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Bonn 1998

Global Climate Change

Joe Aldy
CEA

Rm 356

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2 June 1998

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JA**URGENT****TELEFAX****Fax:** 01 202 647-0217**From:** USDEL/Bonn, Climate Change Talks: ~~WVV.~~ Mark G. Hambley**To:** Ms. Denise Goode**Subject:** Climate Change Talks: Update No. 1 for
Monday and Tuesday, June 1-2, 1998

Denise: Attached is the first daily report which will hopefully get to you earlier than this in the future. In any case, please make copies for distribution within the Department or fax it to the addressees noted.

Many thanks (and thanks, as well, for your other reports and faxes). Please continue to send them via the hotel fax number. Note that my room number is Room 356.

Regards to all from Germany.

MGH

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2 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn:
2nd to 12th June 1998: Update No. 1 for June 1-2, 1998

Attached is one a series of informal and unclassified reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn on June 1, along with events at the opening sessions of the SBI and SBSTA during the formal sessions on June 2. Although this report is unclassified, its contents are not intended for use outside of the U.S. Government.

Also included with the report are the June 2nd copy of the Earth Negotiations Bulletin, along with the first edition of the NGO rag, ECO. The former can usually be counted upon to provide relatively unbiased details of the proceedings in the various deliberations, while the latter is usually ingratiatingly support of the European Union in its perspectives (although no EU environment ministry is apparently providing direct financial support as was the case in the past). We have also included a more detailed account of the morning SBI session prepared by DOE's Debbie Stowell.

2 June 1998

Climate Change Meetings, Update No. 1: "Umbrella" Group Makes Headway; Europeans Exhibiting Stubbornness; G-77/China Prevaricating as Subsidiary Bodies Open

Umbrella Group: Making Progress?

In spite of the absence of Ukraine (expected) and Russia (unexpected), the umbrella grouping of countries (other members are U.S., Japan, Canada, New Zealand, Australia, Norway, and Iceland) held their fourth meeting on June 1st in the Canadian Embassy chancery. The main result of the meeting was to agree to put the final touches on a paper on emissions trading which outlines the views of the umbrella members. This will be done on June 2nd and 3rd, with the intention of then introducing the report into the on-going discussions as a "concept paper" reflecting the views of a significant group of Annex B Parties.

Both Japan and the U.S. reported on their recent contacts with representatives of the Ukrainian and Russian governments. The misgivings of the former about coming out too far in front on the question of emissions trading (out of concern for the EU's expected negative reaction) was noted by both the Japanese and the U.S. It was decided to keep Ukraine informed and (to the extent possible) involved in the umbrella process until high level interventions could be made with senior Ukrainian officials later this summer. (One contact told us that the EU has now recognized that it cannot meet its target without external trading, and that for this it needs Ukraine. Has the EU been talking to the Ukraine to an extent we are not aware of, or is this merely conjecture?)

The Japanese reported that the Russians remain very interested in the umbrella and want to proceed with making preparations for a bubble arrangement in the event this proves necessary if adequate arrangements on trading are not agreed with the EU and/or the G-77/China. Australia indicated that the key Russian delegate to the FCCC meetings, Sasha Metelnikov, had voiced his general satisfaction with the paper prepared by New Zealand on behalf of the umbrella group on trading. His views will be incorporated, to the extent possible, and Russia was scheduled to participate in the evening (June 2) follow-on discussions on this topic. It is quite clear that without Russian concurrence, we will be in a very exposed position should we go ahead and submit the paper for consideration by the plenary as a whole. So, watch this space.

EU Stubbornness on the Limitations Issue

Speaking on behalf of the EU, the UK's Peter Unwin at both the June 1st Common Interest Group meeting (comprised of all Annex I Parties but only Slovenia and the Czech Republic attended this session from the Economics in Transition) and during the afternoon debate on June 2nd, reflected positions on the flexibility mechanisms which followed closely remarks last month made by UK Environment Minister Meacher. (Our thanks to both OES and Jim Rubin for faxing these to us.)

On flexibility instruments, Unwin appeared somewhat stubborn with his feet dug in over the question of a limit (which he favored) on emissions trading and on "hot air" (which he opposed). Unwin indicated that domestic measures must be taken as the "main means" to achieving emissions reductions. This is needed, according to Unwin, in order to demonstrate that these measures are needed to tackle climate change in the longer term. This limitation would also demonstrate to developing countries our "clear commitment" to take action, in the hope that this will eventually convince them to do likewise.

"Hot Air" Also Mentioned but Not Russia by Name

During the CIG, EU arguments against "hot air" were also cast in terms of concern about setting an unwelcome precedent for developing countries. Indeed, privately, Unwin maintained that many developing countries would invariably end up with less than challenging targets which would undermine both the overall aim of the Protocol as well as the emissions trading system.

For the purposes of the joint SBI/SBSTA plenary on the question of flexibility mechanisms, Unwin confined himself to the argument that the sale of "hot air" would result in an overall environmental loss since the two countries involved doing the buying and the selling would not be taking any actions to actually reduce emissions.

((Comment: Unwin did not identify any specific EU initiative to redefine the "hot air" issue. No countries were specifically named (although the Russians themselves recognized that they were the targets of Unwin's remarks.) As of June 2nd PM, there were still trying to decide how to respond. End Comment)

G-77/China Prevaricating (but Better Organized than Anticipated); Familiar Old Faces Return

Say what one will about Indonesia's difficulties, the G-77/China were more prepared than anticipated. Although this was more in the sense of raising questions, reemphasizing earlier themes with little in the way of any forward thinking on the issues discussed, somewhat surprisingly, there were no requests for additional time for

preparations. Indeed, the group met on Monday evening at the same time the CIG was in session. Despite rumors, hopes, and expectations to the contrary, most of our familiar "friends" were again at their chairs at the opening session. These included Professor Zhong of China; Bernaditas Muller of the Philippines; Herrera Marcana of Venezuela; Mohamad Sabban of Saudi Arabia; and the well-known nucleus of Indian delegations, Vijai E. Sharma. From the former front line cast, only Mark Mendoza of Tanzania was absent (which had the added bonus of giving us an extra chair at the very crowded plenary table).

Indonesia Takes a Cautious Line

Speaking on behalf of the G-77/China, Indonesia made interventions at both the opening organizational portions of the the SBI and SBSTA and during the afternoon joint session on the flexibility mechanisms. During the opening, organizational meeting of the SBI, the Indonesian Ambassador underscored the importance of "common but differentiated" responsibilities and warned against the "tendency" to stray away from this point (an apparent reference to our efforts to keep developing country commitments on the table).

