binding commitment will create a stronger incentive for nations to decide on a realistic target, to make the effort required to meet the target, to ensure a level playing field, and to foster development and deployment of advanced technologies.

Our focus must be on appropriate steps over the medium term, while we continue to develop a longer term goal. We reiterate that short-term targets (i.e., before 2010) are unrealistic, and we cannot accept them. Short-term targets would be unnecessarily burdensome to national and global economic growth and development. They could mean that few, if any, countries would ratify the agreement.

Finally, the United States recognizes the need for global climate change to be addressed on a global basis. As a result, we believe it is imperative that the agreement we reach in Kyoto include specific provisions that advance the implementation of commitments by developing nations to mitigate their emissions of greenhouse gases. While recognizing that developed countries must show leadership in addressing this problem, we believe it is very clear that all nations must be part of the solution.

The Ministerial Declaration in Geneva at the Second Conference of the Parties to the Convention provides climate negotiators with a blueprint for action; we strongly endorse its approach. However, it is now time to develop and agree on concrete proposals.

This paper outlines our view on a number of issues and suggests several other options that merit closer scrutiny.

We expect to have further views on specific numbers that should be included in targets and timetables in the future as the results of our continuing analysis and assessment emerge. We hope that other Parties will join us in developing new proposals to meet our environmental and economic goals.

II. Linkages

A number of key variables under consideration are interdependent. This interdependence must be recognized in negotiating our next steps. The United States proposed a three-part framework for the target in Geneva, including that the target be binding, that it focus on the medium term, and that there be national flexibility in implementation. In addition, the United States believes it will be critical to include developing countries in next steps; finding a solution to the climate change problem will require a concerted global effort. In our view, all four of these concepts are linked, and all four must be included in the legal instrument.

III. Defining the Form of the Target

As noted above, at COP-2 in July, the United States specifically called for focusing negotiations on a binding, medium-term emissions target, incorporating flexibility in time and place of implementation. The United States also expressed an interest in continuing to work toward a longer-term concentration goal. We rejected any target which called for an unrealistic near term goal -- and we continue to reject such an approach. We also remain convinced that the target should be designed in a manner that allows for adjustment on the basis of new and evolving science. This paper outlines some of our current thinking on the form and structure of the target.

Multi-year Targets

The United States believes that the target set in the next step should cover a multi-year period in order to accomplish several objectives. First, a multi-year target would smooth year-to-year variability in weather and economic cycles. U.S. analyses of the effects of such variability provide a striking example of the importance of this issue: unusually hot or cold years can change U.S. gross national emissions by as much as two percent -- or about 40 percent of the emissions reductions sought from the energy sector by the year 2000. Because swings in weather, energy prices or economic cycles cannot be predicted with confidence, a single year target would require each country to build in an extra margin of GHG reductions to ensure compliance, significantly and unnecessarily raising the cost.

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Second, a multi-year average would give Parties important flexibility to determine the pace at which their emissions budget would be expended over the period (evenly, front-loaded, or back-loaded). This flexibility may be particularly important in helping Parties to reduce their compliance costs in view of differing national circumstances. To provide this flexibility, targets could be set with budgets covering a multi-year period, for example, 2010-2020. Enforceability is a key issue in defining a multi-year period.

Banking/Borrowing

The United States strongly urges consideration of banking between multi-year average target periods. Such a process would allow emissions below the target in one period to be used to offset higher than target emissions in later periods. Banking of emissions could reward efforts to make reductions in earlier periods. Similarly, we should explore allowing Parties to borrow against their targets for the next period in order to emit more in a current period. We recognize that borrowing will require that a credible accounting and repayment mechanism be put in place, and that it also could entail additional restrictions (e.g., to limit the proportion of emissions reductions postponed).

Differentiation Among Annex I Parties

A number of Annex I Parties have suggested proposals for differentiation of commitments of the members of this group. While the United States acknowledges that clear distinctions can be (and are) drawn between different Parties and groups of Parties, we do not believe that developing a complex, formulaic approach which differentiates at an individual Party level is a viable alternative at this stage in the negotiations. To date, we have seen no formula for a differentiated approach which equitably addresses all Parties' concerns.

An effort to define an acceptable differentiation scheme in this legal instrument will likely derail the negotiations, by being too divisive and time-consuming, or by disadvantaging a group of countries that might then choose not to sign or ratify. Either outcome could negate the value of the differentiation effort.

Instead we endorse the adoption of a common approach with respect to targets that retains each Party's flexibility with respect to the choice of domestic policies and measures to implement the target. We also support international trading instruments to minimize and equalize Parties' marginal costs of making reductions. Such an approach would enable the completion of the agreement by December 1997.

Comprehensive Approach

The United States continues to support the inclusion of all greenhouse gases, both sources and sinks, in a comprehensive, verifiable approach to addressing the climate change problem. Gases other than carbon dioxide account for about 30 percent of the radiative forcing from all emissions since the industrial revolution. Furthermore, different gases represent different strategic opportunities from the perspective of effects on the climate system. For example, reductions in methane emissions could yield a lower rate of warming over the next several decades than comparable reductions in carbon dioxide. To forgo such a significant source of reduction potential would be both to reduce flexibility and to decrease the cost-effectiveness of the overall effort.

Assuming a comprehensive approach, several issues still require additional consideration. These include the different level of certainty with regard to measurement of non-CO2 emissions in various sectors, problems with verification, and the relative importance or weighting to be assigned to different gases. Significant technical difficulties also exist concerning accounting of sinks which need to be addressed. We will continue to insist that any agreed approach be fully quantifiable and verifiable, and include appropriate accounting procedures prior to inclusion into the legal instrument. This approach must be able to incorporate changing state-of-the-art methodologies for the measurement of the sources and sinks of all gases. The United States is currently working to address these concerns, and believes that a solution that is technically and politically satisfactory is achievable within the Kyoto timeframe.

IV. Emissions trading and Joint Implementation

The United States believes commitments adopted in Kyoto must be structured so as to allow Parties flexibility to achieve their emissions target as cost-effectively as possible. It is critical that provisions for international greenhouse gas emissions trading and joint implementation be included in the Kyoto agreement in order to meet the new commitments at the lowest cost.

Definitions: Emissions Trading, Joint Implementation, Activities Implemented Jointly

In the U.S. view, some common definitions and distinctions will help clarify discussions in this area. We envision emissions trading as applying between Parties that have assumed a binding target for their greenhouse gas emissions. We

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envision joint implementation as a mechanism to allow credits for emission reductions between Parties with a target and between a Party with a target and a Party without a target. Activities implemented jointly (AIJ) is a pilot program to evaluate the viability of project-based reductions in the absence of targets and without credit. While AIJ will provide valuable insights for JI, we see no role for a continued pilot effort beyond the year 2000.

Emissions Trading Among Parties With Targets

The United States believes that the Kyoto agreement should include provisions for emissions trading among Parties that have assumed a binding quantified emissions target. This includes Parties that assume such a target in the Kyoto agreement, and additional Parties that do so subsequently. Through emissions trading, such Parties would have the opportunity to meet their emissions target at the lowest cost. This is a matter of ensuring environmental gains in the most cost-effective way.

Trading makes sense when costs of controlling greenhouse gas emissions differ among Parties. In this case, it is more cost-effective for the high-cost Party to buy a portion of the emissions budget of the low-cost Party than to undertake those reductions domestically. This rationalization of emissions reductions would be strictly voluntary, and would occur only if both Parties agreed. Under such an approach, the environment is protected, the high-cost Party saves money, the low-cost Party is rewarded, and the combined cost of meeting the targets is reduced.

The United States has had success domestically using emissions trading substantially to reduce the costs of complying with clean air standards for acid rain. Experience with international emissions trading has also been gained under the Montreal Protocol on Substances that Deplete the Ozone Layer through its industrial rationalization provisions.

Based on such successes, the United States believes that an effective and enforceable regime for emissions trading among Parties with a binding target should be developed and should be included in the Kyoto agreement. A number of issues need to be addressed regarding how such an international regime might be structured.

Emissions trading, as noted, would take place only between Parties that have assumed a binding emissions target. The target will give each such Party an allowable amount of greenhouse gases it can emit during a time period -- in other words, an "emissions budget" for the relevant period, expressed

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in metric tons of carbon equivalent. In its most basic form, the emissions trading regime would allow one Party to transfer (sell or trade) some of its allowable emissions to another Party. The first Party would then be responsible for meeting its emissions target, minus the amount transferred. The second Party would be responsible for meeting its emissions target, plus the amount transferred.

We anticipate that many Parties will desire to develop emissions trading further, in order to allow private firms or other entities within their borders to engage in emissions trades with counterparts in other nations. In addition to government-to-government trades and firm-to-firm trades, we can also envision mixed transactions, in which firms from one Party buy directly from the government of another Party.

Certain fundamental institutional features are necessary for Parties that engage in international emissions trading to ensure that trading is verifiable, efficient, and environmentally beneficial. These include compatible mechanisms for accurately measuring, tracking, and reporting domestic emissions. Parties also must have the means to track amounts of emissions transferred to or from other Parties, to reduce or augment their national emissions target accordingly, and to ensure the integrity of trades undertaken by their nationals. The United States believes that guidance for these areas should be developed by and agreed to at COP-3 in Kyoto.

Joint Implementation

The FCCC Parties have been engaged in discussions of joint implementation for several years. During this time, support has grown regarding the value of joint implementation involving a Party that is subject to an emission target and another Party that is not (whereby a Party with a target gains credit for taking actions that reduce emissions in a Party without a target). Such an approach has the potential to reduce the first Party's cost of meeting its target, while increasing investment in and diffusion of technology to the second Party.

The United States believes that the Kyoto agreement should include the establishment of a joint implementation regime providing for emissions credits. Such a regime will encourage the rapid development and implementation of cooperative, mutually voluntary projects between partners; encourage private sector investment and innovation in development and dissemination of technologies; and provide an incentive through financial and technical assistance to further the development of non-Annex I country programs to limit increases in greenhouse gas emissions.

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In order to realize the potential of joint implementation, the process of developing criteria, currently underway in the Subsidiary Body for Scientific and Technological Advice (SBSTA), must continue. Such criteria will be essential to ensure that joint implementation becomes a credible and significant contributor in solving the climate change problem. The U.S. Initiative on Joint Implementation (USIJI) has been one of the most successful and aggressive programs in the development and application of criteria. We intend to remain active in the further development of criteria (working both in the domestic context of the USIJI and internationally). We reiterate our view that criteria development can be completed prior to the year 2000, in time to include JI credits in national GHG reduction compliance programs.

We continue to stress the importance of three criteria in particular: (1) acceptance by the governments of the participating countries; (2) the importance of the reporting of data and methodological information with regard to the project, and (3) the need to insure "additionality" (i.e., a reduction in net greenhouse gas emissions as a result of the project).

