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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: JAF
JS
WM

March 26, 1997

TO: Distribution

FROM: Eileen B. Claussen

SUBJECT: April 1 Climate Change Submission

The attached document, which was developed by the interagency working group at the staff level, contains compliance-related revisions and amendments to several of the articles in the U.S. draft text of January 17, 1997. This is the only text cleared by the working group and would therefore be the only piece we would submit. I need to know from you within 24 hours as to whether you would like this piece to be submitted as is. If the answer is yes, I would have to submit it to the Deputies. To enable this submission to be made prior to the deadline, clearance at the Assistant Secretary level must be provided no later than noon, Thursday, March 27. I will assume clearance unless I hear otherwise.

Attachment:

As Stated

Text to Be Submitted
(note that Article #s will need to correspond to the new compilation text)

In Article 2 of the U.S. proposal (Emissions Budgets), add a new paragraph 6.bis. as follows:

2.6.bis. At the end of a budget period applicable to a Party, any amount of tonnes of carbon equivalent emissions over its emissions budget shall be subtracted at a rate of [rate greater than that in paragraph 6] from the subsequent budget period.

In Article 4 of the U.S. proposal (Review and Compliance Process), substitute for paragraphs 3 to 6 the following text:

4.3 Reviews will be in connection with the review of communications conducted under Article 10.2(b) of the Convention and will be in accordance with guidelines to be adopted by the Parties at a meeting. These guidelines shall, inter alia, provide for how information will be made available to the public and define mechanisms by which observers and the public may provide comments, supplemental data or other information to facilitate and improve reviews. The guidelines shall be periodically reviewed by the Parties for appropriate revision.

4.4 Review teams will review all aspects of a Party's implementation of this Protocol, including the likelihood that a Party will achieve its emissions budgets obligations. They will be authorized, inter alia, to review pertinent information and consult with the Party in question and others as necessary. They will prepare a report assessing a Party's implementation of its obligations, identifying any areas of apparent non-compliance, as well as potential problems in achieving obligations.

4.5 Such reports will be circulated by the Secretariat to all Parties. In addition, the Secretariat will identify for further consideration any report indicating a question of implementation.

In Article 6 of the U.S. proposal (International Emissions Trading), substitute the following text:

6.1. Except as otherwise provided below, any Annex A or Annex B Party may transfer to, or acquire from, any Annex A or Annex B Party, any of its tonnes of carbon equivalent emissions allowed for a budget period, for the purpose of meeting its obligations under Article 2.

6.2 An Annex A or Annex B Party may not transfer or acquire any of its tonnes of carbon equivalent emissions allowed if it is not in compliance with its obligations under Article 3 (Measurement and Reporting) or if it does not have in place a national mechanism for certification and verification of trades.

6.3 An Annex A or Annex B Party may not transfer in a given budget period any of its tonnes of carbon equivalent emissions allowed if it has exceeded its emissions budget for that period.

6.4 If a question of a Party's implementation of the requirements referred to in paragraph 2 or 3 above is identified by either the review process under Article 4.5 or by the Secretariat under Article 11.2(b):

-- transfers and acquisitions of tonnes allowed (in the case of paragraph 2) and transfers of tonnes allowed (in the case of paragraph 3) may continue to be made after the question has been identified, provided that any such tonnes may not be used by any Party to meet its obligations under Article 2 until any issue of compliance is resolved. Issues of compliance shall be resolved as expeditiously as possible.

6.5 A Party may authorize any domestic entity (e.g., government agencies, private firms, non-governmental organizations, individuals) to participate in actions leading to transfer and acquisition under paragraph 1 of tonnes of carbon equivalent emissions allowed.

6.6 The Parties, at a meeting, may further elaborate guidelines to facilitate the reporting of emissions trading information.

In Article 10 of the U.S. proposal (Meetings of the Parties), for paragraph 4, substitute the following text:

10.4 The Parties:

(a) shall periodically review the adequacy of this Protocol;

(b) shall review the implementation of this Protocol, including the information submitted in accordance with Articles 3 and 5, reports received from the review teams referred to in Article 4, and any other reports and recommendations received from processes under this Protocol;

(c) shall implement an appropriate regime to address cases of non-compliance with obligations under this Protocol, including through the development of an indicative list of consequences, taking into account the type, degree, and frequency of non-compliance;

(d) may establish an implementation committee consisting of a subset of Parties to assist them, including by making recommendations, in carrying out functions referred to in subparagraphs (b) and (c) above.

In Article 11 of the U.S. proposal (Secretariat), for paragraph 2, substitute the following:

11.2 The functions of the secretariat shall be:

(a) to maintain and administer records relating to the accounting of the emissions budgets of Annex A and Annex B Parties, including initial budget allocations, adjustments to budgets consistent with Articles 2, 6, and 7, annual emissions, and remaining budgets in a given budget period;

(b) to facilitate the review of implementation of this Protocol through, inter alia, coordinating the review of Annex A and Annex B implementation; coordinating the reviews under Article 5; identifying for the Parties questions of implementation, including whether individual reports are consistent with reporting criteria; and preparing an annual compilation and synthesis report that contains inventory and budget information, and notes any discrepancies in accounting.

(c) [other].

THE WHITE HOUSE

WASHINGTON

March 26, 1997

MEMORANDUM FOR DISTRIBUTION

TO: Assistant Secretaries

FROM: ELGIE HOLSTEIN, NEC
DAVID SANDALOW, CEQ

SUBJECT: Climate Change Domestic Implementation Policies

The next meeting of the working group on domestic implementation policies for climate change is scheduled for Wednesday, April 2 at 1:30 -3:00 pm in room 472 at OEOB.

The agenda for the meeting will be the following:

-- Economic Impacts of Alternative Emission Budgets: Update on Modeling Results

-- Options for Emissions Trading Program Design and Other Options to Mitigate Impacts

-- Development of Decision Paper

This meeting will be limited to invitees only, no substitutes. Those listed on the attached page have been cleared in for the meeting. If you have any questions, please call Wendy Philleo at 456-5145.

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03/21/97 18:05 ☎ 001

Thurs, 1:4/17, 12-1:30p

United States Department of State

Washington, D.C. 20520

cc: AW SAF JY

March 21, 1997 3/27 AW Cancelled

Distribution: See Attached Sheet

From: Debbie Jones
Staff Assistant
Office of Under Secretary Timothy E. Wirth
Office: 202-647-6205
Fax: 202-647-0753

AW: Attend? Yes ___ No ___ (Interview Larry Goulder @ 1:30)

Under Secretary Wirth has scheduled a Climate Change luncheon in honor of Mr. Paul Epstein, Associate Director, Center for Health and Global Environment, Harvard Medical School on **Thursday, March 27 from 12:00 p.m. to 1:30 p.m.** in the Henry Clay Room on the 8th floor of the State Department. Mr. Epstein is an expert on disease. Bio attached.

Mr. Wirth has also scheduled a Climate Change luncheon in honor of Mr. Linn Draper, President, American Electric Power on **Tuesday, April 1 from 12:00 p.m. to 1:30 p.m.** in the Daniel Webster Room at the State Department. Mr. Draper is deeply engaged in the issues of utility deregulation and strategies for climate change. Bio attached.

out of 1/2 ___

I would appreciate an **RSVP by Tuesday, March 25** of your principal's attendance. Thank you for your cooperation.

I have also attached a memo which lists dates of upcoming Climate Change luncheons, as well as the guest speaker. Please make a note of them on your calendars. Thanks.

9 Pages

INTERAGENCY CLIMATE CHANGE DEPUTIES GROUP

Jim Baker	Commerce/NOAA	(O) 482-3436 (F) 408-9674 POC: Pat
Rosina Bierbaum	White House	(O) 456-6202 (F) 456-6025 POC: Sandy
Eileen Claussen	State	(O) 647-1554 (F) 647-0217 POC: Lillie
Charles Curtis	Energy	(O) 586-5500 (F) 586-7573 POC: Kim
Everett Ehrlich	Commerce	(O) 482-3727 (F) 482-0432 POC: Vickie
Dirk Forrister	CEQ	(O) 343-1060 (F) 343-1163 POC: Mary
Jeffrey Frankel	CEA	(O) 395-5046 (F) 395-6947 POC: Francine
John Garamendi	Interior	(O) 208-6291 (F) 208-1873 POC: Gwen
Jack Gibbons	White House	(O) 456-7116 (F) 456-6021 POC: Susie
T. J. Glauthier	OMB	(O) 395-4561 (F) 395-4639 POC: Alecia

Joshua Gotbaum	Treasury	(O) 622-2200 (F) 622-2633 POC: Rosemary
Fred Hansen	EPA	(O) 260-4724 (F) 401-3764 POC: Linda H.
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Timothy E. Wirth	State	(O) 647-6240 (F) 647-0753 POC: Debbie
John (Randy) Wood	State	(O) 647-9796 (F) 647-0753 POC: Debbie

United States Department of State

Under Secretary of State for Global Affairs

Washington, D.C. 20520-7250

March 4, 1997

MEMORANDUM

TO: Climate Deputies Group

FROM: G - Timothy E. Wirth TEW/SM

SUBJECT: Scheduled Luncheon Speakers

Following is a list of speakers for our Climate Change luncheon group:

Thursday, March 13: Prof. Paul Krugman, MIT

Prof. Krugman was one of the five signatories of the economics letter (attached). He will discuss economic impacts and benefits.

Thursday, March 27: Prof. Paul Epstein, Harvard Medical School

From his perspective on Medicine and Public Health, Prof. Epstein has done extensive work on the health impacts of Climate Change. He is one of the world's leading public health authorities, paying special attention to infectious diseases.

Tuesday, April 1: E. Linn Draper, President & CEO, American Electric Power

American Electric Power is one of the largest invester-owned utilities in the USA, with major investment in coal fired power plants. Mr. Draper is deeply engaged in the issues of utility deregulation and strategies for climate change.

Wednesday, April 16: Robert Shapiro, President, Monsanto

Robert Shapiro has led Monsanto through a major transformation, and the company is now world leader in bio-engineering related agribusiness. The impact of Climate Change for agriculture makes this transition even more compelling.

Wednesday, April 30: Kenneth Lay, President, Enron

Ken Lay has transformed Enron into a broad energy company and views Climate Change as a great opportunity for business and for the USA.

Thursday, May 8: New Director of the National Renewable Energy Laboratory

The new Director (who will be officially designated on March 1) will discuss renewables, their expected role in dealing with climate change, cost and technology projections to 2050. NREL is the government-sponsored laboratory dedicated to renewables.

Friday, May 30: Paul O'Neill, Chairman & CEO, ALCOA

A member of the Business Council on Sustainable Development and President of the largest aluminum company in America, Mr. O'Neill has been a leader in the transition of a major industry and in positioning that industry in the world economy.

We have a number of other invitations outstanding and I would welcome any ideas you may have for speakers. Lunch will be held on the 8th floor of the State Department, a buffet style. The cost is approximately $15.00. We will send out a reminder three weeks before each lunch, and ask for an RSVP. In prior discussions, we agreed on a no substitution policy unless a truly compelling case could be made.

If you have questions, please call Randy Wood or Debbie Jones on (202) 647-6205.

g/admin:clispeak

BIOGRAPHICAL STATEMENT

Paul R. Epstein, M.D., M.P.H.
Associate Director
Center for Health and the Global Environment
Harvard Medical School
Oliver Wendell Holmes Society
260 Longwood Avenue
Boston, MA 02115
Phone: 617-498-1032
Fax: 617-498-1671
E-mail: PEPSTEIN@igc.org

D.O.B. 16 November 1943

Paul R. Epstein, M.D., M.P.H is on the faculty of Harvard Medical School and the Harvard School of Public Health (HSPH), and holds a masters degree in Tropical Public Health (HSPH, 1983). Dr. Epstein has worked in medical, teaching and research capacities in Africa, Asia and Latin America. In 1993, Dr. Epstein coordinated and co-edited an eight-part series on Health and Climate Change for *The Lancet* (23 October - 11 December 1993). Dr. Epstein is a member of the HSPH Working Group on Emerging Diseases and is a principal core author for the WHO/WMO/UNEP - IPCC* panel on the health impacts of climate change. The panel's book, **Human health and Climate Change**, was published in the July, 1996.

Dr. Epstein serves on the Human Dimensions Panel of the US National Academy of Sciences/National Research Council, and is a member of the Health of the Oceans module of the Global Ocean Observing System. Dr. Epstein is coordinating a project funded by NOAA and NASA to conduct an integrated assessment of disease events along the East Coast of North America, Gulf of Mexico and the Caribbean. This project involves mapping into a Geographic Information System of events, ecological and climatological factors, and the social/economic costs, in order to better understand the multiple causes and consequences of human interventions.

In July, 1996, the Center for Health and the Global Environment was founded at the Harvard Medical School. The CHGE aims to coordinate research in the field of ecosystem health/human health, promote relevant policies and will conduct an interdisciplinary course in the Fall, 1997, involving instructors and participants from throughout the Harvard community.

*WHO - World Health Organization
WMO - World Meteorological Organization
UNEP - United Nations Environmental Program
IPCC - Intergovernmental Panel on Climate Change
NOAA - National Oceanic and Atmospheric Administration
NASA - National Aeronautics and Space Agency

DR. E. LINN DRAPER JR.
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
AMERICAN ELECTRIC POWER SERVICE CORPORATION
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
AMERICAN ELECTRIC POWER COMPANY

AEP AMERICAN ELECTRIC POWER

Biographical Sketch

Dr. E. Linn Draper Jr. is chairman, president and chief executive officer of American Electric Power Company, Inc. He is also chairman, president and chief executive officer of the American Electric Power Service Corporation, the management and technology arm of the AEP System.

He became president of AEP and the Service Corporation in March 1992, following 13 years with Gulf States Utilities Company in Beaumont, Texas, where he served as chairman, president and chief executive officer. He became chairman, president and chief executive officer of AEP in May 1993.

Draper is also president of Ohio Valley Electric Corporation and its subsidiary, Indiana-Kentucky Electric Corporation. OVEC provides electric energy for the U.S. Department of Energy's uranium-enrichment facility at Piketon, Ohio.

He joined Gulf States Utilities in 1979 as technical assistant to the chairman of the board, then became vice president of nuclear technology in 1980 and senior vice president - engineering and technical services in 1981.

In 1982, he was elected senior vice president - external affairs, then was elevated to executive vice president - external affairs and production in 1985. He was named vice chairman and executive vice president later in 1985, and became vice chairman, president and chief operating officer in 1986. Later the same year, he became vice chairman, president and chief executive officer, and in 1987 he was elected chairman, president and chief executive officer.

Before joining Gulf States Utilities, he had served on the faculty and administration at the University of Texas, where he had been an associate professor and director of the Nuclear Engineering Program.

He attended Williams College and holds a bachelor of arts degree from Rice University, a bachelor of science degree in chemical engineering from the same institution, and a doctorate in nuclear science and engineering from Cornell University. He is a registered professional engineer in the State of Texas.

In February 1992, Draper was elected a member of the National Academy of Engineering, one of the highest distinctions for a professional engineer. He is a past president and former member of the board of directors of the American Nuclear Society. He is a member of the board of directors of VECTRA Technologies, Inc. and the Greater Columbus Chamber of Commerce. In addition, he has been a member of the board of directors of the Texas Commerce Bank - Beaumont, and Southeast Texas, Inc., as well as a member of the Lamar University Board of Regents, University of Texas Engineering Foundation Council, the Cornell University Engineering Foundation Advisory Council and The Ohio State University College of Engineering Board of Advisers.

He presently is a member of the boards of directors of the Nuclear Energy Institute and the Institute of Nuclear Power Operations. He was the founding chairman of the Nuclear Energy Institute from 1994-1995, as well as chairman of the Nuclear Utility Management and Resources Council (NUMAC) from 1991-1994. He has also served as chairman of the Utility Nuclear Waste Management Group, a consortium of 43 electric utilities. In June 1996 he was elected chairman of the Edison Electric Institute, the trade association of investor-owned electric utilities and currently serves in that position.

Dr. Draper has edited books on nuclear power and the engineering aspects of fusion reactors and has written over eighty technical papers. He has been a frequent speaker on behalf of the industry groups such as the Edison Electric Institute and the Nuclear Energy Institute.

6/96

UNDER SECRETARY OF STATE
FOR GLOBAL AFFAIRS
WASHINGTON, D.C. 20520-7250

cc: JAF, JS

3/18/97

Attached is a recent statement on the current status of the Climate Change negotiations, which I thought might be of interest.

Thank you again for your great help & input - we look forward to working with you in the weeks & months ahead.

With best wishes,

Tim Wirth

THE HONORABLE TIMOTHY E. WIRTH
UNDER SECRETARY OF STATE FOR GLOBAL AFFAIRS

Keynote Address: Mitchell Prize Dinner
Climate Change and Sustainable Development
Houston: March 4, 1997

Thank you very much. It is a pleasure to be here this evening. My special thanks to George and Cynthia Mitchell for inviting me to join you tonight. Thank you very much George for your leadership and vision in the energy industry and on the critical questions for which this meeting has been convened.

Congratulations to Marcelo C. de Andrade and to Pro-Natura -- a great example for us all.

I am especially pleased to be here tonight on the heels of Secretary Albright's visit to Rice University, her first official trip as Secretary of State. At that time, and throughout the highly successful round-the-world trip she just completed, Secretary Albright promised in Texas fashion to "tell it like it is." Picking up on this theme, I want to talk with you tonight in a very frank manner about the challenge of making the transition to sustainable development. Specifically, I want to talk about perhaps one of the greatest economic, environmental and political challenges we face -- protection of the global climate.

Human ingenuity and endeavor has improved the worldwide standard of living to an immeasurable degree. Unwittingly, however, we have placed our future on a collision course with the natural forces that make life on Earth possible.

If we are to prepare for the 21st century and continue improving the quality of life around the world, we are going to have to be mindful of the need to protect the ecological systems upon which our economic past and future is based. We must reconcile our economic aspirations with environmental imperatives.

No issue encapsulates this challenge as comprehensively as global climate change. Climate change demonstrates not only the importance and power of scientific investigation, of knowing the world in which we live, but also of harnessing the power of our creativity, the hope of technology and the uniquely American faith that hard, good work is the better of any challenge.

If we are to understand climate change, or any other facet of sustainability, our essential building block must be the scientific process. And it is the science of climate change that underlies our concern and is the foundation for the Clinton Administration's approach to the issue.

The consensus on the science is a legacy of another Houston citizen -- President Bush. At the behest of the Bush Administration, the international community established a far-reaching, inclusive and distinguished international scientific body to examine concerns about global climate change. The resulting Intergovernmental Panel on Climate Change (IPCC) is a partnership of the World Meteorological Organization and the United Nations Environment Program. Over the past decade, the IPCC has emerged as the world's preeminent scientific and technical body concerned with the threat of global climate change, involving more than 2000 scientists from more than 100 countries, and using recognized standards of peer-review in its scientific method.

Last year, the IPCC issued its Second Assessment Report -- representing the most recent, authoritative and comprehensive scientific analysis available on this issue. The Second Assessment was the result of years of effort, extensive peer review and exhaustive analysis and consultation. The most important of the IPCC's scientific findings are as follows:

- The chemical composition of the atmosphere is being altered by the buildup of heat-trapping, greenhouse gases. Abundances of these gases now exceed any known in the last 150,000 years.
- The continued buildup of these gases will enhance the natural greenhouse effect and cause the global climate to change.
- Global average surface temperatures are changing -- the last few decades have been the warmest of the past century, and the past decade is host to most of the warmest years in the past 100.
- Based on these facts and additional underlying science, the second assessment concluded, "the balance of evidence suggests that there is a discernible human influence on global climate."

This last finding represents the first time that a clear and compelling consensus has emerged among the world's leading climate scientists that the world's changing climatic conditions are more than the natural variability of weather.

This is not to say that there are no uncertainties. The science cannot yet tell us precisely how much, when, or at what rate the Earth's climate will change in response to a given level of greenhouse gas buildup. However, the scientific community's best estimate is that current emissions trends (resulting over the next several decades in the effective doubling from pre-industrial concentrations of carbon dioxide in the atmosphere) will lead to global temperatures which, on average, are 2 to 6.5 degrees Fahrenheit warmer than today, increasing at a rate greater than any known for the past 10,000 years.

Based on these estimates, the best evidence indicates that human-induced climate change, if allowed to continue unabated, could have profound consequences for the economy and the quality of life for future generations:

Coastal areas -- where a large percentage of the global population lives -- are at risk from sea level rise;

Human health -- is at risk from a projected rise in heat related deaths and illnesses and from the increased spread of some diseases;

Food security is threatened in certain regions of the world;

Water resources are expected to be increasingly stressed, with substantial economic, social and environmental costs in arid regions, and perhaps even political costs where there is already conflict over limited resources.

Here in Texas, projected temperature increases on the order to 2 to 4 degrees Fahrenheit by the middle of next century would put additional stress on Texas' already tight water supply by intensifying demands for irrigation, electric-power generation and municipal and industrial systems. Simulations of future crop yields show significant reductions for dryland wheat in Texas under these scenarios. Studies on the impact of climate change in Texas project that an increase in temperature would be accompanied by a decrease in precipitation. This would mean more than an unfathomable complication of water law -- it would complicate immeasurably the drawing down of the Ogalla and other underground water resources.

The vulnerability of Texas to the impacts of climate change speaks to the vulnerability of the world -- from the far reaches of the Earth's poles, to low-lying, small island states in oceans everywhere.

And if climate change demonstrates the importance of science, it also demonstrates the importance of cooperation among sectors and nations, as well as the need for integration across disciplines. Mark Twain is oft quoted for remarking that everybody talks about the weather but nobody does anything about it. Over the past five years, the international community has attempted to prove Mr. Twain wrong.

More than 150 countries signed the UN Framework Convention on Climate Change in 1992 at the Rio Earth Summit, and more than 160 have since ratified it, including the United States. One of its key provisions was the establishment of a goal for developed countries to return their greenhouse gas emissions to 1990 levels by 2000. While vague and non-binding, this agreement represented an important first step toward developing a comprehensive international solution to this challenge.

Unfortunately, few countries, including the United States, will succeed in meeting the Framework Convention's goal. Early on, the Clinton Administration developed an ambitious plan to meet the Rio objective -- in the near-term through the development of an action plan for limiting emissions in the year 2000, and in the longer-term, through our participation in international efforts to define a course for the 21st century. Today, we are in the process of negotiating an agreement to cover emissions in the post-2000 period. The negotiations are scheduled to be completed in December of this year at the Convention's Third Conference of the Parties in Kyoto, Japan.

To jump start these negotiations, the Clinton Administration outlined last July in Geneva a number of major elements to guide the negotiations. Our proposals rest on three basic principles. First, the Kyoto agreement must include realistic, achievable, and binding emissions targets for developed countries. The non-binding approach has not worked and its continued reliance will make a mockery of not only the treaty, but also the effort to reduce future emissions. And, if the targets are to be binding, they must be realistic and achievable. False promises and soaring rhetoric will not advance our objectives. We cannot afford another agreement that fails to lead to real and substantive progress in addressing the climate change problem.

Second, prospective solutions must be flexible and cost-effective. We support an approach which sets common goals for developed countries but allows flexibility in how each country meets those goals. We oppose forcing countries to implement identical policies in order to reach those goals. Many of these proposals are thinly veiled attempts to gain competitive advantage. They must and they will be rejected.

Third, any new agreement should lay the foundation for continuing progress by all nations in dealing with climate change. International cooperation on this challenge remains critical to any effective response, and all nations -- developed and developing -- will have to play a part.

Based on these principles, the United States presented to the Convention's Secretariat an extensive draft text for consideration in the international negotiations in the weeks and months ahead. I want to describe in greater detail the essential components of our submission.

With respect to binding, realistic emissions goals, our proposal calls on all developed countries to take on binding emissions targets or "budgets" that will allow nations to meet aims based on cumulative or averaged emissions. This concept enables us to account for annual anomalies, such as an unusually cold winter. Moreover, by making it clear that subsequent budgets must be equal to or less than the initial period, we hope to ensure that steady progress can be made toward stabilizing atmospheric concentrations in the future. We have not proposed specific numbers for the budgets, since our analysis of economic and environmental impacts of various options is not yet complete. The Administration's analysis, under the direction of Commerce Undersecretary Ev Ehrlich, is aimed at identifying an emissions path that is consistent with our aggressive ambitions for the economy and the environment.

Our draft text elaborates on our principle of flexibility by making it clear that each country must have maximum latitude to implement its emissions budget in ways that are most cost-effective for that country. We do not agree with proposals by some nations that the negotiations move toward consideration of mandatory, internationally standardized policies and measures. The significant differences in national circumstances suggest that few, if any, individual measures are likely to be applicable to all countries.

A key feature of our drive for flexibility is the creation of an international emissions trading system. We already have experience in this country with emissions trading in the fight against air pollution, notably in the case of sulfur dioxide. We have seen that it can substantially reduce the overall cost of compliance with emissions standards. We believe that such market-based solutions are essential in the long-term effort to address climate change.

Finally, our proposed protocol requires the participation of all parties, including appropriate action by developing countries. Developed countries are today responsible for the bulk of global emissions and, therefore, must take the lead in addressing the problem. Yet emissions of greenhouse gases in the developing world are growing extremely rapidly. China is now the second largest emitter and India the sixth, largely due to their enormous populations. As a result, our proposal requires developing countries to identify and adopt cost-effective -- "no regrets" -- measures to mitigate greenhouse gas emissions, and to prepare annual emissions inventories. In addition, we have called for agreement on a date at which negotiations to establish quantified emissions obligations for all Parties would begin.

Taken together, we believe these various elements will set the community of nations on course toward addressing this critical issue. Successfully done, this approach will send a signal to the marketplace and help to unlock its genius to bring to bear the creative power of the entrepreneurs and technologies that will prevent harmful climate changes, and more broadly, to make the transition to sustainability across the board.

In this way, climate change is representative of the challenge that is being taken on by the Global Commons project and in similar efforts in the United States and around the world.

Let me close with a story that demonstrates the value and the values that must be associated with this undertaking.

In 1948, when the notion of space exploration was still science fiction, the Astronomer Fred Hoyle said: "Once a photograph of the Earth, taken from the outside, is available...a new idea as powerful as any in history will be let loose."

Twenty years later, when space travel became a reality, the travelers themselves provided powerful testimony to Hoyle's sense of the unity of the world. Let me read to you from our own astronaut, James Irwin:

"That beautiful, warm, living object looked so fragile, so delicate that if you touched it with a finger it would crumble and fall apart."

And now from a Russian cosmonaut: "After an orange cloud -- formed as a result of a dust storm over the Sahara -- reached the Philippines and settled there with rain, I understood that we are all sailing in the same boat."

In this last decade of the millennium, we can and must captain that boat carefully. We have the ability to shape change for the benefit of the United States and the entire world. The interests and intellectual capacity reflected in this room tonight bears a special burden in this regard. Working together, your talents, your energy and your power can match the challenges and the institutions involved. I thank each of you for engaging in this effort. Our future certainly depends on it.

United States Department of State

Bureau of Oceans and International Environmental and Scientific Affairs

Washington, D.C. 20520

cc: IAW
JAF
JS

March 18, 1997

TO: Distribution

FROM: OES - Eileen B. Claussen HP for

SUBJECT: Climate Change Papers

During the course of our climate discussions today, the following points of consensus emerged:

- We may only need a few (if any) pieces of additional text to supplement our draft protocol language by the April 1, 1997 deadline. It was recognized that the option of adding material was preserved by the inclusion of the italicized text in the January 15 submission, and also that some additional language might be added prior to June 1, 1997, or prior to the July 1997 AGBM session. If agreed in the interagency process, additional text could include:

  - language on compliance issues – where the group seemed to be the closest to reaching agreement; and possibly,

  - text on joint implementation.

- Any submissions made should be kept to the barest minimum possible; we have already overloaded the international system with proposals, and simplicity must be the watchword if we hope to see our ideas accepted in the Kyoto agreement;

In light of agreement on these points, it is proposed that we seek to revise some of the existing papers to facilitate the decision-making process. Revised papers must be circulated to the Assistant Secretaries Group by Friday, March 21.

- A revised paper on compliance. To reach consensus, a session to hammer out an interagency agreement will be convened by L/OES (Sue Biniaz) and OES/EGC (Dan Reifsnyder) on Wednesday from 3:30-5:00p.m. All interested agencies should send an individual empowered to speak to the agency position to the meeting. L/OES will take the lead on drafting the revision.

- In an effort to keep the JI language as simple as possible, and noting that the simplest approach (proposed by DOE) is to put off any decision until the first meeting of the Parties to the agreement, it is proposed that DOE take the lead (with input from EPA and other interested agencies) in providing an abbreviated text for consideration. A revised text (if agreed) should be circulated to the Assistant Secretaries through OES as soon as it is completed (if possible by COB Wednesday March 19).

To insure that any language that is to be submitted has full interagency review, we must stick to the time-frames suggested above; the April 1 deadline provided by the AGBM is firm – and both the Assistant Secretaries Group and the Deputies Committee must have time to review and approve any submissions.

The remaining papers (on Annex B, Annex C, Emissions Trading and Borrowing) do not, in light of the discussion today, seem to have elements that must be submitted by the April 1 deadline. However, there are aspects to each of these issues that will need further consideration in the course of the negotiations. Thus, additional iterations of papers on these topics should be reviewed and revised at the staff level, working through the IWG. Using the revised papers, additional proposals to elaborate these issues may be developed to meet a June 1 deadline, or in time for circulation prior to the July session of the AGBM.

CLIMATE CHANGE DISTRIBUTION LIST

OSTP	Rosina Bierbaum	456-6202	FAX: 456-6025
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NEC	Elgie Holstein	456-5370	FAX: 456-2223
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CEQ	Steve Seidel	395-3706	FAX:456-6546
AID	David Hales	875-4205	FAX:(703)875-4639

Am did not attend

THE WHITE HOUSE
WASHINGTON

cc: Am
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March 10, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELGIE HOLSTEIN
DAVID SANDALOW

SUBJECT: Climate Change

Tomorrow's meeting will be in OEOB Room 472 from 9:30-11:00. The agenda will be:

1. Report on Bonn

2. Domestic Emissions Trading Paper

3. Next Steps on Domestic Policies

4. Outreach

Everyone on the attached list has been cleared into the building. For questions concerning clearance, please contact Wendy Philleo (456-6224).

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THE WHITE HOUSE

WASHINGTON

March 3, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELGIE HOLSTEIN
DAVID SANDALOW

SUBJECT: Climate Change

There will be a meeting Tuesday, March 11 from 9:30-11:00am in OEOB Room 472.

One of the items on our agenda will be clearance of a background paper on domestic emissions trading programs. Please review the attached draft, prepared by EPA, and provide any comments to David Gardiner (260-4332) no later than COB Thursday, March 6. EPA will distribute a revised draft prior to our meeting.

Complete agenda for our meeting to follow.

Everyone of the attached list has been cleared into the building. For questions concerning clearance, please contact Wendy Philleo (456-6224).

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Overview of Domestic Greenhouse Gas Emissions Trading Programs

Introduction

This paper describes how a domestic emissions trading program could be used to comply with an emissions target designed to meet an international agreement on greenhouse gases. Emissions trading is a tool for meeting a total quantity limit on emissions. It involves allocating or auctioning emissions allowances, and allowing the trading of allowances in a market with sufficient mechanisms to ensure compliance with targeted levels. Since emission trading involves the creation of new, marketable assets that can have substantial value, addressing distributional issues will be an important component of program design. Allocation rules or auction revenues can be used to address these distributional issues.

Emission trading systems can offer both static and dynamic efficiency advantages over more traditional forms of regulation. The potential for static efficiency gains exists because emitters face different abatement costs. Emissions trading allows those with high abatement costs to purchase allowances from those whose costs are lower. Total costs would therefore be lower than through traditional regulations, which require all polluters to comply with a specific standard. However, it should be noted that such a program involves people and firms adjusting to higher energy prices.

Under traditional regulation, firms have little incentive to investigate ways of abating pollution by more than the minimum required to comply with regulatory requirements. Firms under-invest in pollution control R&D since they can capture neither the full market benefits from such spending (since others benefit from learning of their successes), nor the full value of any resulting environmental improvements. Trading offers dynamic efficiency gains because of the incentive to continuously improve pollution abatement technologies in order to create "surplus" allowances for sale. In addition, tradable permits can provide incentives for reduced total energy use.

These same efficiency benefits could be achieved through a system of emission taxes. However, a system based on emissions trading differs from a tax system in two important ways. First, under a tax system, the quantity of total emissions is the result of individual polluters' decisions in response to the incentive provided by the tax. In principle, if the entire cost structure is known, any quantity target attained by a tradable permit system could also be attained by an appropriately calculated tax. In so far as forecasting in practice is difficult, however, the resulting level of emissions can be greater or less than the level targeted when the tax rate is set. By setting overall quantity targets, emissions trading programs coupled with appropriate compliance procedures, offer greater certainty that national emission targets will be achieved. Second, emission tax systems always involve revenues accruing to the government (although they can be rebated). Under an allowance system, the government has greater flexibility in deciding whether to collect revenues by auctioning permits or allocating them based on historical emissions or some combination of the two. This flexibility can affect the public acceptance of the mitigation program.

US Experience with Emissions Trading

The US has had more experience with emissions trading than any other country in the world. Specific programs include:

- *Sulfur Dioxide (SO2) Allowance Trading:* The Clean Air Act Amendments of 1990 imposed an overall 50% emission reduction requirement for SO2 emissions from electric utility boilers. The portion of the program concerning trading works by allocating emission allowances to electric utilities based on a formula reflecting historical emissions. In addition, a small portion of allowances are auctioned every year to facilitate price discovery and new entrants. Allowances are specifically excluded from being defined as property rights, may be traded to any party anywhere within the continental U.S., and may be "banked" for use in future years. Participants need to conduct regular monitoring of emissions and make an annual accounting of their emissions. Penalties are imposed if emissions exceed the number of allowances held by a source.

  There is now a functioning market in SO_2 allowances involving both bilateral exchanges between companies, and brokered exchanges through third parties. This market, along with other factors[1], has helped to dramatically reduce the cost of the abatement program. Initially, forecasters claimed that emissions allowances would sell in the range of $100 to $1000 per ton.[2] Current spot prices are in the range of $80 to $90. In addition, 1995 emissions were actually 40% below the legally required levels for that year.