The Ambassador emphasized that the convention is of paramount importance and noted, in this regard, that only two of the 18 decisions taken at the Third Conference of the Parties (COP-3) concern the Kyoto Protocol. The remainder concern the Framework Convention.

Indonesia emphasized the importance of the second review of the adequacy of Articles 4.2 (a) and (b) and indicated that the G-77 will be introducing a decision in this regard. The envoy also raised issues regarding the importance of technology transfer and the provision of new and additional resources and suggested that these issues should also be placed on the agenda for COP-4.

G-77 Nitpicks; Some are Innocuous; Others are Not

Other arguments raised during the opening session of the SBI concerned G-77 nitpicks about the title of the item on the agenda referring to "mechanisms for cooperative implementation". The G-77 insisted that only "mechanisms" be mentioned in the title. This point was also made by Indonesia, Brazil, Saudi Arabia, and China. Saudi Arabia tried to include a biased textual reference in the item dealing with impacts on developing countries but was caught out by Daniel Reifsnyder and had to accept a compromise formulation proposed by the Secretariat.

The other key procedural point raised by India, Iran, China, and Saudi Arabia called for consideration of the flexibility mechanisms by the SBSTA first and then by the SBI. The effort here appeared to be directed at forestalling the afternoon joint session on this topic. SBI Chairman Kante successfully avoided responding affirmatively to this request, and the afternoon joint session on the subsidiary bodies proceeded as planned.

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Afternoon Plenary Focuses on the Flexibility Mechanisms: "A Long Road Ahead"

The EU's contribution to this debate has already been recorded. Indonesia again made a somewhat cautious intervention, perhaps reflective of divergent views within the G-77's 131 member countries. The envoy emphasized the theme of "common but differentiated" once more. Somewhat disturbing (but indicative of the voices we heard at the April meeting of the FCCC's "extended bureau meeting," Indonesia indicated that the G-77/China wants to see what domestic actions are taken by Annex I Parties first, before addressing the question of "supplementarity." This point was eagerly seized upon by the EU which followed Indonesia on the speakers' roster.

"Mr. Equity" Rises Anew

For its part, India stated that the three mechanisms under discussion ((JI, emissions trading, and the clean development mechanism (CDM)) should all be treated equally. Mr. Sharma also noted that the flexibility mechanisms must be marketed on the basis of a fair share of the atmosphere. A share which is based on the historical share of usage is "not acceptable." Sharma also indicated that the CDM should be viewed in terms of what it can do for sustainable development and not what it can do in terms of its cost effectiveness. This point was endorsed by Saudi Arabia's Sabban who also said that, in view of the "confusing" sets of approaches to the flexibility mechanisms, it would be best not to rush everything for finalization at COP-4 in Buenos Aires. Agreeing with Indonesia, he said that the Kingdom prefers a "step by step" approach.

U.S. Outlines Its Position; Expresses "surprise and disappointment" at efforts by some to reopen Kyoto

The U.S. spoke early in the afternoon debate - following Indonesia, Mauretania (on an unrelated topic), and the UK speaking for the EU. Drawing heavily on our non-paper, we outlined our arguments in favor of well-monitored and verified flexibility mechanisms. Noting that we see "no basis" (emphasized twice) in the Protocol for establishing percentage limits, we expressed ".....our surprise and, indeed, disappointment" at some of the suggestions we had heard which appear "....to re-open the carefully crafted language which we reached after hours of arduous negotiations in Kyoto."

We outlined in some details our views on the CDM and also included a section on the need to "harvest the lessons learned from our AII" effort and to find a way to credit "good projects" to credit legitimate reductions for projects that would qualify under the rules developed for Article 6 and 12 of the Protocol. We also endorsed an EU call for a contact group to be established to further address these issues. In our case, we called for

the creation of one contact group each in SBSTA and the SBI which could be asked to consider multiple issues.

Watson Upbeat

During the truncated morning organizational session of the SBSTA, Malaysian Chairman Chow Kop Kee asked three international officials to deliver remarks preparatory to a discussion on relationships with other intergovernmental bodies. The most prominent of these speakers was Dr. Robert Watson, the head of the Intergovernmental Panel on Climate Change.

Watson was upbeat in his assessment about both the progress being made in preparing for the Third Assessment Report (or the TAR – Watson said that some 3000 international experts had been identified; the working group and chapter heads will meet next month to finalize the proposed outline for the TAR). He outlined progress on three outstanding "special reports" which will be available in 1999 or 2000. These are on the impacts of subsonic and supersonic aviation; emission scenarios; and technical cooperation and transfer. Watson stated that the IPCC can do more, and he emphasized the importance of sinks and of global warming potentials (GWPs) as two possible areas of interest.

Alsagaray Sputters; Topfer Stumbles

Both Argentina's Environment Minister Julia Alsagaray and UNEP Executive Director Klaus Topfer were invited by the SBI and SBSTA chairs to address the joint session of the two bodies on the afternoon of June 2. Both were pressed for time, it seems, which was the reason the session was started 30 minutes ahead of schedule at 2:30 PM. This development incensed China's venerable and equally irritable Prof Zhong who asked that they be delayed until 3 PM to permit the G-77/China time to meet as was planned earlier. He did not take Chairman Kante's negative response well and, true to his word, absented himself from Alsagaray's short presentation.

"Much Ado About Nothing"

In the event, Zhong missed very little. The Argentinian Minister was either ill-prepared, nervous or both. She presented her points briefly but with little relish. She said that priorities need to be set for Buenos Aires and that these seem at the moment to be focused on the CDM and emissions trading. She echoed earlier comments by the G-77/China that COP-4 must address both issues related to the convention as well as those tied to the protocol. She emphasized the need for good scientific data and transparency. No mention was made about developing countries.

Topfer Presses His Idea for a Working Group on Economic Instruments, but it Apparently Flops

We learned at the June 2nd JUSCANZ meeting that UNEP Executive Director Klaus Topfer would be meeting with the Bureau later that morning to discuss his proposal to establish, along with UNCTAD (with financial support from the (GEF!) an intergovernmental working group to study economic instruments, including those related to the flexibility mechanisms. We expressed our misgiving about this idea (which we had thought had been turned back at the recent UNEP meeting) and were seconded on this by Japan, New Zealand, Australia, Canada, and Norway.

In his remarks to the afternoon plenary, Topfer raised the proposal anew but the idea did not fly. Michael Cutajar tried to find something less controversial for UNEP to do (such as monitoring HFCs or addressing land change uses of forests), but even this effort brought a round of uncharacteristic criticism from a number of countries, including Mauretania (represented by the experienced former SBI Chair Mahmoud Al-Ghaouth), India, the Philippines and other countries. Cutajar told us afterwards that he was trying to find a diplomatic way out for Topfer who appears intent on pursuing his goal of forging a more active role for UNEP on climate change. in a kind of "damn the torpedos" mode. Cutajar had wanted Topfer to hear reactions from delegations first-hand, but the Executive Director departed as soon as he delivered his remarks.