V. Continuing to Advance the Implementation of Commitments for All Parties (Article 4.1 Commitments)

Recognition is widespread that the threat of climate change is a global problem that can only be overcome through global action. While industrialized countries now account for the majority of the world's past and current greenhouse gas emissions, greenhouse gas emissions are growing most rapidly in the developing countries; emissions there are projected to exceed those of the developed countries by about 2020. The Climate Convention, and the Parties (based on their decisions to date) recognize both realities.

The Berlin Mandate began a process to enable the Parties to take appropriate action for the period beyond 2000. It provides for developed countries to elaborate on policies and measures, and to set quantified emission limitation and reduction objectives for greenhouse gas emissions. For developing country Parties, the Berlin Mandate process will not introduce any new commitments but calls upon Parties to reaffirm existing commitments in Article 4.1 and continue to advance the implementation of those commitments. The Geneva Declaration from the Second Conference of the Parties last July provides that the outcome of the current negotiating effort should fully encompass the remit of the Berlin Mandate.

Two key points emerge from these documents: (1) next steps under the Convention must include all Parties, and (2) actions

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ultimately taken by developed and developing country Parties should be appropriately balanced, recognizing the common but differentiated responsibilities and respective capabilities noted in the Convention and upheld both in the Berlin Mandate and the Geneva Declaration.

To date, all Parties have been making progress toward implementing their commitments under the Convention, including those related to the submission of first national communications under Article 12. Through the U.S. Country Studies Program, we are aware that many developing countries are already far along in preparing national inventories of greenhouse gas emissions and in developing national action plans. A number of developing countries have also initiated projects under the Pilot Phase for Activities Implemented Jointly.

Beyond these current efforts to implement existing Convention commitments, a wide range of possibilities exist through which we can "continue to advance the implementation of existing commitments" as contemplated by the Berlin Mandate. Much work remains to be done to gauge the level of effort developed country Parties will undertake pursuant to the Berlin Mandate. Still, it is not too early to advance our thinking about the range of possibilities for continuing to advance the implementation of existing commitments, recognizing the need for all Parties to take action.

National Communications/Policies and Measures

While the Parties have adopted guidelines for the preparation of initial communications from developing countries, they have yet to consider options for reviewing those communications. Such a review process could include systematic efforts to assist developing country Parties in identifying and implementing no-regrets and cost-effective options for mitigating greenhouse gas emissions.

The review could seek to identify key sectors and technological options within them. It could also consider the possibilities for promoting voluntary agreements with industry aimed at identifying and encouraging the implementation of "no regrets" measures. Partnership agreements have proven highly effective in the United States at enlisting private sector support for mitigating greenhouse gas emissions, and in helping to capture efficient emissions reductions opportunities that are otherwise obstructed by market barriers.

In addition, we could explore various means through which Parties could obtain both the know-how and the technology needed to implement the options identified.

Next Steps

Beyond these kinds of efforts, we could consider developing guidelines for revising the Convention Annexes (that establish which Parties assume which commitments under the Convention, and for considering how better to reflect the common but differentiated responsibilities and capabilities of Parties. In our view, as countries develop to -- and beyond -- a certain point, they must graduate to assume responsibilities commensurate with their development. The present groupings do not reflect dynamic changes in the world that have occurred since 1992 and that will only accelerate in the future.

Another option would be to consider agreeing in the context of the Berlin Mandate negotiations on further negotiations to establish a specified date in the future by which all Parties would be expected to have quantitative commitments with respect to their greenhouse gas emissions. Two variables might also be considered. First, the date need not be the same for all Parties -- we could envision a schedule for phasing in quantitative commitments. Second, the nature of the quantitative commitments need not be the same for all Parties -- we could also envision establishing different levels of commitment based on various factors, including levels of development. It would be important to consider carefully the mandate for these negotiations, including when they could begin, when they would conclude and what results should be anticipated.

As noted, the range of possibilities is very wide. It represents a kind of continuum beginning with modest efforts, but potentially extending to those which would bring us significantly closer to a truly global response and to the Convention's ultimate objective. It is as yet too soon to determine precisely where along this continuum we should strive to reach as part of the Berlin Mandate process. Inevitably, this will depend in large measure on the level of action that developed countries are prepared to undertake, and it is not yet clear what that level will be. Still, in our view, it is not too early to think boldly about the possibilities and about how best to position ourselves for the future, recognizing that the steps we take in Kyoto will represent only a second milestone along a much longer path toward the Convention's ultimate objective.

VI. Compliance

The U.S. has called for a binding target both to promote a realistic negotiation and to promote compliance with the result. The question is what other elements should be included

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in the compliance regime, recognizing that, on the one hand, effective compliance is important for both environmental and economic competitiveness reasons and, on the other hand, that too stringent a compliance regime could result in vague commitments and/or scare off countries from joining the agreement.

Several categories of elements could promote compliance; they are discussed below.

Structure of commitments

In terms of the target, as a matter of drafting, it needs to be articulated as clearly and quantitatively as possible; as a matter of substance, it should be as objectively measurable as possible. In terms of commitments to advance implementation of Article 4.1, these should, ideally, also be as specific as possible. The desire of developing countries for flexibility could be met by providing flexibility in the choice of implementation options rather than by vague, heavily qualified commitments (such as those in the current Convention).

Ascertaining compliance

Ascertaining compliance will involve a combination of: requirements on parties to monitor and report on their emissions; and an international mechanism to verify such monitoring/reporting. The Convention's current obligations regarding national inventories, national communications, and an international in-depth review process are an excellent basis. The new agreement may require strengthened national and/or international mechanisms. (For example, parties bound by the target could be required to have in place a domestic emissions monitoring system, at a minimum for CO₂, at a minimum for specified sources.) There will also be a need to promote uniformity of measurement.

Supporting implementation

Particularly in terms of developing country performance, the availability of sources of technical assistance (such as systematic support for efforts to develop national action plans) and expanded programs aimed at developing, diffusing and deploying climate-friendly technologies could be effective in promoting compliance.

Dispute settlement

The current Convention allows any party to challenge another party's compliance with its obligations before a neutral third party, with a recommendatory result. (Parties

can opt for a binding result, but it is not required.) Whether this system would suffice for the new agreement, or whether it would need to be enhanced needs to be considered, taking into account, among other things, the extent to which the target is clear and objectively measurable (which is not currently known). Ways to enhance the system include, for example, requiring the issuance of binding judgments or specifying particular consequences flowing from a binding judgment of non-compliance.

Additionally or alternatively, the dispute settlement system could be supplemented by a multilateral consultative process, akin to that being developed under the current Convention. Unlike dispute settlement, such a process is considered non-adversarial in that implementation issues can be raised without asserting an actual treaty violation; the parties, rather than third parties, consider issues; and it is multilateral rather than State-against-State.

Non-parties

Development of a compliance regime regarding a global issue also requires consideration of how to deal with non-parties (the so-called "free rider" problem), so that the environmental objective of the agreement is not undermined. Ways to seek to minimize the non-party problem include: the provision of positive incentives for countries to join the regime (for example, assistance, differentiated obligations, other participatory privileges); through an entry into force clause that requires ratification by countries that account for a particular percentage of global emissions of greenhouse gases; and/or the use of measures against non-parties.

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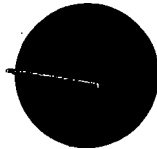
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revised with written and oral comments from:

OES - EClaussen
EB - ALarson/BCates
DOE - DForrister/MChupka/AHaspel/HGruenspecht
EPA - DGardiner/DDoniger/NKete/JLegget-Emil
DOJ - LSchiffer/JRubin
DOC - JHunker
CEQ - SSeidel

cleared: ?



United States Department of State

Bureau of Oceans and International
Environmental and Scientific Affairs

Washington, D.C. 20520

cc. Am
RP
mm

December 5, 1996

MEMORANDUM

TO: *See Distribution

FROM: OES - Eileen B. Claussen *Eileen*

SUBJECT: Climate Change: Summary Paper and Q&As on
U.S. Position for December 1996

Attached for your review is a two-page summary paper and a set of Q&As on the U.S. position paper for the December meeting of the Ad Hoc Group on the Berlin Mandate (AGBM).

Please let me know no later than 3:00 p.m. today if you have concerns with any of the language or responses in these papers. We will otherwise assume that these documents can be used (including by the Deputies) to provide appropriate responses to all general questions with regard to U.S. views.

As I noted earlier, we plan to distribute the full paper to Congressional offices on Friday morning, December 6, at which time I will also hold a background briefing for the press at the State Department. On Friday afternoon, we will brief representatives of U.S. private sector and environmental organizations and distribute the full paper to them.

Attachments:

- (A) Summary of paper
- (B) Questions and Answers

**U.S. Position on Climate Change
December Session of the Ad Hoc Negotiating Committee**

TALKING POINTS

- The fourth meeting of the Ad Hoc Group on the Berlin Mandate (AGBM) will take place in Geneva from December 9-13.
- This group was set up by the Parties to the Climate Convention at their first conference in April 1995; the AGBM is working toward an agreement on next steps to deal with the threat of climate change in the initial period after the year 2000.
- We expect that the AGBM will meet three more times (March, August and October 1997) before the Parties to the Climate Convention meet for their Third Conference (in December 1997 in Kyoto, Japan), where the agreement will be adopted.
- The U.S. Position for the December AGBM Meeting builds upon the U.S. statement at the Second Conference of the Parties last July in Geneva, and reiterates our view of key variables under consideration.
 - It includes a three-part framework for the target (that the target be binding, that it focus on the medium term, and that there be national flexibility in implementation), and our view that it will be critical to include developing countries in next steps, as finding a solution to the climate change problem will require a concerted global effort.
 - In our view, all four of these concepts are linked, and all four must be included in the legal instrument.
- The U.S. Position also builds on the U.S. paper submitted to the Convention secretariat in mid-October this year which outlined the elements we believe the new agreement should include.
- The U.S. Position Paper does not propose a specific target.
 - We have been engaged for some time in an intensive interagency analysis and assessment effort to consider what level of target would be realistic and achievable.
 - That effort is continuing, and we will have more to say on this issue later next year.
 - The U.S. Position does discuss key design features of a target that we believe merit careful consideration if the target is to be realistic and achievable.
- The U.S. Position:
 - rejects a single point target, supports a multi-year target, and urges consideration of banking and perhaps borrowing;

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- rejects differentiated targets within Annex I;
 - continues support of an approach that includes all greenhouse gases;
 - states that activities implemented jointly (AIJ) has no role beyond the year 2000, supports emissions trading within Annex I, and supports joint implementation (JI) between developed and developing countries with credit after the year 2000;
 - provides a full discussion of possibilities for advancing the implementation of commitments of developing countries, ranging from reviews of developing country programs, through implementation of cost-effective measures, to the creation of a new category for countries that are more developed and could assume a target but are not yet ready for a developed country commitment (e.g., Korea, Mexico);
 - provides a full discussion of compliance elements ranging from structuring the commitments with less ambiguity, to ways to ascertain compliance (i.e., through reporting and review), to dispute settlement options (from a consultative mechanism to one with consequences).
- We are providing copies of the U.S. Position Paper to Congressional offices and to representatives of the U.S. environmental community and private sector before the Geneva meeting; we will also distribute copies of the paper in Geneva to other countries at the AGBM meeting.
 - We look forward to positive discussions in Geneva as all countries strive to address the serious threat that climate change poses to our planet.
 - As you may know, the Intergovernmental Panel on Climate Change (IPCC) -- the foremost scientific assessment body of over 2000 of the world's leading scientists -- concluded in December last year that "the balance of evidence suggests a discernible human influence on global climate."
 - The potential for impacts of climate change on natural systems, the economy and the quality of life for future generations is truly significant, and scientific evidence suggests that it could be detrimental for human health, ecosystems, food security and water resources in many regions of the world.
 - In our view, the science provides a compelling basis for action to address climate change.