- *Water Effluent Trading:* The US generally has regulated surface water quality through a system of discharge limits for large sources of water pollution. In addition, states have standards for ambient water quality which are often not attained even after large dischargers apply "best technology." The reason is that small ("nonpoint") sources (such as runoff from farms) contribute significantly to water pollution. A number of state and local governments are employing trading systems for watersheds that either permit trading among large dischargers, or allow large dischargers to fulfill their requirements by controlling nonpoint sources. These include the Fox River in Wisconsin, the Dillon Reservoir in Colorado, and the Tar-Pamlico River in North Carolina. The latter two programs are designed to manage future economic growth.

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[1] These include the fact that the bill that was actually adpted was not as onerous as many in industry had feared, the low price and widespread availability of low sulfur coal, the awarding of "bonus allowances," the postponement of capital investments, and lower than expected transportation costs.
[2] Hahn, Robert W., and Carol May, "The Behavior of the Allowance Market: Theory and Evidence," The Electricity Journal, March, 1994.

Thus, the quantity of effluent allowances allocated exceeds current discharge levels. Once growth consumes this excess, trading is expected to reduce compliance costs.

- *Inter-refinery Lead Trading:* EPA operated a lead trading program from 1983 to 1987 as it phased out lead from gasoline. Lead trading allowed refiners and importers to trade lead reduction credits in order to meet limits for the lead content of gasoline. The quantity of allowances to which a firm was entitled was determined by the amount of leaded fuel produced by the firm and the contemporaneous EPA standard. Those who bettered the standard could sell their credits to others. Some 10 billion grams of lead were traded during the course of the program at prices ranging from 0.75 to 5 cents per gram. Allowing the trading of lead credits reduced the costs of the program by approximately 20 percent.

- *Criteria Air Pollutant Trading:* EPA first began incorporating aspects of emissions trading in its air program in 1974, when it allowed a modified source to use "credits" earned by another source within the same plant to avoid additional regulatory requirements. Since then, emission trading has substantially expanded. Trades have numbered in the thousands and have been estimated by Hahn and Hester (1986) to have achieved savings between $525 million and $12 billion.

- *Market Mechanisms for Chlorofluorocarbon (CFC) Phaseout:* Under the 1987 Montreal Protocol to limit stratospheric ozone depletion, the U.S. required the phase out of the production of CFCs by 1996. As part of its program, the U.S. adopted a tradeable permit regime covering CFC manufacturers and importers. These were allocated allowances based on each firm's 1986 market share. As the market for CFCs declined, the system allowed firms to allocate production between different production facilities according to the least-cost pattern of supply. It also gave CFC users the flexibility to switch between different CFC compounds, within the overall limit on allowances. This program helped reduce the costs of the phaseout. In 1988, EPA estimated that the cost to *halve* CFC use would be $3.55 per kilogram. By 1993, it became clear that all uses could be *eliminated* by 1996 at a cost of $2.45 per kilogram.

Emission Trading of Greenhouse Gases

These examples show that emission trading and banking have been used to meet established reduction requirements. Emissions trading, coupled with sufficient compliance mechanisms, may similarly be used to meet an established target for greenhouse gas emissions.

An emissions trading program, like any program designed to limit greenhouse gases, must contain certain elements. First, an agreed upon emissions budget must be established. A central authority must be given the domestic responsibility for verifying compliance and must be provided sufficient information to do so. Finally, noncompliance with allowance limitations or reporting requirements must generate real consequences, such as penalties or subtraction of allowances.

A program would have to establish permit lifetimes, monitoring and enforcement provisions, as well as rules for permit banking, borrowing, and trading. Consideration should also be given to transaction costs, which should be kept as low as possible. However, particularly difficult issues involve determining what types of activities require a permit and how permits should be allocated.

What types of Activities Should Require a Permit

Sources of greenhouse gases include not only those emitting carbon dioxide, but other gases such as methane, nitrous oxides, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). Gases differ both in their atmospheric lifetimes and in their ability to trap heat in the atmosphere. In addition, carbon is not only emitted through the combustion of fossil fuels, but is also absorbed by "sinks" such as trees and soils.

The decision for determining who should be required to hold a permit should consider the following:

- *Coverage:* While it may not be necessary to ensure that every ton of greenhouse gas is accounted for within an emission trading regime, the scope of coverage of the trading program should be sufficient to ensure compliance with targets set in accordance with an international agreement.
- *Administrative and compliance feasibility:* The number of sources involved in the trading program should be small enough to be administratively feasible and large enough to ensure market competition. In addition, monitoring and verification of permit compliance must be possible for those included in the program.
- *Potential to Diffuse Low Greenhouse Gas Technologies:* Alternative points of intervention should be evaluated for their ability to provide incentives for research, development, adoption and diffusion of low greenhouse gas technologies.
- *Market Impacts:* Any program that limits emissions will affect the bottom line of firms. The permit program will have economic impacts that vary depending on program design. For example, exempting certain sizes or categories of sources from permit requirements because of administrative or equity concerns (e.g., small boilers or home heating oil) has competitive implications within the energy market..

Carbon Sources

Carbon dioxide currently accounts for about 85% of U.S. greenhouse gas emissions. The term "emission trading" implies the creation of a market of emission allowances (or permits) among *emitters* of greenhouse gases through a limitation on those emissions. In the case of carbon dioxide, however, direct emitters number in the hundreds of millions since they include sources such as automobiles and residential gas water heaters.

However, since virtually all of the carbon contained in fossil fuel extracted from the ground (with the possible exception of certain feedstocks) is eventually released to the atmosphere, a trading program need not focus uniquely on direct emitters, but can be implemented through other points in the energy market. These include fuel imports, fuel extraction, processing, refining, distribution, and secondary conversion (e.g., coal to electricity). In addition, these points could vary by sector. For example, an emission trading program could focus on the point of final combustion for coal, but on refining for oil, or distribution for natural gas. Given the wide variety of options available for including energy sources in a trading program, a few alternative programs are described below for illustration:

A Program Targeting Primary Fuel Producers

There are various levels within the primary fuel producing sector – extraction, processing, refining, and distribution – where a permit program could be implemented. One option would be to require permits at the point of first sale (a permit is surrendered with the first inter- or intra- company transaction). Such a system would include transactions between a coal company and an electric utility, between a natural gas producer and its marketing arm, between a natural gas producer and a broker, or between an oil extraction company and its refinery operations. Fuel importers would also require permits to import fuel. This would capture the carbon from fuel consumed in the refining process. The number of market actors under this program design would be under 5000 and virtually all carbon in the energy sector would be included in the program.

A Program of Emission Trading at the Sectoral Level

An emissions trading program could also be applied at the point of combustion, allowing trading among affected sources. This system would be most comparable to the current SO_2 emission allowance trading system.

Targeting the six largest industrial CO_2 emitting sectors (electric utilities, cement, primary metals, pulp and paper, petroleum refining and chemicals) in a sectoral trading program could encompass as many as 20,000 market participants and 90 percent of industrial CO_2 emissions. Mobile source emissions could be indirectly included in the system by allocating transportation equipment manufacturers permits for emissions associated with their automobile fleets or by including refiners in the program. Residential and commercial emissions could be similarly addressed by focusing upstream in the energy system.

Other Greenhouse Gases and Sinks

The remaining 15% of greenhouse gas emissions (on a carbon-equivalent basis) are accounted for by other gases. Most important among these is methane, which by itself accounts for 11% of national emissions. Since gases differ in their lifetimes and in their potential to trap heat in the atmosphere, an "exchange rate" or trading ratio must be established to convert all gases into common units for inclusion in a trading program. Such ratios have been developed by climate researchers and could be applied here. These should be consistent with the rules established in the international protocol.

Several, although not all, of the many sources of non-carbon greenhouse gases could likely be included in a trading system. For example, methane emitting coal mines, landfills, livestock manure management facilities and potentially natural gas distribution systems may meet the criteria described above for inclusion in a greenhouse gas trading program. These sources account for 7% of national greenhouse gas emissions. Similarly, emissions of some sources of other gases could potentially be included (e.g., magnesium production).

Forests in the United States currently remove an amount of carbon equal to 8% of national emissions from the atmosphere. However, translating the potential of sinks into monitorable, verifiable, and cost effective emission reductions is hampered by the lack of a comprehensive national accounting system for sinks. Thus, while it may be possible to observe and monitor the planting of trees and preservation of forests in a given area, it is difficult to know how such actions affect national emissions. Preservation of one stand of forests may simply lead to destruction of another in a different location. Overcoming the difficulties associated with monitoring and verification is therefore especially important for the inclusion of sinks to be included in a trading program.

Allocating Permits

In an emission trading system, some mechanism must be provided for allocating permits to sources. This could be done on the basis of baseline/historical emissions (where permits are given to those currently emitting) or through an auction (where revenues accrue to the government). These two mechanisms might also be combined: some portion of permits could be allocated on the basis of historical emissions while the rest are auctioned. In any case, the value of these assets could be large depending on the permit price, which is determined by the emissions target and the costs of substitutes. Given that an auction could produce substantial revenues, some decision would have to be made with respect to what to do with the proceeds

A reserve of allowances or a portion of auction revenues could be set aside to encourage more rapid development and diffusion of low greenhouse gas emitting technologies. For example, manufacturers of energy consuming equipment could compete for the set aside based on the degree to which they produce equipment more efficient than the average in use or than required by current mandatory efficiency standards. Such a program could yield reductions in energy demand and help buffer the consumer from the impact of higher energy costs.

Allocation Based On Baseline/Historical Emissions

Under this approach, sources are given a number of permits based on baseline fuel production or emissions and an allocation formula. Various allocation formulae can be devised, weighted to greater or lesser degrees in favor of sources with high historical emissions. Emissions allowances are endowed to facility operators for no cost and would be transferable. Those receiving permits thus obtain assets of potentially large value from the government at no cost.

Such an allocation mechanism could create entry barriers. In a capital intensive sector like primary fuel production, where entry barriers are already substantial, new entrants would be further disadvantaged if they had to purchase permits. This problem could be mitigated by withholding a number of permits for purchase by new entrants or by auctioning a portion on the open market. Such an auction would also facilitate price discovery in a new market. Although new firms will still be disadvantaged (as they will pay for all of their permits), they would be able to enter the market. The pool of permits would need to be withheld from existing sources to ensure compliance with targeted national emission levels.

It may be desirable to design an allocation that would allow credit for early emissions reductions (those achieved prior to the start of the program, but after the baseline period) -- in particular for those that reduced greenhouse gas emissions as part of government sponsored voluntary programs. If credits for past actions are given, the total credits allowed would need to be deducted from the overall permit allocation in order not to exceed national greenhouse gas emissions target.

Permit allocation formulae could also take into account the market impacts of the mitigation program. For example, "set asides" could be made available to those industries or consumers who experience a grossly disproportional share of the costs of control. Alternatively, a set aside could be auctioned, with the revenues used to redress gross inequities in the distribution of control costs.

Auction

Alternatively, an auction could be used to allocate permits. In this case, permit holders would pay the market clearing price for every unit of greenhouse gas released. Auctions ensure that permits are available for trade, and would serve to inform potential traders about current price levels. All participants have equal access to permits, placing new entrants on the same footing as existing emitters. Given that an auction could produce substantial revenues, some decision would have to be made with respect to what to do with the proceeds. These include programs to redress inequities in the distribution of control costs (as discussed above), R&D for less carbon intensive energy sources and end uses, reductions in taxes, and/or deficit reduction.

Conclusion

Past experience with emission trading programs indicates that they can help significantly reduce the costs of meeting environmental objectives. This is due in part to the incentives they provide for developing and diffusing new environmental technologies. Thus, final compliance costs for the programs that have incorporated emissions trading have, in general, been dramatically lower than ex ante expectations. With careful attention to design, a system of emissions trading could be instituted for greenhouse gas emissions. Such a program would provide similar incentives to research, develop, and diffuse low greenhouse gas technologies and result in achieving targeted emission levels at the lowest possible cost.

The Outlook

Greenhouse Emissions Pose Tricky Problems

A1

SAN FRANCISCO

One world, one set of rules. This simple dictum could spare the U.S. from taking an unnecessary economic beating on an international treaty.

The proposed treaty would require signatory countries to curb the rising concentrations of carbon dioxide and other greenhouse gases in the Earth's atmosphere.

Scientists offer no certain answers, but some believe that if greenhouse gases cause even small climate shifts, the effects could be significant. Insurance forecasters, for instance, say a 15% increase in hurricane wind speeds would double insured losses. A five-degree average rise in Midwest heat could turn Kansas into a dust bowl.

Although bold action may not needed, experts say standing pat isn't an option, either. "No serious economist has come to the conclusion that one should do nothing," says William Nordhaus, an environmental economist at Yale University. "The idea of waiting around until everything is resolved in this particular case means doing something that's much more costly."

Because of the big risks, many economists consider it prudent to begin soon to slowly restrain emissions, as a form of insurance and perhaps as a climate stabilizer. The drag on the economy from a modest, early effort—stretching over, say, a half-century — would be negligible, as opposed to the 3% growth hit that critics say would result from holding the U.S. to its 1990 emissions level. "To stabilize emissions in 2020 at 1990 levels in the U.S. would be extremely costly," says Dale Jorgenson, an economist at Harvard University.

The Clinton administration has so far been coy about its goals and timetables on emissions. Timothy Wirth, undersecretary of state for global affairs, says only, "We're not going to do anything unless its technically feasible or economically acceptable."

The big question is what emissions targets and timetables the industrialized world will embrace. Talks aimed at reaching a global climate treaty will be held over the next nine months. However, any agreement, to be binding on the U.S., must be approved by the Senate, where lawmakers on both sides of the aisle are skeptical.

Even Mr. Wirth says that reaching an acceptable agreement will be "an enormous task" and that "there's always a chance that nothing will occur." But an important precedent, an international agreement that phased out ozone-depleting chlorofluorocarbons at a cost far below expectations, suggests that a climate treaty may be doable.

While big developing countries refuse to accept any limits on their emissions and "would be happy to see the treaty effort fail." Europe and Japan want industrialized nations to act, says Ross Gelbspan, author of a new book on climate change. Environmentalists have clout in Europe, and Japan, already the world's most efficient energy consumer, is confident about prospects for conservation. The most aggressive proposals call for signatories to lower emissions 10% below 1990 levels by the year 2010.

Of course, the U.S. Senate could refuse to accept any binding limits, but a treaty might take effect anyway. "Without the U.S., it would not be a very effective agreement," says Maurice Strong, convener of the 1992 Earth Summit that first brought climate change to the diplomatic table. "But the U.S. then would come under tremendous international and moral pressure."

For the U.S., the danger of a treaty is that the big developing countries will get a free ride for years or even decades. "Without China or India, a climate treaty is silly," Mr. Nordhaus says. "It just won't work."

Mr. Wirth agrees but says that because "the industrialized world has been responsible for most of the greenhouse gases to date," it's only fair that there be "a lag" before imposing limits on poor countries.

Such a lag has the benefit of delaying enforcement problems, such as measuring emissions country by country or guaranteeing that international funds sent to China or India for pollution abatement actually are used for that purpose.

But the downside of the U.S. plan is that it would create two sets of rules on using fossil fuels—and the possibility of destructive economic arbitrage.

"It's not a good strategy for the developed world to sign on to an agreement which has an IOU for the developing world that's due in 10 to 15 years," says Robert Hahn, an environmental economist at the American Enterprise Institute in Washington. "If you don't include a large number of the developing countries in the treaty, where are all the carbon-intensive industries going to go? To those countries."

Developing countries already are getting a steady flow of industry from rich nations. Most of the Mexicos and Malaysias of the world now have less-onerous environmental, health, safety and labor regulations than the rich do, and freedom from limits on greenhouse-gas emissions would give investors another reason to ship jobs and capital to developing countries.

Moreover, without binding limits on both developed and developing nations, the least costly way of controlling emissions—issuing rights, or permits, to industry that can be bought and sold as an incentive to cut emissions—won't work very well.

Tradable permits require caps on emissions in all countries, perhaps not immediately but the sooner the better. "When you attack the problem of climate change globally, the costs drop down dramatically," says William O'Keefe, chairman of the Global Climate Coalition, the chief industry group opposing a treaty. "Any response has to be global."

The catch: Politics may not allow it.

—G. PASCAL ZACHARY

THE WALL STREET JOURNAL

MONDAY, MARCH 10, 1997

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THE WHITE HOUSE
WASHINGTON

March 10, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELGIE HOLSTEIN
DAVID SANDALOW

SUBJECT: Climate Change

Tomorrow's meeting will be in OEOB Room 472 from 9:30-11:00. The agenda will be:

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2. Domestic Emissions Trading Paper

3. Next Steps on Domestic Policies

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cc: AM TAF JS TTC

7 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change
Final Update No. 10 for March 6/7, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the afternoon of March 6th through the end of the meeting on Friday, March 7. Also included are more detailed reports on meetings held on March 5 and 6 as reported by the "Earth Negotiations Bulletin," as well as a selective sampling from the final copy of "ECO" (drawn from the enviro rag financed largely by the Danish/German Environment Ministries). The last paragraphs can be used as a DAR item as desired and appropriate. This is the final report prior in this series from the climate talks in Bonn.

Climate Talks, Update No. 10 (March 6/7:) AGBM Leaves with the Basic Negotiation Framework in Hand, but With a "Gauntlet Thrown down by the G-77 and China

April First (No Fooling), Given as Last Date for Formal Submissions

The Sixth Meeting of the Ad Hoc Working Group on the Berlin Mandate (AGBM) concluded its meetings on Friday, March 7, with the formal approval of a "streamlined" compilation document which will be used as the basis for the official circulation to Parties by June 1 in accordance with Climate Convention requirements. Additional proposals to be included in the text must be received by the Secretariat no later than April 1st ((a considerable concession from the March 27th date proposed by the Chair and made at the (sole) insistence of the United States.)). Additional proposals will apparently be considered if received prior to June 1 (although these will not be included in the official, circulated text.) After June 1, the Chair indicated -- with no objections from the floor -- that only those proposals clearly derived from items included in the document will be accepted. The Chair also clarified -- as he had on Thursday -- that numerical numbers are not complete and that these will evolve. However, he indicated that, while June 1 is not a deadline for receipt of these, "we cannot wait until Kyoto to receive them."

(Comment: The Chair told us that he intends to put something in writing about values for "x", "y" and "r" as still pending and open for addition in the introduction to the text of the June document. We will have to see. However, we believe that the Chair's statement, plus Australia's inclusion of the range of numbers included in the EU text, should cover us sufficiently in any case. Comment.)

A Warning from the G-77/China: "The U.S. Beware"

The only country speaking substantively during this session was the G-77/China whose spokesman (Tanzania), while applauding the Chair for his work during this session, indicated the following: (a) that it will join in the discussions only with the "promise" that all items outside the Berlin Mandate will be removed from the table for discussion; (b) that there should be agreement on numbers for QELROS prior to advancing to issues of implementation; and (c) that articles of the convention should apply to the provision of the proposed protocol or another legal instrument.

New Numbers Coming from the G-77?

Finally, the Tanzanian delegate announced that the G-77/China is working on additional proposals which it hopes to have later in the day. (Comment; we understand that the group is considering proposing

Finally, the Tanzanian delegate announced that the G-77/China is working on additional proposals which it hopes to have later in the day. (Comment; we understand that the group is considering proposing 10 percent reductions by 2005, 15-20 percent reductions by 2010, with a compensation package (as a sop to OPEC. The G-77/China will meet this afternoon to discuss this proposal. There are doubts among some observers that a consensus among this variated group is possible. Meanwhile, Peru introduced a proposal for a 15 percent reduction (it is not not clear if this is for CO2 or for GHG) by 2005. End Comment)

We're Safe for Now, but Trouble Brewing

Despite concerns early in this session that the Chairman, Ambassador Raoul Estrada of Argentina, might bow to pressure from China and the G-77 to remove from active consideration those elements of proposals considered "outside the Berlin Mandate," in the end all key, substantive procedures (including those of the U.S.) were retained including our annexes, joint implementation, and our article on evolution. (Indeed, when the latter issue came up on Thursday, our position was somewhat strengthened by a Russian request (approved by the Chair) to move a paragraph in the Russian proposal from the section dealing with Article 4.1 to the section dealing with evolution.

The latest G-77 "threat", however, will have to be taken seriously. We may not be able to proceed with the intensive round of negotiations until this point is clarified. Clearly Chairman Estrada was not prone to do so at this meeting.

Much Work to Be Done

Prior to the July/August meetings, we will have much spade work and domestic preparation to complete in order to prepare ourselves for combat. To be sure, we will want to revisit the differentiation issue. This has far too many supporters to be dismissed lightly. Emissions trading will require more key countries coming publicly on board if this idea is to garner broad acceptance. Japan is one of the keys to this discussion, but thus far, the rising sun has not bitten the emissions trading bullet.

Borrowing was a concept widely panned at this conference. It's a loser and presumably we could trade this idea for other priorities in the future. Although "evolution" in one way or another is gaining adherents, we will have to find a way to keep this on the table in view of strong G-77/China animus towards the concept and their threat not to engage in negotiations unless it is on the table. The EU's position is not helpful in this regard.

The same goes for our Annex B concept and our proposal for joint implementation with trading. We told the chairman that we would engage the Mexicans, Koreans, and the EU to try to increase the acceptance of our mutual annexes. We should follow up expeditiously. As we indicated earlier, the Chair believes that JI with credit is a non-starter at the negotiation, a view shared by the vast majority of delegations at this point

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Hectic Intersessional Pace Planned, but How Effective?

Intersessional activities promise to be intense. It remains to be seen how useful they will be, but there are many planned ranging from German Environment Minister Merkle's Dresden gathering later this month to the Chair's planned meeting of the so-called "Trattoria Group" (a tongue- in -cheek reference to the COP and AGBM Bureaus, plus the Chair, which met twice during this meeting) which might be held at Woods Hole for two/three days following the UN Special Session at the end of June to discuss policies and members.

We have also been talking up the idea of another Paris meeting to discuss Article 4.1 and related matters. This would be organized along the lines of the highly successful symposium orchestrated by Dan Reifsnyder on non-Annex I guidelines last fall. In view of the G-77/China's statement of this morning, such a meeting appears even more desirable. However, the bottom line is how effective can these meeting be without more guidance from decision-makers as to maneuver room? Only Ministers or like-minded senior officials can cut the deals necessary to break the log-jams facing these negotiations. It is unlikely that everything can be squeezed into the three day ministerial planned for the Kyoto COP in December.

Bubbles Bursting in Air

Our open opposition to the EU bubble for the purposes of this negotiation had the desired effect of taking some of the shine off of the EU numbers which were introduced and also injected a greater sense of reality into the proceedings. To say the least, this was not appreciated by the EU. However, we must follow up with a more defined strategy as to how we want to use this disagreement. "Just saying no" is one effective way of snaffuing these negotiations in their track if we do not handle this matter carefully.

Domestic Work Needed (An unsolicited editorial comment)

We are somewhat annoyed at not being able to give any indication of the possible range of numbers which we might propose or even to be able to confirm, with any certitude, that the modeling and analysis underway includes environmental criteria, in addition to economic consideratioins. We must do better than this. It is clear that the G-77/China's insistence that we must have substance before form refers to the absence of numbers on the table and not to their hesitancy to push for a protocol, rather than an amendment, precipitously. Business representatives and environmentals alike are expressing -- justifiably in our view -- great concern over what they see as a lack of transparancy in how we are conducting our analysis. We need to be kept better informed ourselves, with additional leeway granted as to what we can tell them in response to questions. In addition to negative public reaction, the President can be expected to be hit hard on this point at both the G-7 Summit and at UNGASS if he (or the Vice President) attends. We need some concrete answers soon. End Editorial Comment.

On that upbeat note, this ends reporting from the first Bonn meetings of the Framework Convention on Climate Change which was held between February 24 and March 7, 1997.

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

Climate Talks, Update No. 10 (March 6/7:) AGBM Leaves with the Basic Negotiation Framework in Hand, but With a "Gauntlet Thrown down by the G-77 and China

The Sixth Meeting of the Ad Hoc Working Group on the Berlin Mandate (AGBM) concluded its meetings on Friday, March 7, with the formal approval of a "streamlined" compilation document which will be used as the basis for the official circulation to Parties by June 1 in accordance with Climate Convention requirements. Additional proposals to be included in the text must be received by the Secretariat no later than April 1st. The Chair also clarified -- as he had on Thursday -- that numerical numbers are not complete and that these will evolve. However, he indicated that, while June 1 is not a deadline for receipt of these, "we cannot wait until Kyoto to receive them."

The only country speaking substantively during this session was the G-77/China whose spokesman (Tanzania), while applauding the Chair for his work during this session, indicated the following: (a) that it will join in the discussions only with the "promise" that all items outside the Berlin Mandate will be removed from the table for discussion; (b) that there should be agreement on numbers for QELROS prior to advancing to issues of implementation; and (c) that articles of the convention should apply to the provision of the proposed protocol or another legal instrument. Finally, the Tanzanian delegate announced that the G-77/China is working on additional proposals which it hopes to have later in the day. (Comment; we understand that the group is considering proposing 10 percent reductions by 2005, 15-20 percent reductions by 2010, with a compensation package (as a sop to OPEC. The G-77/China will meet this afternoon to discuss this proposal. There are doubts among some observers that a consensus among this variated group is possible. Meanwhile, Peru introduced a proposal for a 15 percent reduction (it is not not clear if this is for CO2 or for GHG) by 2005. End Comment)

Despite concerns early in this session that the Chairman, Ambasador Raoul Estrada of Argentina, might bow to pressure from China and the G-77 to remove from active consideration those elements of proposals considered "outside the Berlin Mandate," in the end all key, substantive procedures (including those of the U.S.) were retained including our annexes, joint implementation, and our article on evolution. (Indeed, when the latter issue came up on Thursday, our position was somewhat strengthened by a Russian request (approved by the Chair) to move a paragraph in the Russian proposal from the section dealing with Article 4.1 to the section dealing with evolution. The latest G-77 "threat", however, will have to be taken seriously. We may not be able to proceed with the intensive round of negotiations until this point is clarified. Clearly Chairman Estrada was not prone to do so at this meeting.. This ends reporting from the first Bonn meetings of the Framework Convention on Climate Change which was held between February 24 and March 7,1997. (Hambley)

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Earth Negotiations Bulletin

A Reporting Service for Environment and Development Negotiations

Vol. 12 No. 44 *Published by the International Institute for Sustainable Development (IISD)* *Friday, 7 March 1997*

HIGHLIGHTS FROM THE SIXTH SESSION OF THE AD HOC GROUP ON THE BERLIN MANDATE THURSDAY, 6 MARCH 1997

Delegates to the sixth session of the Ad Hoc Group on the Berlin Mandate (AGBM-6) considered a draft proposal submitted by the Chair on policies and measures (P&Ms). They commented on the organization and form of the proposal, but did not engage in substantive debate. AGBM also received the report of the non-group on elements related to advancing the implementation of existing commitments in Article 4.1. The Subsidiary Body for Implementation (SBI) reconvened to conclude its work on the review of the financial mechanism.

STRENGTHENING THE COMMITMENTS IN ARTICLE 4.2 (a) and (b) - POLICIES AND MEASURES

The Chair presented his draft conclusions on policies and measures (P&Ms), which represent a streamlined version of Section II of the Framework Compilation on strengthening the commitments in Article 4.2 (a) and (b). The draft conclusions contain four elements: proposals regarding policies and measures; general proposals; proposals relevant to the nature and mix of policies and measures; and lists of policies and measures.

"Proposals regarding policies and measures," address: adoption of coordinated P&Ms; preparation of National Action Plans; national and regional programmes for climate change mitigation and protection; and enhancement of sinks and reservoirs. Some of the entries refer to P&Ms with different priority levels, while others cite specific items such as removal of coal subsidies, technology development and transfer and promotion of renewable energy sources.

"General proposals" would support: identification of environmental and socio-economic impacts of P&Ms; compatibility between P&Ms and national development programmes; and cost effective P&Ms. Some entries in "Proposals relevant to the nature and mix of policies and measures," call for individual, rather than coordinated fulfillment of commitments and protection for developing countries, especially oil producing states. The section on "Lists of policies and measures" begins with a proposal from the Chair that contains three lists regarding: policy objectives for all Annex I Parties; possible mechanisms for implementation of P&Ms and a menu of P&Ms from which Parties could choose according to their national circumstances. The Chair's proposal is followed by entries from several countries including Canada, the EU, Switzerland and Japan. Each entry contains specific P&Ms.

The Chair said some Parties have submitted "negative" proposals, which note that they object to inclusion of specific issues. He proposed including a general chapeau noting their objections and said that all ideas retained in the negotiating text do not have to be included in the Protocol. The proposal also contains several symbols and letters and the Chair said values would be attributed to them in future sessions. IRAN inquired about the possibility of elaborating on each proposal. The Chair noted that other proposals could be submitted later and asked delegates to refrain from making substantive statements.

POLAND requested that each reference to a new Annex specify which Parties will be included. NEW ZEALAND deleted its proposal calling for compulsory phasing out of fossil fuel subsidies. The G-77/CHINA noted its intention to submit a proposal on P&Ms. The EU requested that certain P&Ms from its proposed list also be noted in the Chair's proposed list of P&Ms. The EU said it would submit "List C," containing P&Ms to be given priority by Parties listed in Annex X as appropriate to national circumstances. The RUSSIAN FEDERATION requested retaining its proposals; one which states that a protocol or another legal instrument should not change or replace statements of the Convention, including its principles, and one which states that Parties to the protocol are guided by principles of the Convention.

Delegates also commented on the Framework Compilation (FCCC/AGBM/1997/2 and Add.1). The EU deleted several paragraphs submitted by its member states because these submissions were superseded by the common EU proposal. The Chair noted that a section on education, training and public awareness included in the Addendum would also be included in the negotiating text.

CONTINUING TO ADVANCE THE IMPLEMENTATION OF EXISTING COMMITMENTS IN ARTICLE 4.1

Chair Evans King (Trinidad and Tobago) then presented a report from the non-group on "Continuing to advance the implementation of existing commitments in Article 4.1." He said that the group held two meetings in which a collegial atmosphere facilitated frank dialogue. Discussions led to a streamlined text with narrative sections and allowed proposal authors to see how other countries viewed their proposals.

The report contains a streamlined text of the section in the Framework Compilation on continuing to advance the implementation of existing commitments in Article 4.1. It consists of proposals requesting all Parties, *inter alia*, to

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implement programmes containing measures to address emissions by sources and removals by sinks of all gases. It states that the process will reaffirm and continue to advance implementation of commitments in Article 4.1 and will not introduce any new commitments for non-Annex 1 Parties.

Non-Annex 1 Parties' implementation of Article 4.1 is contingent upon developed country Parties fulfilling commitments related to financial resources and technology transfer for: systematic observation and research; assessment at the national level of economic and social impacts of climate change and of various response strategies; national education and training programmes; integrated plans for management of coastal zones, water resources, agriculture, conservation and enhancement of sinks; data for initial national communications; and formulation, implementation, publication and updating of programmes containing measures addressing climate change. The necessary resources for the implementation of these activities are to be provided by the operating entity of the financial mechanism.

The report also contains proposals requesting all Parties to: regularly update national programmes that include P&Ms for increasing energy efficiency and improving the transport sector and industrial process efficiency; provide annual greenhouse gas inventory data on the basis of IPCC compatible methodologies; and make available to the COP strategies for mitigating climate change and national inventories of technology needs. Proposals included in the report would also require Parties to foster bilateral, regional and global cooperation for: development of national inventories and indicators; development, application and diffusion of technologies; voluntary participation in AIJ; participation in the work of international bodies and programmes on climate change mitigation and adaptation; strengthening of legal and institutional frameworks; investment in climate-friendly technologies; and reporting on public education and participation.

Proposals would also require that in-depth reviews of Annex I Parties' communications include a formal opportunity for other Parties to ask questions. Parties proposed that non-Annex A or Annex B Parties would submit to the secretariat: annual inventories of greenhouse gas emissions; measures implemented; and quantified effects of actual and potential measures. Proposals would also require that all Parties establish a process for reviewing communications.

ELECTION OF SBSTA OFFICERS

The Chair then announced that progress was made on the election of officers other than the Chair for SBSTA. MOROCCO, on behalf of the African group, reported the following nominees: Mr. Soobaraj Nayroo Sok Appadu (Mauritius) as the Vice-chair of SBSTA and Mr. Alvaro Jose Rodriguez (Colombia) as Rapporteur. JAMAICA thanked the African group for this offer and requested that it be recorded. SBSTA Chair Tibor Farago noted that the official election would take place during the next SBSTA session.

SUBSIDIARY BODY FOR IMPLEMENTATION

SBI Vice-Chair Jose Romero (Switzerland) reconvened SBI-5 to finish its work from the previous week. He presented the draft conclusions of the informal group on financial and technical cooperation chaired by Manuel Dengo (Costa Rica). On review of the financial mechanism, SBI welcomed new information provided at this session, including the report prepared by the GEF (FCCC/SBI/1997/2) and two workshops conducted by the GEF. The conclusions also note that the Parties requested additional time for review of this information. SBI also noted that information from other sources, including Parties, would be particularly important for facilitating a fully informed review. SBI added that the report of the UNGA Special Session would be of interest for reviewing the GEF.

SBI agreed to guidelines on the review process, invited Parties to submit views on the financial mechanism by 15 May 1997 and requested the secretariat to prepare a compilation and synthesis report of the submissions for SBI-6. SBI also highlighted the need for full replenishment of the GEF.

The proposed guidelines note objectives, methodology and criteria for the review. The objectives will be to review the financial mechanism and to take appropriate measures regarding its: conformity with Article 11 of the Convention; conformity with the COP's guidance; effectiveness in implementing the Convention and in providing financial resources on a grant or concessional basis, including the transfer of technology; and effectiveness in providing resources to developing country Parties under Article 4.3.