China Signs the Kyoto Protocol

In a somewhat surprising development, China became the 37th signatory to the Kyoto Protocol on May 29th. FCCC Executive Secretary noted that the percentage of Annex I CO2 emissions (from 1990 levels) is now 39 percent of the 55 percent needed (China, of course, does not count in this figure). This is a somewhat greater percentage than Cutajar's estimate of 35 percent provided following the mass signing at the United Nations on April 27 (which included most of the Annex I signatories to date.)

Little has been mentioned about this event in the corridors. Some who have focused on the signing believe this is China's way of poking the U.S. in the eye. While it can be argued that a follow-on ratification might make it easier for China to take on a future commitment, it guarantees that China will have a place at the table when this issue becomes the main course of discussion again.

Comment:

This meeting is proceeding smoothly, although the prognosis in terms of outcomes remains decidedly mixed. We may make some progress on some of the flexibility instruments, but this is unlikely. The best we might be able to hope for (at least as seen from this very early stage in developments) is to get some kind of process established to sort out details. We also hope that some good guidance will be given to the IPCC on sinks and/or GWPs, but the G-77/China may balk at adopting our suggestions.

The G-77 is better organized than anticipated, but this is really more because the various power centers within that organization (China, India, and OPEC) know quite clearly where to attempt to block progress, put pressure, or introduce extraneous issues to ensure that progress will be slow. The EU is acting true to form; most of its discussions are internal, with very little orchestrated outreach efforts. We anticipate that we might get more of a rise out of them if and when we issue our discussion paper on trading (with Russian participation), but it is not clear to us what this reaction will be.

End Comment.

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SBI OPENING SESSION

2 June 1998

Debbie Stowell

The Subsidiary Body on Implementation opened this morning with the Chair stressing the need to show progress on some of the issues on the agenda. He also stated that he would like to have draft decisions drafted so that capitals will have time to digest and reflect on the issue that we will deal with in Buenos Aires. He felt this was particularly important since the SBI will have limited time in which to meet at COP-4.

Michael Zammit-Cutajar in his opening speech divided the issues between those not linked to the Kyoto Protocol and could be completed quickly (the review of the GEF, review of non-Annex I communications, and the item on NGO's) and those needed for COP-4. He also updated Parties on signatories to the Protocol. Thirty-seven countries have signed the Kyoto Protocol thus far (China signed on 29 May, 39% of Annex I emissions is now accounted for with the current signatures).

The first agenda item to be discussed was National Communications. The majority of Annex I countries who spoke favored a due date of 2000/2001 for the third national communication with subsequent reports due on a three to five year basis. Interim reporting on inventory trends was also favored. Many Parties stressed the importance of the inventory reporting as we move closer to the implementation of the Kyoto Protocol. The in-depth review process was also sighted by many as important in providing transparency to the process.

The Russian Federation thanked the work done by the US Country Studies Program in helping it with its national communication.

China made an intervention on the need for Annex II countries to include in their national communications steps taken or envisaged on technology transfer.

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MEETINGS OF THE SUBSIDIARY BODIES OF THE UN FRAMEWORK CONVENTION ON CLIMATE CHANGE 2 - 12 JUNE 1998

The subsidiary bodies of the United Nations Framework Convention on Climate Change (FCCC) will meet from 2-12 June 1998 in Bonn, Germany. This is the first meeting since the adoption of the Kyoto Protocol at the Third Conference of the Parties (COP-3) in December 1997. Both the Subsidiary Body for Scientific and Technical Assistance (SBSTA) and the Subsidiary Body for Implementation (SBI) will address aspects of national communications and mechanisms for cooperative implementation, such as the clean development mechanism, emissions trading and "joint implementation" (this term is used in the agenda for convenience).

SBSTA will also discuss, *inter alia*, cooperation with international organizations and methodological issues, such as emissions inventories and land use and forestry. SBI will address the financial mechanism, the second review of the adequacy of commitments and arrangements for COP-4. The *Ad Hoc* Group on Article 13 (AG13) will continue discussions on functions and procedures for a multilateral consultative process.

POST-KYOTO ACTIVITIES

PROTOCOL SIGNATURES: On 16 March, the Kyoto Protocol officially opened for signature at UN headquarters and was signed by Argentina, Switzerland, the Maldives, Samoa, and Antigua and Barbuda. At the signing ceremony, FCCC Executive Secretary Michael Zammit Cutajar said he looked forward to the Protocol's entry into force very early in the next century and to a first review of its contents soon after. The first benchmark will be in 2005, when Parties must demonstrate progress in meeting the agreed emissions targets and start work on defining targets for the period after 2012.

On the occasion of the sixth session of the Commission on Sustainable Development (CSD-6), Japan signed the Protocol on 29 April, followed on 30 April by the 15 members of the EU, Australia, Brazil, Canada, Norway and Monaco. New Zealand signed on 25 May. On 29 May, China became the thirty-seventh country to sign. Fifty-five countries representing 55 percent of 1990 global carbon dioxide emissions must ratify the Protocol before it enters into force. No country has yet ratified the treaty.

FORMAL AND INFORMAL MEETINGS: The period following COP-3 witnessed a flurry of meetings, statements and events as countries embarked on the task of developing initial plans for implementation, addressing domestic reactions and developing processes to further define the terms of the Kyoto Protocol.

Implementation of the Protocol was addressed at a number of high-level meetings. On 17 May, the final communiqué of the G8 meeting in Birmingham, UK, welcomed the recent signature of the Protocol by some G8 countries and confirmed the intention of the rest to sign it within the next year. The leaders agreed to, *inter alia*: undertake domestic action to reduce emissions; develop flexible mechanisms; and draw up rules to ensure a verifiable trading system and an effective compliance regime. OECD Environment Ministers agreed on 3 April that OECD members would give a high priority to ratifying and implementing the Protocol. On 1 April, G8 Energy Ministers met in Moscow and signed a communiqué on cooperation in the energy sector that included a call to give special attention to the Kyoto Protocol. In a joint statement issued at the Summit of the Americas in Santiago, the presidents of the US and Chile, *inter alia*: stressed that the Protocol's market mechanisms would mobilize private sector resources; recognized the potential of the Clean Development Mechanism; and noted that developing countries should participate meaningfully in efforts to address climate change by, for example, taking on emissions targets.