QUESTIONS/ANSWERS

Question 1: What do you think will happen at the December AGBM meeting?

Answer: Governments will express their views, and will continue working toward a new agreement on steps to address the threat of climate change in the initial period after the year 2000. We anticipate considerable further developments beyond the Geneva session.

Question 2: What result to you expect from the Geneva meeting?

Answer: Based on the December discussions, we expect governments to ask the Convention's secretariat to develop a draft negotiating text that will form the basis of discussion at the March 1997 meeting.

Question 3: Will the U.S. agree to a target for reducing greenhouse gas emissions in December?

Answer: No. We are continuing to analyze and assess what level of a target would be realistic and achievable, but the results of this effort will not be available until later next year. We have already rejected proposals that call for near-term targets (i.e., 2005) that are neither realistic nor achievable in our view. We will instead call for a medium term, multi-year target, which includes national flexibility in implementation and consideration of banking and perhaps borrowing.

Question 4: Will these negotiations lead to a carbon tax for industrialized countries?

Answer: No. We support a binding target for greenhouse gas emissions, but each country must have the flexibility to implement the target as it see fit, and we have rejected proposals for "harmonized" policies and measures.

Question 5: Will the United States urge that all countries adopt the same standards for automobile emissions, emissions from electric utilities or the energy efficiency of office buildings?

Answer: No. We will continue to stress that each country must have the flexibility to implement the target in ways that make sense for that country -- and we will continue to oppose proposals that would limit such flexibility.

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Question 6: Why do you insist so much on national flexibility when it would probably make sense for aircraft manufacturers, for example, to build engines with the same emissions specifications worldwide?

Answer: We do not oppose efforts that originate in specific industries to develop common approaches that make economic sense. However, we do not want to use the Climate Convention for this purpose because an instrument this broad cannot adequately take into account the specific circumstances facing different industries in different countries with different markets.

Question 7: Why do you advocate a target that would limit the greenhouse gas emissions only of developed countries -- why aren't developing countries included also?

Answer: We believe that developing countries must also take steps to address the global threat of climate change, but the steps they take should be consistent with their levels of development and their abilities to respond. All countries must participate in this effort, but developed countries should take the lead.

Question 8: Why should we pay developing countries to take steps to mitigate climate change, when they are only acting in their own interest?

Answer: We all share an interest in protecting our global environment. Developing countries are willing to join in this effort, but they have significantly fewer resources to respond than countries in the industrialized world. With options like joint implementation, industrialized countries can promote environmental protection cost-effectively, while helping developing countries to achieve a better standard of living in ways that lessen the problems we -- and they -- will otherwise face in the future.

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Question 9: Since the science of global warming isn't yet clear, wouldn't it be better to resolve the uncertainties before taking far-reaching action that could harm our economy?

Answer: We have no intention of taking action that would harm our economy. but there are many steps that we can take now to insure against the serious potential impacts of global warming. Many involve planning ahead and stimulating technology development with huge opportunities for American business. Environmental protection and economic prosperity are not mutually exclusive. If we wait to act, we will limit the options available to us in the future, and make them more expensive; if we act prudently now, we will increase our future options and lower the cost.

Question 10: Even if you can reach agreement by December of next year, is the Senate likely to give its advice and consent to it if it imposes significant costs on American business or consumers?

Answer: Congress and the American people share the same concern for protecting our environment. We are seeking to safeguard the earth's climate system in ways that make sense, that are cost-effective and that are fair to all countries. We also meet regularly with Members of Congress and their staffs to keep them apprised of developments in the negotiations. If we are able to reach a sensible, cost-effective and fair agreement by December of next year, we believe it will be very much in the interest of the American people, and their elected representatives, to embrace it.

DECEMBER 5, 1996

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United States Department of State

Assistant Secretary of State for Oceans and
International Environmental and Scientific Affairs

Washington, D.C. 20520

cc: RP
mm

December 4, 1996

MEMORANDUM

TO: *See Distribution

FROM: OES - Eileen B. Claussen Eileen

SUBJECT: Climate Change: U.S. Position for December 1996

Attached for your final review is the U.S. position paper for the December meeting of the Ad Hoc Group on the Berlin Mandate (AGBM). The paper has been revised based on comments at the Deputies meeting on December 3 and written comments received since the paper was distributed last week.

Please let me know no later than 3:00 p.m. today if your agency has concerns with any of the key elements in the paper. We will otherwise assume that the paper has full interagency concurrence.

We plan to distribute the final paper to Congressional offices on Friday morning, December 6, at which time I will also hold a background briefing for the press at the State Department. On Friday afternoon, we will brief representatives of U.S. private sector and environmental organizations and distribute the paper to them.

To assist in reviewing the paper, key changes (but not minor edits) from the November 26 draft are noted on the attached sheet.

Attachments:

- (A) Summary of key changes
- (B) Revised U.S. Position Paper

SUMMARY OF KEY CHANGES TO NOVEMBER 26 DRAFT

Overall

"Legally-binding" changed to "binding" throughout the paper to reflect U/S Wirth July 1996 Statement in Geneva.

Page 1

- para. 1 -- edited for clarity.
- para. 2 -- edited to distinguish between IPCC conclusion and U.S. view.
- para. 2 -- changed "high-risk" to "serious" in second to last sentence.
- para. 2 -- deleted "urgent" before "action" in last sentence.

Page 2

- para. 6 -- edited sentence beginning with "This paper outlines...." for clarity.

Page 4

- para. 1 -- new sentence added to end of paragraph: "Enforceability is a key issue in defining any multiyear period."
- para. 2 -- sentence beginning borrowing discussion revised to read: "Similarly, we should explore allowing Parties to borrow against their targets..."
- para. 5 -- separated first sentence into two; changed "maximizes" to "retains" in first sentence; inserted "marginal" before "costs" in new second sentence.

Page 6

- para. 2 -- New sentence added before last sentence in paragraph: "The approach must be able to incorporate changing, state-of-the-art methodologies for the measurement of sources and sinks of all gases."

Page 6

- para. 1 -- last sentence modified to read: "... we see no role for a continued pilot effort beyond the year 2000."

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para. 3 -- changed "compensated" to "rewarded" in last sentence.

Page 10

para. 3 -- inserted "--developed and developing countries--" after "all Parties" in first sentence.

Page 12

para. 1 -- deleted "such as monetary penalties or sanctions" in last sentence.

para. 3 -- delete words "side payments," in parenthetical list of incentives.

SEEGC 9891

drafted: OES/EGC - DAreifsnyder/JCPershing
12/4/96

cleared: OES - E Claussen

Climate Change: U.S. Position for December 1996

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I. Introduction and Background

At the second meeting of the Conference of the Parties (COP-2) to the United Nations Framework Convention on Climate Change (FCCC), the United States called for next steps under the Climate Convention for the post-2000 period to reduce the threat of climate change consistent with economic prosperity. For developed countries, these steps should include verifiable, binding medium term targets that are realistic and achievable, designed with maximum flexibility, and implemented through national programs. The U.S. position also underscored the need for all nations, including developing nations, to take actions to limit greenhouse gas emissions. Finally, we called for continued work on a longer-term global concentration goal (e.g. 50-100 years). We continue to believe that this is the approach that will produce a successful outcome at the third session of the Parties in Kyoto in December 1997.

To this end, we would like to call attention again to the conclusions of the IPCC Second Assessment Report, which found that "the balance of evidence suggests a discernible human influence on global climate." In the U.S. view, the potential for impacts of climate change on natural systems, the economy and the quality of life for future generations is truly significant; the scientific evidence suggests it could be detrimental for human health, ecosystems, food security and water resources in many regions of the world. The potential for such impacts makes climate change a serious problem. In our view, all Parties should act on the conclusion Ministers reached last July: that the science provides a compelling basis for action to address climate change.

Notwithstanding the compelling evidence compiled so far, we must continue our efforts to further develop and refine our understanding of the science of climate change, even as we seek to ameliorate its impacts. Such understanding, coupled with advances in the development and application of new technology, will ultimately enable a more efficient and successful long-term approach to addressing this pressing problem.

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We believe that next steps must be as cost-effective as possible. Our analyses completed to date suggest that more flexible approaches offer significant cost-saving opportunities, and these must be brought into the Convention's basic framework. Flexibility includes allowing Parties nationally to determine the most appropriate policies and measures to meet the agreed target, and allowing emissions trading and joint implementation between Parties to minimize the cost of reductions.

The United States arrived at this basic framework for a number of reasons. It is clear that the Convention's existing framework of a non-binding "aim" is not working, even though, at the national level, numerous voluntary partnerships with industry are working well. Most developed countries, including the United States, will not achieve the goal of returning emissions in 2000 to 1990 levels. A binding commitment will create a stronger incentive for nations to decide on a realistic target, to make the effort required to meet the target, to ensure a level playing field, and to foster development and deployment of advanced technologies.

Our focus must be on appropriate steps over the medium term, while we continue to develop a longer term goal. We reiterate that short-term targets (i.e., before 2010) are unrealistic, and we cannot accept them. Short-term targets would be unnecessarily burdensome to national and global economic growth and development. They could mean that few if any countries would ratify the agreement.

Finally, the United States recognizes the need for global climate change to be addressed on a global basis. As a result, we believe it is imperative that the agreement we reach in Kyoto include an enhanced commitment by developing nations to take further steps to mitigate their emissions of greenhouse gases. While recognizing that developed countries must show leadership in addressing this problem, we believe it is very clear that all nations must be part of the solution.