Under methodology, the review shall draw upon the following sources of information: information provided by Parties on their experiences regarding the financial mechanism; annual reviews by the COP on how the financial mechanism's activities conform with the COP's guidance; the GEF's annual report to the COP; reports from the GEF monitoring and evaluation programme; reports from the Commission on Sustainable Development and relevant bilateral and multilateral funding institutions; and relevant information provided by the other intergovernmental and non-governmental organizations.

Under criteria, the effectiveness of the financial mechanism will be assessed taking into account the following: transparency of decision-making processes; adequacy, predictability and timely disbursement of funds for activities in developing country Parties; responsiveness and efficiency of the GEF project cycle and expedited procedures, including its operational strategy; amount of resources provided to developing country Parties, including financing for technical assistance and investment projects; amount of finance leveraged; and sustainability of funded projects.

SBI also took note of the information on relevant action by the Council of the Global Environment Facility contained in document FCCC/SBI/1997/Misc.3 and requested the secretariat to provide subsequent SBI sessions with such information as it becomes available. The Vice-chair thanked delegates for their participation and adjourned SBI-6

IN THE CORRIDORS

Score cards for AGBM-6 were mixed going into its final day. Some participants expressed frustration that new text still contains some widely divergent views and were underwhelmed at the state of play two sessions prior to Kyoto. Others noted that the session simply met their expectations. Although a number of participants were critical of the specifics within the EU proposal, many praised the EU for adding momentum to the process. One person observed that only a few Parties had tabled proposals for QELROS so far, but noted that the game is not over yet.

THINGS TO LOOK FOR TODAY

AGBM: AGBM will meet at 10:00 am in Plenary I to complete its work.

Earth Negotiations Bulletin

A Reporting Service for Environment and Development Negotiations

Vol. 12 No. 43 Published by the International Institute for Sustainable Development (IISD) Thursday, 6 March 1997

HIGHLIGHTS FROM THE SIXTH SESSION OF THE AD HOC GROUP ON THE BERLIN MANDATE WEDNESDAY, 5 MARCH 1997

Delegates to the sixth session of the Ad Hoc Group on the Berlin Mandate (AGBM-6) continued consideration of elements related to strengthening commitments in Article 4.2 (a) and (b) and focused specifically on quantified emission limitation and reduction objectives (QELROs) within specified time frames. In the afternoon, AGBM convened "non-group meetings" on advancing the implementation of existing commitments in Article 4.1 and on institutions and mechanisms.

QELROs

Prior to consideration of QELROS, delegates heard statements from non-governmental organizations (NGOs). CLIMATE ACTION NETWORK, on behalf of environmental NGOs, asked delegates if they had the political will and moral character to act in the best interest of all the citizens of the world. She also called for a 20% reduction in carbon emissions by 2005. The US and EUROPEAN BUSINESS COUNCILS FOR SUSTAINABLE ENERGY proposed as priorities: setting clear near-term targets and timeframes; using market-based tools to account for "external costs" of energy, which would allow each Party to select suitable options; and reducing and eliminating institutional barriers, such as subsidies and tax exemptions.

The INTERNATIONAL PETROLEUM INDUSTRY ENVIRONMENTAL CONSERVATION ASSOCIATION, on behalf of European industries, noted that the years 2005 and 2010 are impracticably close deadlines. He said developing countries are expected to generate two-thirds of global greenhouse gas emissions by 2025 and urged delegates to secure worldwide agreement. The AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS, on behalf of labor groups, expressed concern that "harsh, arbitrary" flat-rate reductions in greenhouse gas emissions are being proposed without regard to their impact on working people. He urged delegates to remember that they hold the power to destroy jobs and incomes of millions.

The INTERNATIONAL COUNCIL FOR LOCAL ENVIRONMENTAL INITIATIVES, on behalf of local governments, announced that the World Summit for Cities for Climate Protection will meet in Nagoya, Japan to raise awareness at the local level of the importance of combating climate change.

Following these statements, delegates discussed aspects of the proposals on QELROs contained in the Framework Compilation (FCCC/AGBM/1997/2 and Add.1).

On "guiding objectives," the EU stated that eventual reduction of CO2 emissions to 50% of their current levels is required to keep global average temperature from increasing more than two degrees above its pre-industrial level. He recalled the recent decision of the EU Council of Environment Ministers, which established a common position on a reduction target for the year 2010. His proposal states that, in the longer term, more sophisticated methods to allocate reduction targets shall be implemented and will eventually lead to a convergence of emission levels based on appropriate indicators. He could not accept IRAN's proposed condition that QELROs for Annex I Parties must not affect international trade or national incomes of developing countries, particularly those exporting fossil fuels.

The EU also suggested that the US proposal regarding establishment of long-term goals could be incorporated into the new EU submission and should be deleted. The US responded that this change should await a written submission from the EU.

On "legal character" of QELROs, the EU reiterated its support for QELROs for significant overall reductions and noted that P&Ms should also be legally binding. He noted that proposals by Germany, France and the UK on legally binding reduction objectives are already contained in the other proposals and can be deleted. SWITZERLAND stressed that each Annex I Party should adopt legally binding QELROs. NIGERIA requested the deletion of a reference to the Geneva Ministerial Declaration, which calls for legally-binding QELROs for Annex I Parties within specified time-frames with respect to sources and removal of sinks of greenhouse gases not controlled by the Montreal Protocol. He emphasized that the Declaration was not adopted and noted that the G-77/CHINA proposal to set "realistic and achievable QELROs in a comprehensive manner" reflects its substance. PERU referred to the Geneva Declaration and called for reduction target for the year 2005.

On "coverage," the EU proposed covering CO2, CH4 and N2O and to add HFC, PFC and SF6 to the "basket" of gases by 2000. P&Ms to reduce emissions of these gases should be included in the protocol. The US proposed merging paragraphs on Annex I commitments based on the CO2 equivalence of their emission contributions to the atmospheric stock of greenhouse gases and on the exception of sources and sinks for which there is insufficient knowledge of the GWP or inability to accurately measure emissions or removals. HUNGARY supported the US's long-term goal for atmospheric greenhouse gas concentrations.

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NORWAY and ICELAND withdrew their proposals, as they were contained in other proposals. SAUDI ARABIA insisted on references to sinks and greenhouse gases other than CO2. CHINA said that the text should only include issues on which agreement has been reached. JAPAN did not agree and called for retention of its proposal that QELROs would be set for C02 only. MARSHALL ISLANDS, on behalf of AOSIS, stressed the need for hard targets for CO2 reductions.

On "level and timing/emissions budgets," the EU urged early stabilization of greenhouse gases. He noted that sections of the EU proposal in the Framework Compilation should be replaced with the new EU common position. The position states that Annex X Parties, individually or jointly, in accordance with the Berlin Mandate, shall reduce emission levels for CO2, CH4 and N2O together (weighted total, using GWP, with a 100-year time horizon) by 15% by 2010 with a reference year of 1990. An interim target for 2005 will also be set. The EU opposed the concept of borrowing and the consideration of emissions budgets without QELROs and timetables. He favored flexibility regarding the base year for countries with economies in transition.

The G-77/CHINA called for: flexibility for Annex I countries due to their differences in starting points; no adverse effects of P&Ms on developing countries; and no further commitments for developing countries. CHINA called for all other Annex I countries to propose QELROs with time frames as the EU has done. He opposed emissions borrowing, and, with HUNGARY, opposed a new category for countries that are rapidly developing. The RUSSIAN FEDERATION highlighted his proposal that new commitments of Parties do not cancel, reconsider or prolong commitments adopted by Annex I Parties for the period before the year 2000. He supported 2010 as a target and said that 2005 as an intermediate target seems unrealistic. The MARSHALL ISLANDS urged for separate and short-term targets for reducing the level for CO2 emissions.

The US stressed that the Berlin Mandate does not preclude emissions budgets. He noted that the EU proposal does not specify whether countries should abide by QELROs individually or jointly. He also suggested that the EU proposal include Table 1 of the decision by the EU Council of Environment Ministers. The table specifies emission reduction targets for each EU country. The EU responded that the Council decision is not part of the EU proposal for the protocol.

Chair Chow Kok Kee (MALAYSIA) reported on the roundtable on differentiation. He noted a growing consensus that indicators will be useful in negotiating QELROs. He also acknowledged divergent views on whether or not the EU Council of Environment Ministers' decision illustrates a differentiation practice applicable outside the EU.

The EU requested more time to determine whether proposals from individual EU countries could be deleted via incorporation into the EU's new proposals. NORWAY noted that ambitious targets via legally binding commitments can only be achieved through efforts such as differentiation, equitable burden sharing, comprehensive treatment of sources and sinks, and coordination of economic instruments. He also noted that the EU decision illustrates how differentiation facilitates more ambitious targets. He stated that a 10 to 15% reduction for Annex I countries by the year 2010 would be ambitious and realistic. The US restated that a differentiated approach would not be appropriate. AUSTRALIA insisted that its complete text on differentiation be reproduced in the document.

On the issue of "flexibility," MALAYSIA, supported by CHINA, requested deletion of the entire section on flexibility. He said that the issue was already covered under differentiation and QELROs. The EU noted the high improbability of reaching agreement on a trading system in time for COP-3. He cited disagreement on the use of procedures for monitoring and verification and the use trading as a substitute or delaying mechanism for domestic action.

On "Joint Implementation" (JI), the G77/CHINA urged the deletion of the entire section. UZBEKISTAN called for the retention of text noting that JI can serve as an instrument to allow technology transfer on a more beneficial basis. The EU said that Germany's proposal that "a certain portion yet to be determined may be met through JI, whereby a significant part of the commitments must be met through measures within each Party's own territory" should be retained for now. SWITZERLAND supported retaining its proposal that: JI may contribute up to 50% to meeting a country's fulfillment of commitments; JI may begin in 2000; JI can also take place with non-Parties to the Protocol. PERU requested retaining JI in the text, until the review at the end of the year.

Delegates also discussed impacts that new Annex I commitments may have on developing countries. SAUDI ARABIA and NIGERIA requested retaining paragraphs relating to loss of income. The EU did not support a compensation mechanism for financial losses of oil producing countries.

Proposals in the Framework Compilation related to measurement, reporting and communication of information and voluntary application of commitments by non-Annex I Parties were accepted without amendment.

IN THE CORRIDORS

AGBM delegates reported on the progress, or non-progress, of the non-groups. One participant reported that the non-group on advancing existing commitments stalled when participants attempted to cut out anything more than simple duplications in the proposals. Another participant stated that one group of countries opposed even the rearrangement of its proposals. Participants of the non-group on institutions and mechanisms reported that the session agreed on a preamble, definitions, and institutions and processes, but other elements could not be finalized. Another participant said the Chair would still conduct "technical streamlining" of outstanding issues.

THINGS TO LOOK FOR TODAY

AGBM: Plenary will convene at 10:00 am in the Plenary I Hall to consider agenda item 3, on strengthening commitments and advancing existing commitments. In the afternoon, AGBM will continue it consideration of agenda item 3.

Non-group: The non-group on institutions and mechanisms will meet at 3:00 pm in Room A.

CLIMATE NEGOTIATIONS BONN MARCH '97 NGO NEWSLETTER

eco

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7 MARCH
PAINT-DRYING ISSUE

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 Bonn, February-March 1997.

Homework Assignments for AGBM7

Although delegates have now been studying "Climate Protection" for almost two years in the Berlin Mandate School, performance to date indicates that they have not been doing their homework properly. If delegates hope to get a passing grade in their final examination in Kyoto, they will have to focus and do some serious study in and outside the negotiating classroom before AGBM 7 in July.

We recommend the following study assignments for delegates, and we are available for tutoring if required.

Industrialised countries

- Your outlook for 2005, your Grad year looks bleak! Teachers won't allow you to stay in classes until 2010. Get to work!

European Union

- Replace the letter 'R' in the following sentence: "We will reduce emissions by R% in the year 2005". Write 50 times: "R equals 20".
- Measure the CO_2 content of the air in the basket you picked up at AGBM 6.
- Demonstrate the viability of internally coordinated policies and measures at home and report back to class.
- Define the difference between the terms "negotiating position" and "commitment", and use the latter in a sentence related to GHG emission reductions in the year 2010.

United States

- Illustrate cabon sequestration by sequestering your protocol proposal and revoke all borrowing privileges.
- Explain the terms "target" and "timetable". Illustrate with a sentence that makes use of percentages and dates.

Japan

- Visitors are arriving soon. Rumours suggest that you have not prepared your house for entertaining.
Thus, review the definition of the term "leadership" and write a short play that illustrates the meaning of this term with you in the central role. Put on the play for your classmates at COP-3.

Australia

- Review the key objectives of the class. Your focus on complex mathematical formulae has been hindering your studies.

Eastern European States

- Upgrade your mathematical skills. Demonstrate how greenhouse gas emission reductions in your countries can increase the size of the EU bubble.

Russia

- Write out the following phrase 100 times: "My own energy efficiency potential equals at least 20 percent reductions in carbon dioxide emissions by 2005."

OPEC

- Demonstrate how investments in renewable energy technologies are more profitable than efforts to seek compensation for doing the right thing.

G77 and China

- Remember classes in Berlin two years ago where you surprised all classmates and other schools by performing as the "Green Group"? If not – read the AOSIS protocol again.

All Students

- Purchase the IPCC Second Assessment Report and review its key findings.
- You know the game? Hardly! Agree on rules and procedures to ensure that your limited future class time is used efficiently.

The EU favours compulsory measures

CONTENTS

ISSUE NO 6 VOLUME XCV FREE OF CHARGE

CLIMATE NEGOTIATIONS BONN MARCH '97 NGO NEWSLETTER

This Week...

From German Environment Minister Angela Merkel's speech to delegates on Tuesday:

"The Geneva Ministerial Declaration demonstrated to the world that we have left the climate science skeptics behind. There is now, however, a new group of naysayers, a group which continuously tells us that a global treaty to stem climate change could have unbearable economic and competitiveness consequences. This group, however, seems to only be telling one side of the story. Mitigating climate change will not bankrupt economies, but rather brings with it innovation, new technologies and new jobs in a time when they are greatly needed. Mitigating climate change will not curb economic growth but rather, as a group of 2100 economists stated this month in the United States, may 'improve long-term economic productivity'."

No-regrets are 25% – it's official

With all its mighty authority, the Energy and Industry Department of the World Bank revealed in a presentation to NGOs that "win-win efficiency will lead to air pollution abatement of approx. 25%. Across sectors, going beyond win-win is economically viable and cost-effective". So what's the problem...?

Finally, and most crucially...

Thanks to an incisive Chinese intervention on Tuesday, policies and measures to prevent anthropogenic emissions of greenhouse gases from Karaoke machines will not go forward to the next AGBM. However, the green NGOs have made a voluntary agreement not to use Karaoke machines at the AGBM-7 party. We hope others will follow this example.

Germany has ambitious plans for reductions in the transport sector

G77 Update

There are welcome indications that the G77 are moving silently but resolutely to develop a draft protocol proposal in time for Kyoto. Strong specific language from the G77 on an early date (not later than 2005) for reductions would serve to further isolate the US and Japan from the countries that have stepped forward with specific Annex I targets and timetables.

NGO Update

Elias Abramides, Nafisa D'Souza, David Hallman, Martin Robra, Christine von Weizsaecker, Lukas Vischer – *World Council of Churches:* Tony Juniper -*Friends of the Earth International*

In addition we would like to offer special thanks to our friends from Germanwatch for their logistical support here in Bonn

Do you really want to join the EU?

It was a surprise that the EU forgot to consult countries that are expected to join before 2010 about their commitments in terms of the EU proposal. Clearly, if new countries do join the EU, that will influence the target. But even if these countries were not informed of the EU proposal in advance and had no chance to discuss it, now is the time for these CEE countries to put figures on the table. That will demonstrate how serious they are about joining the EU.

Significant reductions of GHG emissions since 1990 and the enormous potential for energy efficiency improvements give them every reason to adopt legally binding targets stronger than the EU's overall 15% reduction. In this context, the Slovakian commitment to a 20% reduction sets a good example for its neighbours.

Ludwig

Ludwig deeply sympathises with the US in its failure to get reflected in the negotiating text the 40% increase allotted to Portugal by the EU. However, he understands that in its usual spirit of mutual co-operation and consideration for the global environment, the US is now looking for a country to table a "brown" target for overall increases in emissions, both to satisfy the Congress's industrial paymasters and to make any eventual US figure appear constructive. Not to worry. Ludwig intends to submit, on behalf of his home country, Lemania, his own "brown nose" proposal for an across-the-board increase of 1000%. By getting in first with a bid that will clearly frighten off any rivals, he also hopes that Lemania's totally unconnected talks with the US administration concerning bilateral assistance will bear fruit.

Note: Ludwig would be deeply mortified if any Parties were to form the impression his viewpoint was colonialist in any shape, form or manner whatsoever. If he gives offence, he would like to assure distinguished delegates that it is intended completely indiscriminately.

THANKS

The Climate Action Network would like to thank the Environment Ministries of Germany and the Netherlands, who have provided funding for Eco.

With resources contributed by APC Networks and EuroFax.

B

List of Recipients for
Peridic Updates from the Climate Talks
Bonn, Germany, March 2-7, 1997

Agency	Name	Telephone	FAX
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State	Andrew Hogenboom/ Bradford Johnson	647-4069	Fax:647-0191
State	Erica Keen		Fax:647-0753
State	Jack Shick	647-4069	Fax:647-0191
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NEC	Elgie Holstein	456-5370	FAX: 456-2223
OMB	T.J. Glauthier	395-4561	FAX:395-4639
Justice	Lois Schiffer	514-2701	FAX:514-0557
	Jim Rubin		FAX:514-4231
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NOAA	Terry Garcia	482-3567	FAX: 482-6318
Treasury	Joshua Gotbaum	622-2220	FAX:622-2633
Interior	Brooks Yeager	208-6182	FAX:208-4561
USTR	Jennifer Haverkamp	395-7320	FAX:395-4579
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EPA	Elaine Haemisegger		FAX:260-0290
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	David Gardiner	260-4332	FAX:260-0275
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DOE:	Mark Chupka	586-5523	FAX:586-0861
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OVP	Pete Jordan	456-9501	FAX: 456-9500
CEQ	David Sandalow	456-6543	FAX: 456-2710
CEQ	Steve Seidel	395-3706	FAX: 456-6546
AID	David Hales	875-4205	FAX: (703)875-4639

cc AW
JHF
JS
TR

6 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change
Periodic Update No. 9 for March 5/6, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the afternoon of March 5th through the morning session on Thursday, March 6. Also included are more detailed reports on meetings held on March 5, including summaries of the March 5 discussions on QELROS and on the "non-groups" on Article 4.1 and on institutions and mechanisms. These summaries were prepared by Jane Leggett-Emil, Clare Breidenich, and Debby Stowell respectively. Also included is a selective sampling of the latest "ECO's" pearls of wisdom (drawn from the enviro rag financed largely by the Danish/German Environment Ministries -- hence its perpetual anti-U.S. slant.) The final paragraphs can be used as a DAR item as desired and appropriate. This will be our penultimate report..

Climate Talks, Update No. 9 (March 5/6:) Process Issues Now Clarified as AGBM Appears to be Barreling Towards an Early End

"Negotiating" Text Near Completion, and the AGBM Appears Anxious to Adjourn

The key process issue facing the AGBM -- what kind of text will emerge by the April 15 deadline -- has been resolved. According to Chairman Estrada, the "simplified" compilation text will serve as the formal negotiating text for the July/August meetings. China attempted to question this decision, but the Chairman ignored the issue and restated this view on March 6. All substantive proposals will be included, despite the Chair's continuing misgivings about the validity of some concepts in terms of the Berlin Mandate. In this regard, our paragraphs on joint implementation, Annex B, and evolution remain in the final document. So do the differentiation concepts and OPEC's compensation proposal. Additional proposals will apparently be accepted for inclusion in the document if they are received by the end of the month. (This point still needs to be clarified, but this was the intent of the Chair last night.) The AGBM is now expected to end its meetings by mid-day tomorrow, Friday, March 7. The Subsidiary Body on Implementation will convene on the afternoon of March 6 to finalize its report.

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<u>"Level" Issue Finessed</u>

Prior to the AGBM meeting on March 6, we raised with Estrada our concern about the need not to limit us to the numbers currently put forward in the compilation text. Estrada took our point and, at the beginning of the meeting, indicated that the values of 'x,' 'y,' or 'r' (reflecting a final EU formulation for its remaining five percent) remain open and subject to additional interpretation or amplification throughout the negotiating process. Estrada had initially queried us as to why this point was necessary. We expressed our concern that the Saudis, Kuwaitis, Nigerians or others keen to disrupt the process ((and guided by guiley American (non-USG) legal advice)) might use the absence of such a clarification as a pretext to challenge the inclusion of any additional numbers. The Chair insisted that he would rule such an attempt as being out of order. However, he relented and agreed to make his point in as subtle a way as possible so as to keep the issue from becoming a floor fight. He also told us that he would be handling the evolution question similarly. Thus, we did not have to rely on our strategy of having multiple parties introduce or refine proposals of their own. (The countries in question are New Zealand, Russia, and Canada.) The Russians did, however, move their paragraph on evolution into this place in the text (it had been in the part on 4.1.)

<u>EU Still Sputtering about their Bubble</u>

As reported in Update No. 8, the EU was not enamoured by our effort to use the range of commitments allegedly agreed upon in their recent communique for the purposes of this text. At a bilateral with with the EC and EU Presidency on March 5, we again pointed out that we do not accept an EU bubble concept for the post-2000 period. With much self-righteous indignation (but without the caustic emotion evidenced by DG-XI's Jorgen Henningsen earlier in the day, the EU flatly insisted that they are entitled to bubble. Full stop. We understand they are asking their resident lawyer (poor Patrick Szell has been given the task) of drafting a defense/justification of the bubble concept.

At two social events later in the evening, EU representatives also pushed their bubble concept. Henningson sputtered about how the U.S. delegation "is out of control" on this issue, but picked a wrong target for his ire when he raised the issue with L/OES's Sue Biniaz. At a small dinner hosted by the British, we felt compelled to tell those present (including Chairman Estrada and the chief Dutch and German delegates who were waxing eloquently about the beauty of the EU process and the grand progress achieved by their announced 15 percent commitment) that the U.S. does not recognize the bubble. Estrada, who had questioned the EU's numbers, nonetheless, asked if the U.S. intends to block agreement at Kyoto because of the bubble issue. We responded merely that this is one of many issues which must be decided by Kyoto. The Canadian present (Tony Clarke) and our Japanese colleague (Takeo Shibata) provided little assistance in this regard, but the mood remained cordial with the mollifying influence of our British host (Peter Unwin).

Other Issues Raised with the EU

At the hour long March 5 meeting with the EU (present were reps from the Netherlands, Germany, the UK, Sweden (the venerable Bo Kjellen) and a note-taken from the EC (the EC's Jorgen Henningsen did not show, undoubtedly out of picque over his earlier run-in with us.), we discussed the following topics: (a) process issues (we all agreed that all substantive items should be retained); (b) evolution (the EU claims that their protocol framework's mention of a review in 2002 constitutes a satisfactory evolution concept); (c) annexes and 4.1 obligations (the EU strongly favors the holding of an intersessional devoted to these issues, including technological matters; (d) the level (the EU believes that its distribution of emissions targets among its members is an internal matter, although it was conceded that transparancy is important; and (e) policies and measures (Bert Metz stressed that the EU supports flexibility and reiterated concern that there is not enough time to work out emissions trading by December.

The Japanese Still Need a Boarding Pass

We also met on March 5, for nearly 90 minutes, with most of the Japanese delegation (including Ambassador Tanabe, MITI's Ishiumi, the MFA's Furaya, and the Environment Agency's Hamanaka. It was clear from this discussion that the Japanese are as far apart from us as ever on key aspects of our proposal. Under Ishiumi's apparent guidance, Japan remains opposed to emissions trading. Ambassador Tanabe made it sound as though he did us a big favor by not expressing his misgivings publicly. (He probably did.) The Japanese also appear increasingly wed to an as yet ill-defined differentiation concept, and they remain very uncomfortable with our "evolution" article. They pressed us as to why we cannot support their menu approach on policies and measures. We asked key USDEL members on March 6 to target various of our Japanese colleagues especially on questions they raised about emissions trading. However, we will need to take advantage of other bilateral discussions with Amb. Tanabe (during his forthcoming Washington visit, perhaps?) and his superiors if we are to turn the Japanese around on any of these important matters.

NGOs Not Sure What to Make of it All

Our impression is that NGOs -- both business and the environmental representatives -- are unsure about what this meeting has been all about. While we are pleased by the opportunity it has given us to amplify on our proposal and to come up with a text which includes our points, the NGOs remain critical of us because we have not introduced any numbers. At the same time, they are also quietly disappointed, one senses, that the EU's proposal has not had a greater visible impact. Business types expressed concern to one of our Congressional staffers that the U.S. might be in cahoots with Australia and would push a range of numbers, including plus 30 percent as part of a possible range. We told the staffer that we were not in discussion with the Australians about this, although Australia did in fact try to amend its submission with a range reflective of the EU numbers. In any case, we are slated to meet with the NGOs and business representatives after this afternoon's SBI session. At the request of one key U.S. NGO, at least a portion of their session will be given over to a group of "international" NGOs who will, if past pracitice is any guide, lament the U.S. position.

4

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

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Our impression is that NGOs -- both business and the environmental representatives -- are unsure about what this meeting has been all about. While we are pleased by the opportunity it has given us to amplify on our proposal and to come up with a text which includes our points, the NGOs remain critical of us because we have not introduced any numbers. At the same time, they are also quietly disappointed, one senses, that the EU's proposal has not had a greater visible impact.. We are slated to meet with the NGOs and business representatives after this afternoon's SBI session. At the request of one key U.S. NGO, at least a portion of their session will be given over to a group of "international" NGOs who will, if past pracitice is any guide, lament the U.S. position. (Hambley)

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SUMMARY OF AGBM 6 DISCUSSION OF QELROS (3/5/97)

The AGBM session discussing Quantified Emission Limitation and Reduction Obligations (QELROS) managed to streamline much of the text in the framework compilation document, and to clarify a number of Parties' positions on specific topics. It also included expected opposition by developing countries to flexibility mechanisms and voluntary commitments by non-Annex 1 Parties. The question of the session (and week) was 'when will the blanks on targets and timetables be filled in?' The EU has proposed 15% below 1990 levels in 2010 ($CO_2+CH_4+N_2O$) as a negotiating position (not a unilateral commitment), with an agreed reallocation of that within the EU ranging from -30% (Luxembourg) to +40% (Portugal). When the EU refused to submit these specific allocations to EU Members as proposed negotiating text, the US offered the EU's range of allocations as its own proposal for a negotiating range for QELROS. Norway proposed a "common target" of -10% to -15% in 2010 for all GHG, to be allocated differentially among Parties. A number of Parties indicated their wish to see an emission reduction obligation for 2005 (although no specific target for that year is now contained in the EU proposal). Russia stated that it believed a target for 2005 would be unrealistic. AOSIS retains its target of -20% in 2005 for CO_2. Zaire emphasized its proposal for stricter targets for Parties that have not met the aims for the year 2000 in FCCC Article 4.2 than for Parties that do. Many redundancies on coverage of gases by QELROS were removed, with the remaining text proposing the full range from a fully comprehensive approach (using GWPs) to explicit targets for each gas, including CO_2.

A number of Parties expressed support for additional flexibility for EITs, particularly by allowing them to use a base year other than 1990. On other aspects of differentiation, only the US, with Russia and the EU have opposed it in the Kyoto timeframe, while Australia and others are almost monotone in their insistence on it. The EU also stated that in the "longer term" they would support a "more sophisticated" method for allocating emission reductions among Parties. Chow, as chair of the session on Tuesday afternoon, noted a seeming consensus in favor of differention as more fair and equitable, but that an effort in that regard may be complicated and difficult prior to Kyoto. He also noted that presentation of quantitative examples of the outcomes of proposed indicator-based allocations might be necessary to move discussion forward.

The Netherlands, on behalf of the EU, noted interest in the US proposal for budget periods, but stated its unwillingness to discuss that option until the USG becomes more specific about its intended level and timing of budgets. They further stated that emission budgets should not postpone when emission reductions become legally binding and compliance with them can be monitored. China suggested that "emission budgets" (along with many other aspects of the US proposal) are not mentioned in the Berlin Mandate and are therefore outside its scope. Canada, Australia and New Zealand indicated their support for multi-year or cumulative targets. Canada also suggested that it would provide text for multi-year averaging of the base year as well. Besides the US, interest in trading was apparent from Australia, New Zealand, Russia, Norway and others. The EU stated its doubt, due especially to questions regarding monitoring and verification, that trading (or JI) could be negotiated by Kyoto. The G-77 and China clearly opposed trading and JI, although a schism is becoming more apparent on this topic. Peru broke ranks and spoke in favor of retaining the JI option. The opposition of many Parties to borrowing was clearly stated.

All Parties agreed that the QELROS should be legally binding, and EU indicated its intention that the Policies and Measures obligations also be legally binding. France and Switzerland also underscored that QELROS should be legally binding for *each* Annex 1 Party. The EU reiterated their position favoring an explicit long-term concentration target of 550 ppm, to limit temperature increase to 2°C above pre-industrial levels.

Leggett:3/6/97

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Non-Group on Advancing the Implementation of Article 4.1 Commitments

The non-group on advancing the implementation of 4.1 commitments met for the second time on Wednesday afternoon under the chairmanship of Evans King of Trinidad and Tobago. The Chair opened the session by providing a compilation text, which was essentially identical to the 4.1 section in the compilation document prepared by the Secretariat. King proposed that the group use the text as a basis for grouping similar concepts and features under sections corresponding to the elements of Article 4.1 (a - j). The United States noted that while it supported the approach, that it was concerned about the possibility of adding permanent headings to the text. After some discussion, it was agreed that any headings were to be used for discussion perhaps only, and would not be featured in a revised compilation.

The group spent the next two hours debating the desirability of moving text around. While the G-77 had originally supported the idea, the Phillipines, supported by China, Iran and Nigeria, soon argued that any changes to the G-77 proposed text would be completely unacceptable. The United States attempted to move discussions forward by identifying the correlation of each element in the US proposal with specific provisions of Article 4.1. The G-77 stated that, while it was perfectly acceptable for the US to move its own text around, any revisions would not and could not be made to the G-77 text. To the constemation of the Chair, the only approved change was elimination of a paragraph of text proposed by the Russian delegation. The compilation text will return intact to the AGBM.

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Non-Group on Institutional and Mechanisms

The non-mandate for this non-group was to look at Chapter 1, preamble and definitions, and Chapters 6 & 7. The session began with the Tanzania for the G-77 and China calling for Parties to use current mechanisms instead of creating new ones. This was preceded by an overly long discussion of where the non-group should start, Chapter 1 or Chapter 6. China also intervened to say that it was premature to look at any of this, that "substance determines form" therefore this could wait. And as China has stated many times during the course of this week, not to mention whenever the non-group looked at a new section, everything must comply with the Convention and the Berlin Mandate.

Despite the less than promising beginning, the non-group trudged through most of the sections it was asked to look at. However, time ran out before the non-group was able to look at Chapter 7. This chapter as well as Chapter 1-B. Definitions, Chapter 6-B. Secretariat will be handled by the Secretariat for a technical streamlining. The Chair made it clear that nothing would be taken away, that where possible, the Secretariat would group similar items together.

Before the meeting closed, Norway intervened to introduce entry-into-force language which was submitted to the Chair. It basically calls for entry-into-force to occur 90 days after 15(?) countries (accounting for 75% of Annex I emissions) have ratified the protocol or other legal instrument.

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CLIMATE NEGOTIATIONS BONN MARCH '97 NGO NEWSLETTER

eco

6 MARCH
ELIMINATION ISSUE

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 Bonn, February-March 1997.

US Proposal: Uncertainty Reigns

There is controversy about many of the central elements of the US proposal in these negotiations: emissions trading, multiyear budgets, "borrowing" of emissions from future budget periods, and joint implementation for credit with developing countries. NGOs and other governments are weighing these elements with varying degrees of skepticism.

But there are aspects of the US proposal around which there is no uncertainty: it has no reduction targets, and it has no timelines. The absence of these central features casts doubt on the whole framework the US is trying to market at this session.

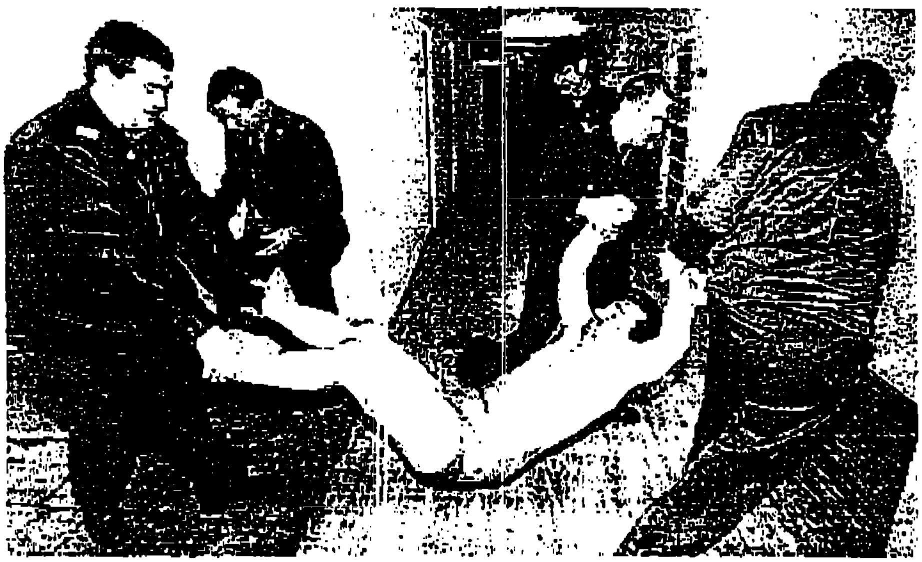
As the US itself admitted in its December "non-paper," emissions trading and joint implementation for credit will require detailed elaboration of a host of monitoring and verification safeguards. Given this, and the strong opposition of the G77 and China, it's difficult to see how these elements can be negotiated by Kyoto. JI for credit with developing countries is especially problematic since both the donor and host countries would have a clear incentive to inflate the project baselines, and hence the credits earned.