On 30 May, the US, France, Britain and others began discussions in Paris on holding one or more international conferences to persuade India and Pakistan to renounce further nuclear testing in return for help from the industrial world in developing civilian nuclear power centers. French President Chirac also noted the threat of a "pollution bomb" if these and other Asian countries do not switch to clean energy sources, "a principal issue of the Kyoto conference on global warming last December." He said imposing sanctions on India and Pakistan would make it more difficult for them to switch.

Regional conferences in Asia, Eastern Europe, Africa and Latin America were organized to serve as fora for presentation of the methodological framework, results and experience of national studies, and their relevance and replicability in the region. A conference on Climate Change Mitigation in Africa was held in Victoria Falls, Zimbabwe from 18-20 May 1998. Twenty-four African countries were represented at the conference as well as representatives from the UNEP Centre Denmark, Danida, GTZ, UNDP and UNEP. The Conference was held as part of the final stage of the UNEP/GEF

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project "Economics of Climate Change Limitation," ran in parallel with the conference for Latin America held in Quito, Ecuador from 21 - 22 May.

At other meetings, the Protocol's flexibility mechanisms, particularly emissions trading, drew considerable attention. At the first GEF Assembly on 2 April, the World Bank's managing director of operations said the Bank plans to set up a pilot project to help countries trade their carbon dioxide emissions allowances. The project, called the Carbon Investment Fund, would help buyers and sellers trade their allowed emissions. He said the bank might be able to withdraw from the project eventually and let the private sector take it over and widen its scale.

A meeting on emissions trading, sponsored by the Columbia Earth Institute, UNDP, UNESCO, UNIDO and UNEP Organizing Committee, was held from 24-26 April in New York. Participants discussed several topics including the quantity and price of emissions permits, the necessity of private-sector participation, and the failure of past efforts to produce incentives for technology transfer. Panel discussions elaborated on issues such as opposition to the Kyoto Protocol by both the private sector and developing countries due to fear of negative economic impacts and achieving mitigation through interaction between developing countries and the private sector.

UNCTAD held an expert group meeting on emissions trading in London on 12 May. Some participants noted that attitudes toward the concept of trading were apparently shifting and said trading provides both efficiency and flexibility in meeting established targets and timetables, as well as incentives for the development of new technologies. Others, however, expressed concern about lack of interest in buying and selling something as diffuse and unclear as the right to emit carbon dioxide. Environmental NGOs were concerned that trading will allow wealthy countries to buy permits to emit carbon dioxide that has not been emitted by Russia due to its economic crisis.

Some countries and businesses have taken initial actions under the flexibility mechanisms. On 5 March, Suncor Energy Inc. (Canada) and Niagara Mohawk Power Corporation (US), announced a greenhouse gas emissions trade that the two companies hoped would be a first step towards the creation of a global market and an international trading system. On 11 March, a climate project in Bolivia was finalized, which participants hoped would become an example of how forest protection projects can be used to offset emissions. As part of the project, the Bolivian government has added 2.1 million acres of tropical forests to the Noel Kempff Mercado National Park, essentially doubling its size. By investing in the protection of this area, three U.S. corporations, American Electric Power, BP America and PacifiCorp, and the Bolivian government will receive carbon offset credits.

Russian President Boris Yeltsin and Prime Minister Ryutaro Hashimoto, in their summit on 19 April in Kawana, agreed to begin feasibility studies on twenty promising joint implementation projects to improve energy efficiency at Russian plants and reduce greenhouse gas emissions and gain offsets against their own emissions. The two leaders also agreed to expand cooperation in energy to the field of nuclear technology.

OTHER EVENTS: Several other events and meetings may likely influence the negotiations in Bonn. Newspaper accounts reported that European ministers, when signing the Protocol, expressed strong concern that the US, Japan and Russia were violating the spirit of the agreement by pursuing trading rather than domestic reductions. The UK noted that domestic actions must be the main means of achieving reductions and said the EU would

propose to limit the amount of emissions reductions that can be achieved through flexible mechanisms. He said developed countries need to consider ways for engaging developing countries in the process and supported a review of the commitments of all Parties rather than a pursuit of voluntary reduction targets. Following high-level consultations on 22 May, Japan and the EU publicly agreed to pool efforts to convince the US to sign the Protocol and encourage developing countries to reduce emissions.

In the US, the Clinton administration proposed domestic action on the Protocol, but not without generating considerable political resistance. On 29 January, US President Clinton announced a five-year, \$6.3 billion package of tax incentives and research to spur development of fuel-efficient automobiles and other energy-saving technologies. However, some members of the Congress have sought to block the administration from spending money on programs to reduce carbon emissions unless the Senate ratifies the Protocol. They characterized the administration's proposal as a "back door" way of implementing the Protocol without a Senate vote. On 22 May, US lawmakers sought to exempt US military operations from the Protocol by proposing an amendment to next year's military authorization bill that "prohibits the restriction of armed forces under the Kyoto Protocol."

Japan proposed domestic legislation that provides a basic framework for emission reductions by requiring both the central and prefectural governments to draw up plans to reduce emissions and make frequent progress reports. It does not require industries to disclose emission levels or to draw up reduction plans. The preliminary draft of the bill, which would have imposed stricter measures on industry, including mandatory reporting of emission reduction plans, was revised after it met resistance from the Ministry of International Trade and Industry. Environment agency officials said the significance of the legislation lies in its suggestion that companies should adopt "self-regulatory measures." Critics, however, said the proposal lacks measures necessary to ensure compliance by industry.

NGOs participating in the process also underwent changes. A new industry NGO, the Pew Center on Climate Change, was launched and includes corporate members from aerospace, auto and appliance manufacturers as well as several energy companies. Shell Oil announced its withdrawal from the Global Climate Coalition following irreconcilable differences over the Protocol. The US Chamber of Commerce launched an Internet campaign to disseminate information from foreign policy experts to the public in order to build opposition to the Kyoto Protocol, which it characterized as a threat to US security and sovereignty.