The Ministerial Declaration in Geneva at the Second Conference of the Parties to the Convention provides climate negotiators with a blueprint for action; we strongly endorse its approach. However, it is now time to develop and agree on concrete proposals.

This paper outlines our view on a number of issues and suggests several other options that merit closer scrutiny.

We expect to have further views on specific numbers that should be included in targets and timetables in the future as

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the results of our continuing analysis and assessment emerge. We hope that other Parties will join us in developing new proposals to meet our environmental and economic goals.

II. Linkages

A number of key variables under consideration are interdependent. This interdependence must be recognized in negotiating our next steps. The United States proposed a three-part framework for the target in Geneva, including that the target be binding, that it focus on the medium term, and that it maximize national flexibility in implementation. In addition, the United States believes it will be critical to include developing countries in next steps; finding a solution to the climate change problem will require a concerted global effort. In our view, all four of these concepts are linked, and all four must be included in the legal instrument.

III. Defining the Form of the Target

As noted above, at COP-2 in July, the United States specifically called for focusing negotiations on a binding, medium-term emissions target, incorporating flexibility in time and place of implementation. The United States also expressed an interest in continuing to work toward a longer-term concentration goal. We rejected any target which called for an unrealistic near term goal -- and we continue to reject such an approach. We also remain convinced that the target should be designed in a manner that allows for adjustment on the basis of new and evolving science. This paper outlines some of our current thinking on the form and structure of the target.

Multi-year Targets

The United States believes that the target set in the next step should cover a multi-year period in order to accomplish several objectives. First, a multi-year target would smooth year-to-year variability in weather and economic cycles. U.S. analyses of the effects of such variability provide a striking example of the importance of this issue: unusually hot or cold years can change U.S. gross national emissions by as much as two percent -- or about 40 percent of the emissions reductions sought from the energy sector by the year 2000. Because swings in weather, energy prices or economic cycles cannot be predicted with confidence, a single year target would require each country to build in an extra margin of GHG reductions to ensure compliance, significantly and unnecessarily raising the cost.

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Second, a multi-year average would give Parties important flexibility to determine the pace at which their emissions budget would be expended over the period (evenly, front-loaded, or back-loaded). This flexibility may be particularly important in helping Parties to reduce their compliance costs in view of differing national circumstances. To provide this flexibility, targets could be set with budgets covering a multi-year period, for example, 2010-2020. Enforceability is a key issue in defining a multi-year period.

Banking/Borrowing

The United States strongly urges consideration of banking between multi-year average target periods. Such a process would allow emissions below the target in one period to be used to offset higher than target emissions in later periods. Banking of emissions could reward efforts to make reductions in earlier periods. Similarly, we should explore allowing Parties to borrow against their targets for the next period in order to emit more in a current period. We recognize that borrowing will require that a credible accounting and repayment mechanism be put in place, and that it also could entail additional restrictions (e.g., to limit the proportion of emissions reductions postponed).

Differentiation Among Annex I Parties

A number of Annex I Parties have suggested proposals for differentiation of commitments of the members of this group. While the United States acknowledges that clear distinctions can be (and are) drawn between different Parties and groups of Parties, we do not believe that developing a complex, formulaic approach which differentiates at an individual Party level is a viable alternative at this stage in the negotiations. To date, we have seen no formula for a differentiated approach which equitably addresses all Parties' concerns.

An effort to define an acceptable differentiation scheme in this legal instrument will likely derail the negotiations, by being too divisive and time-consuming, or by disadvantaging a group of countries that might then choose not to sign or ratify. Either outcome could negate the value of the differentiation effort.

Instead we endorse the adoption of a common approach with respect to targets that retains each Party's flexibility with respect to the choice of domestic policies and measures to implement the target. We also support international trading instruments to minimize and equalize Parties' marginal costs of making reductions. Such an approach would enable the completion of the agreement by December 1997.

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Comprehensive Approach

The United States continues to support the inclusion of all greenhouse gases, both sources and sinks, in a comprehensive, verifiable approach to addressing the climate change problem. Gases other than carbon dioxide account for about 30 percent of the radiative forcing from all emissions since the industrial revolution. Furthermore, different gases represent different strategic opportunities from the perspective of effects on the climate system. For example, reductions in methane emissions could yield a lower rate of warming over the next several decades than comparable reductions in carbon dioxide. To forego such a significant source of reduction potential would be both to reduce flexibility and to decrease the cost-effectiveness of the overall effort.

Assuming a comprehensive approach, several issues still require additional consideration. These include the different level of certainty with regard to measurement of non-CO2 emissions in various sectors, problems with verification, and the relative importance or weighting to be assigned to different gases. Significant technical difficulties also exist concerning accounting of sinks which need to be addressed. We will continue to insist that any agreed approach be fully quantifiable and verifiable, and include appropriate accounting procedures prior to inclusion into the legal instrument. This approach must be able to incorporate changing state-of-the-art methodologies for the measurement of the sources and sinks of all gases. The United States is currently working to address these concerns, and believes that a solution that is technically and politically satisfactory is achievable within the Kyoto timeframe.

IV. Emissions trading and Joint Implementation

The United States believes commitments adopted in Kyoto must be structured so as to allow Parties flexibility to achieve their emissions target as cost-effectively as possible. It is critical that provisions for international greenhouse gas emissions trading and joint implementation be included in the Kyoto agreement in order to meet the new commitments at the lowest cost.

Definitions: Emissions Trading, Joint Implementation, Activities Implemented Jointly

In the U.S. view, some common definitions and distinctions will help clarify discussions in this area. We envision emissions trading as applying between Parties that have assumed a binding target for their greenhouse gas emissions. We envision joint implementation as a mechanism to allow credits for emission reductions between Parties with a target

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and between a Party with a target and a Party without a target. Activities implemented jointly (AIJ) is a pilot program to evaluate the viability of project-based reductions in the absence of targets and without credit. While AIJ will provide valuable insights for JI, we see no role for a continued pilot effort beyond the year 2000.

Emissions Trading Among Parties With Targets

The United States believes that the Kyoto agreement should include provisions for emissions trading among Parties that have assumed a binding quantified emissions target. This includes Parties that assume such a target in the Kyoto agreement, and additional Parties that do so subsequently. Through emissions trading, such Parties would have the opportunity to meet their emissions target at the lowest cost. This is a matter of ensuring environmental gains in the most cost-effective way.

Trading makes sense when costs of controlling greenhouse gas emissions differ among Parties. In this case, it is more cost-effective for the high-cost Party to buy a portion of the emissions budget of the low-cost Party than to undertake those reductions domestically. This rationalization of emissions reductions would be strictly voluntary, and would occur only if both Parties agreed. Under such an approach, the environment is protected, the high-cost Party saves money, the low-cost Party is rewarded, and the combined cost of meeting the targets is reduced.

The United States has had success domestically using emissions trading substantially to reduce the costs of complying with clean air standards for acid rain. Experience with international emissions trading has also been gained under the Montreal Protocol on Substances that Deplete the Ozone Layer through its industrial rationalization provisions.

Based on such successes, the United States believes that an effective and enforceable regime for emissions trading among Parties with a binding target should be developed and should be included in the Kyoto agreement. A number of issues need to be addressed regarding how such an international regime might be structured.

Emissions trading, as noted, would take place only between Parties that have assumed a binding emissions target. The target will give each such Party an allowable amount of greenhouse gases it can emit during a time period -- in other words, an "emissions budget" for the relevant period, expressed in metric tons of carbon equivalent. In its most basic form, the emissions trading regime would allow one Party to transfer

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(sell or trade) some of its allowable emissions to another Party. The first Party would then be responsible for meeting its emissions target, minus the amount transferred. The second Party would be responsible for meeting its emissions target, plus the amount transferred.

We anticipate that many Parties will desire to develop emissions trading further, in order to allow private firms or other entities within their borders to engage in emissions trades with counterparts in other nations. In addition to government-to-government trades and firm-to-firm trades, we can also envision mixed transactions, in which firms from one Party buy directly from the government of another Party.

Certain fundamental institutional features are necessary for Parties that engage in international emissions trading to ensure that trading is verifiable, efficient, and environmentally beneficial. These include compatible mechanisms for accurately measuring, tracking, and reporting domestic emissions. Parties also must have the means to track amounts of emissions transferred to or from other Parties, to reduce or augment their national emissions target accordingly, and to ensure the integrity of trades undertaken by their nationals. The United States believes that guidance for these areas should be developed by and agreed to at COP-3 in Kyoto.

Joint Implementation

The FCCC Parties have been engaged in discussions of joint implementation for several years. During this time, support has grown regarding the value of joint implementation involving a Party that is subject to an emission target and another Party that is not (whereby a Party with a target gains credit for taking actions that reduce emissions in a Party without a target). Such an approach has the potential to reduce the first Party's cost of meeting its target, while increasing investment in and diffusion of technology to the second Party.

The United States believes that the Kyoto agreement should include the establishment of a joint implementation regime providing for emissions credits. Such a regime will encourage the rapid development and implementation of cooperative, mutually voluntary projects between partners; encourage private sector investment and innovation in development and dissemination of technologies; and provide an incentive through financial and technical assistance to further the development of non-Annex I country programs to limit increases in greenhouse gas emissions.

In order to realize the potential of joint implementation, the process of developing criteria, currently underway in the

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Subsidiary Body for Scientific and Technological Advice (SBSTA), must continue. Such criteria will be essential to ensure that joint implementation becomes a credible and significant contributor in solving the climate change problem. The U.S. Initiative on Joint Implementation (USIJI) has been one of the most successful and aggressive programs in the development and application of criteria. We intend to remain active in the further development of criteria (working both in the domestic context of the USIJI and internationally). We reiterate our view that criteria development can be completed prior to the year 2000, in time to include JI credits in national GHG reduction compliance programs.

We continue to stress the importance of three criteria in particular: (1) acceptance by the governments of the participating countries; and (2) the importance of the reporting of data and methodological information with regard to the project, and (3) the need to insure "additionality" (i.e., a reduction in net greenhouse gas emissions as a result of the project).

V. Continuing to Advance the Implementation of Commitments for All Parties (Article 4.1 Commitments)

Recognition is widespread that the threat of climate change is a global problem that can only be overcome through global action. While industrialized countries now account for the majority of the world's past and current greenhouse gas emissions, greenhouse gas emissions are growing most rapidly in the developing countries; emissions there are projected to exceed those of the developed countries by about 2020. The Climate Convention, and the Parties (based on their decisions to date) recognize both realities.

The Berlin Mandate began a process to enable the Parties to take appropriate action for the period beyond 2000. It provides for developed countries to elaborate on policies and measures, and to set quantified emission limitation and reduction objectives for greenhouse gas emissions. For developing country Parties, the Berlin Mandate process will not introduce any new commitments but calls upon Parties to reaffirm existing commitments in Article 4.1 and continue to advance the implementation of those commitments. The Geneva Declaration from the Second Conference of the Parties last July provides that the outcome of the current negotiating effort should fully encompass the remit of the Berlin Mandate.