With sufficient time and effort, these problems might well be overcome. But the question remains, to what end? If this much-touted "flexibility" allows the US and other industrial countries to commit to early, substantial emissions reductions, then these mechanisms could be well worth pursuing. But if, as many fear, they are designed to allow the US to avoid domestic action to cut its excessive GHG emissions, they should be rejected outright.

The key to solving the global warming problem long-term is the continued development and accelerated deployment of clean energy and transportation technologies. This will only happen if the US and other industrialized countries adopt policies and measures – many of them politically sensitive – to overcome existing market barriers to these technologies. Strong QELROs, starting no later than 2005, are essential to drive these changes in domestic policies and measures.

Which brings us back to the missing elements of the US proposal. Without the targets and timetables that other parties, such as the EU, are at last starting to provide, it is impossible to judge whether the US is acting in good faith to facilitate the substantial early emission reductions required, or merely promoting a prescription for delay and inaction at home.

If the US wants its proposals to be given serious consideration, it must fill in these details and soon. It should also drop the indefinite "borrowing" provisions that have been the focus of widespread criticism from governments and NGOs alike. Even assuming emissions budgets and a trading regime, there are other compliance mechanisms – such as automatic discounting of noncompliers' credits and a halt on additional credit sales – that are at least as effective and avoid the taint of "permissible noncompliance" associated with indefinite borrowing.



Yesterday the chairman took a stricter line

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CLIMATE NEGOTIATIONS BONN MARCH '97 NGO NEWSLETTER

Stop Idling Japan!

by Kyoko Kawasaka, CASA

The EU seized the initiative by proposing a 15% emissions cut by 2010. As host for COP3 we keep looking to Japan for some sign of leadership in the negotiations, but all we have seen so far is a tourist presentation on the historic city of Kyoto. The Japanese delegation has gained most attention for its criticism of EU proposals, but we would like some sign that they are doing something positive to make the negotiations work.

We have just eight months to Kyoto. To gain some credibility in such a short time Japan needs to get a protocol that will send credible signals to change to sustainable energy industry. Here are three suggestions...

First, significant overall reductions in GHGs, at least as progressive as the EU. Second, introduce a legally binding reduction target for 2005. Third, take notices of other countries' proposals.

Fortunately the Japanese delegates announced openly to a meeting with NGOs that the Japan will stand by its support for the Geneva declaration and will negotiate a legally binding target.

However, the concrete target is still a non-number. Because Japan is trapped between MITI, which wants business as usual, and its role as host of COP-3, it seems to be unable to give the leadership we need. This is why Japan needs to bring its industrial policy in line with the FCCC. Unfortunately, the great engine of Japanese technology and innovation continues to idle when it should be accelerating.

Norway Reveals Itself

by Tessa Robertson, Greenpeace

Yesterday Norway became the third Annex I Party after Switzerland and the EU to put a target on the table. Like the EU, Norway is proposing a 10-15% reduction in greenhouse gases from 1990 levels by 2010 for Annex I Parties as a group, and its target is for a basket of gases. However, the target includes removal of emissions by sinks – the so-called net approach – which is not supported by the EU as a group. The target is to be achieved through "equitable burden sharing" within Annex I Parties. The EU, of course, agreed a burden sharing allocation among the member states on Monday, although with the exception of France it does not support differentiation across the whole of Annex I for Kyoto.

So why is Norway's proposal different from the EU's? At Tuesday's differentiation workshop, Jorgen Henningsen from the European Commission tried to answer this question by explaining the unique situation of the Community and its member states, a situation which Jonathan Pershing of the USA seemed to recognise during his presentation on the US proposal.

This answer did not seem adequate to countries such as Japan and Australia. Their concern seems to be more the moral question – why is it all right for the EU to differentiate a target amongst itself when it opposes differentiation for the whole of Annex I?

The difference between the EU "bubble" and the proposals made by Norway and Australia is obvious. Within the EU, a number of countries are prepared to accept significant cuts in their own emissions in order to allow others' emissions to increase. This is not true of Norway. Australia, which support differentiation so that their own emissions can rise by significant amounts. Outside the EU, which Annex I countries are prepared to reduce their emissions so that Australia et al can increase?

On Tuesday, Germany's Cornelia Quennet challenged those countries proposing complex schemes for differentiation to tell us what targets they are prepared to take on for their own national emissions. So far, none of them has taken up this challenge. And yet this information is essential for us to test Norway's and Australia's assertions that differentiation would bring about greater reductions – and thus a greater environmental benefit – than the kind of low flat rate target which countries would be prepared to accept for Kyoto.

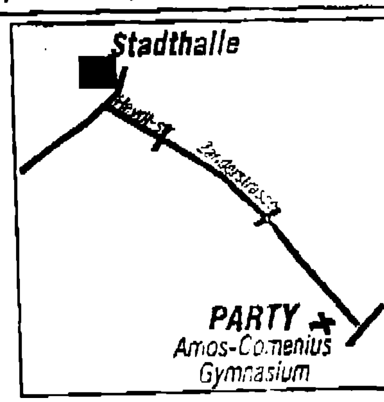
Whose Compensation?

Some OPEC governments have raised the issue of compensation for revenues lost as a result of Annex I commitments to reduce emissions. These countries should perhaps be cautious in raising the subject. From whom, after all, would developing countries seek compensation for the devastation of climate change impacts? Eco cannot help but wonder how oil exporting nations would respond to such compensation demands for losses suffered as a result of insufficient action to slow climate change. It almost makes one think of each barrel of oil exported in terms of increased future liability.

Ludwig

Ludwig is delighted to see how keen China is on recycling. In fact, his old friend Mr Zhong is so taken with the idea that he felt obliged to offer a practical demonstration to delegates yesterday, by offering us a repeat of his famous story about the sign in the park he used to visit as a boy ("no dogs or Chinese"). Perhaps before we leave he may also choose to demonstrate some economy measures, particularly ones that could save time.

The names of industry groups are getting distinctly far-fetched. Yesterday Ludwig spotted a badge labelled "International Petroleum Industry Environmental Conservation Organisation". At the moment he is torn between two explanations: is this a group which wishes to conserve the environment of the petroleum industry, or is this a joke by the Secretariat staff who produce the badges?



NGO Party!

Tonight at 9pm in the Amos-Comenius Gymnasium (a school not a gym). 10 minutes from Stadthalle (see map). Turn right down walkway opposite new church tower. By two minutes walk from "Hans Böckler Allee" school entrance in Zanderstrasse.

Help Wanted

Any corrections to the industry lobby group positions, as presented in that "Green Report" on puppets, will be welcomed. Please submit in writing and errata will be published on Friday.

We especially look forward to revisions to be submitted by the Global Climate Coalition who feel they were misrepresented.

NGO Update

Manfred Treber, Klaus Milke, Christoph Bals – *Germanwatch;* Ayako Ohkubo – *People's Forum 2001;* Kilaparti Ramakrishna – *Woods Hole Research Center*

THANKS

The Climate Action Network would like to thank the Environment Ministries of Germany and the Netherlands, who have provided funding for Eco.
With resources contributed by: APC Network and EuroFax.

B

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Bonn, Germany, March 2-7, 1997

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cc: AN
SAF
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5 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change Periodic Update No. 8 for March 4/5, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the afternoon of March 4th through the morning session on Wednesday, March 4. Also included are more detailed reports on meetings held on March 4, including one on the differentiation roundtable and a second on the Article 4.1 "non-group" discussions. prepared by EPA's Clare Briedenich and DOE's Linda Silverman.respectively. Also included is the report of the "Earth Negotiations Bulletin" covering activities for Tuesday, March 4. The final paragraphs can be used as a DAR item as desired and appropriate..

Climate Talks. Update No. 8 (March 4/5): Key Process Issues Remain Unclarified, Despite Work of "Non-Groups"

Despite activities of one "non-group" (on Article 4.1) and the continued effort by the Chair to "simplify" the text for the section on Quantified Emissions Limitation and Reduction Objectives (QELROS), little by way of substance was accomplished during the afternoon meetings handling issues related to Article 4.1 and differentiation or at the morning plenary dealing with QELROS. The attached reports on the 4.1 and differentiation discussions sum up developments admirably for these two topics. Suffice it to say that the "non-chair" of the Article 4.1 group has called his body into session on the afternoon of March 5. We are not really sure why this meeting is necessary, although it may be to obtain some consensus about the revised text prepared after the March 4 discussions.

As for differentiation roundtable, this went on for almost three hours but was largely an exposition by Parties of various differentiation proposals. As noted in the attached report, there was no common view advanced and there is little likelihood that one will be produced in time for inclusion in the negotating text.

The Wednesday morning session opened with short remarks by four NGOs (including our own Kelly Sims speaking for the environmentalists and including Bob Cunningham, speaking on behalf of the aFL-CIO and affiliates in Australia). Following these presentations (which were, unfortunately, poorly attended by delegates), Chairman Estrada opened the discussion on QELROS and called on Parties to help him "simplify" the text. The EU introduced its latest figures for cuts of 15 percent by 2010, reserving on a level for 2005. They appeared to cover us with the range of years noting 2005 to 2010 as the short term and referring to 2020 as the longer term. We created a considerable stir by suggesting that the EU Annex specifying individual EU member targets be included in order to provide a range for the negotiations. The EU rejected this out-of-hand and became quite belligerent when we offered to include this as a U.S.

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proposal. The Chair ruled us out of order. We expect to hear more from our EU colleagues at bilateral later this afternoon.

On other developments during the QELROS discussion, both China and Tanzania speaking for the G-77 called for the deletion from the text of our section on joint implementation. Surprisingly, Peru stated that this should be included as AIJ must be reviewed at one point in the future. The temperament of the Chair was quite sour throughout the morning's discussions. While he let China's Prof. Zhong lecture us as is his wont for about 10 minutes, he very abruptly stilled the Marshall Islands rep who tried to inject his own warped commentary into the proceedings. He also interrupted Dr. Pershing when it appeared as though we and the EU were about to sling mud at one another. (Not that we had any intention of doing so, mind you.)

In any case, we are still unsure as to the type of text which will emerge on Friday. Our goal for the moment is to prevent deletions by the Chair or by any of the non-groups. We believe we have succeeded thus far, but seeing is believing, so neither ourselves or anyone else knows for sure. More on this important topic tomorrow.

At a social event hosted by German Environment Minister Merkle on the evening of March 4, the Minister asked us for our reaction to the new EU numbers. We told her that we were pleased that they had come up with a definitive figure and expressed the hope that they would be able to implement it. Merkle said the figure was being advanced to "breath life into the negotiations." She asked us when we would produce our own figures. We responded that these are currantly being developed. As the Minister surely appreciates, it takes time and effort to come up with numbers which are realistic and doable. Once the U.S. does have its numbers, the EU can take comfort in knowing that they are backed up extensive analysis and modelling. Minister Merkle did not wince.

We also told Merkle that we want to see a product emerge as the negotiating text which includes all of the key substantive elements submitted by Parties, including those contained in the U.S. submission. This includes our Article 6 on evolution. Cornelia Quenette-Thielen (accompanying the Minister) responded that she did not think there is any intention of removing sections of proposals at the present time. We reiterated our point (translated into German for the Minister's benefit) that any such deletions would be viewed as very damaging by the U.S. and could not be accepted. (Also standing by during this conversation was Dan Reifsnyder as well as Chairaman Estrada's right hand man from the Argentinian Missioin in Geneva.)

Two other points addressed with Merkle included rules of procedure and evolution. Cornelia stated that the EU could not accept an evolution article in the proposed protocol (or other legal instrument, we added). Asked about their willingness to retain the concept in a Kyoto Mandate, she initially avoided responding, but after a brief consultation with Merkle indicated that this was something being considered by the EU but that no specifics had been worked out. (This is somewhat different than what we were told earlier by the EU rep in Update 7.)

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

Climate Talks, Update No. 3 (March 4/5): Key Process Issues Remain Unclarified Despite Work of "Non-Groups"

Despite activities of one "non-group" (on Article 4.1) and the continued effort by the Chair to "simplify" the text for the section on Quantified Emissions Limitation and Reduction Objectives (QELROS), little by way of substance was accomplished during the afternoon meetings handling issues related to Article 4.1 and differentiation or at the morning plenary dealing with QELROS.

The Wednesday morning session opened with short remarks by four NGOs (including our own Kelly Sims speaking for the "greens" and including Bob Cunningham speaking on behalf of the aFL-CIO and affiliates in Australia). Following these presentations (which were, unfortunately, poorly attended by delegates), Chairman Estrada opened the discussion on QELROS and called on Parties to help him "simplify" the text. The EU introduced its latest figures for cuts of 15 percent by 2010, reserving on a level for 2005. They appeared to cover us with the range of years noting 2005 to 2010 and the short term and referring to 2020 as the longer term. We created a considerable stir by suggesting that the EU Annex specifying individual EU member targets be included in order to provide a range for the negotiations.

On other developments during the QELROS discussion, both China and Tanzania speaking for the G-77 called for the deletion from the text of our section on joint implementation. Surprisingly, Peru stated that this should be included, as AIJ must be reviewed at one point in the future. The temperament of the Chair was quite sour throughout the morning's discussions.

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Differentiation Workshop

Chow Kok Kee of Malaysia chaired the afternoon workshop on differentiation. Although this workshop was the one afternoon event open to NGOs, it was not well-attended. The workshop consisted of presentations by the FCCC Parties which have submitted proposals for differentiation of targets in the new agreement. The session was opened by Norway, which presented an overview of countries different starting points, with respect to population and gdp growth, resource endowments, fuel mix, energy/carbon intensity and institutional structure. Presentations were also made by Japan, Poland and France (as a panel) and Australia.

Norway supports a formulaic approach to differentiation based on indicators of Parties' emission intensity per unit of GDP, total level of ghg emissions and GDP per capita. Poland proposes that GDP per capita, total emissions and emissions per capita be used as indicators, but has not specified a formula. France supports differentiation by categories of Parties, based on levels of ghg emissions per capita. Japan indicated that it would support either a formulaic approach, based on emissions per capita or an approach whereby Parties are allowed to self-select targets from a differentiated list. Australia has avoided a formulaic approach and argues instead that countries negotiate differentiated targets based on principles designed to equalize the welfare lost per person across countries.

Many of the differentiation panelists cited the recent burden-sharing agreement reached by the EU as validation of both the necessity, and feasibility of differentiation. Several countries also argued that differentiation would yield the environmentally optimal outcome, since differentiation would let all countries take on a higher target than they would otherwise. Several delegations, notably the US, EU, Slovenia and Russia, offered strong arguments against differentiation. The US noted the inherent contradiction of many of the differentiation proposals, the tendency of such proposals to favor the country proposing it and the trading would achieve many of the same objectives as differentiation. Many EU members, and the EC commission argued that the EU burden-sharing agreement was strictly an outcome of political will and a 'joint commitment'.

The Chairman noted the difficulty in achieving a common view on differentiation, but observed that reaching a common view is essential to the new agreement. The Chair will produce a summary text, but do the range of extreme views on the issues, is not likely to produce a working negotiation text.

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Article 4.1 Nongroup meeting 3/4

The mandate of the 4.1 "nongroup" was not to negotiate, but only to streamline the section of the compilation document on "continuing to advance the implementation of existing commitments in article 4.1." At the end of the day, the text was pared by about two pages, mostly due to removal of text by the UK, France, Japan and Uzbekistan, whose sections were already covered by the EU text.

The G-77/China took the typical position of stressing that Article 4.1 applies to all Parties, and that commitments cover 4.1 (a-j) and not just a and b (implying that developed countries are ignoring their c-j commitments). China was persistent in stressing that the Berlin Mandate must be strictly adhered to. There was some interesting, albeit subtle, dynamics between positions taken by AOSIS, Saudi Arabia and China over inclusion of the word "mitigation," which ultimately was retained in the text. The EU drew repeated criticism from the G-77 and China because it added text calling for in-depth reviews for non-Annex I Parties along the line of current Annex I reviews; the G-77 and China emphatically opposes any mention of in-depth reviews. The EU criticized the US text because certain sections (calling for developing countries to take "no regrets" measures, to do annual inventories, and to have their national communications reviewed) went beyond what was required of Annex I countries in the FCCC currently. There was broad agreement that a separate "transfer of technology" title under this section is not necessary. In reference to a paragraph put forward by Venezuela and other OPEC countries calling for transfer of (renewable) technologies under preferential and concessionary terms, Korea admitted that now that it is a developed country, it would not want to transfer its technology under such terms.

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Earth Negotiations Bulletin

A Reporting Service for Environment and Development Negotiations

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HIGHLIGHTS FROM THE SIXTH SESSION OF THE AD HOC GROUP ON THE BERLIN MANDATE TUESDAY, 4 MARCH 1997

Delegates to the sixth session of the Ad Hoc Group on the Berlin Mandate (AGBM-6) began consideration of elements related to strengthening commitments in Article 4.2 (a) and (b) and focused specifically on policies and measures (P&Ms). AGBM also convened a "non-group meeting" on elements related to advancing the implementation of existing commitments in Article 4.1.

POLICIES AND MEASURES

AGBM Chair Raúl Estrada-Oyuela (Argentina) opened the second meeting of AGBM-6 by stating that this meeting is not intended for negotiating but for refining and consolidating similar proposals contained in the Framework Compilation of Proposals (FCCC/AGBM/1997/2 and Add.1) to set out clear alternatives for negotiation at AGBM-7.

Annex I Expert Group Chair Ian Pickard (UK) reported on studies, carried out in cooperation with OECD and IEA, on carbon and energy taxation, P&Ms to encourage innovation in transport and technology and international greenhouse gas emissions trading. FCCC/AGBM/1997/MISC.2 contains an executive summary of these studies.

The Chair called on AGBM to consider the submissions on general commitments and guiding objectives for P&Ms. SAMOA called for a coordination mechanism to assist Annex I Parties in implementing their commitments, as proposed in the AOSIS protocol. The mechanism would provide advice on a full range of measures including taxes and subsidies and would report regularly to the "Meeting of the Parties." The mechanism would be multi-disciplinary and open to participation by all Parties, government representatives, NGOs and scientists with relevant expertise. SAMOA also noted the need to avoid duplication of tasks, but expressed concern that existing subsidiary bodies may not be appropriately equipped to address technical issues.

SAUDI ARABIA and CHINA said the comments from Parties contained in document FCCC/AGBM/1997/2/Add.1 should be included in the Framework Compilation. CHINA also expressed confusion regarding references to Annexes X, A and B in the proposals and urged Parties to refrain from developing new categories. JAPAN suggested that Annex I Parties adopt P&Ms according to national circumstances, in the areas of efficient use of energy, low-carbon energy, technological development and cooperation, and enhancement of sinks. The "Meeting of the Parties" shall decide on indicators for P&Ms.

The EU, supported by SWITZERLAND, favored legally binding P&Ms and highlighted his proposed Annexes A (common P&Ms), B (coordinated P&Ms that receive high priority) and C (priority P&Ms for inclusion in national programmes). The proposal contains P&Ms on: renewable energies; energy efficiency standards; labelling and other product-related measures; transport sector; economic instruments; energy policies; industry sector emissions; agriculture sector; forestry; and fluorocarbons.

Several delegations commented on the EU proposal and some noted alternative approaches and priorities. POLAND and the RUSSIAN FEDERATION supported a menu approach, which takes account of various economic structures and attempts to maintain a high and stable rate of economic growth. The G-77/CHINA, supported by SAUDI ARABIA, stressed that P&Ms should not have adverse impacts on developing country Parties. He also expressed concern about new annexes that would impose new commitments on non-Annex I Parties. The EU reiterated that his proposal provides flexibility through Annex B, which lists P&Ms to be applied according to national circumstances.

The US and SAUDI ARABIA did not support inclusion of specific P&Ms. The US also noted that sound information is not available for controlling greenhouse gases not listed in the proposed Annex C and suggested elaborating on P&Ms under the section on reporting. SAUDI ARABIA also warned that P&Ms undertaken by Annex I countries could negatively affect trade with developing countries. IRAN stressed the need for a section on general commitments and guiding measures in the protocol.

The EU clarified that energy efficiency, standards and labeling, as well as P&Ms related to fluorocarbons, should be the highest priority. He also noted that paragraphs proposed by a number of Parties including Norway, Iceland, New Zealand and Switzerland could be integrated into the EU proposal. He said some developed countries, particularly the US, have not included binding measures in their proposals and emphasized the EU's conviction that P&Ms should be included to fully encompass the Berlin Mandate and Geneva Declaration.

CHINA reiterated that the Berlin Mandate requires an elaboration of P&Ms whose objectives should be clear at this stage. He said the EU proposal is too complicated and supported

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a proposal by the Chair to use three "groups" rather than annexes on objectives, common but coordinated P&Ms and national P&Ms. The US also cautioned against including too many details and cited a number of examples illustrating the difficulties of proposed P&Ms related to specific products.

The EU did not support the groupings proposed by the Chair and noted they were difficult to distinguish. He said objectives should not be separated from mechanisms and measures, and proposed listing all of them in Annex A. He also said that relevant details related to specific products must be considered because they are traded in the international market and an international agreement is needed to ensure results.

The EU also reported that the EU Council had reached a common position on QELROS. The EU proposed that Parties to the Berlin Mandate will reduce emission levels for CO_2, CH_4 and N_2O by 15% by 2010 with a reference year of 1990. The EU also proposed an interim target for 2005.

The Chair also requested delegates to consider a proposal regarding countries with economies in transition that requests a specific annex because of their particular circumstances. The EU did not support a separate annex and noted that the concerns of these countries could be addressed elsewhere, such as in an introductory section. The Chair, supported by IRAN, said these concerns are better addressed when considering QELROs.

ROUNDTABLE ON DIFFERENTIATION

Chair Chow Kok Kee (Malaysia) welcomed the speakers on differentiation and called for a non-confrontational process that promotes understanding rather than political positions. Mr. Harald Dovland (Norway) said that differentiation provides for a more equitable and ambitious goal than the lowest common denominator agreement allowed by a flat-rate approach. He highlighted single and multiple criteria approaches to differentiation and emphasized that differentiation formulas are not necessarily meant to determine binding targets, but to provide tools for guiding negotiations. He cited the EU's proposed goals as an ambitious example for differentiation and cautioned that flexible instruments, such as joint implementation, are not a replacement for differentiation.

The US did not support the suggestion that progress can be achieved through differentiation and said that under a flat rate countries could accomplish more. He questioned the "trade off" between differentiation and a flat rate and asked if a system of differentiation is necessary. The Chair then introduced other panelists, who spoke in their individual capacity.

Mr. Akihiko Furuya (Japan) said that differentiation is indispensable for achieving fairness and noted that the Berlin Mandate calls for taking into account the different starting points of countries. He discussed a "formula-based approach," under which QELROs can be divided according to specific indicators. He also noted the "selective approach," under which countries could use GDP as an indicator, and the "negotiation approach," under which each country would negotiate its QELROs with other countries.

Mr. Maciej Sadowski (Poland) said that the preferred approach involves differentiation by countries and noted that aggregation into groups could be effective. He underscored the political difficulties in agreeing on a common set of criteria and proposed concentrating on the target to be achieved by each Party.

Amb. Louet (France) noted that differentiation is not a result of theoretical considerations, but of unavoidable practical necessity. He noted that the EU has adopted a common position and explained that a greenhouse gas emission reduction of 30% for Luxembourg and 25% for Germany, could be offset by Portugal's and Greece's respective greenhouse gas emission increase of 30% and 40%, which account for differences in starting points. He noted that even countries favoring the flat-rate concept recognize the need for flexibility. He cautioned that a tradable permit system would give premium to the biggest producer of greenhouse gases.

The EU underlined the differences in countries' ability and costs associated with meeting commitments. As a regional group, it is taking on joint commitments and will engage in internal burdensharing. A number of EU countries are willing to commit themselves to reduce emissions. SWITZERLAND stressed that there is no good unique indicator that can take into account national circumstances and said that the logical starting point of the discussion is agreement on the quantity to differentiate.

The US suggested focusing on targets, outcomes and QELROS so that overall reductions can take place while Parties who find targets burdensome can trade emissions with others. GERMANY urged countries to enrich progress by making concrete proposals regarding numbers for significant overall reductions and the contributions that countries intend to make toward these goals.

Amb. Howard Bamsey (Australia) stressed that differentiation is necessary for reflecting different national circumstances. He noted there are a large number of proposals, but a small number of indicators. He outlined common groups among proposed indicators: those based on economic structures and resource bases; those based on emission reduction tasks including population growth, economic growth and per capita resources; and others based on trade impacts.

GERMANY stated that differentiation within the EU was not based on indicators, because indicators do not reflect political reality. She noted that Germany, Denmark and Austria accepted the largest shares of the reduction burden because they are convinced that combating climate change is important. The US noted that the EU collectively argued in 1990 that they would reduce emissions drastically. He said this reduction would have been possible with a flat-rate.

GERMANY, referring to the EU experience, suggested making a joint commitment for a future protocol, setting common targets for Annex I Parties and deciding how to share them. AUSTRALIA asked how differentiation was achieved within the EU and noted this could set an example for Annex I countries on the road to Kyoto. ICELAND stressed the need to reach conclusions on differentiation before Kyoto.

IN THE CORRIDORS

Several participants provided favorable reviews of the non-group's efforts to fulfill its non-mandate of streamlining the Framework Compilation. One participant reported that the non-group narrowed the options and will submit a revised text to AGBM. Another commented that some delegates appeared unclear on the concept of streamlining and used the meeting as an opportunity to regurgitate lengthy, all too familiar positions.

THINGS TO LOOK FOR TODAY

AGBM: Plenary will convene at 10:00 am in the Plenary I Hall to consider QELROS.

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Cc: Am JVM JS TR

4 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change Periodic Update No. 7 for March 3/4, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the afternoon of March 3rd through the morning session on Tuesday, March 4. Also included are more detailed reports on meetings held earlier this week prepared by USDA's Whitman and State's Wickwire; two pages from the latest edition of "ECO", the rag published by environmental NGOs, which includes NGO reaction to the EU "numbers" and a criticism of U.S. proposals, as well as the report of the "Earth Negotiations Bulletin" covering all plenary activities for Monday, March 3. The final paragraphs can be used as a DAR item as desired and appropriate..

Climate Talks, Update No. 7 (March 3/4): "Simplifying" Gets Complicated as AGBM Plenary Plans to Break Off into "Non-Groups"

AGBM Begins to "Simplify" Policies and Measures Aspects of it Proposed Text

With Chairman Estrada of the Ad Hoc Working Group on the Berlin Mandate (AGBM) insisting that the task before the body is to "simplify" the compilation document, rather than to negotiate its elements, the plenary opened on March 4 with a discussion of the policies and measures (PAMs) portion of the document. Few concessions were made by those Parties which submitted items for inclusion in this section, but the Chair indicated that he had enough input to produce a revised document, at least for a part of this section. The U.S. made the point that its view that nothing need to be specified in the PAMs had not been included, and we suggested that this oversight be corrected in the revised version.

The EU's lengthy list of PAMs was criticized for its specificity by China and by ourselves, although the EU emphasized, in repeat interventions, the importance which its attaches to PAMs. The Iranians and the Saudis both chimed in with critical comments, and both emphasized that they did not want to see any part of their proposals removed. The Saudis took this view one step further by insisting that countries be given the opportunity to retain aspects of proposals which may be ultimately withdrawn by the Party initially proposing them.

What was more noteworthy than what was said in this plenary meeting was what was excluded or postponed by the Chair. China and Tanzania (speaking for the G-77) both called on the Chair, for the sake of "clarity", to remove the EU's Annex X and the U.S. Annex B from the proposed negotiating text, because these are not within the Berlin Mandate (sic). Reflecting remarks he had made to us prior to this meeting (pls see below), Estrada noted that Annexes will be discussed later and mentioned (somewhat inaccurately) that for now they did not involve G-77 countries and should not be a cause for concern.

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More Action in the Side Meetings

The more interesting action for the moment is taking place outside of the main halls in the various consultations which the Chair is holding with Parties. At a late evening dinner on March 3, Estrada essentially said that he wants to try to find a way to sort out the problem of Annexes "outside of the protocol process if necessary." He voiced his opposition to joint implementatiion with credit for non-Annex I Parties (although he sounded supportive of JI within Annex I); sounded sympathetic about emissions trading and emissions budgets and did not mention Article 16 on 'evolution.' (We know that he opposes its inclusion in the negotating text being prepared for June 1.)

Prior to the March 4 plenary, we met with Estrada along with Mexico, Korea, and the EU to discuss the EU and US respective graduation annexes. Here, Estrada expressed concern about the pressure he is feeling from the G-77 and China to remove these from the negotiating mandate. Estrada said that he wants to "encapsulate" the concept and remove it as a point of open contention during this session. He asked the Parties present to get together to try to find a way of defining a graduation paragraph in a manner which might make it more palatable. Korea was quite forthcoming in indicating that it prefers our Annex B to the EU's fuzzier formulation. Mexico also indicated a similar sympathy, although it is clear that they would prefer to cut a deal with the EU rather than with their North American neighbor.

We agreed to discuss our Annex B concept further on a bilateral basis with concerned countries. However, we pointed out on three occasions during this conversation (as bluntly as we could) that any suggestioin that our Annex B should be removed from the text was not acceptable. We are prepared to flesh out our concept more after we have additional discussions, but we might not be able to meet the April 15 deadline. Estrada said he would try to hold back the floodgates on this matter, but he said he would need our assistance. We promised him some written points he could use to counter the argument being advanced that Annex B is not within the scope of the Berlin Mandate.

EU Supporting a "Kyoto Mandate"?

One surprising disclosure included an EU remark that, while they will oppose the inclusion of our Article 16 on "evolution" in the proposed legal instrument, they will in fact support a Kyoto Mandate which covers the next steps expected in the climate change talks. This statement was made to us privately, and following inquiries, it was indicated that the EU might even be willing to make conclusion of a protocol or other legal instrument contingent on the approval of an appropriate Mandate on follow-on steps.

EU's Numbers Arrive -- More with an Interested Whimper than a Registered Bang

As reported in Update No. 6, the EU ministers decided on a fixed target of 15 percent for the year 2010. Only ten percent of this was differentiated at the present time. If Parties agree to a 15 percent reduction, additional allocations will be made. The reaction around the room has been quiet. The EU decided not to make a statement on this at the morning plenary, deferring a statement until later. The NGOs routinely applauded the announcement as hopefully putting more breath into the negotiations, they however criticized the lack of any mention about 2005, and indicated that this omission must be taken care of by Kyoto.

It is clear from discussions with various EU reps that this decision was taken on a purely political basis. It does not appear to be backed up by any degree of analysis. Agreement on a level and certain already harmonized PAMs was the thrust of the decision. It was also suggested that the EU expects the U.S. to back them away from the 15 percent target. The EU is confident that it can make the 10 percent target which they have already distributed among the member countries.

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U.S. "Dog and Pony" Show a Success

To a packed audience, Messr. Pershing, Forrister, and Doniger responded to questions posed about our propopsed protocol framework at a lunch-time gathering on March 4. Among the concerns raised were ones dealing with our annexes, Article 16, JI, and emissions trading. Perhaps the bluntest question came from the head of the Japanese delegation, Ambassador Tanabe, who asked if the U.S. Congress will approve anything agreed to at Kyoto (perhaps Tanabe has been talking to members of the staffdel in attendance at this conference.)

Together with the round table discussion of March 3rd, our proposal has now had a full public airing. Dr. Pershing exceeded even our boldest expectations with his fluent presentation of our proposal, and his adept handling of questions at the March 3rd round-table. Even delegates who do not agree with us ((including Malaysia and Iran (whose delegate commented: "You've got quite a team!")) stated that our proposal is the most concrete one presented to date. (A contrary view is contained in the accompanying ECO submission.)

Afternoon Activities: The First "Non-Group" Meets; NGOs, and Labor Concerns

The Chair announced that the "non-group" on Article 4.1 -- advancing the implementation of commitments -- will start on the afternoon of March 4. There will also be the roundtable on differentiation which was discussed in Update No. 5. We were asked by the Australians to sit on the panel as "critical observers" but declined, offering instead to pepper the panel with appropriately provocative questions.

We will be meeting with environmental and business NGOs after this afternoon sessions, as well. One issue which will undoubtedly arise is their exclusion from the "non-group" meetings (decided by the chair with a bang of his gavel yesterday). NGOs complain that this sets an unfortunate precedent. The Chair argues that these are not formal negotiating sessions and involve only submissions mad eby Parties. Hence, in his view, only Parties should be included.

We are attempting to intercede with the Secretariat to allow an AFL/CIO representative address the plenary tomorrow when other NGOs will be speaking. If the Secretariat balks (and we see no reason why it should), we will not press the point. In any case, one hopes that the statement, if made, is more accurate than the recent (Feb 20) AFL-CIO Executive Council press release which wrongly states that the Berlin Mandate "specifically excludes developing nations from emission reduction requirements." This will be music to the ears of China and the Philippines, and will not help make organized labors' case any more effective.

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March 3, 1997
AGBM, Session 6, 1st meeting
Carol Whitman

Chairman Estrada opened the sixth session of the AGBM, held 3-7 March 1997 at the Stadthalle in Bad Godesburg, Bonn, Germany. He noted that since the last meeting Parties had added a significant number of proposals and he was concerned with the lack of agreement between developed country Parties on substantive issues. He underscored the imperative for developed countries to take the lead in reducing emissions, noting the difference between developed countries' wasteful consumption and developing countries' poverty. He bemoaned the lack of percent reduction numbers in submitted proposals. Michael Cutajar, Executive Secretary, mentioned that this was the last meeting before the 1 June 1997 deadline for circulation of a protocol text 6 months prior to its consideration by COP-3 in Kyoto. Proposals are still arriving. Tanzania stated the G77/China expected strict adherence to the UNFCCC, Decision 1/CP.1, and the Berlin Mandate on guidelines, scope, policies and measures (P&Ms), quantified emission limits and reduction objectives (QELROs), Article 4.1, etc. The provisional agenda was adopted. Routine administrative business was conducted. The Chair proposed forming two non-groups to exchange ideas and simplify proposals: (a) one on introductory elements, institutions and processes, and final elements to be chaired by Mr. Takao Shibata of Japan; and (b) a second on continuing to advance the implementation of Article 4.1 to be chaired by Mr. Evans King of Trinidad and Tobago. The Plenary, under the AGBM Chair's leadership, would deal with P&Ms and QELROs. Several developing country Parties expressed concern with their delegations being too small to attend all the meetings. Several Parties expressed concern with how the process would select some proposals for inclusion, and exclude others. The proposed organization was adopted. The Chairman ruled that participation in non-groups would be limited to Parties (closed sessions). The session was adjourned to begin the Roundtable on New Proposals.