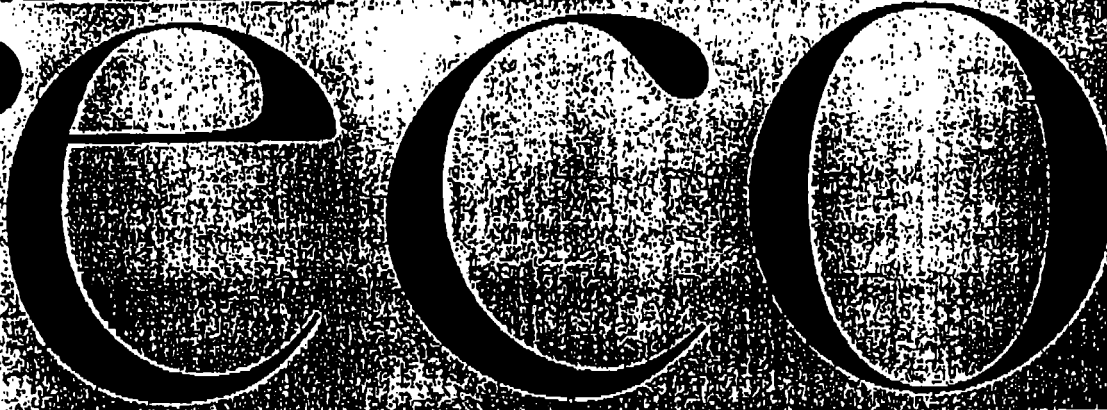
Scientists from the US and the UK announced that 1997 was the warmest year on record and that nine of the last eleven years were among the warmest periods ever recorded. Satellite images also confirmed that a section of an Antarctic ice shelf had broken away from the Larsen Ice Shelf. However, newspaper accounts reported that an informal group of industrialists had drafted a proposal to convince the public that the FCCC is based on unsound science. They would seek to recruit scientists who share their views on the science of climate change to help convince the public that the risk of global warming is too uncertain to justify emission controls.

THINGS TO LOOK FOR

SBI: SBI will meet at 10:00 am in the Maritim Room.

SBSTA: SBSTA will meet at 11:00 am in the Beethoven Room.

PLENARY: Plenary will meet at 2:30 pm in the Maritim Room.



The Writing on the Wall

Five months have elapsed since Kyoto, and events and discoveries indicating the urgency of action on climate change have continued apace (unlike action by governments). Along with findings announced in Nature in April that confirm Northern Hemisphere temperatures this century as warmer than at any time in the last 600 years, the following should perhaps concentrate delegates' minds:

• **Sinks:** Two recent studies published in Nature (May 21/98) indicate that the oceanic and terrestrial sink for carbon dioxide may reduce in future under the combined effects of increased CO₂ levels and climate change. In one, a summit of 40 of present and past world leaders that held in City of the South in March 1998.

sorty carbon dioxide from the atmosphere will be limited. The second article reports that the projected carbon dioxide fertilization effect on net ecosystem production reaches a saturation point at around 450 ppmv of CO₂ and reduces over time due to climatic change. The authors also point out that regrettably their model does not take into account the feedback of climate change onto ecosystems. The recent IGBP Global Change and the Terrestrial Environment Synthesis report predicts that terrestrial sink further is likely to turn into a net source during the next century.

• **Ozone Depletion:** The Greenhouse Connection. A Waller article in Nature (April 21/98) indicates that the depletion of the ozone layer in the

IPCC Sinks Report - Let's Make It Special

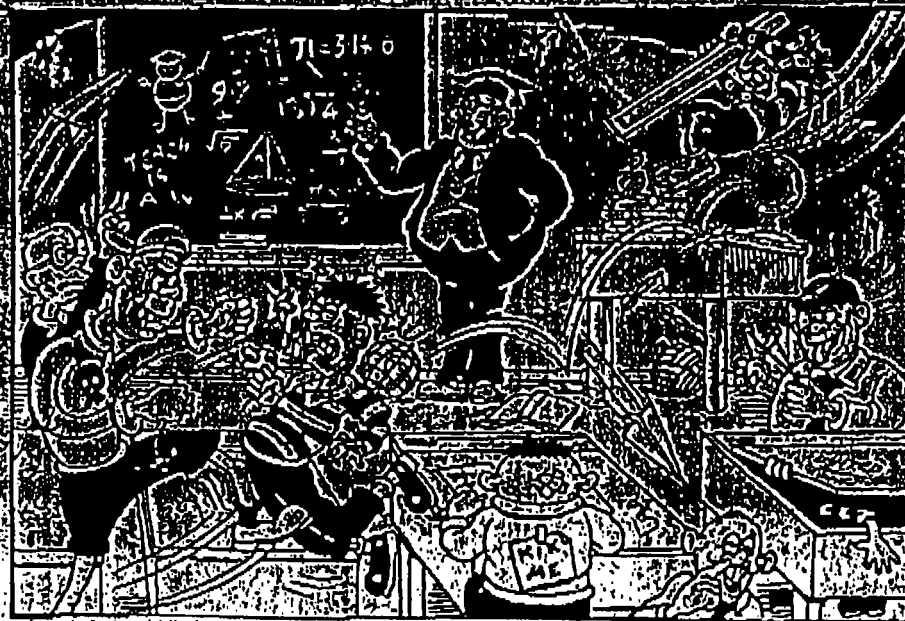
By Bill Harcourt, Bill Harcourt, Chairperson, Don Tisdale, J. Lee Kelly, Steve Jones, Action, Stephen Singer, BAA

The IPCC should write a Special Report separate from the Third Assessment Report to enable Parties to make informed decisions based on a state-of-the-art scientific and technical assessment. This is needed because LUCF is an extremely complex issue which is poorly understood by most Parties.

The question of how climate change and forestry (LUCF) should be included in the global climate change negotiations has been a controversial and contentious issue. The IPCC should write a Special Report separate from the Third Assessment Report to enable Parties to make informed decisions based on a state-of-the-art scientific and technical assessment. This is needed because LUCF is an extremely complex issue which is poorly understood by most Parties.

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Identification, quantification and verification of sinks... continued over 2012



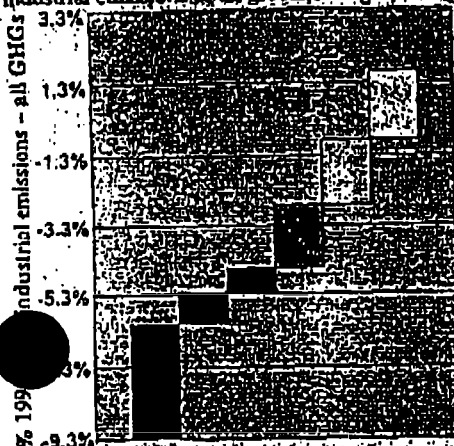
Eco expects today's proceedings will get off to a flying start...

CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

The 'L' Word

may have left Kyoto under the impression that a Protocol had been agreed that would achieve a 5.2% emission reduction from 1990 levels by 2012. Careful analysis of the protocol, however, indicates that this is more likely to lead to a decrease in actual emissions. As shown in the chart below, many loopholes still remain. In particular, broad use of sinks or uncontrolled use of the CDM would lead a large increase in emissions.

If the protocol is to have any real environmental effectiveness, "hot air" must be excluded from emission trading and the question of some Parties using deforestation emissions in their emissions baseline must be revisited. The chart shows the estimated "loopholes" in the Kyoto Protocol with respect to 1990 gross industrial emissions of all greenhouse gases.