Two key points emerge from these documents: (1) next steps under the Convention must include all Parties, and (2) actions ultimately taken by developed and developing country Parties

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should be appropriately balanced, recognizing the common but differentiated responsibilities and respective capabilities noted in the Convention and upheld both in the Berlin Mandate and the Geneva Declaration.

To date, all Parties have been making progress toward implementing their commitments under the Convention, including those related to the submission of first national communications under Article 12. Through the U.S. Country Studies Program, we are aware that many developing countries are already far along in preparing national inventories of greenhouse gas emissions and in developing national action plans. A number of developing countries have also initiated projects under the Pilot Phase for Activities Implemented Jointly.

Beyond these current efforts to implement existing Convention commitments, a wide range of possibilities exist through which we can "continue to advance the implementation of existing commitments" as contemplated by the Berlin Mandate. Much work remains to be done to gauge the level of effort developed country Parties will undertake pursuant to the Berlin Mandate. Still, it is not too early to advance our thinking about the range of possibilities for continuing to advance the implementation of existing commitments, recognizing the need for all Parties to take action.

National Communications/Policies and Measures

While the Parties have adopted guidelines for the preparation of initial communications from developing countries, they have yet to consider options for reviewing those communications. Such a review process could include systematic efforts to assist developing country Parties in identifying and implementing no-regrets and cost-effective options for mitigating greenhouse gas emissions.

The review could seek to identify key sectors and technological options within them. It could also consider the possibilities for promoting voluntary agreements with industry aimed at identifying and encouraging the implementation of "no regrets" measures. Partnership agreements have proven highly effective in the United States at enlisting private sector support for mitigating greenhouse gas emissions, and in helping to capture efficient emissions reductions opportunities that are otherwise obstructed by market barriers.

In addition, we could explore various means through which Parties could obtain both the know-how and the technology needed to implement the options identified.

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Next Steps

Beyond these kinds of efforts, we could consider agreeing in the context of the Berlin Mandate negotiations on a specified date in the future by which all Parties -- both developed and developing countries -- would be expected to have quantitative commitments with respect to their greenhouse gas emissions. Two variables might be considered. First, the date need not be the same for all Parties -- we could envision a schedule for phasing in quantitative commitments. Second, the nature of the quantitative commitments need not be the same for all Parties -- we could also envision establishing different levels of commitment based on various factors, including levels of development.

While it would not be necessary to reach specific agreement now on all issues, it would be important to consider carefully the mandate for such discussions, including when they could begin, when they would conclude and what results should be anticipated.

Another option for consideration would be the development of guidelines for revising the Convention Annexes (that establish which Parties assume which commitments under the Convention), and for considering how better to reflect the common but differentiated responsibilities and capabilities of Parties. In our view, as countries develop to -- and beyond -- a certain point, they must graduate to assume responsibilities commensurate with their development. The present groupings do not reflect dynamic changes in the world that have occurred since 1992 and that will only accelerate in the future.

As noted, the range of possibilities is very wide. It represents a kind of continuum beginning with modest efforts, but potentially extending to those which would bring us significantly closer to a truly global response and to the Convention's ultimate objective. It is as yet too soon to determine precisely where along this continuum we should strive to reach as part of the Berlin Mandate process. Inevitably, this will depend in large measure on the level of action that developed countries are prepared to undertake, and it is not yet clear what that level will be. Still, in our view, it is not too early to think boldly about the possibilities and about how best to position ourselves for the future, recognizing that the steps we take in Kyoto will represent only a second milestone along a much longer path toward the Convention's ultimate objective.

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VI. Compliance

The U.S. has called for a binding target both to promote a realistic negotiation and to promote compliance with the result. The question is what other elements should be included in the compliance regime, recognizing that, on the one hand, effective compliance is important for both environmental and economic competitiveness reasons and, on the other hand, that too stringent a compliance regime could result in vague commitments and/or scare off countries from joining the agreement.

Several categories of elements could promote compliance; they are discussed below.

Structure of commitments

In terms of the target, as a matter of drafting, it needs to be articulated as clearly and quantitatively as possible; as a matter of substance, it should be as objectively measurable as possible. In terms of commitments to advance implementation of Article 4.1, these should, ideally, also be as specific as possible. The desire of developing countries for flexibility could be met by providing flexibility in the choice of implementation options rather than by vague, heavily qualified commitments (such as those in the current Convention).

Ascertaining compliance

Ascertaining compliance will involve a combination of: requirements on parties to monitor and report on their emissions; and an international mechanism to verify such monitoring/reporting. The Convention's current obligations regarding national inventories, national communications, and an international in-depth review process are an excellent basis. The new agreement may require strengthened national and/or international mechanisms. (For example, parties bound by the target could be required to have in place a domestic emissions monitoring system, at a minimum for CO₂, at a minimum for specified sources.) There will also be a need to promote uniformity of measurement.

Supporting implementation

Particularly in terms of developing country performance, the availability of sources of technical assistance (such as systematic support for efforts to develop national action plans) and expanded programs aimed at developing, diffusing and deploying climate-friendly technologies could be effective in promoting compliance.

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Dispute settlement

The current Convention allows any party to challenge another party's compliance with its obligations before a neutral third party, with a recommendatory result. (Parties can opt for a binding result, but it is not required.) Whether this system would suffice for the new agreement, or whether it would need to be enhanced needs to be considered, taking into account, among other things, the extent to which the target is clear and objectively measurable (which is not currently known). Ways to enhance the system include, for example, requiring the issuance of binding judgments or specifying particular consequences flowing from a binding judgment of non-compliance.

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Non-parties

Development of a compliance regime regarding a global issue also requires consideration of how to deal with non-parties (the so-called "free rider" problem), so that the environmental objective of the agreement is not undermined. Ways to seek to minimize the non-party problem include: the provision of positive incentives for countries to join the regime (for example, assistance, differentiated obligations, other participatory privileges); through an entry into force clause that requires ratification by countries that account for a particular percentage of global emissions of greenhouse gases; and/or the use of measures against non-parties.



United States Department of State

Bureau of Oceans and International
Environmental and Scientific Affairs

Washington, D.C. 20520

DATE: 12/4/96 TIME: 7:10pm

NUMBER OF PAGES TO FOLLOW: 13

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TELEPHONE: _____ FAX: 395-6958
OFFICE: _____ 395-6853

FAX FROM: Kelly Wiggins (Eileen Clausen's o/a)
TELEPHONE: _____ FAX: _____
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MESSAGE:

Tues 12/3/96, 3-5pm
THE WHITE HOUSE
WASHINGTON
December 2, 1996

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MEMORANDUM FOR DISTRIBUTION

FROM: Michael Warren, Executive Secretary
National Economic Council

SUBJECT: Climate Change Deputies Meeting

Attached please find the agenda for tomorrow's joint NEC-CEQ Deputies meeting on climate change. The meeting is from 3:00 - 5:00 pm in room 231 OEOB. This meeting will be chaired by Dan Tarullo and Kathleen McGinty.

Deputies plus one are invited to attend. It is important that Deputies personally attend.

If you have not done so yet, please call Kristen Panerali at the NEC at 456-5353 with your clearance information **BY COB TODAY**. Thanks.

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Tim Wirth, State

AGENDA
Climate Change Deputies Meeting
Tuesday, Dec. 3, 1996, 3:00pm
Room 231 OEOB

- I. International Framework for Negotiations
- II. U.S. Positions for December Meeting

Ther, 12/3/96, 3pm

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THE WHITE HOUSE

WASHINGTON

November 27, 1996

MEMORANDUM TO DISTRIBUTION

FROM: Katie McGinty
Dan Tarullo

SUBJECT: Draft U.S. Position Paper for Geneva Meeting

Attached is the draft paper prepared by the Assistant Secretary-level group on climate change for discussion at the NEC Deputies-level meeting to be held Tuesday, December 3. We would appreciate it if major comments or objections were raised with NEC or CEQ prior to the December 3 meeting so we can be sure to include the issue in the discussion.

Negotiating instructions and an agenda for the meeting will be forthcoming.

Distribution:

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Climate Change: U.S. Position for December 1996

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I. Introduction and Background

At the second meeting of the Conference of the Parties (COP-2) to the United Nations Framework Convention on Climate Change (FCCC), the United States called for next steps under the Climate Convention for the post-2000 period to include verifiable, realistic and achievable, legally binding medium term targets for developed countries with maximum flexibility that would be implemented through national programs and begin to reduce the threat of climate change consistent with economic prosperity. The U.S. position also underscored the need for all nations, including developing nations, to take actions to limit greenhouse gas emissions. Finally, we called for continued work on a longer-term global concentration goal (e.g. 50-100 years). We continue to believe that this is the approach that will produce a successful outcome at the third session of the Parties in Kyoto in December 1997.

To this end, we would like to call attention again to the conclusions of the IPCC Second Assessment Report, which found that "the balance of evidence suggests a discernible human influence on global climate." The potential for impacts of climate change on natural systems, the economy and the quality of life for future generations is truly significant; the scientific evidence suggests it could be detrimental for human health, ecosystems, food security and water resources in many regions of the world. The potential for such impacts makes climate change a "high-risk" problem. In our view, all Parties should act on the conclusion Ministers reached last July: that the science provides a compelling basis for urgent action to address climate change.

Notwithstanding the compelling evidence compiled so far, we must continue our efforts to further develop and refine our understanding of the science of climate change, even as we seek to ameliorate its impacts. Such understanding, coupled with advances in the development and application of new technology, will ultimately enable a more efficient and successful long-term approach to addressing this pressing problem.

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We believe that next steps must be as cost-effective as possible. Our analyses completed to date suggest that more flexible approaches offer significant cost-saving opportunities, and these must be brought into the Convention's basic framework. Flexibility includes allowing Parties nationally to determine the most appropriate policies and measures to meet the agreed target, and allowing emissions trading and joint implementation between Parties to minimize the cost of reductions.

The United States arrived at this basic framework for a number of reasons. It is clear that the Convention's existing framework of a non-binding "aim" is not working, even though, at the national level, numerous voluntary partnerships with industry are working well. Most developed countries, including the United States, will not achieve the goal of returning emissions in 2000 to 1990 levels. A binding commitment will create a stronger incentive for nations to decide on a realistic target, to make the effort required to meet the target, to ensure a level playing field, and to foster development and deployment of advanced technologies.

Our focus must be on appropriate steps over the medium term, while we continue to develop a longer term goal. We reiterate that short term targets (i.e., before 2010) are unrealistic, and we cannot accept them. Short-term targets would be unnecessarily burdensome to national and global economic growth and development. They could mean that few if any countries would ratify the agreement.