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Report on the Informal Roundtable on Parties' Proposals
AGBM-6
March 3, 1997

On Monday morning, the formal meeting of the AGBM adjourned to allow time for informal presentations on Parties' proposals included in the compilation document. Other Parties were also permitted to ask questions. Poland spoke on behalf of several other Central European countries, emphasizing legally binding policies and measures, and differentiation based on GDP per capita and a Party's share of global emissions while dismissing formulas which should not serve as substitutes for political decisions. On behalf of the EU, the Netherlands made a brief presentation on their proposal which clarified previous points but provided no new information (Annex X = OECD + CWEITs; Joint Implementation, for now, means jointly implementing policies and measures (PAMs); and PAMs in their Annexes A&B should apply to Parties in Annex X and to any Parties which voluntarily sign on to them). Tanzania followed with the developing country mantra: the AGBM process should strictly adhere to the Berlin Mandate, no new commitments for developing countries, etc., but added that G-77/China members are not calling for specific PAMs for Annex I Parties. France and Iceland also made predictable presentations on their differentiation schemes; however France added that non-Annex I countries should "progressively implement" policies in their economic development. Questions from Malaysia, Venezuela, Mauritius and Switzerland touched upon differentiation criteria in the Icelandic proposal and whether one could develop a variable to take into account historic responsibility for emissions. The U.S. also posed questions on graduation modalities for Annex X in the EU proposal and how to consider the impact of Annex I response measures on non-Annex I Parties. In its comment, China expressed a concern that Parties "misunderstood" the Berlin Mandate in their attempts to pick and choose among its elements. Iran's presentation on the need for compensation for the potential losses by oil-producing states resulting from Annex I response measures ended the morning session, but not before the U.S. asked whether Iran had data for determining the level of compensation (answer was basically no).

In the afternoon, Australia began with its version of differentiation which prompted questions from Malaysia on emissions trading and from China reiterating the necessity of staying within the Berlin Mandate. Saudi Arabia and Kuwait picked up where Iran left off on the whole compensation issue. The U.S. and others came back with queries on whether developed countries, which are dependent on fossil fuel exports, would also be eligible for compensation; whether solar power producers would be liable for damages for cutting into the fossil fuel market; and whether countries that may have to pay higher prices for oil would also receive funds. Italy called into question whether the compensation fund, itself, would be legal since the GEF is the only funding mechanism for the Convention. After considerable discussion, the Canadian representative opined that change in energy sources was inevitable and who's to say that a shift from fossil fuel sources wouldn't happen anyway. In a presentation along our lines of thinking, New Zealand stressed flexibility in terms of timing (cumulative budgets), location (emissions trading), and coverage (all GHGs and sinks). Dr. Jonathan Pershing then made a detailed presentation on our proposal. Questions came on trading (Malaysia), criteria for Annex B (Thailand), the level and distribution of commitments (EU), and the legitimization of pollution and the spurious creation of a market through trading (Iran). Uzbekistan, on behalf of several like-minded states, closed out the day with a call for studying the ways and means to reduce the economic consequences of response measures and for differentiation, GDP per capita should be the main criterion.

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27 February 1997
SBSTA, Fifth Session, 3rd meeting
Carol Whitman

At the invitation of the Chair, WMO gave a short presentation on the WHO/WMO/UNEP report on *Climate Change and Human Health*. The Secretariat then introduced its report on progress in the development and transfer of technologies and workplans. Venezuela and Japan discussed the Climate Technology Initiative and workshop, emphasizing needs for capacity building, training, cooperation with host country governments, technology transfer, and technology information centers. Tanzania, on behalf of the G77/China, noted in its remarks that in Article 4.7 of the Convention, effective implementation of commitments by developing countries was dependent on technology transfer by Annex I Parties. AIJ must be considered supplemental, not conditional. AOSIS Parties and India placed particular emphasis on adaptation technologies. Malaysia, Nigeria, Marshall Islands, China, Saudi Arabia, Thailand, India, and Mauritius specifically supported one-stop technology shopping centers and regional technology centers, and the need to expand the University of Amsterdam survey on technology needs to all developing country Parties. Developing country Parties requested preferential and concessional terms of transfer. The USA and Japan emphasized the role of the private sector, while China took exception to this, indicating that the private sector was responsible for much pollution in developing countries. Many G77 Parties brought up the issue of Intergovernmental Technology Assessment Panels (ITAPs) and the Chair suggested considering the establishment of two ITAPs: one on technology and another on methodologies. Australia said that it was important to look at how the governmental/institutional/policy environment within the host country can encourage investment. Finally, the GEF gave a short report on its Science and Technology Advisory Panel's activities in technology transfer.

The Chairman indicated that the contact group on AIJ was making good progress and invited Parties to remark. Tanzania, for the G77/China, noted that credit for AIJ should not be considered until the end of the pilot phase (end of 1999). Zimbabwe commented that AIJ is currently very limited in its geographic distribution and sectors. The Netherlands, for the EU, supported the G77 position of no credit for AIJ. The USA deferred comments until the report of the AIJ Contact Group was submitted.

There was an informal session (no translation) in the evening to discuss SBSTA's conclusions. Areas of contention included: (1) national communications for non-Annex I Parties; (2) the development and transfer of technology; and (3) cooperation with relevant international organizations. The Philippines and Malaysia didn't like a draft recommendation for non-Annex I Parties to voluntarily submit greenhouse gas inventories. The Philippines insisted on language from Article 4.3 that the agreed full costs of the inventory be provided by the operating entity of the financial mechanism. The USA insisted that this language would limit funding by other sources provided for under Article 12.5. Malaysia supported a conclusion that the Secretariat should set up one-stop specialized information centers and regional information centers for technology transfer. The USA felt this was premature since there had been no review of existing facilities. A compromise was reached to request the Secretariat to report on existing networks and regional centers, modalities and financial implications regarding the possible establishment

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of one-stop information centers and regional technical centers. Kuwait submitted alternative language for conclusions on cooperation with relevant international organizations, reflecting their continuing concerns over the Technical Paper on *The Implications of Emissions Limitations and Reduction Proposals* (TP4). A compromise was reached.

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28 February 1997
SBSTA, Fifth Session, Report of the Session
Carol Whitman

In its fifth session, SBSTA took up a series of issues ranging from its cooperation with other international organizations, to methodologies, to the development and transfer of technologies and the uniform reporting format for the pilot phase of AIJ. At the conclusion of the session, SBSTA had not agreed on the election of its officers. But the Chair reported progress and hoped discussions would conclude the following week during AGBM 6.

The SBSTA received reports on the Climate Agenda's research and observational systems, prompting less developed country Parties to request a greater role. Tensions in the relationship between SBSTA and the IPCC were apparent. Developing country Parties complained of inadequate scientific representation in IPCC activities and an inability to control IPCC's agenda. IPCC released two more technical papers: *Simple Climate Models* and *Global Stabilization of Atmospheric Greenhouse Gas Concentrations*. The IPCC's technical paper *The Implications of Emissions Limitations and Reduction Proposals*, which will consider emissions profiles proposed by countries to be included in protocols, generated much consternation within the Kuwaiti delegation. Kuwait felt that the paper should be turned into a special report and consider the socioeconomic implications of emission limitations by Annex I Parties in addition to the physical implications of temperature and sea level rise.

The issue of national communications from Annex I Parties was noncontroversial. Many Parties are anxious to see reports on technology transfer activities in the second national communications, due April 15, 1997. The UK has already submitted its report. The attempt of some Parties to get SBSTA to invite non-Annex I Parties to voluntarily submit greenhouse gas emission inventories was rebuffed by the G77/China after several contentious debates. The G77 were suspicious of Annex I motives and demanded that the agreed full costs of preparation be provided by the operating entity of the UNFCCC financial mechanism. Reference to this was deleted from the final conclusions.

The SBSTA adopted the recommendation of the methodologies contact group to request the Secretariat to develop scoping papers on eight methodological tasks, in consultation with the IPCC. No decisions were reached on a division of labor between the IPCC and bodies of the Convention, although the SBSTA noted the view of the JWG that the IPCC should take the lead for methods related to GHG inventories, climate change impacts, and socioeconomic cost-benefit analyses. SBSTA requested proposals to reduce the cost of publication, translation, and dissemination of reports by April 15, 1997.

Since the Secretariat was unable to finish its report on mechanisms for consultations with non-governmental organizations, discussion was delayed until SBSTA 6. The EU was particularly dismayed. The SBSTA invited SBI to consider this issue also.

The development and transfer of technologies received more attention at SBSTA 5 than any other issue. There were many meetings on the Climate Technology Initiative and a long list of conclusions, such as: (1) request the secretariat to expand the technology needs survey to include all developing country Parties; (2) evaluate and assess technology information centers and networks, and consider the value-added of one-stop specialized technology information centers and regional technical centers; and (3) consider the establishment of intergovernmental technology assessment panels on methodologies and technologies at SBSTA's next session.

The SBSTA adopted a uniform reporting format for activities implemented jointly (AIJ) under the pilot phase. The G77/China, with support from the EU, maintained there should be no credit for AIJ during the pilot phase. The USA urged Parties to have SBSTA evaluate the issue of credit during the pilot phase.

Conclusions were adopted and SBSTA completed its work on time.

CLIMATE NEGOTIATIONS BONN MARCH '97 NGO NEWSLETTE

eco

4 MARCH
NON-SENSE ISSUE

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 Bonn, February-March 1997.

European Union Moves – Finally!

The best news of the day came Monday late afternoon from Brussels. There, EU Environmental Ministers finally agreed on a joint proposal to put forward to the climate negotiations in Bonn. The core of this proposal is a binding emissions reductions commitment for a 15% cut in greenhouse gases by 2010. Missing from the proposal, however, is the most essential 2005 target year, with the AOSIS Protocol's 20% reduction in CO_2 emissions remaining the only specific proposal for that year.

To quote from the Council Conclusions: "The Council regrets the lack of firm commitments so far from other Annex X *[do they mean "I"?]* Parties. It agrees that the Community should propose that Annex X Parties, individually or jointly, in accordance with the Berlin Mandate, shall reduce emission levels for CO_2, CH_4, and N_2O together (weighted total, using GWP <Global Warming Potential> with a 100 year time-horizon) by 15% by 2010 (reference year 1990)" . This EU-decision is the first essential one on climate change mitigation since its promise in 1991, prior to the signature of the Convention in Rio, to stabilize CO_2 emissions based on 1990 levels by the year 2000.

Thus, after so many failures of the EU to maintain, or even actively show, leadership within Annex I countries, this recent decision will hopefully breathe some fresh air into the currently deadlocked negotiations of this week.

Despite NGO acknowledgment of its positive character, the EU proposal has serious shortcomings which need to be improved on the road to Kyoto:

- the critical target year of *2005 is still missing*, though the EU promises to deliver on that one at its next Council meeting. We hear that the EUs biggest Island nation and its Chunnel partner (UK and France) prevented the 2005 agreement which the Dutch presidency had tabled. We hope that these nations will improve their performance ASAP, as the 2005 goal is essential to getting which is needed to ensure the early action necessary to prevent a dangerously high rate of climate change. Due to these delay tactics, the EU will be unable to formally table a 2005 target, as the next EU Environment Council is after June 1st. This is the deadline for a protocol proposal to be formally tabled for Kyoto.
- *basket approach*: The originally proposed target of the Dutch presidency contained a basket-approach of greenhouse gases. A basket approach is unacceptable from the scientific point of view. However the Dutch proposal contained explicitly a cut of CO_2

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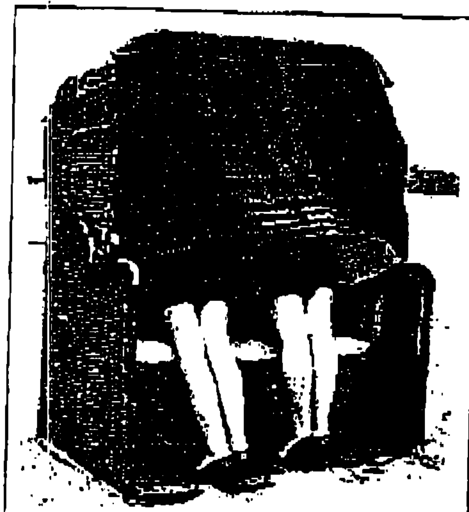

Closed informal non-group in session yesterday

The Access Questio

NGOs are very disappointed by the Chairm decision to exclude us from important nego ing sessions. Simply through the establishn of a new category – "non-groups" – at ye day's meeting, the rules of transparency public participation no longer apply. We concerned that important decisions relatin the operation of the instrument being neg ated no longer have our input.

The longstanding rule has been that obs ers may attend *all* subsidiary body meeti As the AGBM is a subsidiary body, the applies to the present negotiations. We do think this rule should be circumvented.

One of the major diplomatic achievement recent years has been the democratization international environmental governance. Pu participation and transparency have beco hallmarks of international environmental regin NGOs contribute to the success of these regin at every level by developing the science, inform the public, marshalling political support, prodd recalcitrant negotiators, and providing front l troops to implement and monitor these regim

The principles of transparency and full p ticipation apply for all accredited NGOs. T process is not served by excluding any group w a legitimate interest in the outcome. We appeal members of every delegation who support NC participation to reconsider yesterday's decisic

CONTENTS

eco

The proposal by the Council of the European Union that industrialized countries should reduce their GHG emissions by 15% by 2010 from 1990 levels is at once welcome, overdue and flawed.

Failing to set a year 2005 target at this stage fundamentally weakens the EU's position. AOSIS, whom the EU has been keen to support in the past is entitled to feel betrayed by the omission of this year and the 20% CO_2 reduction. The EU Ministers have promised in their Council Decision that there "should" be a target for 2005 – and they *should* adopt one at their June Council.

Whatever the faults, however, of the EU Council Decision, it is far ahead of the US and Japanese non positions.

The dismal, cynical and repetitive carping of members of the US delegation about the European Union and its credibility is at best a rhetorical smokescreen to cover the embarassment of its own lack of action. The US projections for 2010 are for an *increase* of 15-20% above 1990 levels and it has nothing like the analysis of the measures required to *reduce* its emissions by 15% which the EU has actually conducted.

The favourite US line is that the Europeans talk big and act little. One has only to reflect, however on the Montreal Protocol meeting in 1990 that agreed to phase out CFCs by 2000. The US initially opposed this and one of the key arguments used was just that. In the end the Europeans were right, the USA (and it should be noted, one former head of Delegation Robert Reinstein) were dead wrong.

The US should just face the fact that action is needed, the EU is taking this seriously and bring forward its own emission reduction target at the earliest opportunity.

South Counters US Proposals

Peter Otinda, CNA; Bamba Ibrahima, CONGACI and Ramon Sales Jr., CANSEA

The US attempt to hoodwink other Parties into accepting their draft protocol just may fail, as it has been greeted with resistance by members of the G77 and China. They perceive the US's failure to attach specific numbers to its proposal as a demonstration of America's lack of commitment to push the negotiations forward. The US introduction of a new category, Annex B – countries with no legally-binding obligations that would voluntarily adopt an emissions budget – is seen by a number of developing countries as a way of smuggling in new commitments, contrary to the Berlin Mandate and the Convention text, and as a possible attempt to introduce division among the G77. One developing country characterised the US proposal for multi-year greenhouse gas budgets, emissions trading, banking and borrowing as a way of legitimizing environmental pollution, as well as a lack of acceptance of responsibility for the historical build-up of GHGs.

The message of the G77 is clear – they are not ready to accept any new commitments, and the negotiation process must not deviate from the Berlin Mandate and the Convention text.

It remains to be seen how this proposal, described by many countries as too complicated to be adopted in time for Kyoto, will be simplified. There are clearly many questions which need to be directed to the US delegates in today's briefing on their proposal. These relate to the practical implementation of the proposal; the ability of the Parties to monitor the process; the resources for monitoring; and exactly how developing countries that do voluntarily choose to endorse the proposal and adopt emission budgets will benefit.

Zero Points for French Officials

By Antoine Bonduelle, RAC France

The fact that the EU figures released yesterday showed zero commitments from France is a national disgrace, but by no means surprising. France's Industry Ministry representative spent much of yesterday morning in animated discussions with well known fossil fuel lobbyist Don Pearlman. This is likewise unsurprising. After all, the French Industry Ministry is home to the infamous M. Leteurtrois of the Energy Department (DGEMP). This high level civil dis-servant was recently quoted as saying that his department might have to give way on the 15% target, but that he personally would make sure that it is not implemented. For those in the present negotiations who favour renewables as a climate friendly solution, Leteurtrois will also be familiar as the man who publicly said (at th Metz hearings during the National energy ar environment debate) that the question is n "whether we should encourage renewable ene gies", but "should the state allow them grow" (with an implied "no").

While considering misdeeds by French c ficials, we should not forget the current Hou ing Minister, the right honourable M. Periss When questioned on commitments for ne building codes, as explicitly included France's proposal for Berlin (COP 1), the m distinguished gentleman replied that as a jun minister in the Chirac government, he did t feel obliged to fulfil commitments made un Balladur, the previous Prime Minister. Keep the good work!

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A DAILY REPORT FROM THE SIXTH SESSION OF THE AD HOC GROUP ON THE BERLIN MANDATE

Earth Negotiations Bulletin

A Reporting Service for Environment and Development Negotiations

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HIGHLIGHTS FROM THE SIXTH SESSION OF THE AD HOC GROUP ON THE BERLIN MANDATE MONDAY, 3 MARCH 1997

The sixth session of the Ad Hoc Group on the Berlin Mandate (AGBM-6) of the UN Framework Convention on Climate Change opened on Monday, 3 March 1997 in Bonn, Germany. Following opening statements, delegates adjourned the formal session and convened an informal round table on new proposals from Parties. Parties elaborated on their proposals and responded to questions. Delegates also agreed to convene "non-groups" to exchange views and merge different proposals.

OPENING SESSION

AGBM Chair Raúl Estrada-Oyuela (Argentina) noted the considerable number of new proposals and called for long-term sustained efforts from industrialized countries. He said changes would be neither easy nor inexpensive, but added that the costs resulting from inaction far outweigh the costs of preventative measures. He welcomed Dan Reifsnyder (US) as rapporteur.

FCCC Executive Secretary Michael Zammit-Cutajar noted that AGBM-6 marks the last session prior to the six-month deadline for circulating a draft protocol. The negotiating text must "contain the seeds" of the final outcome and there should be no surprises after 1 June 1997.

The WORLD COUNCIL OF CHURCHES appealed to delegates to act now and noted that delayed action will involve even higher demands. He said climate change is an issue of global justice and called on AGBM to promote lifestyle changes in developed countries.

The secretariat introduced the "Framework Compilation of Proposals" (FCCC/AGBM/1997/2 and Add. 1); "Implementation of the Berlin Mandate: proposal from Parties" (FCCC/AGBM/1997/Misc.1) and "Comments from Parties" (FCCC/AGBM/1997/Misc.2). Regarding the organization of work, the Chair urged AGBM to produce, elaborate on and streamline a negotiating text to be ready by 1 June. He proposed establishing two "non-groups": one non-group to focus on institutions and processes, final elements, definitions and the preamble, and one non-group to work on continuing to advance commitments in Article 4.1. He said the main purpose of the non-groups is to exchange views, rather than to negotiate, and to merge different proposals into one text in order to facilitate adoption of a negotiating text.

CHINA, IRAN and MOROCCO, on behalf of the African Group, requested clarification on the division of tasks between non-groups and asked whether the non-groups would address P&Ms and QELROs. The G-77/CHINA, supported by the EU, MALAYSIA and the AFRICAN GROUP urged for a limited number of additional groups, given the constraints facing small delegations. CHINA also cautioned AGBM not to "waste time" on issues related to institutions and definitions. The Chair said P&Ms and QELROs would be addressed in Plenary and noted the value of institutions and legal systems.

The EU urged countries to provide input in legal language and streamline the Framework Compilation text by focusing on achievable options. The EU also suggested that the Chair develop a protocol or another legal instrument by 1 June, if AGBM does not complete this work by the end of the week. IRAN said the EU proposal was premature and SAUDI ARABIA urged that AGBM complete a negotiating text and not leave work for the Chair. The Chair noted that non-groups will be open only to Parties and will not involve negotiation.

ROUND TABLE ON NEW PROPOSALS FROM PARTIES

AGBM Vice-Chair Suphavit Piamphongsant (Thailand) opened the round table and noted that 18 new proposals have been submitted. The proposal by POLAND, BULGARIA, ESTONIA, LATVIA and SLOVENIA, stated that QELROs should be legally binding. Proposed criteria for QELROs include: GDP per capita; each Party's contribution to global emissions; emissions per capita and/or emissions intensity of GDP. He also preferred the "menu approach" for establishing measures to be adopted by Parties.

The EU proposal includes a general commitment for Parties listed in "Annex X," which would consist of OECD members and countries with economies in transition. It groups P&Ms into Annex A (mandatory), Annex B (high priority) and Annex C (priority). The proposal allows for joint implementation and voluntary application by non-Annex X Parties.

The G-77/CHINA urged AGBM to adhere to the Convention and the Berlin Mandate and refrain from developing new commitments for non-Annex I Parties. The G-77/CHINA proposal calls for: ensuring that P&Ms have no adverse socio-economic impacts on developing countries; establishing a concrete compensation mechanism for damage in developing countries arising from implementation of response measures; and setting QELROS within specified time frames, such as 2005, 2010 and 2020.

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FRANCE proposed differentiating the commitments of Annex I Parties according to present emission levels of greenhouse gases per inhabitant and per GDP. He proposed coordinating P&Ms at an international level and considering joint measures between Annex I and non-Annex I Parties.

ICELAND proposed differentiation and the following parameters for identifying differences in national circumstances: GHG emission intensity and level, share of renewable energy sources and GDP per capita. He supported the formula Norway presented at AGBM-5, amended to account for the share of renewable energy. MALAYSIA commented that parameters are changing regularly. MAURITIUS inquired about a supervisory mechanism for this formula. VENEZUELA, supported by COSTA RICA, suggested "historical responsibility" as an additional criterion for differentiation. SWITZERLAND added "past efforts" by countries to reduce greenhouse gas emissions as another criterion.

IRAN's proposal opposes CO_2 taxes, energy taxes and new commitments for non-Annex I countries. His suggestions for reducing GHG emissions include: a focus on all GHGs, market-determined energy prices, removal of subsidies on coal and polluting energy sources, development of renewable energy sources, enhancement of sinks and attention to production and consumption sector activities and industrial processes. IRAN also proposes a compensation mechanism for adverse impacts of response measures. Responding to ZIMBABWE, IRAN noted that its proposed compensation mechanism is designed to compensate countries that incur losses due to policies and measures stipulated by the AGBM legal instrument and does not provide funds for countries that incur damages resulting directly from climate change. The US suggested that the proposal requires AGBM to project the consequences of non-action and asked what methodology would be used to make such a projection. IRAN replied that further details would be supplied at a later date.

AUSTRALIA proposed: a collective reduction objective for "Annex A" Parties, which are those listed in Annex I of the FCCC; mitigation activities that result in equal percentage changes in per capita economic welfare among "Annex A" Parties; differentiated commitments; use of indicators in the negotiation process; and further consideration of market-based approaches such as emissions trading and joint implementation. The proposal also supports a regular review process that Parties may activate in regard to their own commitments. Responding to MALAYSIA, AUSTRALIA said formula approaches are too simplistic to account for wide variations among countries' circumstances and emphasized that differentiation is not a means to delay action, but to achieve fairness. AOSIS asked why supporters of differentiation had not pooled their proposals and requested information on how differentiation would work in practice. CHINA expressed concern that emissions trading would replace government commitments with activities of firms and individuals.

KUWAIT, NIGERIA and SAUDI ARABIA supported the proposal by the G-77/China. They expressed concern about economic and social consequences of developed country Parties' policies and measures and requested adequate compensation for developing countries. They recalled Article 4.8(h), which refers to countries whose economies are highly dependent on income generated from fossil fuels, and 4.10, which states that Parties shall take into consideration the specific needs and concerns of fossil fuel producing countries and adverse effects resulting from the implementation of commitments. They noted that developed country Parties should take the lead in combating climate change.

The US asked: whether developed countries that export fossil fuel or suffer from increased oil prices are eligible for compensation; whether developers of solar power are liable for injury; and whether developed countries that take action to prevent damage in developing countries are also liable under this proposal. SAUDI ARABIA reiterated that developed country Parties should bear more of the burden and accommodate such effects through measures like differentiation. ITALY pointed out that the Convention does not include a compensation mechanism. SAUDI ARABIA, supported by IRAN, noted Article 4.8, stating that funding action be considered in regard to the specific needs of developing countries. KUWAIT noted his disappointment that the developed countries' proposals do not mention any provision for developing countries' compensation.

CANADA noted that economic change in energy sources has occurred over the past century and will continue regardless of a protocol. SAUDI ARABIA emphasized that it is the right of every Party to try to minimize the adverse impacts of an international binding agreement according to provisions given in the Convention.

NEW ZEALAND emphasized the importance of flexibility with respect to time (multi-year average emission limitations); place (emission trading); and coverage (all GHGs and sinks).

The US proposal contains: emissions budgets (banking and borrowing emissions); annual reports on measurement, reporting and compliance by "Annex A" and "Annex B" countries. Annex B would contain countries that have voluntarily entered before protocol adoption; non-compliance measures (e.g. denial of opportunity to engage in emission trading or loss of voting rights); continuing to advance implementation of Article 4.1, particulary "no regrets" measures; emission trading between Parties with budgets, and joint implementation between all Parties. Several countries noted the complexity of the US proposal. In response to the EU, the US highlighted the ability of countries to determine their own budgets and the penalty for emission borrowing. THAILAND suggested that AGBM not spend time discussing emissions trading.

UZBEKISTAN proposed differentiation for Annex I Parties, according to the level of economic development and GDP per capita. He urged for flexibility regarding obligations of countries with economies in transition, and developed-country support for non-Annex I country activities.

IN THE CORRIDORS

Several AGBM participants commented on developments towards a common position regarding QELROs within one regional economic integration organization. Despite its internal debate on burden sharing, agreement was reached on a common target. Some delegates suggested that this common position could advance the entire AGBM process by sparking a transatlantic debate. In contrast, others characterized the proposed target as "unrealistic" and doubted it would be taken seriously. One developing country delegate said the proposal could sharpen AGBM's focus on strengthening developed country commitments, while others noted that the target's timeframe greatly lessens its impact.

THINGS TO LOOK FOR TODAY

AGBM: Plenary will convene at 10:00 am in the Plenary I Hall and begin consideration of the preparation of a protocol or another legal instrument. Following Plenary, AGBM will divide into two "non-groups."

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15 pages

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3 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change Periodic Update No. 6 for March 2/3, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the evening of March 2nd through the morning plenary and roundtable on the morning of March 3rd. We are also including the latest edition of "ECO", the rag published by environmental NGOs attending this meeting which provides one with the flavor of the proceedings, albeit from a highly biased and unforgiving source! The final paragraphs can be used as a DAR item as desired and appropriate..

Climate Talks, Update No. 6 (March 2-3): "Simplify" -- Not "Negotiate" -- Deemed the Fundamental Watchword as this Session of the Ad Hoc Working Group on the Berlin Mandate (AGBM) Opens

ABGM Chair Adopts Cautious Approach During Opening Plenary

Despite the certain foreboding air which underlies this AGBM meeting, Chairman Ambassador Raoul Estrada opened the plenary on Monday morning, March 3rd, with a calm and patently unthreatening demeanor. As anticipated in earlier updates, he organized two what he called "non-groups;" the first to handle principles, definitions, and issues related to the preamble and a second group to deal with the advancing of commitments under Article 4.1 of the convention. Trinidad/Tobago's Evans King will chair the latter group, while Japan's Shibata will chair the former. Estrada himself will chair the plenary which will address policies and measures and QELROS. In response to requests from the G-77/China, Malaysia, and others, only two of the three groups will meet at any given time.

Estrada clarified that the task of these groups is to "simplify" the portions of the comprehensive compilation which has been prepared -- not to "negotiate" it. He stressed repeatedly that he wants Parties to find areas of similarity and -- showing flexibility and good grace -- agree to shorten or compress those areas where it is possible to do so.

Both Malaysia and China tried to get Estrada to clarify the "mandate" of these non-groups and, more specifically, to authorize them to remove items which are seen to be outside the Berlin Mandate. Estrada declined to rise to this undoubtedly attractive bait: Instead, he said that, as "non-groups," they can have no mandate. He reiterated that their task is to simplify, not negotiate text.

The EU, China and Malaysia all voiced support for having the Chair compile a text if the AGBM fails to complete its work by March 7. Iran, Kuwait, and Saudi Arabia all indicated that this action would not be acceptable. They indicated that "all points" must be included in the text prepared by the six month

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deadline. Concluding this portion of the debate, Chairman Estrada indicated that he wants to receive proposals from Parties on how to compress the text. By June, a text containing "all of the seeds" of the agreement will be needed. It will not be possible to introduce new ideas after that date, although he left open the possibility that additional amplification of existing proposals would be possible. He also said that he is not necessarily wed to the concept of the two non-groups which he had established. Others might be created to replace or supplement these as required. In this context, China expressed concern that the group would "waste its time" with these issues when the key ones are QELROs and policies and measures.

Roundtable Enlivened with U.S. Questions

The roundtable on the new proposals was begun after the adoption of the agenda and establishment of the non-groups. Among those speaking were Poland, the G-77/China, France, Iceland, and Iran. The Thai chair of the proceedings held all questions until Iceland which was then inundated with unsympathetic inquiries on its differentiation proposal. We then intervened with questions for the EU (on its Annex X), for Poland (how its proposal meshed with Iceland's), for the G-77/ China (what exactly are they doing to advance 4.1 commitments?) and for Iran (regarding how a compensation mechanism would be implemented). None of the answers were particularly illuminating, although the EU stated that it would be providing names of countries it believes are prospective candidates for Annex X (implying that these might be more than just Mexico and Korea).

Rumors About the EU Numbers

Rumors about the results of the EU ministerial in Brussels are flowing around the room. We have seen one news report which states that the EU has agreed to a cut of 15 percent by the year 2010, with only 10 percent being differentiated among the EU members at present. The remaining five percent will be distributed in the future. The EU delegates are meeting this afternoon, so we should be able to confirm this news report later in the day.

The Press has Arrived

Sarah Silver arrived and talked with us for 45 minutes on the night of March 2. We are cooperating as appropriate, and she appears content with our efforts. Another reporter from INSIDE EPA (Tony Kreindler) has also made his presence known.

Comment:

Thus far, the AGBM has proceeded quietly. At a dinner on March 2nd, Chairman Estrada indicated somewhat more forcefully than he had last Friday that he may have to use his prerogative as chair to remove from the text various items which he sees as outside the Berlin Mandate. Included in this category, he sees our concepts of Annex B and our Article 16 on evolution. He also has in mind the EU's Annex X and OPEC's compensation mechanism. Estrada gave no hint publicly that he is actively pursuing this idea. At both the COP Bureau meeting on Saturday, March 1 and at the March 3 AGBM Bureau meeting he emphasized the theme he later publicized at the AGBM plenary: namely, that the name of the game is to "simplify, not negotiate." Whether in the end he will decide that "simplification" means that he can lop off large and small chunks of various proposals, with the caveat that they can be addressed as side-negotiations in time for final resolution in Kyoto, remains to be seen. End Comment.

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3 MARCH ILLUSTRATED ISSUE

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 Bonn, February-March 1997

Compilation Comprehension

By Tessa Robertson, Greenpeace; Kelly Sims, Ozone Action and Merylyn McKenzie Hedger, WWF

One of the most important tasks for Parties at AGBM 6 must be to slim down the 111 pages of the Framework Compilation and its addendum into a sensible negotiating text. While amalgamating similar ideas may prove relatively uncontroversial, countries will undoubtedly resist losing any part of their own proposals, even those which patently have little chance of being agreed in Kyoto.

The Kyoto Protocol must include certain elements if we are to move towards the achievement of the Convention's objective. In addition, there are clearly a raft of self-serving proposals which must be deleted from the Compilation.

We thought it would be helpful to delegates not only to produce a checklist of what we think must be in the Protocol, but also what must come out. Since our goal is to make the Compilation less weighty, we have done your work for you, and counted the number of paragraphs we think you don't need.

What *should* be in the Kyoto Protocol:

- Legally binding emission reduction obligations for all greenhouse gases (CO_2, methane, N_2O, HFCs, PFCs and SF_6)
- Emission controls set on a gas-by-gas basis
- A 20% cut in CO_2 emissions
- 1990 baseline
- 2005 as the first year for emission reduction targets
- A flat rate target
- If emission budgets are used then periods should be no longer than five years
- Reviews of emission reduction commitments at least every five years
- Policies and measures identified by the AGBM as requiring agreement and international co-ordination in order for Parties to meet the emission reduction target
- An effective compliance and monitoring regime

continued on back page, col. 1

The Secretariat has developed innovative technologies in synthesising the various Parties' proposals into the compilation document

Exclusion Zone

There have been rumours that this week could involve closed sessions, with access denied to NGOs, and distinguished representatives should perhaps know that this has led to a number of contingency plans. Instead of attending negotiations, NGOs would end up having to spend 8-12 hours a day briefing the press, informing their members worldwide as to what negotiators here are up to, and buttonholing delegates wherever they can find them outside: in restrooms, corridors and hotel lobbies.

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CONFERENCE REPORTS

The Sorry State of Play

It's hard to imagine how these negotiations could get more sidetracked from their central purpose of agreeing on a substantial reduction in industrialized country emissions, as a first step towards achieving the treaty's ultimate objective.

The world's largest emitter has come to Bonn with a full complement of positions on controversial issues ranging from emissions trading and joint implementation to requiring negotiation by 2005 of binding developing country commitments. This has had the predictable effect of polarizing the debate. Conspicuously missing is any constructive contribution to progress on QELROs.