- CDM if used for 2% of Annex I commitments. CDM credits add to the emission budgets of Annex I Parties. Here it is assumed that 2% of Annex I commitments are met via CDM credits.
 - Limited gross-net approach in Article 3.3. A limited gross-net approach is embodied in Article 3.3. It is difficult to estimate the size of this with precision at this stage. Here it is assumed that "new" (ie since 1990) afforestation and reforestation could be equivalent to around 25% of the 1990 Annex I sink by 2010.
 - International aviation and marine bunker fuel emissions are not included in the emission budgets. HFCs, PFCs and SF6 baseline options. A choice of baseline for HFCs, PFCs and SF6 of 1990 or 1995 is allowed under the Protocol. The latest emission inventories and information from Parties indicates this inflates the allowed emissions budget by about 0.6% relative to 1990 gross emissions. Deforestation in baseline. Deforestation and other land-use change emissions are allowed to be included in a Party's emission baseline if it was a net land-use and forestry source in 1990. This applies principally to Australia. The emissions are equivalent to about 0.9% of the Annex I industrial emissions in 1990. This can be considered a "hot air" type loophole because deforestation emissions are decreasing rapidly in Australia, being already more than 30% below 1990 levels, and can be expected to be close to zero by 2010.
- "Hot Air" emission trading. Business-as-usual Russian and Ukrainian emissions are assumed to be around 85% of 1990 levels in 2010.

Writing... from front page
by Shindell et al finds a negative linkage between ozone depletion and climate change. This paper reports that despite reductions of ozone-depleting CFCs, ozone depletion will continue to worsen, with severest declines between 2010 and 2019. Increased CO2 levels lead to stratospheric cooling, as radiative heat is trapped near the earth's surface, effectively supercharging ozone depletion. The authors project that ozone layer recovery will be delayed until 2070.

• **Glaciers:** Worldwide, mountain glaciers are melting outside the Arctic and Norwegian peninsula zones faster than previously thought, according to a team from the University of Colorado. Glaciers in United States' Glacier National Park will disappear during the next 50-100 years.

• **West Antarctic Ice Sheet instability:** A week in *Nature*, a major review article by Oppenheimer outlined 3 scenarios for the behaviour of the WAIS in response to global warming, two of which result in a 5-6 metre sea-level rise over the next 250-1000 years. Each of these scenarios could be triggered reversibly by a temperature rise of only a few degrees, which is likely within the next century unless action is taken to reduce emissions substantially.

• **Larsen B Ice Shelf:** At the end of March, a large sheet broke off the Larsen B ice shelf in Antarctica, possibly as a result of climate change. Three years ago, a massive piece

2,000 square km broke off the same ice shelf. According to British Antarctic Survey, if this trend continues, the whole ice shelf may disappear. So far, half of a percent of the giant Antarctic ice shelf area has vanished.

• **El Niño and Forest Fires:** This year's forest fires demonstrate the risk the planet faces if climate change brings more frequent and intense weather extremes. Recent fires have destroyed more than one million hectares of vegetation in Borneo and Sumatra. According to a statement by the governor of Borneo in late May, 60,000 people currently face starvation due to the forest fires and extreme drought. In Malaysia, pests and diseases such as malaria and cholera were on the rise during the month of May, and rice production is currently threatened by drought. By March, fires in Brazil had destroyed an area the size of Belgium, spreading into neighboring Guyana. The drought in the Amazon Basin is the worst since 1926. Most recently, smoke from Mexican fires blew all the way up to the state of Colorado in the United States. Already 330,000 hectares of vegetation have burned in Mexico, one quarter from forests. Apparently, 800,000 hectares of the most biologically rich tropical forests in the world are currently threatened.

No-one, we hope, aware of the ever-increasing frequency of this kind of news, can be in any doubt that there is no room for complacency - we need to move forwards before we are overtaken by events.

IPCC Special Report, from front page
of all changes in biotic reservoirs of greenhouse gases, including an assessment of scientific uncertainties relating to the use of anthropogenic changes in relation to the attainment of assigned amounts by Parties to the Kyoto Protocol.

• Implications of selecting various baselines.
• Implications of changes in the climate system on the emissions of LUCF sector, and the terrestrial biosphere in relation to the carbon cycle and the climate system during the next century.

• Full carbon accounting of all biotic pools of carbon, including soils, post harvest pools and the full process of forest degradation.

• Methodologies for transparent monitoring and verification, including the institutional and technical capacity to implement, monitor and verify LUCF.

• Issues related to the permanence of LUCF projects and potential liability regimes.

• Potential for positive or negative synergies in relation to other environmental objectives such as biodiversity conservation, arising from the use (or not) of LUCF activities to

offset emissions from fossil fuels.

• Identification of the cost and benefits of the potential use of LUCF activities to achieve multiple objectives, specifically climate and biodiversity protection.

• Identification of potential social impacts of LUCF activities with particular emphasis on indigenous peoples and local communities.

An IPCC Special Report would help resolve some of the scientific and policy questions and provide a sound basis for recommendations to be made by the SBSTA and decisions made by a future COP/MOP.

In Memoriam

Eco is saddened to learn of the death of JR Spradley, whose familiar face at these gatherings over many years will be much missed.

THANKS

The Climate Action Network would like to thank Greenpeace International, World Wide Fund for Nature, Natural Resources Defense Council, Environmental Defense Fund, Union of Concerned Scientists, Center for International Environmental Law, National Environmental Trust, for funds and resources donated.



United States Department of State

*Bureau of Oceans and International
Environmental and Scientific Affairs*

Washington, D.C. 20520

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OFFICE PHONE: _____ FAX NO.: _____

FROM: Ms. Denise GoodeAGENCY/ROOM NO.: OESOFFICE PHONE: (202) 647-1555 FAX NO. (202) 647-6878

MESSAGE:



Cc JA
RL
AM
JT

United States Department of State

Bureau of Oceans and International
Environmental and Scientific Affairs

Washington, D.C. 20520

Date: Jun 2, 1998

NUMBER OF PAGES: 6
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TO: MR Jeffrey Frankel

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FROM: Denise Goode

AGENCY/ROOM NO.: OES

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MESSAGE:

SPEECH BY RIGHT HONORABLE MICHAEL
MEACHER MP
UK MINISTER OF THE ENVIRONMENT
at the GLOBE INTERNATIONAL LAUNCH OF
"Contraction and Convergence"
in the HOUSE OF COMMONS 14TH MAY 1998

Mr. Chairman I am pleased to be able to address this launch and take the opportunity to set out the Government's position. I am only sorry that I cannot stay to listen to all your speakers.