Finally, the United States recognizes the need for global climate change to be addressed on a global basis. As a result, we believe it is imperative that the agreement we reach in Kyoto include an enhanced commitment by developing nations to take further steps to mitigate their emissions of greenhouse gases. While recognizing that developed countries must show leadership in addressing this problem, we believe it is very clear that all nations must be part of the solution.

The Ministerial Declaration in Geneva at the Second Conference of the Parties to the Convention provides climate negotiators with a blueprint for action; we strongly endorse its approach. However, it is now time to develop and agree on concrete proposals.

This paper outlines our view on a number of issues about which we feel strongly, as well as others where several options merit closer scrutiny.

We expect to have further views on specific numbers that should be included in targets and timetables in the future as

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the results of our continuing analysis and assessment emerge. We hope that other Parties will join us in developing new proposals to meet our environmental and economic goals.

II. Linkages

A number of key variables under consideration are interdependent. This interdependence must be recognized in negotiating our next steps. The United States proposed a three-part framework for the target in Geneva, including that the target be legally binding, that it focus on the medium term, and that it maximize national flexibility in implementation. In addition, the United States believes it will be critical to include developing countries in next steps; finding a solution to the climate change problem will require a concerted global effort. In our view, all four of these concepts are linked, and all four must be included in the legal instrument.

III. Defining the Form of the Target

As noted above, at COP-2 in July, the United States specifically called for focusing negotiations on a legally binding, medium-term emissions target, incorporating flexibility in time and place of implementation. The United States also expressed an interest in continuing to work toward a longer-term concentration goal. We rejected any target which called for an unrealistic near term goal -- and we continue to reject such an approach. We also remain convinced that the target should be designed in a manner that allows for adjustment on the basis of new and evolving science. This paper outlines some of our current thinking on the form and structure of the target.

Multi-year Targets

The United States believes that the target set in the next step should cover a multi-year period in order to accomplish several objectives. First, a multi-year target would smooth year-to-year variability in weather and economic cycles. U.S. analyses of the effects of such variability provide a striking example of the importance of this issue: unusually hot or cold years can change U.S. gross national emissions by as much as two percent -- or about 40 percent of the emissions reductions sought from the energy sector by the year 2000. Because swings in weather, energy prices or economic cycles cannot be predicted with confidence, a single year target would require each country to build in an extra margin of GHG reductions to ensure compliance, significantly and unnecessarily raising the cost.

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Second, a multi-year average would give Parties important flexibility to determine the pace at which their emissions budget would be expended over the period (evenly, front-loaded, or back-loaded). This flexibility may be particularly important in helping Parties to reduce their compliance costs in view of differing national circumstances. To provide this flexibility, targets could be set with budgets covering a multi-year period, for example, 2010-2020.

Banking/Borrowing

The United States strongly urges consideration of banking between multi-year average target periods. Such a process would allow emissions below the target in one period to be used to offset higher than target emissions in later periods. Banking of emissions could reward efforts to make reductions in earlier periods. Similarly, we also urge that consideration be given to allowing Parties to borrow against their targets for the next period in order to emit more in a current period. We recognize that borrowing will require that a credible accounting and repayment mechanism be put in place, and that it also could entail additional restrictions (e.g., to limit the proportion of emissions reductions postponed).

Differentiation Among Annex I Parties

A number of Annex I Parties have suggested proposals for differentiation of commitments of the members of this group. While the United States acknowledges the clear distinctions that can be (and are) drawn between different Parties and groups of Parties, we do not believe that developing a complex, formulaic approach which differentiates at an individual Party level is a viable alternative at this stage in the negotiations. To date, we have seen no formula for a differentiated approach which equitably addresses all Parties' concerns.

An effort to define an acceptable differentiation scheme in this legal instrument will likely derail the negotiations, by being too divisive and time-consuming, or by disadvantaging a group of countries which might then choose not to sign or ratify. Either outcome could negate the value of the differentiation effort.

Instead we endorse the adoption of a common approach with respect to targets that maximizes each Party's flexibility with respect to the choice of domestic policies and measures to implement the target, coupled with international trading instruments to minimize and equalize Parties' costs of making reductions. Such an approach would enable the completion of the agreement by December 1997.

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Comprehensive Approach

The United States continues to support the inclusion of all greenhouse gases, both sources and sinks, in a comprehensive, verifiable approach to addressing the climate change problem. Gases other than carbon dioxide account for about 30 percent of the radiative forcing from all emissions since the industrial revolution. Furthermore, different gases represent different strategic opportunities from the perspective of effects on the climate system. For example, reductions in methane emissions could yield a lower rate of warming over the next several decades than comparable reductions in carbon dioxide. To forego such a significant source of reduction potential would be both to reduce flexibility and to decrease the cost-effectiveness of the overall effort.

Assuming a comprehensive approach, several issues still require additional consideration, including the different level of certainty with regard to measurement of non-CO2 emissions in various sectors, problems with verification, and the relative importance or weighting to be assigned to different gases. There are also significant technical difficulties concerning accounting of sinks which need to be addressed. We will continue to insist that any agreed approach be fully quantifiable and verifiable, and include appropriate accounting procedures prior to inclusion into the legal instrument. The United States is currently working to address these concerns, and believes that a solution that is technically and politically satisfactory is achievable within the Kyoto timeframe.

IV. Emissions trading and Joint Implementation

The United States believes commitments adopted in Kyoto must be structured so as to allow Parties flexibility to achieve their emissions target as cost-effectively as possible. It is critical that provisions for international greenhouse gas emissions trading and joint implementation be included in the Kyoto agreement in order to meet the new commitments at the lowest cost.

Definitions: Emissions Trading, Joint Implementation, Activities Implemented Jointly

In the U.S. view, some common definitions and distinctions will help clarify discussions in this area. We envision emissions trading as applying between Parties that have assumed a legally binding target for their greenhouse gas emissions. We envision joint implementation as a mechanism to allow credits for emission reductions between Parties with a target

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as well as between a Party with a target and a Party without a target. Activities implemented jointly (AIJ) is a pilot program to evaluate the viability of project-based reductions in the absence of targets and without credit. While AIJ will provide valuable insights for JI, we see no role for it in FCCC commitments beyond the year 2000.

Emissions Trading Among Parties With Targets

The United States believes that the Kyoto agreement should include provisions for emissions trading among Parties which have assumed a binding quantified emissions target. This includes Parties that assume such a target in the Kyoto agreement, and additional Parties that do so subsequently. Through emissions trading, such Parties would have the opportunity to meet their emissions target at the lowest cost. This is a matter of ensuring environmental gains in the most cost-effective way.

Trading makes sense when costs of controlling greenhouse gas emissions differ among Parties. In this case, it is more cost-effective for the high-cost Party to buy a portion of the emissions budget of the low-cost Party than to undertake those reductions domestically. This rationalization of emissions reductions would be strictly voluntary, and would occur only if both Parties agreed. Under such an approach, the environment is protected, the high-cost Party saves money, the low-cost Party is compensated, and the combined cost of meeting the targets is reduced.

The United States has had success domestically using emissions trading substantially to reduce the costs of complying with clean air standards for acid rain. Experience with international emissions trading has also been gained under the Montreal Protocol on Substances that Deplete the Ozone Layer through its industrial rationalization provisions.

Based on such successes, the United States believes that an effective and enforceable regime for emissions trading among Parties with a binding target should be developed and should be included in the Kyoto agreement. A number of issues need to be addressed regarding how such an international regime might be structured.

Emissions trading, as noted, would take place only between Parties that have assumed a legally binding emissions target. The target will give each such Party an allowable amount of greenhouse gases it can emit during a time period -- in other words, an "emissions budget" for the relevant period, expressed in metric tons of carbon equivalent. In its most basic form, the emissions trading regime would allow one Party to transfer

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(sell or trade) some of its allowable emissions to another Party. The first Party would then be responsible for meeting its emissions target, minus the amount transferred. The second Party would be responsible for meeting its emissions target, plus the amount transferred.

We anticipate that many Parties will desire to develop emissions trading further, in order to allow private firms or other entities within their borders to engage in emissions trades with counterparts in other nations. In addition to government-to-government trades and firm-to-firm trades, we can also envision mixed transactions, in which firms from one Party buy directly from the government of another Party.

Certain fundamental institutional features are necessary for Parties that engage in international emissions trading to ensure that trading is verifiable, efficient, and environmentally beneficial. These include compatible mechanisms for accurately measuring, tracking, and reporting domestic emissions. Parties also must have the means to track amounts of emissions transferred to or from other Parties, to reduce or augment their national emissions target accordingly, and to ensure the integrity of trades undertaken by their nationals. The United States believes that guidance for these areas should be developed by and agreed to at COP-3 in Kyoto.

Joint Implementation

The FCCC Parties have been engaged in discussions of joint implementation for several years. During this time, support has grown regarding the value of joint implementation involving a Party that is subject to an emission target and another Party that is not (whereby a Party with a target gains credit for taking actions that reduce emissions in a Party without a target). Such an approach has the potential to reduce the first Party's cost of meeting its target, while increasing investment in and diffusion of technology to the second Party.

The United States believes that the Kyoto agreement should include the establishment of a joint implementation regime providing for emissions credits. Such a regime will encourage the rapid development and implementation of cooperative, mutually voluntary projects between partners; encourage private sector investment and innovation in development and dissemination of technologies; and provide an incentive through financial and technical assistance to further the development of non-Annex I country programs to limit increases in greenhouse gas emissions.

In order to realize the potential of joint implementation, the process of developing criteria, currently underway in the

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Subsidiary Body for Scientific and Technological Advice (SBSTA), must continue. Such criteria will be essential to ensure that joint implementation becomes a credible and significant contributor in solving the climate change problem. The U.S. Initiative on Joint Implementation (USIJI) has been one of the most successful and aggressive programs in the development and application of criteria. We intend to remain active in the further development of criteria (working both in the domestic context of the USIJI and internationally). We reiterate our view that criteria development can be completed prior to the year 2000, in time to include JI credits in national GHG reduction compliance programs.

We continue to stress the importance of three criteria in particular: (1) acceptance by the governments of the participating countries; and (2) the importance of the reporting of data and methodological information with regard to the project, and (3) the need to insure "additionality" (i.e., a reduction in net greenhouse gas emissions as a result of the project).

V. Continuing to Advance the Implementation of Commitments for All Parties (Article 4.1 Commitments)

Recognition is widespread that the threat of climate change is a global problem that can only be overcome through global action. While industrialized countries now account for the majority of the world's past and current greenhouse gas emissions, greenhouse gas emissions are growing most rapidly in the developing countries; emissions there are projected to exceed those of the developed countries by about 2020. The Climate Convention, and the Parties (based on their decisions to date) recognize both realities.