The 15 members of a prominent regional economic coordination group, meanwhile, are bogged down in internal squabbling which has prevented them from providing much-needed leadership in these negotiations. They are dangerously close to substantiating the charge from the other side of the Atlantic that they are all talk and no action.

Other industrialized countries occupy their time by putting forward either self-serving differentiation schemes or hopelessly vague constructs of p's and q's. And developing countries seem to be rising to the US bait, focussing their energies on resisting efforts to renegotiate the Berlin Mandate, rather than effectuating it.

Last year, 2,500 scientists provided what ministers acknowledged to be a compelling basis for action to reduce emissions. Last month, some 2,300 economists stated it is possible to reduce emissions without harming living standards. This week, several hundred delegates seem to be suffering a collective failure of will, no doubt aided and abetted by what the authors of the economists' statement termed "the misleading claims put forward by special interest groups."

The elements of an acceptable agreement are in the Chairman's framework compilation, albeit surrounded by mounds of diversionary or downright harmful text. This AGBM session must start sorting the wheat from the chaff.

SBSTA Friday AM

SBSTA came to many conclusions at its final session. The NGO Consultative Mechanism was essentially postponed until the next session. The only addition was Venezuela's "deep" regret about the delay in the Secretariat's report. After the long hours Thursday night, there was relatively little controversy about cooperation with relevant international organizations. Kuwait seemed to be overruled because SBSTA formally "thanked the Chairman of the IPCC for his informative report" and noted the new technical papers. With regards to the Technical Paper on the environmental implications of protocol proposals, SBSTA requested the IPCC to take into account the seven country submissions on this topic and "reflect these contributions, where appropriate, in the development" of the report. "National Communications from parties included in Annex I to the Convention" was adopted despite an intense discussion about a "full stop." "Non-Annex I Parties" was much more difficult. The delegate from the Philippines felt that paragraph 3 was not in the spirit of the Convention. The G77 stated that the GEF should fund the preparation of national inventories but the US and EU disagreed so this paragraph was ultimately deleted due to the impasse. "Methodological issues" was adopted with no discussion but most of these issues were deferred until Parties made submissions (by 15 April 1997!) on the content, priorities and timing of methodological activities. "Development and transfer of technologies" spurred quite a debate about Intergovernmental Technical Advisory Panels (ITAPs). The G77 urged SBSTA to set up ITAPs without delay while the EU "urged SBSTA not to do so." Ha Ha. The final result was inspired by Tanzania, with EU and US compromises. Basically, SBSTA will take up the issue at the next session. We were particularly pleased with Iran, for once, because it really insisted that transfer should be absolutely "clean" technologies, not just "cleaner." His logic was lost on us, but it *is* better grammar. On AIJ, the uniform reporting format was adopted with minor changes. The US weighed in with a rather political statement on AIJ. Apparently, since we've now got a uniform reporting format and "over 40 successful projects" we may not need to wait until 1999 to assess the pilot phase. Not surprisingly, the US intervention ended by putting "crediting" on SBSTA's agenda for next time. It selectively interpreted certain parts of the recent US economists' statement on market-based mechanisms to support the US enthusiasm for JI.

SBI Friday

The SBI went painfully through the draft conclusions submitted by the chairman. Text on communications from Annex I and non-Annex I Parties was agreed easily, with the SBI encouraging Annex I Parties to submit their second national communications on time, and requesting the secretariat to keep it informed of progress on non-Annex I Party communications.

Very painful for your long suffering Eco reporter was the interminable discussion on the conclusions on the programme budget. First the Netherlands proposed additional text expressing concern over the increase in the budget, then China added a paragraph on the need for the budget to be in line with the Convention and COP decisions. The USA then dug in its heels, saying the existing text was perfectly adequate, and that if the others insisted, they too would suggest new text. And so it went on, until they all agreed to withdraw, and we were back pretty much where we started. That's international negotiation for you.

The contact group report on the UNGA special session on agenda 21 went through unchallenged, but the contact group on financial and technical cooperation had not yet provided text. A special meeting of the SBI will be held this week to agree conclusions on this issue.

Finally, there was another endless debate on the section on arrangements for COP 3. China and other developing countries were concerned that they weren't ambushed by another surprise like the COP 2 ministerial declaration, and supported language which would require substantive proposals to be submitted to parties well in advance. This was opposed by the USA and the EU, and the deadlock was only reconciled by compromise text drafted by the Executive Secretary for the Chair.

[[AG13 Friday]

[On Friday [AG13][the Group] spluttered to a close with some reflex bracketing of Annex II to [its][their] Report[-][-] the [substantive][main] [part][portion] of the document[.][...]]]]]]]]]]

More significantly, China suggested that the main body of the report might be altered to reflect the fact that there was rather more consensus in the Group than was indicated by the text. The Netherlands (EU) agreed and the now familiar Euro-Chinese drafting group set to work again, this time unsuccessfully – probably owing to the rival attractions of a sunny afternoon and the imminent NGO party.

As a coda, Chile suggested that the Group tell the rest of the Convention process that AG13 may not finish its work until COP4, whenever that is. After some discussion it was tacitly agreed that Eco should undertake this task.

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At the end of last week's sessions delegates rushed to inform their government's of the exciting conclusions reached

Swedish Nuclear Decision Welcomed

The Swedish government's decision to shut down the country's large nuclear power plant, starting in 1998, has been welcomed by many people in Europe interested in environmental protection. Last year the Swedish Prime Minister declared that Sweden would become a world leader in creating an ecologically sustainable society; the decision on nuclear power is seen as the first important step in creating a sustainable energy system. This is also the reason that those interested in climate protection are congratulating the Swedish government even though there are fears that nuclear power would have to be replaced by imported electricity from coal-fired Danish plants or by natural gas. However, the government has declared that energy saving and increased development of renewable energy will replace the electricity from the first nuclear reactor. Increased CO_2 emissions from the transport sector will be replaced by a rapid introduction of alternative fuels.

Environmental organizations in Sweden have long argued that nuclear power could be phased out and CO_2 emissions reduced at the same time. At present nuclear power plants supply half of Sweden's electricity, most of the rest being hydroelectric. Even with nuclear power out of the picture, CO_2 emissions could be reduced by a third through increased efficiency, greater use of biofuels, and taxation adjustments.

Swedish per capita electricity consumption is three times higher than in the EU at large. Industry, including the power-intensive sector, figures relatively low in this total. A great deal of electricity is on the other hand used for space heating and in wasteful ventilation and lighting systems. The potential for increased efficiency is enormous.

Sweden is about equal in area to France and Spain combined, and is mostly covered in forest. Even allowing for nature protection and the needs of the timber and pulp industries, considerable quantities of biomass could be burnt for heat and power.

Biofuels and combined heat and power will be paramount in a sustainable energy system for Sweden. Combined-cycle units, with gasification of wood and the black liquor from pulpmaking, are to be built.

Taxes will need further adjustment. At current tax rates, biofuels are already competitive in many areas. Following the 1991 introduction of a general CO_2 emissions tax (equivalent to about 4 US cents per kg), they have already replaced coal to a very considerable extent in district heating. However, the tax shows many discrepancies: for example fossil fuels for electricity generation are exempt, even for combined heat and power, which gives opportunities for juggling the accounts.

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2000 Economists:

What they said...
by Annie Petsonk, EDF

More than 2,300 leading economists, including 8 Nobel laureates, have announced in a statement that "global climate change carries with it significant environmental, economic, social, and geopolitical risks," and that "preventive steps are justified."

Further, "sound economic analysis shows that there are policy options that would slow climate change without harming American living standards, and these measures may in fact improve US productivity in the long term."

The statement also says that market-based policies are the most efficient approach, and that an international emissions trading agreement is required. They point to two market mechanisms, carbon taxes and the auction of emissions permits, that can implement climate policies efficiently at the domestic level.

This statement has been widely reported in the US and UK press – an unusual experience for most practitioners of that otherwise dismal science. It has been compiled because, in their words, "As the climate debate unfolds, it is imperative that public policy be guided by sound economics rather than misleading claims put forward by special interest groups." Take that, GCC!

...And What they Didn't Say
by Clive Bates, IIEC Europe

In Friday's SBSTA meeting, the US tried to add some academic weight to its arguments for Joint Implementation, claiming: "As more than 2,000 economists recently noted in a formal statement (copies of which are at the back of the room), JI efforts will substantially reduce the costs of any effort to address the problem". This had NGOs scurrying to the back of the room to see what the economists had really said.

Well, nothing about JI actually. The economists had actually said: "...for the world to achieve its climate objectives at minimum cost, a co-operative approach among nations is required – such as an international emissions trading agreement". One crucial difference between such emissions trading and Annex I to non-Annex I JI advocated by the US is that *all participants* must have some kind of quantified limit to their emissions.

Without a limit there is no baseline against which emissions rights can be bought and sold. In contrast, where JI would allow crediting where the host has no emissions limitations, it is difficult to see how this can make a viable market mechanism. The normal negotiating tension between buyer and seller would be absent and the host has little incentive to drive a hard bargain over the carbon credited to the investor.

Both parties to the JI have an incentive to exaggerate the emissions savings and to credit all the savings to the investor, no matter how trivial its contribution. The net global result? More CO_2 could be released.

With JI between parties which both have accepted emissions limitations, the situation is different. The host would have a clear incentive to ensure that it attained genuine emissions reductions and would only offer carbon credits in proportion to the value added by the donor/investor. In this case, JI could become a viable market mechanism.

– Compilation Comprehension, from p. 1

What should *not* be in the Kyoto Protocol:

- The net approach (18 paragraphs)
- The multigas, or basket approach (25 paragraphs)
- Relative emissions targets e.g. per capita targets (10 paragraphs)
- A detailed emissions trading regime (11 paragraphs)
- Differentiation of emission commitments (33 paragraphs)
- A late start e.g. 2010 as the first year for emission target reductions (12 paragraphs)
- Emission budget periods longer than five years (11 paragraphs with unspecified time periods)
- Joint implementation with Parties which do not have binding emission reduction targets (14 paragraphs)
- "Borrowing" of emissions from future budget periods (3 paragraphs)
- The carrying over of unused emissions to the next budget period ("banking") (8 paragraphs)
- Compensation mechanisms for oil exporting countries (12 paragraphs)
- New commitments for non-Annex 1 Parties masquerading under benign phrases like "evolution" and "no-regrets" (6 paragraphs)

Total: 163 paragraphs

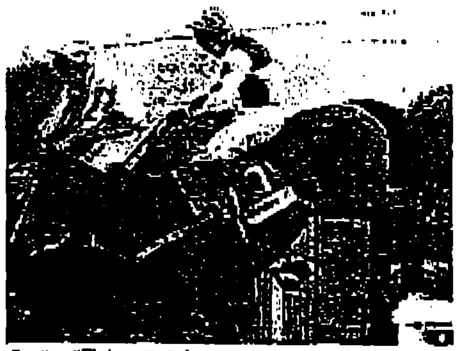
163 paragraphs is more than half of the Compilation deleted. A good start.

Psssst! NGO Party. Wednesday evening. After the Mayor of Bonn's reception. We know we can't compete but come along all the same. Watch this space for details.

With Regret...

Eco received the following intervention on Friday: "The Netherlands (not on behalf of the European Community and its Member States) wishes to file a complaint on the absence of illustration in this week's Eco. It feels that insufficient account has been taken of illiterate members of the delegation and requests part of its money back."

Killing two birds with one stone, so to speak, Eco's own intervention in reply to our most distinguished colleagues from the Netherlands takes the form of a picture explaining why we are unable to return any cash.



Sadly, "Flying Dutchman" came last in the 12:15.

Ludwig

Rumours have reached Ludwig concerning the wonderful loyalty of the representative at the negotiations of a certain large international automobile company, noted for the consistency of its products and advertising message throughout the world. Apparently, likewise, this gentleman is in the habit of approaching the ladies here with his own universal message, which he obviously believes will attract them to his, er, product. Ludwig understands that, as with the company, the level of market penetration is lower than desired.

By the way, Ludwig was impressed by the tact shown by the Australian diplomats staffing the embassy's Boomerang Bar, scene of Friday night's party. All of them professed to know nothing at all about the climate convention, even though they are attending the AGBM. Good on you, sports!

THANKS

The Climate Action Network would like to thank the Environment Ministries of Germany and the Netherlands, who have provided funding for Eco.

With resources contributed by: APC Networks and EuroFax.

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List of Recipients for
Paridic Updates from the Climate Talks
Bonn, Germany, March 2-7, 1997

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State	Jack Shick	647-4069	Fax:647-0191
State	Barbara Gates		Fax:647-4037
State	Susan Gordon	647-4069	Fax:647-0191
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OMB	T.J. Glauthier	395-4561	FAX:395-4639
Justice	Lois Schaffer	514-2701	FAX:514-0557
	Jim Rubin		FAX:514-4231
Commerce	Jeffrey Hunker	482-6055	FAX: 482-4636
NOAA	Terry Garcia	482-3567	FAX: 482-6318
Treasury	Joshua Gotbaum	622-2220	FAX:622-2633
Interior	Brooks Yeager	208-6182	FAX:208-4561
USTR	Jennifer Haverkamp	395-7320	FAX:395-4579
Agriculture	Charlie Rawls	720-6158	FAX:720-5437
CEQ	Dirk Forrister	343-1060	FAX:343-1162
EPA	Elaine Haemisegger		FAX:260-0290
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	David Gardiner	260-4332	FAX:260-0275
	Nancy Kete		FAX:233-9598
DOE:	Mark Chupka	586-5523	FAX:586-0861
DOT:	Frank Kruesi	366-2222	FAX:366-3997
OVP	Pete Jordan	456-9501	FAX: 456-9500
CEQ	David Sandalow	456-6543	FAX: 456-2710
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cc: AM
JAF
JS
JDR

2 March 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change Periodic Update No. 5 for February 28 thru March 2, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the U.S. Government, only. This report covers activities from the afternoon session on Friday, March 28 through Sunday, March 2. The next update covering Monday, March 3, will be delayed because of the need to participate in multiple events concerned with the negotiations. The final paragraphs can be used as a DAR item as desired and appropriate..

Climate Talks, Update No. 5 (Feb 28-Mar 2): Both the COP President and the AGBM Chair Struggling with Best Way to Obtain Results by December Meeting in Kyoto

SBI and AG-13 Wrap Up Their Work (Well, Almost)

In afternoon sessions on Friday, Feb 28, two of the three subsidiary bodies (the Subsidiary Body on Implementation (SBI) and the working group on a possible consultative mechanism (AG-13) wrapped up most of their work. (The SBI still has one item left undecided). The Subsidiary Body on Scientific and Technological Advice (SBSTA) finished its work that morning, as reported in Update 4..

The AG-13, as reported earlier, completed discussions on a very preliminary (and totally bracketed) text which will be the focus for the next meeting of the group in July. The text (based on a China-EU composite) talks about the establishment, objective, mandate, nature, functions, size, and expertise for a possible multilateral consultative process.

The SBI completed discussion on the budget (details --- especially concerning proposed increases -- are to be provided to the Parties "well before" the July meeting); the calendar (two blocks of two week sessions proposed for both 1998 and 1999); and arrangements for intergovernmental meetings. A decision on the timing for COP-4 will be left until July. As reported in Update No. 4, the timing and venue for this decision may well be driven by offers of countries to host the meeting.

Chinese and Others in the G-77 Voice "Discontent" with the "Geneva Declaration"

Over 90 minutes of the afternoon session was consumed by a tug-of-war between ourselves (with an assist from the EU) and China over a phrase which China wanted included in the section of the report dealing with arrangements for COP-3. Dr. Zhong, at his feisty best, complained that the Geneva Declaration had come as a "big surprise" to his delegation ((a complaint echoed by other G-77 members in the room, including Malaysia, Tanzania (speaking for the G-77), the Central African Republic (unusually

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vocal at this meeting) and Niger)). Thus, China wanted to be forewarned -- by six months initially -- if any "new or substantive proposal," such as a ministerial declaration is planned at Kyoto.

AGBM Chairman, Amb. Estrada, sitting in as Argentina's representative, reminded delegates that the COP is free to do as it pleases. The SBI could "recommend" but it could not direct. Finally, a text submitted by the Executive Secretary was accepted noting that the SBI "recommends" that "......any new, substantive proposal, including proposals affecting the purpose and organization of the ministerial segment, should be communicated to all Parties well in advance of the Conference in acccordance with normal UN practice."

<u>SBI Contact Groups: "One Down; One to Go"</u>

Of the two SBI contact groups handling outstanding issues, only the one dealing with the statement to the UN Special Session was able to conclude its business by evening's end. The SBI will have to convene for a brief meeting sometime over the next week to finalize its report. Hopefully, by that time the usually effective Chair of the group, Mahmoud Al-Ghaouth of Mauritania, will have rejoined the body. He disappeared on Thursday afternoon into the dark depths of a Bonn ICU hospital facility. Despite rumors about some strange, tropical bug which had laid him low (to visit, one had to don plastic gloves and face face masks as Al-Ghaouth was allegedly in "quarantine"), it appears that he was only ailing from food poisoning which was uncharitbly attributed to Air France by one German official. In any case, he is now out of hospital and is expected to be once more in attendance on March 3rd.

In any case, the text on the input from the FCCC to the UN General Asssembly's Special Session next June is quite acceptable to us. We were able to remove potentially troubling paragraphs calling on the UNGA to focus on priorities "including the issues of how developing countries can acquire the levels of energy needed for their development" and on the need for "increased research by Governments and the private sector into energy and material efficiency and more environmentally sound energy production and consumption strategies.. .." We also eliminated suggestions that a number of initiatives of the Commission on Sustainable Development "are relevant for promoting UN system wide support for the protection of the global climate." This may be true, but we do not believe that it is appropriate for this Convention to be drawing these conclusions at this particular time.

<u>Contretemps Over the GEF Continues Unabated</u>

The second contact group, dealing with the Convention's relationship with the GEF, worked throughout Friday and into the late evening. At issue is when the COP will reach a decision regarding the definitive status of the GEF as the operating entity of the Convention's financial mechanism (it is now the "interim" operating entity). Despite a clear decision at COP-2 last July asking the SBI to to conduct a review process at this meeting, including on the definitive status of the GEF and to report the outcome to COP-3, the G-77/China balked. Citing the decision at the December 1996 COP under the Convention on Biological Diversity, the G-77/China affirmed that it would be necessary to draw up guidelines for the review process, and urged that these guidelines be sent to COP-3 for adoption as the basis for this and subsequent reviews, while work progressed on the review. Citing an earlier COP-1 decision, the G-77/China opined that the review itself need not be completed until March /April 1999 (four years after COP-1).

Faced with G-77/China obstinence (and with no way to compell a decision at COP-3 over their objectioins) OECD countries led by the U.S. proposed: (1) to adopt SBI guidelines for this review (without referring them to COP-3 and without suggesting that they will be enshrined for all time) at this session; (2) request countries to submit views on their experience with the financial mechanism by May 15; (3) request the Secretariat to praepare a sythesis report based on these submissions; and (4) take the issue up again at the SBI's July meeting.

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The G-77/China reluctantly agreed at 9PM on Friday night. The Secretariat will finalize the elements of thch SBI's conclusions and circulate them on March 3rd, whereupon the SBI will meet in a brief session, as mentioned, to complete its report. (Note: In taking its position, the G-77/China seemed perfectly willing to abandon any effort to use this review to incfluence te next GEF replenishment, the first meeting toward which donors will meet in Paris on March 12.)

COP President Sees Need for "Ministarial Intervention" in the Negotiating Process

The President of the Conference of the Parties (COP), Zimbabwe's Environment Minister Chimutengwende, arrived in Bonn on Thursday and held discussion with various Parties on Friday afternoon, Feb 28. During our meeting, three matters/concerns were raised.

First, on the rules of procedure, it was agreed that the OPEC countries (led by Saudi Arabia) posed the greatest obstacle to reaching agreement. Bilateral contacts with the Saudis, Nigeria, Kuwait and Iran would be important. It was suggested that this problem might be raised in the context of German Minister Merkle's forthcoming meeting in Dresden in late March in order to galvanize action on the part of appropriate countries to raise this issue with various OPEC members.

A second point raised by the COP President concerned our proposal. He suggested (echoing a common theme around here) that several elements were "beyond the Berlin Mandate" and could we not, for the purposes of these negotiations, agree to remove some of the more contentious ones? We told the President, with diplomatic bluntness, that we do not believe our proposal contravenes the Berlin Mandate. We believe that it offers us the best chance for reaching a conclusion in Kyoto which meets the ultimate objectives of the Convention. Any attempt, at this point, to remove any portion of the text as included in the Chairman's synthesis document would be unacceptable to the United States.

The third point raised by the Minister was how he and other Ministers might be helpful in the negotiations. He said that he will be at Dresden and at the April 8-11 CSD high level. He suggested (and we did not disagree) that these meetings might offer ministers from key countries an opportunity to discuss outstanding issues and, hopefully, to give some direction to delegations attending the talks in July and October.

AGBM Estrada Also Looking at Process Issues

The Chairman of the Ad Hoc Working Group on the Berlin Mandate (AGBM), Argentinian Ambassador Raoul Estrada, also voiced his (alleged) nervousness at the product which the AGBM must produce by April 15 in order to meet the six month UN deadline. At a small dinner on Feb 28, he forecast three problems with the U.S. submission: the annexes, our Article 16 on "evolution", and joint implementation. He said that he fears the diatribe, which he fully expects from the G-77/China on these points, will distract the body from its real work, which he described as coming up with a shorter text which can be used both to satisfy the six month rule and to serve as the basis for negotiation. He indicated that he may have to use his prerogative as the Chair to delete items which are "inconsistent" with the Berlin Mandate. He said he wants to help the U.S. but has difficulty -- even as the Argentinian head of delegation -- with aspects of our proposal. We told Estrada that the removal of any aspect of our proposal at this meeting is not warranted and is not acceptable to us.

The Chairman's 'Food for Thought'

After much discussion, Estrada intimated that he would not cut off any piece of our proposal now. However, he opined that it might be useful to consider taking those aspects that (in his view) fall outside the Berlin Mandate -- such as our article on "evolution" and considering them in a parallel negotiation which would be decided at COP-3, as well. He added that a successful outcome on the protocol process could be made contingent on a postive outcome to the discussions on this parallel process.

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as well. Estrada did not pursue this point, making it clear that he was proposing it more as "food for thought" at this juncture.

Early Break-down into Contact Groups Possible

Estrada clearly wants to see one document emerge from this meeting. He said that he is considering organizing three large contact groups to attempt to come to some conclusions regarding which text should be retained and which deleted. One of these (under the proposed chairmanship of Japan's Takeo Shibata) would be asked to look into the question of the preamble, definitions, and principles (Note: we cautioned the Chair not to engage on the preamble at the present time given the controversy this was sure to raise. End Note.) A second group (under Trinidad/Tobago's Evan-King) would address Article 4.1 issues, while the third (probably under his chair) would address policies and measures (PAMs) and Quantified Emissions Limitation and Reduction Objectives (QERLOS or "targets and timetables.").

Not Enamoured with Our Process Suggestion -- At Least Not Yet

Estrada was not taken by our suggestion that, for purposes of meeting the six month rule, the framework compilation could be used as the document submitted to the UN by April 15. This text might have its paragraphs on definitions and principles modified as agreed to at this meeting. However, none of the substantive ideas or recommendations would be deleted. The Chair and the Secretariat might also be asked to prepare a document which would reoganize the content of the synthesis in a more user-friendly manner. ((Comment: We also ran this idea past a key Secretariat member and a leading EU negotiator. Neither was enthusiastic, either, but one suspects that both individuals may reconsider in the absence of other palatable alternatives later next week. A key will be Germany, with whom Estrada has forged his closer working relationship. The Germans (and the Dutch) would be happy at this point if Estrada uses his prerogative to eliminate those aspects of the text which they do not like (including joint implementation and Article 16 from our proposal and the compensation proposals suggested by the Kuwaitis and other OPEC countries.) The Chair may have a harder time eliminating the differentiation issue. End Comment.))

Handling Differentiation

On March 1, Estrada chaired a meeting with those countries which had indicated either sympathy for, or are actively advocating, various differentiation concepts. These included Australia, Norway, France, Iceland, Switzerland, and Japan. In addition, he invited the EU (Bert Metz) and the U.S. Also invited but not attending were Tanzania (representing the G-77), China, India (and, we understand) Brazil. Estrada said that he hoped that the proponents of differentiation had used the intersessional period since December to come up with one or two concrete proposals. He stated that he only wanted to hold a round table discussion on differentiation if there are one or two concrete proposals. He said that having five or six countries express different views would not work and would not advance the process.

It was clear from the discussioln which ensued that, although there had been considerable bilateral discussion , no concerted differentiation option has been prepared. When it appeared that Estrada might be demurring on whether to hold a roundtable on this topic, we added our two cents that, while we have strong misgivings about the utility of the differentiation concept, this point of view, nonetheless, deserves a public hearing. As our G-77 colleagues had not accepted this invitation, we also suggested that this discussion should be held when translation is available. Subsequently, Estrada agreed to hold a round table on differentiation on the afternoon of March 4. At his suggestion, France and Switerland and Norway and Iceland are huddling to try to identify common ground, which they may bring to the round table. (Note: The French/Swiss proposals, with their emphasis on per capita emissions are particularly odious). Australia indicated that it will use its presentation to emphasize common features and will not attempt to replay its differentiation proposal per se.

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Comment: The dynamics of this meeting were interesting. Everyone seemed to be waiting for an opportunity to direct their fire at the U.S. The Australians, for example, expressed the hope that other controversial ideas (read those of the U.S.) also be subjected to as careful scrutiny as differentiation is being given. However, we gave them no opportunity to shift the discussion away from differentiation, and in the end, skated free. At one point, when the Swiss mentioned that they had exported some of their emission-producing industries abroad (which is why Switzerland is confident of its ability to comply with a legally binding reduction of 10 percent of CO2 by 2010 which is before its parliament, Iceland responded that one reason it was having difficulty meeting its emissions targets was because Iceland is now the host to several of these Swiss industries. The Icelander told us privately, after the meeting, that he could easily have singled out the U.S., as well, but was irritated by the Swiss attitude, so he picked on them, instead. Citing one example, he mentioned the repositioning of a U.S. aluminum smelter in Iceland, a move which is welcomed by the Iceland trade and economic ministries. Nevertheless, this one factory alone, while it will rely on renewable energy, nevertheless is expected to raise Iceland's emissions by 5 to 7 percent. End Comment.

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Bonn, Germany, March 2-7, 1997

6 pages

Agency	Name	Telephone	FAX
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State	Erica Keen		Fax:647-0753
State	Jack Shick	647-4069	Fax:647-0191
State	Barbara Yates		Fax:647-4037
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OSTP	Rosina Bierbaum	456-6202	FAX: 456-6025
CEA	Alicia Munnell	395-5036	FAX: 395-6958
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Justice	Lois Schiffer	514-2701	FAX:514-0557
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CEQ	Steve Seidel	395-3706	FAX: 456-6546
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cc: AM
JAF
JS

28 February 1997

Memorandum

To: Please See Attached List

From: USDEL/Geneva, Mark G. Hambley

Subject: Negotiations under the Framework Convention on Climate Change Periodic Update No. 4 for February 27/28, 1997

This message transmits unofficial reflections on activities and developments during the climate negotiations which are being held in Bonn between February 24 and March 7, 1997. While the contents are unclassified, this report is intended for use by officials of the the U.S. Government, only. This report covers activities from the afternoon session on Thursday, Feb 27, through the morning sessions on Friday, Feb 28. We are also including reports on SBI, AG-13, and workshop meetings prepared by variouis USDEL members (Silverman, Schwengels, Breidenvitch, & Wickwire). We are also including the latest edition of "ECO", the NGO rag published, on a highly intermittant and flippant basis, with funding from the German and Danish Environment Ministries. The final paragraphs can be used as a DAR item as desired and appropriate..

Climate Talks, Update No. 4: Surprisingly Upbeat Results from SBSTA and Holding our Own in the SBI, as Three Subsidary Bodies Wind up their Discussions

AG-13 Reports Progress -- or, least, Has a Bracketed Text in Hand

The three subsidiary bodies of the Climate Convention, which are meeting in Bonn this week are in the process of winding up their reports with surprisingly good results on even some of the more contentioius issues. The AG-13 will meet in final session on the afternoon of Feb 28. It is expected to conclude with a completely bracketed text which will be considered again in July. The text includes some significant additions proposed by China and the EU. The former's additions appear aimed at ensuring that the proposed process will never review implementation at any time, while it also appears to want any multilateral consultative process to be able to intercede on the behalf of countries having funding problems with the GEF As indicated, this text is fully bracketed and will now be considered again in July (and in October, and again in 1998 one suspects)..

SBI Still Struggling with Many Issues, Athough Some Key Decisions Taken

The SBI dealt most of the day on Feb 27 (and for a good portion of the night) with three issues: budget, relations with the GEF, and calendar. On the first of these, the most interesting aspect was a comment made by China which wanted all funds related to emissions trading and the review of non-Annex I communications removed from the budget. We, of course, opposed this proposal. In the final language being proposed for adoption, the Secretariat was requested to prepare a budget "taking full account of the views expressed by delegations at SBI-5." Acceptance (which still awaits EU assent) follows a protracted effort by China and the EU to add specific language about the need for full justifications of the increases proposed (by the EU) and an expression (by China) which would have tied the budget proposals to

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Convention provisions and to appropriate decisions of the COP. We insisted on the original formulation without amendments. When the morning meeting ended, China had agreed to this but a dispute between Italy and the Netherlands (speaking for the EU) caused final action to be postponed.

Cooperation with the GEF Remains Sticky; Calendar Not a Problem for Now

On relations with the GEF, the issue of the period of review of the arrangement was still without resolution by mid-day on Friday, despite a late night session, an early morning (8AM which is like dawn in these negotiations), and a side meeting during the regular SBI plenary. We are confident that something can be worked out, however.

The calendar issue was partially resolved in another evening contact group, with delegates deciding not to accept a proposal (strongly advocated by Chairman Estrada) to hold the Ministerial segment at the start of COP-3. In the end, those favoring the Ministerial at the end of the meeting made their point. It was decided that COP-3 will be scheduled for Dec 1-10, with the Ministerial slated for Dec 8-10. Statements by Ministers will be permitted, but some innovative mechanism (such as a revamped roundtable) may be used to make more efficient use of the time available. We scored some points with the NGOs by suggesting that time be made available for NGO representatives to speak during the COP plenary.

The question of the timing for COP-4 was left open. China (supported by the G-77) continue to insist that fourth COP must be scheduled for 1998, with the U.S., EU, and most JUSCANZ members calling for early 1999. Action on this is likely to be deferred until the July meeting of SBI, after consideration of potential offers too host the conference, with a suggested date and venue. (Comment: In this regard, only half in jest, we might want to offer to host the conference in Hawaii in February/March 1999 -- both to signal our commitment to the process and to ensure that annexes are on the agenda for COP-3 in December 1997. End Comment) There is no mention of when Annex I and II will be reviewed, despite a rather sharp exchange of views on this topic at the evening session of the SBI on Feb 27 (with China wanting this to be discussed at COP-4 in 1998 and the U.S. proposing that the topic should be introduced in 1997). Our position was happily strengthened by the necessity to review the request of the Czech and Slovak Republics to include their names in Annex I. The SBI approved this request and agreed to take up the issue "when it comes to review te lists in Annex I and Annex II to the Conventions. This should logically take place at the next COP -- in Kyoto in 1997.

Victory Scored in SBSTA on AIJ

The Subsidiary Body on Technical and Scientific Advice (SBSTA) concluded its work in a most satisfactory manner on Feb 28. This result was in spite of difficulties encountered by the two contact groups on AIJ and methodological issues and a complaint from Kuwait about the IPCC's proposed handling of a technical report on emissions trends. The latter concern was finessed in language adopted by the SBSTA plenary.

We also got what we wanted in terms of a reporting framework and AIJ methodology issues. Some delegates appeared stunned (both Brazil and Venezuala, for example) by our agreement that no credit should be given during the AIJ pilot phase. Our statement on how we believe that the pilot phase does not necessarily have to continue to the year 2000 and our strong support for JI with credit was warmly welcomed by EBI Representative, John Novak. It did not provoke the anticipated outburst from the G-77/China, perhaps because China's Dr. Zhong was in SBI and the equally strident critic (Phillipino delegate, Bernaditas Mueller) were not in the room at the time.

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Comment

At the time of this writing (9AM EST), it appears that both the SBI and the SBSTA will complete their reports with results broadly satisfactory to the United States. There is a current brouhaha over the Secretariat's proposed report to UNGASS from the convention (over paragraphs relating to energy), and there are numerous additional opportunities for mischievenous on the part of China (and, more particularly, Bernaditas from the Phillipines who has been uniformly unhelpful -- no, obstructive -- throughout these proceedings and who is the main reason for the lengthy dust-up over the GEF mechanism).

In any case, the way in which the credit issue in AIJ has been finessed in SBSTA is truly a feather in the cap of those USDEL members who stayed the course through to the positive outcome. Similarly, the way in which the TAPs discussion was postponed (by asking for a report on the status of the roster of experts which is in the process of being finalized) is also a postive outcome.

This said, as indicated in Update No. 3, the G-77/China are feeling their oats. They can be expected to further attack AIJ and raise the credit issue again next week at the meetings of the Ad Hoc Group on the Berlin Mandate (AGBM). The TAPs issue is bound to surface at the July meeting of the SBSTA0. We also expect further harangues on the issue of finance and technology transfer, with growing emphasis of the connection between finances and the ability of non-Annex I Parties to advance their commitments..

Accordingly, next week promises to be somewhat rougher. We will hold a "dog and pony" show on our protocol proposal on Monday, March 3, and we will be represented on a panel to discuss all of the outstanding proposals that afternoon. We fully expect efforts by the G-77/China to remove discussion of JI and aspects of our 4.1 proposals as inconsistent with the Berlin Mandate to be accelerated, but we believe that these efforts can be contained -- especially with the presence of esteemed reinforcements from Washington.. End Comment.