Despite the long and gruelling negotiations, Kyoto was a huge success - an historic turning point in the fight against climate change. It is, however, only the first step in the process, for several reasons:

first, much greater reductions in greenhouse gas (ghg) emissions will be necessary in the longer term, if we are to stabilise the increase in average global temperature;

second, Kyoto left a lot of unfinished business such as establishing the rules and procedures for the flexible mechanisms within the Protocol, for example on emissions trading; and

third the issue of future commitments for developing countries is crucial to the implementation of the Protocol, and one which must be addressed.

The latter of these two are major issues which will take up much of the time of the Climate Change Convention over the next few years, starting at the next Conference of the Parties in Buenos Aires in November. As John Prescott said at Kyoto, we now have "a window of credibility" between Kyoto and ratification to allow progress to be made on these crucial issues.

As EU President, I have been steering through the discussions regarding the EU position on these issues. They also feature in the current round of the G8 discussions, both at the Leeds Castle meeting of the Environment Ministers at this weekend's Heads of Government meeting.

I want now to talk in more detail about the first of these major issues - the flexible mechanisms. make no mistake the EU favours the use of these flexible mechanisms, but we do have two big concerns:

first, domestic actions MUST be the main means of achieving the emissions reductions. There are two reasons for this - domestic action allows us to our own

economies that are necessary to tackle climate change in the longer term - and it demonstrates to developing countries our clear commitment to taking action, hopefully helping to persuade them to eventually take on similar commitment. That is why the EU will propose in Bonn, a limit to the amount of emissions reductions that can be achieved through flexible mechanisms.

second, there is the issue of the so-called "hot-air". This is where some countries under the Protocol have targets significantly less demanding than their business-as-usual projections - I don't think I need to mention names here. If these countries sell this "surplus" (or "hot-air"), there is an overall environmental loss since the two countries involved (the buyer and the seller) do not take any actions to reduce actual emissions.

There is a real concern here - that "hot-air" would set an unwelcome precedent for developing countries, many would invariably end up with less than challenging targets which would undermine both the overall aim of the Protocol, and the system of trading in emissions permits.

This brings me to the second of the major issues I identified earlier - that of developing countries. There is little doubt that if we are to limit climate change to acceptable levels, and the EU has suggested a maximum temperature rise of 2 degrees Celsius and a CO2 concentration of no more than 550 per million by volume (ppmv) or double the pre-industrial level - not only will the developed country emissions need to be reduced substantially but developing country emissions will also need to be controlled perhaps allowing for some growth initially. It does mean that global emissions will eventually need to be reduced by 60 to 70 percent to reach stabilisation. This broad concept has been ably pressed by Aubrey Meyer over the past few years and I congratulate him on his dedication and his powers of persuasion.

In the shorter term we need to consider ways for engaging developing countries in the process. Two are being discussed. The first of these is allowing developing countries to take on voluntary reduction targets. In fact several have already taken action to limit their greenhouse gas (ghg) emissions. Although this wasn't part of the final agreement at Kyoto, it is possible that it may yet be revived. We would have no difficulty with such a proposal, apart from the concerns which I have already mentioned, over the issue of "hot-air".

The second way of engaging developing countries would be for a review, under the United Nations Framework Convention on Climate Change (UNFCCC), of the commitments of ALL Parties to it. Such a review would need to consider what extra commitments would be necessary in the longer term. It is this method of engaging developing countries that the EU favours.

The review would need to be wide-ranging. It would need to recognise the legitimate needs and aspirations for economic growth in the developing countries, the eradication of poverty as well as their common but differentiated responsibilities towards climate change. At the same time it would need to recognise the global objective of stabilising greenhouse gas (ghg) concentrations at a level which avoids dangerous anthropogenic interference with the climate system which is in the interests of all humanity.

The concept of "Contraction and Convergence" is one that would be considered in such a review of commitments. But there will probably be others such as the pre-Kyoto Brazilian proposal for an eventual extension of targets to developing countries. The long-term development of the Convention and the Protocol in terms of further targets and the involvement of developing countries is essential. But we believe that we must necessarily tread cautiously if we are to make progress. There are big political issues at stake. We need to build confidence with developing countries, demonstrate that the developed world clearly takes its Kyoto commitments seriously and is willing to pass on experience and expertise. It we move to hard and too fast, we risk complete failure.

At Kyoto, we the developed world made commitments to reduce our emissions. This is as it should be since we are the main cause of the problem to date. But everyone recognises that climate change will be a problem for us all and will affect developing countries more than developed countries. The problem can only be solved if we all take action.

As I have said it is our view that the time has come for a serious review under the Convention of the commitments of all countries, that reflects the economic and development needs of developing countries. "Contraction and Convergence" should be clearly one of the ideas on the table in such a review. It has the attraction of equity and logic - but equally raises huge political and practical issues which need to be carefully considered carefully.

The Global Commons Institute and GLOBE are to be congratulated for raising awareness of this concept as it can only help to stimulate the debate which must now take place about how we solve a global issue.

cc: JAF
JY
Am
JEL
JYA

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley ~~14-98~~

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn:
2nd to 12th June 1998: Update No. 3 for June 3/4, 1998

Attached is one a series of informal and uncleared reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn from the afternoon and evening meetings on June 3 through the morning sessions on June 4. We have also included a more detailed account of the afternoon SBI session and of the evening meeting of the mechanisms contact group prepared by the EPA's Sharon Saile. Although this report is unclassified, its contents are not intended for use outside of the U.S. Government.

Also included with the message are the June 4th copy of the **Earth Negotiations Bulletin**, along with the latest edition of the NGO rag, **ECO**. The former can usually be counted upon to provide relatively unbiased details of the proceedings in the various deliberations, while the latter is usually ingratiatingly support of the European Union in its perspectives (although no EU environment ministry is apparently providing direct financial support as was the case in the past).

4 June 1998

Climate Change Meetings, Update No. 4 for June 3/4: "Contact Group" on Mechanisms begins its work; Developing Countries Reiterate their Tough Approach on 'No New Commitments'"

Subsidiary Bodies Start the Ball Rolling

With their first joint session dealing with flexibility mechanisms adjourned until next week, both the Subsidiary Body on Implementation (SBI) and the Subsidiary Body on Scientific and Technological Advice (SBSTA) moved to address the other varied and numerous items on their agendas. During the afternoon session, the SBI dealt with the second review of the adequacy of commitments under Article 4.2(a) and (b) of the Framework Convention, plus reviewed the convention's annexes as required under Article 4.2(f). National communications were also dealt with at this session. On Thursday morning, the SBI dealt with national communications and the financial mechanism.