The Berlin Mandate began a process to enable the Parties to take appropriate action for the period beyond 2000. It provides for developed countries to elaborate on policies and measures, and to set quantified emission limitation and reduction objectives for greenhouse gas emissions. For developing country Parties, the Berlin Mandate process will not introduce any new commitments but calls upon Parties to reaffirm existing commitments in Article 4.1 and continue to advance the implementation of those commitments. The Geneva Declaration from the Second Conference of the Parties last July provides that the outcome of the current negotiating effort should fully encompass the remit of the Berlin Mandate.

Two key points emerge from these documents: (1) next steps under the Convention must include all Parties, and (2) actions ultimately taken by developed and developing country Parties

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should be appropriately balanced, recognizing the common but differentiated responsibilities and respective capabilities noted in the Convention and upheld both in the Berlin Mandate and the Geneva Declaration.

To date, all Parties have been making progress toward implementing their commitments under the Convention, including those related to the submission of first national communications under Article 12. Through the U.S. Country Studies Program, we are aware that many developing countries are already far along in preparing national inventories of greenhouse gas emissions and in developing national action plans. A number of developing countries have also initiated projects under the Pilot Phase for Activities Implemented Jointly.

Beyond these current efforts to implement existing Convention commitments, a wide range of possibilities exist through which we can "continue to advance the implementation of existing commitments" as contemplated by the Berlin Mandate. Much work remains to be done to gauge the level of effort developed country Parties will undertake pursuant to the Berlin Mandate. Still, it is not too early to advance our thinking about the range of possibilities for continuing to advance the implementation of existing commitments, recognizing the need for all Parties to take action.

National Communications/Policies and Measures

While the Parties have adopted guidelines for the preparation of initial communications from developing countries, they have yet to consider options for reviewing those communications. Such a review process could include systematic efforts to assist developing country Parties in identifying and implementing no-regrets and cost-effective options for mitigating greenhouse gas emissions.

The review could seek to identify key sectors and technological options within them. It could also consider the possibilities for promoting voluntary agreements with industry aimed at identifying and encouraging the implementation of "no regrets" measures. Partnership agreements have proven highly effective in the United States at enlisting private sector support for mitigating greenhouse gas emissions, and in helping to capture efficient emissions reductions opportunities that are otherwise obstructed by market barriers.

In addition, we could explore various means through which Parties could obtain both the know-how and the technology needed to implement the options identified.

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Beyond these kinds of efforts, we could consider agreeing in the context of the Berlin Mandate negotiations on a specified date in the future by which all Parties would be expected to have quantitative commitments with respect to their greenhouse gas emissions. Two variables might also be considered. First, the date need not be the same for all Parties -- we could envision a schedule for phasing in quantitative commitments. Second, the nature of the quantitative commitments need not be the same for all Parties -- we could also envision establishing different levels of commitment based on various factors, including levels of development.

While it would not be necessary to reach specific agreement now on all issues, it would be important to consider carefully, the mandate for such discussions, including when they could begin, when they would conclude and what results should be anticipated.

Another option for consideration would be the development of guidelines for revising the Convention Annexes (that establish which Parties assume which commitments under the Convention), and for considering how better to reflect the common but differentiated responsibilities and capabilities of Parties. In our view, as countries develop to -- and beyond -- a certain point, they must graduate to assume responsibilities commensurate with their development. The present groupings do not reflect dynamic changes in the world that have occurred since 1992 and that will only accelerate in the future.

As noted, the range of possibilities is very wide. It represents a kind of continuum beginning with modest efforts, but potentially extending to those which would bring us significantly closer to a truly global response and to the Convention's ultimate objective. It is as yet too soon to determine precisely where along this continuum we should strive to reach as part of the Berlin Mandate process. Inevitably, this will depend in large measure on the level of action that developed countries are prepared to undertake, and it is not yet clear what that level will be. Still, in our view, it is not too early to think boldly about the possibilities and about how best to position ourselves for the future, recognizing that the steps we take in Kyoto will represent only a second milestone along a much longer path toward the Convention's ultimate objective.

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VI. Compliance

The U.S. has called for a legally binding target both to promote a realistic negotiation and to promote compliance with the result. The question is what other elements should be included in the compliance regime, recognizing that, on the one hand, effective compliance is important for both environmental and economic competitiveness reasons and, on the other hand, that too stringent a compliance regime could result in vague commitments and/or scare off countries from joining the agreement.

There are several categories of elements that could promote compliance; they are discussed below.

Structure of commitments

In terms of the target, as a matter of drafting, it needs to be articulated as clearly and quantitatively as possible; as a matter of substance, it should be as objectively measurable as possible. In terms of commitments to advance implementation of Article 4.1, these should, ideally, also be as specific as possible. The desire of developing countries for flexibility could be met by providing flexibility in the choice of implementation options rather than by vague, heavily qualified commitments (such as those in the current Convention).

Ascertaining compliance

Ascertaining compliance will involve a combination of: requirements on parties to monitor and report on their emissions; and an international mechanism to verify such monitoring/reporting. The Convention's current obligations regarding national inventories, national communications, and an international in-depth review process are an excellent basis. The new agreement may require strengthened national and/or international mechanisms. (For example, parties bound by the target could be required to have in place a domestic emissions monitoring system, at a minimum for CO₂, at a minimum for specified sources.) There will also be a need to promote uniformity of measurement.

Supporting implementation

Particularly in terms of developing country performance, the availability of sources of technical assistance (such as systematic support for efforts to develop national action plans) and expanded programs aimed at developing, diffusing and deploying climate-friendly technologies could be effective in promoting compliance.

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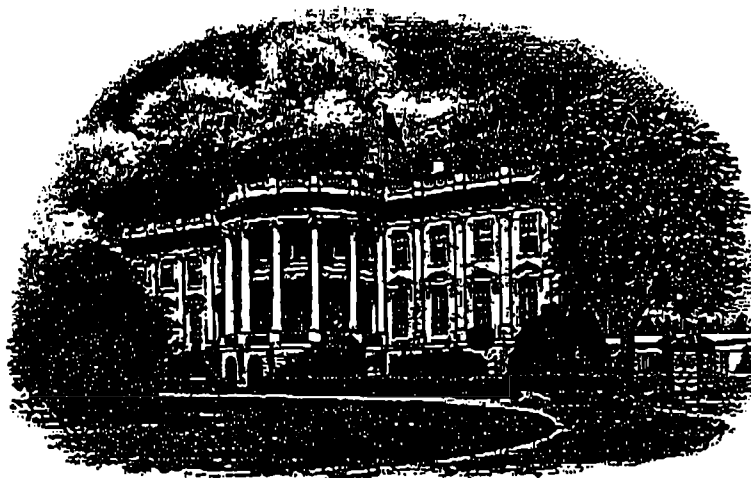
Dispute settlement

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Additionally or alternatively, the dispute settlement system could be supplemented by a multilateral consultative process, akin to that being developed under the current Convention. Unlike dispute settlement, such a process is considered non-adversarial in that implementation issues can be raised without asserting an actual treaty violation; the parties, rather than third parties, consider issues; and it is multilateral rather than State-against-State.

Non-parties

Development of a compliance regime regarding a global issue also requires consideration of how to deal with non-parties (the so-called "free rider" problem), so that the environmental objective of the agreement is not undermined. Ways to seek to minimize the non-party problem include: the provision of positive incentives for countries to join the regime (for example, assistance, differentiated obligations, side payments, other participatory privileges); through an entry into force clause that requires ratification by countries that account for a particular percentage of global emissions of greenhouse gases; and/or the use of measures against non-parties.



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THE WHITE HOUSE
WASHINGTON
November 20, 1996

cc: JAF
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MEMORANDUM FOR DISTRIBUTION

FROM: Michael Warren, Executive Secretary
National Economic Council

SUBJECT: Climate Change Deputies Meeting

There will be a joint NEC-CEQ Deputies meeting on climate change on Tuesday, December 3 from 3:00 - 5:00 pm in room 231 OEOB. This meeting will be chaired by Dan Tarullo and Kathleen McGinty.

Deputies plus one are invited to attend. It is important that Deputies personally attend.

Please call Kristen Panerali at the NEC at 456-5353 with your clearance information **BY COB THE DAY BEFORE THE MEETING-- Monday, December 2.** Thanks.

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E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

02-Dec-1996 09:08pm

TO: Alicia H. Munnell
TO: Jeffrey A. Frankel

FROM: Raymond Prince
 Council of Economic Advisers

CC: Lisa D. Branch

SUBJECT: Deputies meeting on Climate Change

P. 4, second paragraph - Banking and borrowing

The CEA has previously made the argument that the wording of its statement should not signal a willingness to bargain away any position since such a signal will diminish the value of any eventual concession. To "strongly urge" that banking be considered and only urge consideration of borrowing will send such a signal to the international community about borrowing. Also, banking will require credible accounting just as borrowing does.

11/21/16
NOCRAP

CC: RP

Naturally Optimal Climate Response Action Partnership (NOCRAP)

Introduction

NOCRAP, a group dedicated to advancing common rather than special interests, is increasingly dismayed by the disconnect between remedies proposed to address the threat of climate change and the actual nature of that threat.

To help stimulate new thinking, NOCRAP offers a modest proposal (outlined below) based on the simple analytics of fossil-fuel carbon stocks and flows. The analytics are "back of the envelope," and would need to be carefully vetted by domestic and international groups in possession of the requisite tools (and toolboxes, of course).

The analysis and strawman proposals outlined below are directly based on relevant academic and policy literature, including reports of the Intergovernmental Panel on Climate Change (IPCC). While some implementation details of the strawman proposal are new, it should be emphasized that the basic insights are not original to NOCRAP. The latter, not the former, are most important, since other implementation packages could easily be built around the same insights.

This brief paper is divided into three sections:

- Analytic Foundations of NOCRAP Proposal
- NOCRAP Strawman Proposal
- Domestic and International Equity Considerations Surrounding NOCRAP Proposal

A. Analytic Foundations of NOCRAP Proposal

1. Future coal use trends are the key determinant of future atmospheric carbon dioxide (CO₂) concentrations. Other fossil fuels are relatively unimportant. For example, by 2100, coal combustion accounts for more than 88 percent of total energy-related CO₂ emissions in the IPCC's midrange IS92a emissions scenario. Total emissions from other fuels, which are on a downward path after the middle of the next century, are only about 1/3 of today's level of total CO₂ emissions from the energy sector in 2100, a level that will not interfere with efforts to stabilize atmospheric concentrations of greenhouse gases.
2. Regardless of what mitigation policies are adopted, we are likely to use a large fraction of whatever natural gas and oil can be recovered at costs within low multiples of current recovery costs. However, using all available oil and natural gas does not interfere with the objective of keeping carbon well below an atmospheric doubling of pre-industrial CO₂ concentrations -- equivalent to about a 55 percent increase from the current CO₂ concentration of 355 parts per million.
3. Coal has two primary uses: as a fuel for electricity generation (current use) and as a feedstock for coal-derived synthetic fuels (CDFs) to replace petroleum-based fuels (anticipated use), especially in the transportation sector. Together, synfuels and electricity generation account for over 80 percent of projected coal use in the year 2100 in the IPCC

IS92a “mid range” scenario. NOCRAP believes that the actual value probably exceeds 90 percent, because it is implausible that residential heating in Asia would remain as a significant use of coal by 2100 given projected income growth.