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

Climate Talks, Update No. 4: Surprisingly Upbeat Results from SBSTA and Holding our Own in the SBI as Three Subsidary Bodies Wind up their Discussions

The three subsidiary bodies of the Climate Convention, which are meeting in Bonn this week are in the process of winding up their reports with surprisingly good results on even some of the more contentioius issues. The AG-13 will meet in final session on the afternoon of Feb 28. It is expected to conclude with a completely bracketed text which will be considered again in July

The SBI dealt most of the day on Feb 27 (and for a good portion of the night) with three issues: budget, relations with the GEF, and calendar. On the first of these, the most interesting aspect was a comment made by China which wanted all funds related to emissions trading and the review of non-Annex I communications removed from the budget. We, of course, opposed this proposal. In the final language being proposed for adoption, the Secretariat was requested to prepare a budget "taking full account of the views expressed by delegations at SBI-5." On relations with the GEF, the issue of the period of review of the arrangement was still without resolution by mid-day on Friday, despite a late night session, an early morning (8AM which is like dawn in these negotiations), and a side meeting during the regular SBI plenary. We are confident that something can be worked out, however.

The calendar issue was partially resolved in another evening contact group, with delegates deciding not to accept a proposal (strongly advocated by Chairman Estrada) to hold the Ministerial segment at the start of COP-3. In the end, those favoring the Ministerial at the end of the meeting made their point. It was decided that COP-3 will be scheduled for Dec 1-10, with the Ministerial slated for Dec 8-10. The question of the timing for COP-4 was left open. There is no mention of when Annex I and II will be reviewed, despite a rather sharp exchange of views on this topic at the evening session of the SBI on Feb 27 (with China wanting this to be discussed at COP-4 in 1998 and the U.S. proposing that the topic should be introduced in 1997).

The Subsidiary Body on Technical and Scientific Advice (SBSTA) concluded its work in a most satisfactory manner on Feb 28. This result was in spite of difficulties encountered by the two contact groups on AIJ and methodological issues and a complaint from Kuwait about the IPCC's proposed handling of a technical report on emissions trends. The latter concern was finessed in language adopted by the SBSTA plenary. We also got what we wanted in terms of a reporting framework and AIJ methodology issues.

It appears that both the SBI and the SBSTA will complete their reports with results broadly satisfactory to the United States. There is a current brouhaha over the Secretariat's proposed report to UNGASS from the convention (over paragraphs relating to energy), and there are numerous additional opportunities for mischievenous on the part of China (and, more particularly, the Philippines). In any case, the way in which the credit issue in AIJ has been finessed, and the question of techanical assistance panels postponed, in SBSTA are postive outcomes. This said, as indicated in Update No. 3, the G-77/China are feeling their oats. They can be expected to further attack AIJ and raise the credit issue again next week at the meetings of the Ad Hoc Group on the Berlin Mandate (AGBM). The TAPs issue is bound to surface at the July meeting of the SBSTA0. We also expect further harangues on the issue of finance and technology transfer, with growing emphasis of the connection between finances and the ability of non-Annex I Parties to advance their commitments..
(Hambley)

Note on Climate Technology Initiative (CTI) meetings

The new Chair of CTI, Seiji Oshima of MITI, Japan schedule a series of informal meetings and two formal meetings of the Ad Hoc Group on CTI. All of these meetings were very difficult and somewhat confused as the Chair tried to push forward a series of his own ideas for "reinvigorating and restructuring" CTI. These include reducing the number of task forces, widening the R&D part of the program, aggressive outreach to international standards and patent organizations, and the creation of a high level advisory grouped of "Wise Men" (sorry no women) meaning, we believe CEOs of multinational corporations or presidents of universities. All of this was discussed and reactions were cautious to negative to most proposals from all delegations outside of Japan.

At the same time there was a lot of discussion of the need to move forward quickly, to have products by COP 3, to involve stakeholders more effectively, and to seek more direct linkage to the FCCC process. The Chair and the IEA secretariat proposed using the upcoming IEA and OECD Ministerials in May as a means of stimulating more concrete support from governments for specific CTI activities at the task force level. In the margins of the meeting, we discussed with Jan Corfee-Morlot the desirability of getting OECD Environment more actively involved in the technology work and discussed the possibility that this might be a major focus of the Climate Forum meetings planned for June. We also had some useful discussions at the task force level, with some other countries on work in the networking task force and with the new Canadian Chair of task force 4--Enhancing Markets for Emerging Technologies.

Decisions were --

1)Revised action plans for each task force including specific mention of links to the FCCC process and stakeholder involvement are due March 20. Also all delegates are invited to comment on ideas for linkage to the FCCC by that date. The Chair also asked Task Forces to consider whether there were ways to respond to the Chinese submission on technology needs in the context of their activities. He seemed to have in mind organizing workshops in China on specific technologies listed.

2) Delegates are asked to comment by April 30 on 1) the Chair's proposals on reinvigorating and restructuring, 2) the Chair's proposal on technology awards, 3) the Chair's proposed revised "clear statement" of CTI goals, 4) the Japanese Advisory Group proposal, 5) proposals for enhancing stakeholder involvement put forward by the Chair an the secretariat as well as any other ideas delegations wish to propose.

3) The proposal for a meeting of the CTI group at the end of April was dropped. The next meeting will be at SBSTA in July. Progress in the interim will be handled through written procedures and at the Task Force level.

4) IEA will prepare and circulate a draft of a background document for the IEA Ministerial.

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SBI Workshop 2/26 (morning)

The purpose of the workshop was to explore certain issues that arose from in-depth reviews of Annex I national communications. The SBI designed the workshop to exchange information on experiences with energy subsidies, voluntary programs, and technology transfer, with the intention to consider addressing these issues multilaterally.

Energy Subsidies. The UK began the session by describing its experience with removing coal subsidies, focusing on electricity supply. The speaker concluded by attributing the following both to removal of coal subsidies and the introduction of competition in electricity markets: reduced CO_2 (reduction of 20% while demand increased 10%) and other emissions; increased competition in electricity generation and supply; dash to natural gas (whereas coal comprised 70% of electricity generation in 1990 with no gas use, coal comprised only 44% of the market and gas 21% in 1996); and many new entrants into the electricity generation industry. Germany went next, and described the many subsidies existing at all levels of government. Only after being questioned from the floor did the German speaker admit to coal subsidies (200 DM/ton), and that the German Government was considering what to do with this expensive subsidy. Professor Sadowski of Poland then described the circumstances in the EITs, pointing primarily to the high relatively energy intensity of GDP and the difficulty in fully addressing the energy subsidy issue because of the inevitable effects on coal mining and jobs. Still, he described a range of action by EITs to increase price liberalization and energy efficiency. All agreed that removing energy subsidies involves incurring substantial political and social difficulties.

Environmental Legislation. A representative from Bulgaria described the process going on in most EITs to increase environmental legislation. Because the transition period affects all aspects of society, she described this period as providing a range of positive opportunities to improve environmental protection while the entire institutional, economic and social structure is going through massive change. The opportunities include the promulgation of new environmental laws; removal of subsidies; allocation of property rights and privatization; and the integration into international capital markets. She also pointed out that improvement in the environment had as much to do with the transition to a market-oriented system as to the existence of new laws, which often were not fully implemented yet. An EU industry representative provided the industry perspective, as well as the EU perspective on environmental legislation. He described industry as needing time to adapt; flexibility (to stimulate innovation); a level playing field; rewards for innovation; and low uncertainty.

Voluntary Programs. Rick Bradley led off by describing the rationale behind US voluntary programs, emphasizing the positive benefits of early action and industry participation over traditional command and control approaches to environmental protection. He also provided examples of voluntary programs that were achieving real GHG reductions and substantial industry participation. The Netherlands then presented its experience using voluntary agreements (called long-term agreements that actually mandate that industry agree to voluntary agreements) for industrial energy efficiency -- it has a target of 33 % improvement in energy efficiency between 1995 and 2020 and of 10% of consumption from renewables by 2020. A European environmental NGO spoke next and criticized the ability of voluntary programs to achieve true environmental protection.

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Report on the Meetings of the SBI
February 27, 1997

In the truncated morning session, the SBI took up two legal issues and touched upon the options for a review process for determining the longer term status of the Global Environment Facility (GEF) as the Convention's financial mechanism. A representative of the Secretariat provided reports on the implementation of the headquarters agreement and on the action by the Convention depositary. With regard to the first matter, the agreement will legally enter into force when the German Parliament enacts appropriate legislation, likely to happen this July. Until then, the Secretariat will operate under the auspices of an ordinance which provisionally applies an agreement approved with another UN agency based in Bonn. On the second issue, the representative made it clear, based on legal advice from New York, that the Parties had two options for dealing with listing the Czech Republic and Slovakia separately in Annex I -- amend the Convention (very cumbersome) or include it in the review of the Convention annexes as provided for in Article 4.2(f), which cannot take place later than December 31, 1998. We used this opening as another occasion to push for consideration of Article 4.2(f) at COP-3, instead of at a COP-4 meeting scheduled for 1998.

With regard to the GEF issue, we received clarification from the Chair that a relevant decision at COP-2 would supersede one taken at COP-1, thereby calling for a report on the outcome of a review process on the future status of the GEF (whether it would remain the interim funding mechanism or become permanent) at COP-3, as opposed to a four-year time period stipulated in the COP-1 decision. Later, however, during an informal session which allowed Parties to ask questions of a GEF representative, the Philippines, which missed the discussion, argued that the Parties had until 1999 to make a decision. Trinidad and Tobago also chimed in, emphasizing that the Parties simply had to report on the outcome of the review process and would not actually have to make a decision on the GEF's future at COP-3. We intervened to remind all present of what the Chair had said earlier.

In the afternoon, the SBI addressed administrative and financial matters. China's intervention was most interesting in that the delegate dismissed the need for the Secretariat to allocate funds in the 1998-1999 biennium for work on emissions trading, for the review of non-Annex I Communications, and for a post-Kyoto negotiating phase, foreshadowing, perhaps, the debate at next week's AGBM. We made a detailed intervention which highlighted crucial elements of the proposed budget, including: the need to resolve the great number of contingencies in the budget; the need to include conference servicing costs since it is unlikely that the UN General Assembly will continue to cover them; the need to provide funds for a post-Kyoto ad hoc intergovernmental negotiating process; and the need to reexamine the significant increases proposed in the Secretariat's staffing and financial resource requests.

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Update on the Fourth Session of AG13
As of February 27, 1997

After two days of discussions in the Ad Hoc Group on Article 13 (AG13), there is still a wide range of views on both the need for and potential function of a multilateral consultative process MCP) for the FCCC. While most delegations seem to agree that the process should be "facilitative, non-confrontational and non-judicial", there is substantial disagreement over the application and initiation of the procedure. The European Union supports a procedure which would provide assistance to individual Parties on questions of implementation and which could be triggered by the Party in questions, other Parties or by the Secretariat. The Chinese and most developing countries -- with the exception of Chile -- favor a process which shall only be triggered voluntarily by a Party seeking assistance with its own implementation. The United States, to date, has not taken a substantive position in the discussions, but only seeks to ensure that the full range of options remains on the table.

In light of the broad divergence of views, the Chairman, Patrick Szell of the UK, has sought to move to discussions forward on areas of consensus, while avoiding discussion of the more contentious items. In consultation with the Secretariat, Szell has produced a draft Chair's text which lays out the options for the objective, function, size and scope of expertise for the MCP process. The text will be bracketed in its entirety, with many additional brackets surrounding specific details. Szell intends to annex the text to the Report of the AG13 session. Although the text resembles a draft decision, the wide range of options remains open. Szell himself has indicated that it is premature to narrow AG13 discussions, and that he does not intend, nor foresee completion of AG13 negotiations prior to COP4.

CLIMATE NEGOTIATIONS BONN FEBRUARY '97 NGO NEWSLETTER

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Technology: Transferred or Deferred?

By Atiq Rahman, CAN-South Asia and Clive Bates, IIEC-Europe

If there is one issue upon which the developing countries have been thoroughly consistent, it is technology transfer. This is a central provision of the FCCC and is clearly linked to new and additional funding. Article 4.5 requires that Annex II Parties "promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know how..." while Article 4.3 states that the developed countries "shall provide such financial resources, including for the transfer of technology, to meet the agreed full incremental costs of implementing measures..."

Yesterday, one of the few interesting things that happened in Bonn was the discussion on technology transfer. The representative of the G77 and China once again reiterated the importance of technology transfer as a priority and prerequisite to enable developing countries to make their contribution. Although information and databases are considered helpful, the preferential terms and removal of barriers were of the utmost importance to the G77.

The United States on the other hand highlighted the central role of the private sector in technology transfer. It also argued that it was necessary to undertake a 'needs assessment' before embarking on programmes, and that new initiatives should avoid replication of existing capacities. Following this intervention, a number of leading developing country delegates indicated in the corridors that this remark seemed to be an attempt to shirk from the Annex II parties central responsibility of providing new and additional funding for technology transfer. The private sector may be an important player, but it cannot be relied upon to invest in climate protection technologies. While the main objective of the private sector is profit-making, it is the Parties which must achieve the objective of the convention.

It should be highlighted that many developing countries are already playing a key role in technology development and transfer. "North to South" is not the only mode of technology transfer. There can be (and is) South to North and South to South technology transfer. A number of developing countries are initiating energy efficiency, renewable energy, GHG emission-reducing and sink-enhancing technologies – *see box*.

Examples of climate technology projects already initiated in developing countries

- US$40m solar thermal in Rajasthan, India
- 20,000 solar homes in Indonesia
- 7 energy efficient steam boilers in China
- Biomass energy in Brazil
- Rural solar energy in Zimbabwe
- Massive reforestation in Bangladesh
- Rural solar energy in Bangladesh
- India is now the world's second largest wind energy producer

The climate debate is currently characterised by the North as demanding GHG reducing action from the South, while the South steadfastly points out the North is not meeting its existing commitments or doing enough to meet the objective of the convention. *What is most often missed in the debates is that the South is already undertaking many important steps.* There is an urgent need to highlight these achievements now and thus help create a

continued on back page, col. 1

Fully Competent to Party

Rumours abound that Annex I carbon guzzle[rs] outside the European Community will seek [to] complicate the negotiations on new QELRC[s] by challenging the member states' right to im[-] plement commitments jointly. The indisputab[le] right of a Regional Economic Integration O[r]ganisation (REIO) generally to participate as [a] Party to the Convention is expressly enshrine[d] in Articles 20 and 22. The Convention's draf[t]ers expressly provided for the European Com[-] munity's participation by referring througho[ut] the text of Article 4 to developed country Pa[r]ties and "other Parties" and lists the Comm[u]nity in both Annexes.

The Berlin Mandate anticipates the con[-] tinuing role of the Community in undertakin[g] the strengthened commitments under a ne[w] protocol or other legal instrument by referrin[g] to "developed country/other Parties." Most [of] the protocol proposals in the Framework Com[-] pilation document would allow the EC to mai[n]tain the status it enjoys under the Conventio[n]. A notable exception is the US proposal, whic[h] in an attempt to burst the EC's burden shari[ng] bubble, would include, in its "Annex A" on[ly] *States* listed in Annex I of the Convention.

After forty years of evolving towards a[n] ever-closer union, the Community has deve[l]oped elaborate legislative, administrative a[nd] judicial institutions with extensive competen[ce] over activities of its member states directly r[el]evant to the implementation of the Conventi[on].

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SBI Wednesday Morning

"We need more time to consider the documents" – heard that one before! Following a request to SBI by COP 2 to initiate a review process for the financial mechanism at its fifth session, SBI began the process with the introduction of a document containing information prepared by GEF. The Secretariat also introduced a document on information on relevant action by the GEF Council (on details of the financial support available to non-Annex I parties for the preparation of their national communication). While most welcomed the initiation of the review process, most felt that they could not undertake any serious consideration until they were better informed – the document had simply arrived too late and more time was needed to appreciate recent developments. Discussions were suspended to allow delegates to consider all the relevant documents and then review the issue informally.

SBI Workshop Wednesday Morning

The SBI morning workshop started with a short introduction of its chair, Mr. Katsunori Suzuki of the Japanese Environment Agency. It continued on the theme of energy subsidies, with presentations from the UK which focused on the switch from coal to gas achieved through privatization and liberalization of the energy supply sector. They claimed the switch achieved significant GHG reductions, 20% from 1990 till 1996, but also increased energy demand by 10% through falling prices. Germany presented its comprehensive program mentioning promotion of efficiency and renewables initiatives, loan programs, tax exemptions for renewables, R&D, consulting activities on energy efficiency and renewables etc. It couldn't reply very coherently on the still existing coal subsidies, however. Next was environmental legislation, where Dr. Simeonova made a presentation on Eastern Europe. She emphasized the usage of the polluter pays principle, a reliable administrative framework and the necessity of financial mechanisms to support environmental initiatives. Ken Gregory represented the industry view. He predictably asked for environmental legislation to be flexible, with enough time to adapt, providing a level playing field, rewards for initiatives, low on uncertainty and mentioned some industries' abhorrence of the energy tax. We were especially amused by "rewards for initiatives" – would a candy bar do? Finally, voluntary agreements (VAs) were discussed with presentations from the US, the Netherlands and Climate Network Europe. The US made a valiant but somewhat unconvincing effort to persuade the audience of the excellence of voluntary agreements, ironic in view of the US climate record which consists mainly of voluntary agreements and failing abysmally (15% energy use increase by 2000 projected!). Amusing was their assertion that "no-regrets does not mean no pain". Perhaps the US should keep that in mind next week when they ask the developing countries to adopt no-regrets measures! The Netherlands described their own VA scheme, in which (unlike the US) VAs are anchored in and binding under civil law, with strong, long-term targets, as well as clear reporting and monitoring obligations through independent bodies. The NGO presentation highlighted the doubts of NGOs, for example VAs must not replace legislation and industry cannot be allowed to set targets for environmental protection. A further problem is free riders. Also, strict criteria need to be set for VAs, such as: they need to implement legislation, they need strong and long-term targets set by parliament or scientific bodies, must include all stakeholders in the debate, be transparent in monitoring for the public and contain built-in heavy penalties for non-compliance.

SBI Workshop Wednesday Afternoon

Aside from Botswana's frank intervention, the afternoon workshop on technology transfer was a bit of a disappointment, as measured by the resounding silence during the question and answer period. It would have been nice to have a "state-of-technology transfer" assessment, but instead participants heard predictable presentations from numerous countries. Botswana identified alarming potential infestation side-effects with technology transfer when introducing electricity in rural areas. His point was well taken though, because it is clear that education and participation are required at the rural level in order to make technology transfer work. France made a long intervention about international development assistance. Canada emphasized the private sector. Hungary pointed out that the experience of economies in transition is quite unique.

SBI Thursday Morning

The morning discussion began with legal matters: firstly approval of the headquarters agreement (the Bonn location of the UNFCCC secretariat), followed by a request from the Czech and Slovak Republics to be recognized as separate Annex I parties to the Convention, which will be decided at the next COP. The second agenda item, on the UN General Assembly Special Session, was deferred to a contact group, and administrative and financial matters to the afternoon. The rest of the morning was spent discussing the GEF review process. Delegates chose a three step approach, a formal session, which then became informal, and finally forming a contact group. The GEF representative made a bid for it to be the entity entrusted to operate as the financial mechanism, saying that it is now well-suited to the task. Wearing their informal hats, delegates had a question and answer session about virtually all aspects of GEF operations. They moved on to a preliminary exchange of views concerning the criteria for a review of the GEF. The contentious issue was the timeframe of this exercise. Two COP decisions apparently gave this session (SBI 5) the mandate to do the job, but the criteria at least have to be elaborated by SBI 7 in October, so that they can be presented to COP 3. According to Decision 11/CP.1 the review has to be completed four years after the date of COP 1, i.e., 1999. Brazil and the Philippines requested that GEF Small Grants Projects (often carried out by NGOs) be subjected to their approval, to make sure these projects confirmed with their national plans. The Philippines also mentioned the need to have the full cost of non-Annex I communications covered by the GEF, and Trinidad and Tobago emphasised the need to have clear objectives for the review process. The detailed discussion of the criteria was then deferred to the contact group.

SBI Thursday Afternoon

On Thursday afternoon the SBI continued to move through its agenda, and a number of draft conclusions have been or will be submitted for discussion today. These include non-Annex I communications, documentation, the programme budget, arrangements for COP 3 and the timing of meetings in 1998 and 1999.

There was a lengthy discussion on the programme budget prepared by the Secretariat, with many countries expressing concern at the substantial increase in both staff and funds required, the uncertainties and the large number of contingencies. Tanzania, on behalf of the G77 and China, called for the deletion (on the basis that they second guess issues which have not been agreed) of paragraphs 56 (on non-Annex I communications, which implies the possible setting up of a review process similar to that for Annex I communications) and 57 (which suggests that AG 13, a successor or even an MCP might be agreed) and the whole of section G (on a possible post Kyoto process, which could require

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CONFERENCE REPORTS

work on emissions trading or differentiation).

At an informal discussion on Thursday evening, delegates discussed the arrangements for COP 3. Those self-confessed dinosaurs of the climate negotiations, Dan 'Brontosaurus' Reifsnyder and Cornelia 'Pterodactyl' Quennet, made strong pleas for the ministerial segment to come at the end of the COP, rather than in the middle as proposed by the Secretariat. This was generally supported, despite the Executive Secretary reminding us that dinosaurs were extinct because they didn't evolve. Ms Quennet's proposal that COP 3 take place from 1-10 December was also supported. There was agreement that a new way had to be found of allowing ministers to make statements without spending hours and hours talking to a nearly empty room. The example of the ministerial roundtable in Geneva was felt to be a good one. Ambassador Hambly of the USA, the NGOs' champion, urged that NGOs be allowed to make statements to the plenary (was he thinking of us?).

Finally, the informal session discussed the timing of meetings in 1998 and 1999. Most countries (among the handful remaining in the flexible meeting room) supported the Secretariat's option 1, but the debate on the timing of COP 4 continued. China quoted from the Convention text to support its view that COP 4 must take place in 1998 (i.e. annually). It also wanted COP 4 in 1998 so that the two reviews required not later than 31 December 1998 (on the adequacy of the commitments in Article 4.2 (a) and (b) and the amendment of Annexes I and II) could take place. The USA and the Netherlands for the EU however, argued that the reviews could take place in 1997 and still comply with the Convention, and should be put on the agenda for COP 3.

AG 13

On Wednesday the climate changed in AG13. Not only did the sun shine whenever China spoke, as the Chair observed, but a Chairman's text emerged during lunch. Admittedly it was a completely informal text and comprehensively bracketed, apart from the number 1 at the beginning and the final full stop – but it was real text for the first time.

Sympathising with the Chair's parenthetical fetish the Parties hastily added more brackets – some of them appropriate. The objective of the proposed MCP was, for example, reworked so as to provide advice for Parties rather than the novel original formulation which suggested that the main aim of the process would be to report to the CoP, possibly via the SBI.

In fact there was not as much substantive disagreement amongst the Parties taking an active part in the debate (mainly the EU and China) as the plethora of brackets suggested. It was rapidly agreed that the MCP will be advisory and not supervisory. Its nature will be non-judicial, non-confrontational, facilitative, cooperative, transparent and timely – in spite of a lengthy debate on whether it might not be timely.

There are, however, some potential pitfalls. Should the process be triggered only at the request of the Party concerned or could others do so? That is, should it be ever so slightly a non-compliance process triggered by others or be solely advisory? Should the multilateral consultative committee be established as a standing committee or convened only on an ad hoc basis, and if the latter, what is meant by ad hoc?

After negotiating for three hours on Thursday afternoon, the Group eventually came up with a composite bracketed text based on a Netherlands (EU) proposal and incorporating China's suggestion that the MCP provide advice along the lines of Article 12, para 7 – financial and technical aid to developing country Parties.

At the end of the meeting the Chair remarked "I would not like us to leave Bonn with the feeling that we have done well". Why not Patrick?

SBSTA Thursday Morning

Main topic of discussion was technology transfer, with pretty much nothing new coming to light. Tanzania, on behalf of G77 and China, and others, pushed for more technology centres, information networks, and more government involvement, and stressed the distinction between technology transfer and AIJ: the US and Canada, by contrast, emphasised the responsibility of the private sector and the need to make better use of already-existing information centres and networks. Malaysia pointed out that it was not feasible to write to uncoordinated information centres, if there are as many as the USA asserts. Kiribati, supported by the Marshall Islands, declared that there was too much emphasis on mitigation, and that there is a clear need in small island states for adaptation technology transfer. China, noting that the "private sector has the objective of profit-making" urged industrialized governments to shoulder the responsibility for implementing the policies and measures necessary to ensure technology transfer. The representative from the GEF made a brief report on the GEF's activities and offered to coordinate closely with SBSTA over the next two days.

After a slow start, and with 20 minutes remaining, SBSTA quickly heard statements on AIJ. Tanzania stressed that AIJ (or future JI projects) should never be a condition or supplement for technology transfer. He said that no credits should be allocated for AIJ now or in the future. The G77 stated that AIJ should be reviewed in 1999, as agreed. He noted that there is too much blending and confusion between AIJ, JI and official development assistance. Zim bwe endorsed the Tanzanian statement. The U decided to make comments after the con group reported.

No decisions were adopted on previ agenda items thanks to the EU's consens building style. It should be noted that Kuw was quite willing to meet through lunch.

SBSTA Thursday Afternoon

This informal SBSTA session, lasting from 5 till almost 9:30, got through draft conclusi for each agenda item, and was dominated disputes first between Malaysia, the Philippin and the US, and later between Kuwait, t Marshall Islands and the increasingly tired ch

NGO consultation mechanisms were thar fully uncontentious, national communicati much less so, with scores of amendments f ing around, mainly regarding communicati from non Annex I Parties. The most surprisi moment was when, in a rare moment of pa nership, Kuwait admitted agreeing with t Marshall Islands.

Discussion then turned to technology tra fer, where there was a replay of the mornin dispute between the G77, pushing the need more information centers, and the US, empha ing the primacy of identifying needs and awa ness raising. The US delegate claimed, in a m ment of rampant excess, that the proposed stop information centers would lead us "rapi into the abyss"; rather more persuasive was later comment that there could hardly be a SBS report on existing centers when there were centers in existence! Proposals for a Secreta technical paper on technologies and know-h were ditched, but were replaced by a US-inspi and Kuwait-amended proposal for a 'scop paper' addressing the role of government and private sector in promoting clean technolog

The last big conflict of the night cente on conclusions regarding the IPCC's forthco ing technical paper on the Implications Emissions Limitation and Reduction Propos With everyone exhausted, and the EU lar silent, it was left to the Marshall Islands to up a lone resistance to Don Pearlman's p posed amendments (as delivered by Kuw In the end the Chair brokered some com mise language: SBSTA will "request the IP to take into account and reflect [these contr tions] in the development of this technical per" (SBSTA, in its last session, failed to a on what advice should be offered to the II with regard to the Paper, so seven Parties mitted differing suggestions).

Of course, this was an informal debate actual decisions are to be made this mor and many of the arguments may be replaye

CLIMATE NEGOTIATIONS BONN FEBRUARY '97 NGO NEWSLETTER

Tonight at 9pm at the Boomerang
(part of the Australian Embassy, Godesberger Allee 105-107)

THE BIG PARTY

Live Music from **Fisch & Chips**

Entrance DM10

Ludwig

Ludwig is impressed by the stringent security precautions being taken by The Friends of Fossil Fuels, lurking in their offensive positions in the corner of the foyer. Yesterday, for example, he saw Don Pearlman (excuse the spelling) demonstrate his renowned caution with a piece of paper obviously so confidential that obviously no-one must be allowed to know it exists, let alone read it. First he tore it into ever-smaller pieces, down to postage-stamp size. Next, he placed some of them in one pocket, the rest in another. Finally, after a decent interval, he "casually" cruised the room, dumping pieces into different waste bins.

Ludwig was so intrigued by this behaviour that he was seized with a burning desire to know what dreadful secrets might thus be being concealed from the public eye, so he engaged in his own cruise to retrieve all the pieces, and painstakingly put them all together. He can now reveal - exclusively to Eco readers – that Don's breakfast yesterday cost DM6.50.

– Transferred or Deferred, from p. 1

healthy negotiating space for a successful AGBM-6 and COP-3.

The critical issue in technology transfer is utilisation of the existing capabilities, development of new capacity (hardware, software, human resources and institutions), adaptation of technologies to local circumstances, and meeting the development needs of the population. Several regional and national technology and information centres have evolved in developing countries in response to the challenge of climate change, and simultaneously a number of technologies have also emerged in both developing and industrialised countries. Through the efforts of many Parties, North and South, the capabilities are emerging, the demand is established, and many good technologies are available. It is now mainly a question of funds: additional funds is what the developing countries demand and that is what the industrialised countries should provide.

– Fully Competent, from p. 1

Perhaps one of the clearest indications of the Member States' commitment to intertwine their futures is their negotiations on burden sharing beneath a European umbrella. Member states that are successfully reducing their emissions are willing to create space for other members, rather than peddling credits on the international market.

However, under Article 22 of the Convention, and parallel proposals for a protocol, the EC and its Member States are required, to decide upon their respective responsibilities and the EC must declare the extent of its competence. The US and Australia are in no position to demand equivalent bubbles until they build equally robust institutions with similarly generous partners. But a protocol's strengthened commitments will require a considerably clearer declaration of what role the community will play in reaching a new target than the tangle of words that accompanied its Convention ratification.

Couldn't Put It Down

Excerpts (and limited Eco commentary) from IPCC's latest Technical Paper on Stabilization of Atmospheric Greenhouse Gases:

- Acting too slowly – "not even undertaking low cost measures" – may increase the costs in the long run by requiring more rapid action later on.
- Stabilization levels and emission pathways that imply more immediate reductions may stimulate development of new, lower carbon technologies: "induced" technology development... early emissions constraints induce the private sector to undertake appropriate research and development, including the switching of research and development investment away from exploration and development of carbon-intensive resources and technologies.
- To stabilize concentrations below 450 ppmv, emissions would have to be brought back down to 1990 levels very soon.
- The economic losses from a doubling of equivalent CO_2 for developing countries would be 2-9% of national GDP annually.
- The cost of stabilization targets can be reduced by focusing on new investments and replacements at the end of the economic life of plants and equipment (which is happening *now* by the way).
- A global average of one-third, varying by region from one-seventh to two-thirds, of the existing forested area of the world will undergo major changes in broad vegetation types in a doubled CO_2 climate.
- Some coastal ecosystems are particularly at risk, including saltwater marshes, mangrove ecosystems, coastal wetlands, sandy beaches, coral reefs, coral atolls and river deltas. Changes in these ecosystems would have major negative effects on tourism, freshwater supplies, fisheries and biodiversity.
- In a doubled CO_2 environment, storm surges and flooding could threaten entire cultures.
- Climate change is likely to have wide ranging and mostly adverse impacts on human health, with significant loss of life.

THANKS

The Climate Action Network would like to thank the Environment Ministries of Germany and the Netherlands, who have provided funds and facilities for Eco.

With resources contributed by APC Networks and EuroFax.

CLIMATE CHANGE DISTRIBUTION LIST

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OFFICE OF TIMOTHY E. WIRTH
UNDER SECRETARY
FOR GLOBAL AFFAIRS

DEPARTMENT OF STATE
2201 C Street, N.W.
Room 7250
Washington, D.C. 20520
Phone: 202-647-6240 Fax: 202-647-0753

TO: Distribution: See Attached List

FROM: Debbie Jones

DATE: 3/4/97

FAX:

Number of Pages (including cover): 12

COMMENTS: Under Secretary Wirth is hosting a Climate Change Luncheon on Thursday, March 13 from 12:00-1:30 pm in the Henry Clay Room on the 8th floor of the State Department. Please contact me on (202) 647-6205 of your principal's attendance. FYI: Guest of Honor is Prof. Paul Krugman of MIT.

3/7/97

United States Department of State

Under Secretary of State
for Global Affairs

Washington, D.C. 20520–7250

March 4, 1997

MEMORANDUM

TO: Climate Deputies Group

FROM: G - Timothy E. Wirth TEW/m SM

SUBJECT: Scheduled Luncheon Speakers

Following is a list of speakers for our Climate Change luncheon group:

Thursday, March 13: Prof. Paul Krugman, MIT

Prof. Krugman was one of the five signatories of the economics letter (attached). He will discuss economic impacts and benefits.

Thursday, March 27: Prof. Paul Epstein, Harvard Medical School

From his perspective on Medicine and Public Health, Prof. Epstein has done extensive work on the health impacts of Climate Change. He is one of the world's leading public health authorities, paying special attention to infectious diseases.

Tuesday, April 1: E. Linn Draper, President & CEO, American Electric Power

American Electric Power is one of the largest invester-owned utilities in the USA, with major investment in coal fired power plants. Mr. Draper is deeply engaged in the issues of utility deregulation and strategies for climate change.

Wednesday, April 16: Robert Shapiro, President, Monsanto

Robert Shapiro has led Monsanto through a major transformation, and the company is now world leader in bio-engineering related agribusiness. The impact of Climate Change for agriculture makes this transition even more compelling.

Wednesday, April 30: Kenneth Lay, President, Enron

Ken Lay has transformed Enron into a broad energy company and views Climate Change as a great opportunity for business and for the USA.

Thursday, May 8: New Director of the National Renewable Energy Laboratory

The new Director (who will be officially designated on March 1) will discuss renewables, their expected role in dealing with climate change, cost and technology projections to 2050. NREL is the government-sponsored laboratory dedicated to renewables.

Friday, May 30: Paul O'Neill, Chairman & CEO, ALCOA

A member of the Business Council on Sustainable Development and President of the largest aluminum company in America, Mr. O'Neill has been a leader in the transition of a major industry and in positioning that industry in the world economy.

We have a number of other invitations outstanding and I would welcome any ideas you may have for speakers. Lunch will be held on the 8th floor of the State Department, a buffet style. The cost is approximately $15.00. We will send out a reminder three weeks before each lunch, and ask for an RSVP. In prior discussions, we agreed on a no substitution policy unless a truly compelling case could be made.

If you have questions, please call Randy Wood or Debbie Jones on (202) 647-6205.

g/admin:clispeak

PAUL KRUGMAN: BIOGRAPHICAL SKETCH

Paul Krugman is Professor of Economics at MIT. He received his B.A. from Yale University in 1974, and his Ph.D. from MIT in 1977. From 1977 to 1979 he taught at Yale; then moved to MIT, where he remained on the faculty from 1979 to 1994, he then moved to Stanford from 1994 until 1996. In 1982-3, on leave from MIT, he served as chief international economist of the Council of Economic Advisers.

Krugman is the author or editor of 16 books and more than 100 papers in professional journals and edited volumes. His professional reputation rests largely on work in international trade and finance; he is one of the founders of the "new trade theory," a major rethinking of the theory of international trade. In recognition of that work, in 1991 the American Economic Association awarded him its John Bates Clark medal, a prize given every two years to "that economist under forty who is adjudged to have made a significant contribution to economic knowledge". Krugman's current academic research is focussed on the application of ideas from complexity theory and the concept of self-organizing systems to economics, especially to the spatial organization of production.

At the same time, Krugman has written extensively for a broader public audience. Some of his recent articles on economic issues, originally published in *Foreign Affairs*, *Harvard Business Review*, *Scientific American*, and other journals, are reprinted in his latest book, *Pop Internationalism*.

January 3rd, 1997

Dear Colleague,

As you may know, representatives of the world's nations will convene in Kyoto in December, 1997 to negotiate an international agreement addressing the threat of global climate change due to greenhouse gas emissions. This presents a significant opportunity for the United States to exercise a leadership role in ensuring our long-term well-being. Conversely, a failure on the part of the U.S. government to put forward a well-reasoned position would be a major environmental, economic, and diplomatic setback.

As the climate debate unfolds, it is imperative that public policy be guided by sound economics rather than misleading claims put forward by special interest groups. For this reason, we invite you to join us in endorsing the attached non-partisan consensus statement on the economics of climate change.

Once this statement has been signed by a large number of economists, it will be widely disseminated to leaders in the public and private sectors, and to the general media. This effort is being coordinated by Redefining Progress, a non-partisan, non-profit public policy organization.

Attached please find an endorsement form for your consideration. This letter and endorsement form are being sent to the membership of the American Economic Association. Please feel free to circulate it to your colleagues in case they are not on the AEA mailing list.

We thank you for your prompt attention to this critical issue.

Sincerely,

Kenneth J. Arrow
Dale W. Jorgenson
Paul R. Krugman

William D. Nordhaus
Robert M. Solow

Endorsed by over 2,000 Economists, including six Nobel Laureates.

ECONOMISTS' STATEMENT ON CLIMATE CHANGE

We the undersigned agree that:

I. The review conducted by a distinguished international panel of scientists under the auspices of the Intergovernmental Panel on Climate Change has determined that "the balance of evidence suggests a discernible human influence on global climate." As economists, we believe that global climate change carries with it significant environmental, economic, social, and geopolitical risks, and that preventive steps are justified.

II. Economic studies have found that there are many potential policies to reduce greenhouse-gas emissions for which the total benefits outweigh the total costs. For the United States in particular, sound economic analysis shows that there are policy options that would slow climate change without harming American living standards, and these measures may in fact improve U.S. productivity in the longer run.

III. The most efficient approach to slowing climate change is through market-based policies. In order for the world to achieve its climatic objectives at minimum cost, a cooperative approach among nations is required—such as an international emissions trading agreement. The United States and other nations can most efficiently implement their climate policies through market mechanisms, such as carbon taxes or the auction of emissions permits. The revenues generated from such policies can effectively be used to reduce the deficit or to lower existing taxes.

ENDORSEMENT FORM

NAME ______________________ SIGNATURE ______________________

TITLE/AFFILIATION ______________________ DATE ______________

DO YOU HOLD A PHD IN ECONOMICS ☐ YES ☐ NO IF NO, DEGREE ______________

ADDRESS ____

CITY ______________________ STATE ____________ ZIP ______________

PHONE ______________ FAX ______________ E-MAIL ______________

WOULD YOU LIKE TO RECEIVE MORE INFORMATION ON REDEFINING PROGRESS ☐ YES ☐ NO

➡ PLEASE COMPLETE AND SEND TO REDEFINING PROGRESS

BY FAX:
FAX: (415) 781-1198
PHONE: (415) 781-1191

BY MAIL:
ONE KEARNY STREET • 4TH FLOOR
SAN FRANCISCO, CA 94108

NOBEL LAUREATE SIGNATORIES

Kenneth J. Arrow
Stanford University

Gerard Debreu
University of California at Berkeley

John C. Harsanyi
University of California at Berkeley

Lawrence R. Klein
University of Pennsylvania

Wassily Leontief
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Franco Modigliani
Massachusetts Institute of Technology (Emeritus)

Robert M. Solow
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James Tobin
Yale University

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Email eicinfo@acpa.com or [first initial] + [lastname]@acpa.com
Web http://www.igc.apc.org/eic

MEDIA ADVISORY
Thursday, February 27, 1997

Contact: George Abar
Telephone: (202)797-6500

Debunking Doomsday

With GCC's Economic Models, It's Garbage In, Garbage Out

Washington, DC -- Only this month, eight Nobel Prize-winners and 2,300 other economists endorsed a statement that reads, "sound economic analysis shows that there are policy options that would slow climate change without harming American living standards, and these measures may in fact improve U.S. productivity in the longer run."

Yet today, the Global Climate Coalition (GCC) plans to proclaim, once again, that efforts to mitigate climate change will bring doom and gloom to the U.S. economy and to the economy of developing nations. The GCC, a lobby funded by the coal and oil industries, will point to the economic analysis of industry consultants Charles Rivers Associates for proof of this self-serving conclusion.

The economic projections promoted by the GCC are seriously flawed, according to Dr. Florentin Krause, a lead author of the economic modeling review recently undertaken by the authoritative UN Intergovernmental Panel on Climate Change (IPCC), and the Director of the International Project for Sustainable Energy Paths (IPSEP).

In a soon to be released report, Dr. Krause concludes that studies relied upon by the GCC (including prior studies by Charles Rivers Associates):

- report costs for climate change mitigation that fall outside the range of credible estimates because they fail to use analytically sound, state-of-the-art modeling procedures;

- grossly overstate costs because they fail to consider five major policy options for increasing economic welfare while reducing emissions (so-called double dividends or no regrets options).

Dr. Krause also documents the "spin" used by the GCC to paint an alarmist picture from supposed economic impacts that are slight enough to be well within the margin of error of long-range economic forecasts. The GCC rarely mentions that its predicted worst-year cost for climate change mitigation (typically between 2-4 percent of GDP) occur in the context of a ***doubling*** of projected GDP over approximately the same time frame. Thus, climate change mitigation would not, as the GCC has claimed, "force Americans into second class lifestyles."

Press wishing to discuss these and other findings in the upcoming IPSEP report can contact Dr. Krause at (510) 525-7530.

ECONOMISTS' STATEMENT ON CLIMATE CHANGE

Among the over 2,300 economists who have endorsed the Economists' Statement o Climate Change are the following, they include scholars at top universities and economists from top corporations.

Michael C. Barth	ICF Kaiser
William J. Baumol	New York University
Steven Neil Braun	Council of Economic Advisers
W.A. Brock	University of Wisconsin, Madison
Martin Bronfenbrenner	Duke University
John P. Brown	KPMG Econmic Consulting Services
R. Thomas Burge	Proctor & Gamble Pharmaceuticals
Dallas Burtraw	Resources for the Future
Trudy Ann Cameron	University of Los Angelos California
Jian Cao	AT&T
Carl F. Christ	Johns Hopkins University
Gerard Debreu	University of California at Berkeley
Stephen J. DeCanio	University of California at Santa Barbara
Robert Dorfman	Harvard University
Franklin M. Fisher	Massachusetts Institute of Technology
Peter J. Francis	CNA Corporation
Victor R. Fuchs	Stanford University
Claudia Goldin	Harvard University
Edward Gramlich	University of Michigan
Jerry R. Green	Harvard University
Frances Hammond	General Motors Corporation
John C. Harsanyi	University of California at Berkeley
Oliver Hart	Harvard University
James J. Heckman	University of Chicago
Albert O. Hirschman	Institute for Advanced Study
Jack Hirshleifer	University of Los Angelos California
Robert Hunt	World Bank
Leonid Hurwicz	University of Minnesota
Christopher Jencks	Harvard University
Gale D. Johnson	University of Chicago
Carl Kaysen	Massachusetts Institute of Technology
Robert Kirchner	PEPCO
Lawrence R. Klein	University of Pennsylvania
J. Kmenta	University of Michigan
Laurence J. Kotlikoff	Boston University
Anne O. Krueger	Stanford University
Mordecai Kurz	Stanford University
Steven G. Lanning	Bell Labs-Lucent Technologies
Lester Lave	Carnegie Mellon University
David Lui	Southern California Edison
Paul W. MacAvoy	Yale School of Management
Gerald M. Meiser	Stanford University
John R. Meyer	Harvard University
Christopher J. Monroe	AT&T
Richard R. Nelson.	Columbia University
Richard B. Norgaard	University of California at Berkeley
Charles Plott	California Institute of Technology
Richard E. Quandt	The Andrew W Mellon Foundation
Roy Radner	New York University
Gordon Rausser	University of California at Berkeley
Kenneth Rogoff	Princeton University
David Romer	University of California at Berkeley
Michael Rothschild	Princeton University
Daniel Rubinfeld	University of California at Berkeley
Vernon W. Ruttan	University of Minnesota
Jeffrey Sachs	Harvard University
Thomas Sargent	University of Chicago
F.M. Scherer	Harvard University
T. Paul Schultz	Yale University
M.M. Shahjahan	PEPCO
Steven Shavell	Harvard University
A. Michael Spence	Stanford University
Robert Stavins	Harvard University, Kennedy School
Bruce Stram	Enron Corporation
James Tobin	Yale University
Gordon Tullock	University of Arizona
Hal R. Varian	University of California at Berkeley
W. Kip Viscusi	Harvard Law School
Oliver E. Williamson	University of California at Berkeley

INTERAGENCY GROUP ON CLIMATE CHANGE

Jim Baker	Commerce/NOAA	(O) 482-3436 (F) 408-9674 POC: Pat
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Eileen Claussen	State	(O) 647-1554 (F) 647-0217 POC: Lillie
Charles Curtis	Energy	(O) 586-5500 (F) 586-7573 POC: Kim
Everett Ehrlich	Commerce	(O) 482-3727 (F) 482-0432 POC: Vickie
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John Garamendi	Interior	(O) 208-6291 (F) 208-1873 POC: Gwen
Jack Gibbons	White House	(O) 456-7116 (F) 456-6021 POC: Susie
T. J. Glauthier	OMB	(O) 395-4561 (F) 395-4639 POC: Alecia
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Fred Hansen	EPA	(O) 260-4724 (F) 401-3764 POC: Linda H.
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Jeff Lang	USTR	(O) 395-5114 (F) 395-4549 POC: Dena
Katie McGinty	CEQ	(O) 456-5147 (F) 456-2710 POC: Robert
Jerry Melillo	White House	(O) 456-6202 (F) 456-6025 POC: Sandy
Alicia Munnell	CEA	(O) 395-5036 (F) 395-6958 POC: Lisa
Richard Rominger	USDA	(O) 720-6158 (F) 720-5437 POC: Joanne
David Sandalow	CEQ	(O) 456-6224 (F) 456-2710 POC: Wendy
Lois Schiffer	Justice	(O) 514-2701 (F) 514-0557 POC: Norma
James Steinberg	White House	(O) 456-9480 (F) 456-9490 POC: Kathy

Lawrence Summers	Treasury	(O) 622-1080 (F) 622-0081 POC: Judy
Dan Tarullo	NEC	(O) 456-5353 (F) 456-1605 POC: Kristin
Timothy E. Wirth	State	(O) 647-6240 (F) 647-0753 POC: Debbie
John (Randy) Wood	State	(O) 647-9796 (F) 647-0753 POC: Debbie

G/Admin:IAClimte

3/7/97 Called to regret via voice mail

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

04-Mar-1997 03:25pm

TO: Alicia H. Munnell

FROM: Lisa D. Branch
Council of Economic Advisers

SUBJECT: Tim Wirth's Climate Change Luncheon, Thurs, 3/13, 12-1:30pm

FYI, Tim Wirth's ofc called to invite you to another one of his climate change luncheons. The guest of honor will be Paul Krugman (MIT). The lunch is from 12 - 1:30 @ State Dept, Henry Clay Dining Rm. However, this lunch conflicts w/the Fed lunch @ 1pm. Background info on Krugman forthcoming.

poc: Debbie, 647-6205

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

March 6, 1997

TO: Sally Katzen

Would it be helpful for me to send a copy of this memo directly to Mary Nichols at EPA? Please call me with your answer, x55036. Thanks.

H

Alicia Munnell

3/11/97: per AM conversation, Sally says NO.

MEMBER

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

MEMBER

March 6, 1997

MEMORANDUM FOR SALLY KATZEN, OMB

FROM: ALICIA MUNNELL

SUBJECT: Ozone NAAQs Information and Analysis from EPA

I would appreciate your including the following items on your list of requests from EPA in your forthcoming discussions with Erskine Bowles and Carol Browner.

1. **EPA should revisit the question of which 8-hour standard is equivalent to the current standard and continue consideration of a broad range of standards, including .09 ppm, 3rd high and .08 ppm, 8th high.**

The Clean Air Scientific Advisory Committee (CASAC) agreed that an 8-hour averaging time is preferable to a 1-hour averaging time for the ozone standard. But they also concluded that the science provided no "bright line" distinguishing any of the proposed standards (including the current standard as well as some that are less stringent) as more or less protective of public health. Therefore, an 8-hour standard that is as protective of public health as the current standard should remain under consideration.

I understand that determining the equivalent standard is an analytical challenge; a standard that is more stringent in one city may be less stringent in another, for example. Based on risk assessments in 9 urban areas, EPA staff has identified .08 ppm, 5th highest and .09 ppm, 2nd or 3rd highest as equivalent to the current standard. However, the analysis does not address risks to public health in areas outside those 9 cities. Over 20 million more people live in areas that attain the current standard, but would not attain a standard of .08 ppm, 5th high, and a similar number live in areas that would not attain .09 ppm, 2nd high; many other people live in downwind attainment areas where ozone concentrations would also fall.

An equivalence determination should include health risks in all areas. If time or modeling constraints make such an analysis impractical, population living in non-attainment areas may provide a reasonable proxy. Based on population living in non-attainment areas, EPA staff has identified .08 ppm, 8th high, and .09 ppm, 3rd high as approximately equivalent to the current standard.

In the revised RIA, EPA plans to consider only three alternative 8-hour standards: .07 ppm, 3rd high; the proposed standard; and .08 ppm, 5th high, combined with a separate secondary standard. EPA staff concluded that the analysis for .08 ppm, 5th high can act as a "surrogate" for

.09 ppm, 3rd high. The projected non-attainment areas under the two standards are considerably different, however, suggesting that .08 ppm, 5th high is an inappropriate surrogate for .09 ppm, 3rd high. This option is well within the range endorsed by CASAC and should continue to be considered in EPA's analysis.

The recent supplement to the risk assessment included .09 ppm, 3rd high, but not .08 ppm, 8th high. A risk assessment for this standard should also be considered in the standard-setting process. (.08 ppm, 8th high is considerably more stringent than .09, 5 exceedances so is in the range endorsed by CASAC.)

2. **An integrated analysis of the proposed PM and ozone standards should evaluate the effects of the proposed ozone NAAQS assuming attainment of the PM standard as the baseline for both the risk assessment and the RIA.**

For its revised RIA, EPA staff has proposed an integrated analysis of the PM, ozone, and regional haze NAAQS. EPA proposes to analyze the standards in the following order: regional NOx caps, the ozone standard, regional SOx caps, then the PM standard. This sequencing does not fully reflect the information already presented by CASAC and EPA in the draft RIAs. Based on information already presented by CASAC and in EPA's draft RIAs for ozone and PM, the ozone standard is clearly the "marginal" decision. As such, it is imperative that the integrated analysis first estimate the effects of full attainment of the proposed PM standard and then estimate the incremental effects of the proposed ozone standard. Due to modeling limitations, EPA is investigating "surrogate" approaches to evaluating the incremental effects of the proposed ozone standard, given attainment of the PM standard. Because the PM-then-ozone sequencing would be much more informative than that currently planned by EPA and given the time constraints, EPA's integrated analysis should focus exclusively on the PM-then-ozone sequencing.

Until a more complete analysis of the incremental impact of the ozone standard using attainment of the PM standard as a baseline is available, EPA should provide the estimated emissions reductions and baselines by region and county which are an intermediate step used in the analysis presented in the PM draft RIA. (EPA should be able to provide this quickly, as it requires no new analysis.)

3. **An assessment of the feasibility of attainment in all areas and more information on the residual non-attainment problem for the proposed ozone standard is needed.**

Many areas are not projected to meet the proposed (and in some cases the current) standard with identified control strategies. More information about when and how these areas will come into attainment is needed, including the following:

- The sources of residual tonnage in these areas,

- The control strategies that were available but not applied (in the RIA),

- More information about the ability of technological progress to not only decrease the expected costs of using currently identified technologies, but also the ability of new technologies to *impact the residual non-attainment problem*, in light of the secular upward trend in emissions due to increased economic activity and vehicle miles traveled (VMTs). EPA should estimate what implied rate of technological progress (introduction of new control strategies) would be necessary for full attainment in all or most areas and compare this to historical experience.

3/7/97 To: Joy Fm: Alicia w/comments

CC: Ann SAF JS TR

THE WHITE HOUSE

WASHINGTON

March 3, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELGIE HOLSTEIN
DAVID SANDALOW

SUBJECT: Climate Change

There will be a meeting Tuesday, March 11 from 9:30-11:00am in OEOB Room 472.

One of the items on our agenda will be clearance of a background paper on domestic emissions trading programs. Please review the attached draft, prepared by EPA, and provide any comments to David Gardiner (260-4332) no later than COB Thursday, March 6. EPA will distribute a revised draft prior to our meeting.

Complete agenda for our meeting to follow.

Everyone of the attached list has been cleared into the building. For questions concerning clearance, please contact Wendy Philleo (456-6224).

Muenzel
p. 6

Overview of Domestic Greenhouse Gas Emissions Trading Programs

Introduction

This paper describes ~~how~~ a domestic emissions trading program ~~could be used to comply with an emissions target designed~~ to meet an international agreement on an emissions target for greenhouse gases. Emissions trading ~~is a tool for meeting a total quantity limit on emissions. It~~ involves allocating or auctioning emissions allowances, and allowing the trading of allowances in a market ~~with sufficient mechanisms to ensure compliance with targeted levels.~~ ~~Since~~ Emission trading ~~involves the~~ creates ~~creation of~~ new, marketable assets that can have substantial value, ~~addressing~~ distributional issues will be an important component of program design. Allocation rules or auction revenues can be used to address these distributional issues.

target levels established by emission permits

Emission trading systems ~~can~~ offer both static and dynamic efficiency advantages over more traditional forms of regulation. The ~~potential for static efficiency gains exists because~~ Emitters face different abatement costs. Emissions trading allows those with high abatement costs to purchase allowances from those whose costs are lower. Total costs ~~would~~ can therefore be lower than through traditional regulations, which require all polluters to comply with a specific standard. ~~However, it should be noted that~~ such a ~~program~~ involves people and firms adjusting to higher energy prices.

Nevertheless, emissions trading still

As a result, Under traditional regulation, firms have little incentive to investigate ways of abating pollution by more than the minimum required to comply with regulatory requirements. Firms under-invest in pollution control R&D, ~~since they can capture neither the full market benefits from such spending (since others benefit from learning of their successes), nor the full value of any resulting environmental improvements.~~ Emission Trading offers dynamic efficiency gains because ~~of the~~ it creates incentive to continuously improve pollution abatement technologies in order to create "surplus" allowances for sale. ~~In addition, tradable permits can provide incentives for reduced total energy use.~~

These same efficiency benefits could be achieved through a system of emission taxes. However, ~~a system based on~~ emissions trading ~~differs from a tax system in~~ offers two ~~important ways.~~ advantages. First, under a tax system, the quantity of total emissions is the result of individual polluters' decisions in response to the incentive provided by the tax. In principle, if the entire cost structure is known, any quantity target attained by a tradable permit system could also be attained by an appropriately calculated tax. In so far as forecasting in practice is difficult, however, ~~the resulting level of emissions can be greater or less than the level targeted when the tax rate is set.~~ By setting overall quantity targets, emissions trading programs ~~coupled with appropriate compliance procedures,~~ offer greater certainty that national emission targets will be achieved. ~~Second, emission tax systems always involve revenues accruing to the government (although they can be rebated).~~ Under an allowance system, the government has greater flexibility in deciding

move to next page

whether to collect revenues by auctioning permits or allocating them based on historical emissions or some combination of the two. This flexibility can affect the public acceptance of the mitigation program.

US Experience with Emissions Trading

The US has had more experience with emissions trading than any other country in the world. Specific programs include:

- *Sulfur Dioxide (SO2) Allowance Trading:* The Clean Air Act Amendments of 1990 required a ~~imposed an overall~~ 50% emission reduction ~~requirement for~~ in SO2 emissions from electric utility boilers. ~~The portion of the program concerning trading works by allocating~~ To accomplish this goal a fixed number of emission allowances were allocated to electric utilities based on a formula reflecting historical emissions. In addition, a small portion of allowances are auctioned every year to facilitate price discovery and new entrants. Allowances are specifically excluded from being defined as property rights, may be traded to any party anywhere within the continental U.S., and may be "banked" for use in future years. Participants need to conduct regular monitoring of emissions and make an annual accounting of their emissions. Penalties are imposed if emissions exceed the number of allowances held by a source.

  What does that imply?

  ~~There is now~~ A a functioning market in SO_2 allowances now involving both bilateral exchanges between companies, and brokered exchanges through third parties. This market, along with other factors[1], has helped to dramatically reduce the cost of the abatement program. Initially, forecasters claimed that emissions allowances would sell in the range of \$100 to \$1000 per ton.[2] Current spot prices are in the range of \$80 to \$90. In addition, 1995 emissions were actually 40% below the legally required levels for that year.

  Fair comparison?

- *Water Effluent Trading:* The US generally has regulated surface water quality through a system of discharge limits for large sources of water pollution. In addition, states have standards for ambient water quality which are often not attained even after large dischargers apply "best technology." The reason is that small ("nonpoint") sources (such as runoff from farms) contribute significantly to water pollution. A number of state and local governments are employing trading systems for watersheds that either permit trading among large dischargers, or allow large dischargers to fulfill their requirements by controlling nonpoint sources. These include the Fox River in Wisconsin, the Dillon Reservoir in Colorado, and the Tar-Pamlico River in North Carolina. The latter two programs are designed to manage future economic growth.

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[1] These include the fact that the bill that was actually adpted was not as onerous as many in industry had feared, the low price and widespread availability of low sulfur coal, the awarding of "bonus allowances," the postponement of capital investments, and lower than expected transportation costs.

[2] Hahn, Robert W., and Carol May, "The Behavior of the Allowance Market: Theory and Evidence," The Electricity Journal, March, 1994.

Thus, the quantity of effluent allowances allocated exceeds current discharge levels. Once growth consumes this excess, trading is expected to reduce compliance costs.

- *Inter-refinery Lead Trading:* EPA operated a lead trading program from 1983 to 1987 as it phased out lead from gasoline. Lead trading allowed refiners and importers to trade lead reduction credits in order to meet limits for the lead content of gasoline. The quantity of allowances to which a firm was entitled was determined by the amount of leaded fuel produced by the firm and the contemporaneous EPA standard. Those who bettered the standard could sell their credits to others. Some 10 billion grams of lead were traded during the course of the program at prices ranging from 0.75 to 5 cents per gram. Allowing the trading of lead credits reduced the costs of the program by approximately 20 percent.

? within plants?

- *Criteria Air Pollutant Trading:* EPA first began incorporating aspects of emissions trading in its air program in 1974, when it allowed a modified source to use "credits" earned by another source within the same plant to avoid additional regulatory requirements. Since then, emission trading has substantially expanded. Trades have ~~numbered in the thousands and have~~ been estimated by ~~Hahn and Hester (1986)~~ to have achieved savings ~~between~~ $525 million and $12 billion.

Don't throw in random numbers

- *Market Mechanisms for Chlorofluorocarbon (CFC) Phaseout:* Under the 1987 Montreal Protocol to limit stratospheric ozone depletion, the U.S. required the phase out of the production of CFCs by 1996. As part of its program, the U.S. adopted a tradeable permit regime covering CFC manufacturers and importers. These were allocated allowances based on each firm's 1986 market share. As the market for CFCs declined, the system allowed firms to allocate production ~~between~~ among different ~~production~~ facilities according to the least-cost pattern of supply. It also gave CFC users the flexibility to switch between different CFC compounds, within the overall limit on allowances. This program helped reduce the costs of the phaseout. In 1988, EPA estimated that the cost to *halve* CFC use would be $3.55 per kilogram. By 1993, it became clear that all uses could be *eliminated* by 1996 at a cost of $2.45 per kilogram.

Emission Trading of Greenhouse Gases

These examples show that emission trading and banking have been used to meet established reduction requirements. Emissions trading, coupled with sufficient compliance mechanisms, may similarly be used to meet an established target for greenhouse gas emissions.

An emissions trading program, like any program designed to limit greenhouse gases, must contain certain elements. First, an agreed upon emissions budget must be established. A central authority must be given the domestic responsibility for verifying compliance and must be provided sufficient information to do so. Finally, noncompliance with allowance limitations or reporting requirements must generate real consequences, such as penalties or subtraction of allowances.

A program would have to establish permit lifetimes, monitoring and enforcement provisions, as well as rules for permit banking, borrowing, and trading. Consideration should also be given to transaction costs, which should be kept as low as possible. However, particularly difficult issues involve determining what types of activities require a permit and how permits should be allocated.

What types of Activities Should Require a Permit

Sources of greenhouse gases include not only those emitting carbon dioxide, but other gases such as methane, nitrous oxides, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). Gases differ both in their atmospheric lifetimes and in their ability to trap heat in the atmosphere. In addition, carbon is not only emitted through the combustion of fossil fuels, but is also absorbed by "sinks" such as trees and soils.

holders

The decision for determining ~~who should be required to hold~~ a permit should consider the following:

- *Coverage:* While it may not be necessary to ensure that every ton of greenhouse gas is accounted for within an emission trading regime, the scope of coverage of the trading program should be sufficient to ensure compliance with targets set in accordance with an international agreement.
- *Administrative and compliance feasibility:* The number of sources involved in the trading program should be small enough to be administratively feasible and large enough to ensure market competition. In addition, monitoring and verification of permit compliance must be possible for those included in the program.
- *Potential to Diffuse Low Greenhouse Gas Technologies:* Alternative points of intervention should be evaluated for their ability to provide incentives for research, development, adoption and diffusion of low greenhouse gas technologies.
- *Market Impacts:* Any program that limits emissions will affect the bottom line of firms. The permit program will have economic impacts that vary depending on program design. For example, exempting certain sizes or categories of sources from permit requirements because of administrative or equity concerns (e.g., small boilers or home heating oil) has competitive implications within the energy market..

Carbon Sources

Carbon dioxide currently accounts for about 85% of U.S. greenhouse gas emissions. The term "emission trading" implies the creation of a market of emission allowances (or permits) among *emitters* of greenhouse gases through a limitation on those

or move to section

and

~~emissions. In the case of carbon dioxide, however,~~ direct emitters number in the hundreds of millions since they include sources such as automobiles and residential gas water ~~heaters.~~

However, s~~ince virtually all of the carbon contained in fossil fuel extracted from the ground (with the possible exception of certain feedstocks) is eventually released to the atmosphere~~, a trading program need not focus uniquely on direct emitters, but can be implemented through other points in the energy market. These include fuel imports, fuel extraction, processing, refining, distribution, and secondary conversion (e.g., coal to electricity). In addition, these points could vary by sector. For example, an emission trading program could focus on the point of final combustion for coal, but on refining for oil, or distribution for natural gas. Given the wide variety of options available for including energy sources in a trading program, a few alternative programs are described below for illustration:

A Program Targeting Primary Fuel Producers

Th~~ere are various levels within~~ the primary fuel producing sector has many levels – extraction, processing, refining, and distribution – where a permit program could be implemented. One option would be to require permits at the point of first sale (a permit is surrendered with the first inter- or intra- company transaction). Such a system would include transactions between a coal company and an electric utility, between a natural gas producer and its marketing arm, between a natural gas producer and a broker, or between an oil extraction company and its refinery operations. Fuel importers would also require permits to import fuel. This would capture the carbon from fuel consumed in the refining process. The number of market actors under this program design would be under 5000 and virtually all carbon in the energy sector would be included in the program.

A Program of Emission Trading at the Sectoral Level

An emissions trading program could also be applied at the point of combustion, allowing trading among affected sources. This system would be most comparable to the current SO_2 emission allowance trading system.

Targeting the six largest industrial CO_2 emitting sectors (electric utilities, cement, primary metals, pulp and paper, petroleum refining and chemicals) in a sectoral trading program could encompass as many as 20,000 market participants and 90 percent of industrial CO_2 emissions. Mobile source emissions could be indirectly included in the system by allocating transportation equipment manufacturers permits for emissions associated with their automobile fleets or by including refiners in the program. Residential and commercial emissions could be similarly addressed by focusing upstream in the energy system.

Other Greenhouse Gases and Sinks

The remaining 15% of greenhouse gas emissions (on a carbon-equivalent basis) are accounted for by other gases. Most important among these is methane, which by itself accounts for 11% of national emissions. Since gases differ in their lifetimes and in their potential to trap heat in the atmosphere, an "exchange rate" or trading ratio must be established to convert all gases into common units for inclusion in a trading program. Such ratios have been developed by climate researchers and could be applied here. These should be consistent with the rules established in the international protocol.

Several, although not all, of the many sources of non-carbon greenhouse gases could likely be included in a trading system. For example, methane emitting coal mines, landfills, livestock manure management facilities and potentially natural gas distribution systems may meet the criteria described above for inclusion in a greenhouse gas trading program. These sources account for 7% of national greenhouse gas emissions. Similarly, emissions of some sources of other gases could potentially be included (e.g., magnesium production).

Forests in the United States currently remove an amount of carbon equal to 8% of national emissions from the atmosphere. However, translating the potential of sinks into monitorable, verifiable, and cost effective emission reductions is hampered by the lack of a comprehensive national accounting system for sinks. Thus, while it may be possible to observe and monitor the planting of trees and preservation of forests in a given area, it is difficult to know how such actions affect national emissions. Preservation of one stand of forests may simply lead to destruction of another in a different location. Overcoming the difficulties associated with monitoring and verification is therefore especially important for the inclusion of sinks to be included in a trading program.

Allocating Permits

In an emission trading system, some mechanism must be provided for allocating permits to sources. This could be done on the basis of baseline/historical emissions (where permits are given to those currently emitting) or through an auction (where revenues accrue to the government). These two mechanisms might also be combined: some portion of permits could be allocated on the basis of historical emissions while the rest are auctioned. In any case, the value of these assets could be large depending on the permit price, which is determined by the emissions target and the costs of substitutes. Given that an auction could produce substantial revenues, some decision would have to be made with respect to what to do with the proceeds

A reserve of allowances or a portion of auction revenues could be set aside to encourage more rapid development and diffusion of low greenhouse gas emitting technologies. For example, manufacturers of energy consuming equipment could compete for the set aside based on the degree to which they produce equipment more efficient than the average in use or than required by current mandatory efficiency standards. Such a program could yield reductions in energy demand and help buffer the consumer from the impact of higher energy costs.

could also be used to reduce taxes or the budget deficit

Allocation Based On Baseline/Historical Emissions

Under this approach, sources are given a number of permits based on baseline fuel production or emissions and an allocation formula. Various allocation formulae can be devised, weighted to greater or lesser degrees in favor of sources with high historical emissions. Emissions allowances are endowed to facility operators for no cost and would be transferable. Those receiving permits thus obtain assets of potentially large value from the government at no cost.

Such an allocation mechanism could create entry barriers. In a capital intensive sector like primary fuel production, where entry barriers are already substantial, new entrants would be further disadvantaged if they had to purchase permits. This problem could be mitigated by withholding a number of permits for purchase by new entrants or by auctioning a portion on the open market. Such an auction would also facilitate price discovery in a new market. Although new firms will still be disadvantaged (as they will pay for all of their permits), they would be able to enter the market. The pool of permits would need to be withheld from existing sources to ensure compliance with targeted national emission levels.

? correct

no permits were available

It may be desirable to design an allocation that would allow credit for early emissions reductions (those achieved prior to the start of the program, but after the baseline period) — in particular for those that reduced greenhouse gas emissions as part of government sponsored voluntary programs. If credits for past actions are given, the total credits allowed would need to be deducted from the overall permit allocation in order not to exceed national greenhouse gas emissions target.

Permit allocation formulae could also take into account the market impacts of the mitigation program. For example, "set asides" could be made available to those industries or consumers who experience a grossly disproportional share of the costs of control. Alternatively, a set aside could be auctioned, with the revenues used to redress gross inequities in the distribution of control costs.

Auction

Alternatively, an auction could be used to allocate permits. In this case, permit holders would pay the market clearing price for every unit of greenhouse gas released. Auctions ensure that permits are available for trade, and would serve to inform potential traders about current price levels. All participants have equal access to permits, placing new entrants on the same footing as existing emitters. Given that an auction could produce substantial revenues, some decision would have to be made with respect to what to do with the proceeds. These include programs to redress inequities in the distribution of control costs (as discussed above), R&D for less carbon intensive energy sources and end uses, reductions in taxes, and/or deficit reduction.

Conclusion

Past experience with emission trading programs indicates that they can help significantly reduce the costs of meeting environmental objectives. This is due in part to the incentives they provide for developing and diffusing new environmental technologies. Thus, final compliance costs for the programs that have incorporated emissions trading have, in general, been dramatically lower than ex ante expectations. With careful attention to design, a system of emissions trading could be instituted for greenhouse gas emissions. Such a program would provide similar incentives to research, develop, and diffuse low greenhouse gas technologies and result in achieving targeted emission levels at the lowest possible cost.

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