4. If agreement could be reached to prevent the use of coal for electricity generation and synfuels production over the long-term on a global basis, we would have implicitly limited concentrations of carbon dioxide to less than a doubling over preindustrial levels (about 280 parts per million) and less than a 55 percent increase over current atmospheric concentrations (about 358 parts per million).

5. It might be relatively easy to curtail the use of coal for electricity and synfuels production through the adoption of binding international commitments.

- Because synfuels production is not a significant economic activity now or on the immediate horizon, there are no strong vested interests (other than the economic interests of future generations we are trying to protect by limiting greenhouse gas concentrations)
- Coal-based electricity generation is currently an important economic activity and is expected to remain important in some scenarios where limitation of carbon emissions is not a constraint. However, with steadily improving renewable energy technology and the prospects of continued progress, as well as the possibility of revisiting nuclear fission as a source of electricity, the economic value of coal-based electricity generation is not likely to be a deal-breaker, particularly if the switch to non-coal fuels takes place over an extended period. Note that it would probably be important for climate negotiators to avoid any foray into what the substitute fuels should be -- the climate policy interest extends only to assuring the eventual phaseout of coal use.
- Enforcement of an agreement to limit the primary uses of coal should not be difficult. Both of uses in question are capital-intensive and very easy to monitor by non-intrusive means.
- A focus on long-term coal use in structuring new commitments could help to unblock current negotiations by relieving the anxieties of oil-exporting countries. While it may be possible to “roll” these parties, it does not appear to be necessary to do so and may therefore not be worth the effort.

With the points as the analytic backbone, the next section briefly describes the outlines of one possible set of institutional arrangements.

B. The NOCRAP Strawman Proposal

The NOCRAP strawman sees the contrast between “delay in undertaking commitments” and “immediate abatement” as a false dichotomy. Its emphasis is on an immediate commitment to phased action on a global scale, which constitutes a third, and highly attractive, path.

1. Developed country (Annex 1 parties) commitments.

- Annex 1 parties agree not to pursue development of coal-derived fuels (CDI's). The regime would provide an exception allowing for the manufacture of hydrogen and other CDI's with no carbon content, provided that all carbon generated in the fuel manufacturing process was removed and sequestered. CDI's manufactured under this exception would be indistinguishable from other no-carbon fuels such as renewables and nuclear from a greenhouse perspective.
- Annex 1 parties agree to stop building new coal-fired generation capacity after a specified year -- for example, 2020. These parties further agree that coal-fired plants built between the date of the agreement and the specified date would have a maximum lifetime of 50 years burning coal, and that all existing coal fired plants as of the date of the agreement would have a maximum lifetime of 50 years from the date of the agreement.
- Annex 1 parties agree not to export coal to non-Annex 1 parties for uses prohibited to Annex 1 countries, with the exception that exports of coal to fuel coal-fired generating stations built after the Annex 1 cutoff date would be allowed if a later cutoff date for developing countries is established.
- Annex 1 parties (and possibly others) fund an incentive payment/loan program to win the voluntary acquiescence of key developing countries with large coal reserves to the commitments outlined in the next section.

2. Developing Countries (non-Annex 1 party) commitments.

Developing countries with significant coal reserves, such as India, China, and South Africa would be offered a significant up-front incentive payment/loan (details below) for their acquiescence to the following developing country commitments.

- Agreement to forgo future development of coal-derived fuels
- Agreement to stop building new coal-fired electric generating stations after a specified date. The date would follow by approximately 20 years the end of new coal plant construction in the Annex 1 area. The restrictions on the lifetime of coal-fired plants outlined for Annex 1 parties would also apply.
- Agreement not to export coal to any developed or developing country for uses inconsistent with either these commitments (for all potential exports to developing countries) or the commitments undertaken by Annex 1 countries (for potential exports to developed countries).

3. Structure of the incentive payment to developing countries.

The incentive payment would be structured as a loan that would never have to be repaid if attached covenants incorporating the commitments outlined in the preceding section were honored. In the event these commitments, as codified in the loan covenants, were not honored, the loan, with accrued interest, would immediately become payable.

- The accrual of interest could make a decision to renege on their fuel use commitments very costly for recipients of the incentive payments. For example, an incentive "loan" of \$100 billion in the year 2000 would accrue to an aggregate repayment value of over \$4.5 trillion by 2040 assuming a 10 percent interest rate. This amount, about 2/3 of current annual U.S. Gross Domestic Product, is not exactly chump change, even accounting for expected growth in developing economies.

4. Financing the incentive payments to developing countries

Payments to buy the coal birthright from China, India, and South Africa would not be trivial -- it will definitely cost more than the equivalent of the Old Testament bowl of soup. However, several options are available.

- United Nations Formula: Least-creative and least-relevant, but its there.
- Inverse Coal Reserves Formula: Under the NOCRAP proposal, Annex 1 countries with large coal reserves would be called upon to sign away long-term rights to exploit their domestic resources without receiving any compensation. The inverse coal reserves formula would take account of this sacrifice-in-kind by allocating the lions' share of the burden of buying off coal-rich developing countries to Annex 1 parties that have made no sacrifice, or only a small sacrifice, in terms of their domestic resources.
- OPEC Sigh-of-Relief Formula: The NOCRAP proposal effectively takes oil and gas off the table, relieving key concerns of OPEC countries. A large contribution to underwriting the incentive loan to developing countries would be a thoughtful way for oil-exporting countries to thank the international community for targeting greenhouse mitigation efforts away from their economies.
- Sanctimoniousness Quotient (SQ) Formula. The sanctimoniousness quotient would be computed by impartial observers to the negotiations based on careful observation of the sessions. There are two variants: retrospective and prospective.

In the retrospective variant, Germany is required to raise the lion's share of the incentive payment, with some help from other Europeans.

The prospective variant would allocate responsibility for incentive payments based on future negotiating behavior. Hopefully, this mechanism would provide an incentive for better behavior by Europeans in the negotiating process.

Unfortunately, we see no effective way to apply either SQ variant directly to business and environmental non-governmental organizations (NGOs) -- if this could be done, the burden on governments might be substantially reduced.

5. Periodic Review of Commitments and Other Gases.

The program described above, which would hold atmospheric concentration of carbon dioxide below 550 ppm and put them on a slowly declining path by the turn of the century, would not necessarily meet the objective of avoiding “dangerous anthropogenic interference with the climate system.” Periodic reviews would be necessary to evaluate the possible identification of convincing evidence of a threshold concentration value below 550 ppm. Given the pace of scientific progress, such regularly scheduled reviews should be relatively infrequent -- once a decade at most. Special reviews could be scheduled by a supermajority of the parties in the event that startling new findings become available.

Given concerns related to the near-term rate of potential climate change, parties may also wish to focus additional efforts on methane and other greenhouse gases that have a relatively short atmospheric lifetimes and large near-term impacts on radiative forcing. Such actions are beyond the scope of this paper, but could be included in any agreement.

6. Enforcement

Enforcement should not be problematical. Coal power plants or synfuels plants are large, discrete, industrial facilities that cannot be built, maintained, or operated without attracting attention. Parties would need to agree to monitoring of carbon removal and sequestration activities should they elect to build CDF facilities under the exception provision.

C. Domestic and International Equity Considerations

1. Employment and Competitiveness:

Coal Labor: Representatives of coal labor might welcome this approach, since adverse impacts on coal mining are limited to the very distant future. Existing coal miners would be effectively held harmless, and there would probably still be room for the sons and daughters of today’s coal miners to enter the industry. Anyone who wants to protect the rights of their grandchildren to work in coal mining doesn’t deserve to be taken seriously.

Labor in Energy-Intensive Industries. The timing of the NOCRAP proposal would virtually eliminate concerns about short-term swings in the location and operating rates of existing facilities in energy-intensive industries.

Climate Industry Labor: The NOCRAP approach is probably most threatening to workers in the industry surrounding climate policy. It would stall the current trend towards a rapid increase in the number of climate “professionals,” including diplomats, advocates, bureaucrats, analysts, scientists, and pseudo-scientists. In fact, without NOCRAP or something like it, employment in the climate industry would probably exceed employment in the U.S. coal mining industry sometime during the first quarter of the next century. Adoption of the NOCRAP approach would pose special adjustment challenges for aspiring “climate fuhrers” and “climate fuhrresses(?)” who would have to find an

alternative to their planned careers of dictating national and global energy use patterns to ordinary citizens.

2. Agenda Decoupling

Economic Agendas: Countries seeking to gain an economic advantage through the imposition of short-term emissions mitigation commitments that are relatively more onerous for their competitors than themselves would have to find alternative ways to boost their competitive positions.

Environmental and Energy Security Agendas: Advocates of steps to address issues such as tropospheric smog, particulate pollution, vehicle congestion, urban sprawl, oil import dependence, and other concerns who have jumped on the climate bandwagon would have to start walking. While there may be important social objectives worth pursuing in these and other areas, they are not closely coupled to a climate change policy patterned on the NOCRAP strawman.

3. Global Costs and Their Distribution

From a global perspective, the cost issue hinges on the potential economic value of the coal-derived synfuels whose development would be stifled. Simply put, it's almost impossible to tell from here what we might be giving up. We can be relatively confident that alternatives to coal for electricity generation will not be too costly, if indeed they are more costly than coal at all, by the time coal use is significantly restricted.

From a national perspective, developed countries with large coal reserves are probably the biggest losers, although they are likely to lose much less than they would under policy proposals with an inappropriate focus on near-term abatement. The major developing countries would clearly benefit, since they retain the option of rejecting the proposed up-front incentive payment if they feel that its value does not offset the cost of the proposed commitments.

4. Intergenerational Equity

The NOCRAP strawman is built on the premise that we can guarantee the climate future of future generations by seeking to constrain their economic options regarding future use of coal. As such, it builds directly on the principles (or lack of same) in recent international environmental agreements. For example, the permanent ban on Antarctic mining entered into earlier in the decade seeks to protect the interests of future generations by preventing them from making their own choice regarding this question based on the updated information regarding needs and technologies that will undoubtedly be at their disposal.

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