Review of Article 4.2(a) and (b) Sparks Controversy

The Philippines, speaking on behalf of the G-77/China (and supported by the Gambia, India, Burkino Faso, Saudi Arabia, China Colombia, Venezuela, Brazil, Iran and Kuwait) indicated that the Kyoto Protocol was the first step in the review process. At COP-4, the Parties would examine the science to assess the adequacy of those commitments. The group would draft a decision for consideration by the SBI by Friday. The Chair asked for the draft decision by Thursday (although the group will not be meeting until 6 PM this evening.)

The EU noted the requirement for increasing global participation and indicated that it was ready for discussions by all Parties at COP-4 and beyond under FCCC Article 7.2. It also recorded its old position for a 550 ppm concentration level. Australia called for the inclusion of an item on voluntary commitments on the agenda at COP-4, while Switzerland indicated that any such review of adequacy should not be restricted to Annex I Parties. The U.S. noted that Article 4.2(a) and (b) are inadequate due to their restrictive nature and endorsed the concept of a provision allowing voluntary commitments by developing countries.

Turkey Again Requests Removal from Annex I and II of the Convention

On the question of reviewing the annexes under the Convention (Article 4.2(f), Turkey (currently an observer to the Convention) made a statement about its commitment to the objectives to the convention and its special circumstances and stated its willingness to consider additional responsibilities if it is removed from Annex I and II at COP-4. In its request, Turkey was supported by Azerbaijan, Mauretania, and Iran.

In response, the EU asked for additional information on the kind of responsibilities it is considering. The U.S., joined by the EU, Canada and Hungary, all indicated sympathy for Turkey's position if a compromise could be worked out along the lines of something which would include an appropriate commitment under the Kyoto Protocol.

The U.S. noted that the issue of reviewing annexes is of sufficient importance that this should be a regular item on the agenda at all appropriate future meetings. We have passed a copy of our intervention to Chairman Kante in the hope/expectation that he will take note of this suggestion.

This item has been turned over to Ambassador Herrera of Venezuela who, in consultation with other Parties, is to draft an appropriate decision on this question. Herrera was tasked with this matter at COP-3 last December.

Other SBI Issues

Thursday's debates on national communications and the financial mechanism followed their usual patterns. On the designation of the GEF as permanent financial mechanism for the Convention, there appears to have been little change in G-77 insistence that it be retained in an "interim" capacity alone. In any case, John Ashe (Antigua/Barbuda) and Dan Reifsnyder (USA) have been tasked with heading a contact group to propose an appropriate decision for the COP.

SBSTA Moves Handily Through its Agenda, Too

SBSTA made considerable headway in moving through its agenda items. One item of note was our recommendation for changes in the timing of Annex I communications. The U.S. appeared to be the best prepared delegation on most of the issues which came up for consideration. On the topic of cooperation with relevant international organizations, the U.S. suggested that both ICAO and the IMO both be asked to address the SBSTA at a future meeting, especially given the importance of bunker fuel considerations.

Mixed, but Some Positive Reaction, to the Umbrella Paper on Emissions Trading

Despite some private misgivings expressed to us by Germany and the UK over the timing of Canada's presentation (on behalf of the umbrella group) of our detailed paper on emissions trading, we have as yet received no official reaction from the EU. Instead, some delegations privately welcomed the paper (the Netherlands and Italy). Some Europeans feel that the paper has bolstered those within the Union who do not want to have caps or restrictions on trading. We are also told that the paper was particularly popular with non-Environmental Ministry components of several EU delegations.

For those developing country delegations who have reacted to our paper in corridor conversations, the response has been mixed. For those (many) delegations who do not understand the concept of emissions trading, the paper will require additional explanation which we do not have time for at this gathering. We are considering hosting another side event featuring a group of speakers drawn from various umbrella members to try to respond to questions. South Africa, the Philippines, and Argentina all called the paper "interesting and informative." Only Argentina thus far has given its modest, but unpublicized, support. In any case, we will get a better sense of non-umbrella group reactions during the discussions of the contact group on mechanisms (Please see item below.)

One particularly sharp (if anticipated) criticism of the paper is contained in the June 4 issue of ECO, a copy of which is attached to this fax. Citing a WWF analysis, ECO essentially views the paper as offering an avenue for the countries who signed on to it to evade their responsibilities under the climate convention (somewhat surprisingly, there was no specific criticism of the paper at our June 4 NGO meeting; they appeared

more concerned about the lack of advance notice that it was coming. (Please see item below.)

SBSTA Contact Group on "Mechanisms" Holds its First Meeting

At a ninety minute session on Wednesday evening, the contact group formed by Chairman Kante of the Subsidiary Body on Scientific and Technological Advice (SBSTA), and co-chaired by Gylvan Meira of Brazil and Yvo de Boer of the Netherlands, addressed essentially two issues: how it should prioritize discussion of the items assigned to it (essentially, allocation of the work program between SBSTA and the SBI and substantive treatment of four flexibility instruments, AIJ, JI, emissions trading and the clean development mechanism) and the role of NGOs at the meeting.

The NGO issue arose when the meeting was closed to NGO and business observers. (The one exception was the presence of Argentina's Raoul Estrada who is here, in his unofficial "professorial" capacity, to address a side event on the Kyoto Protocol on Thursday night.) Strong statements requesting that the meeting be open because it is not a formal negotiating session were made by the U.S., the EU, Canada, Japan, Samoa, the Marshall Islands among others. Both co-chairs also voiced their support for including NGO

Australia indicated that it had no problem with NGO attendance at this particular meeting, but expressed concern that no precedent necessarily be established. Korea, Saudi Arabia, and India voiced more pointed concerns. The Chairman indicated that the meeting could only be closed if countries felt uncomfortable at having NGOs present. India indicated that it was uncomfortable, so the Chair ruled that NGOs could not participate. Both environmental and business representatives have protested this decision to us. We will undoubtedly hear more during our June 4 meeting with representatives of both groups.

On the question of priorities, the US suggested that we take the mechanisms in the order of precedence which seems to flow from COP-3 and the Protocol. Emissions trading is to be dealt with at the first meeting of the COP/MOP; hence, it should be our number one priority. Credits from the CDM are to be available starting in the year 2000; hence,, this mechanism should be the second priority. As rules for joint implementation (JI) "may" be determined by the COP (and are not strictly necessary in any case), this mechanism should be the third priority, with Activities Implemented Jointly (AIJ) being

handled last. We were supported in our views by Japan, Australia, Norway, and Canada (Russia was not present.)

Not surprisingly, the EU disagreed. Taking its lead from Switzerland (and supported by AOSIS), these countries expressed a preference for discussing the "common elements" of all four mechanisms (such as compliance and monitoring issues). The EU objected to our suggestion that COP-3 had given priority to ET and the CDM and emphasized the importance of JI.

India indicated that it was representing the G-77/China in this contact group. Mr. Sharma said that he would be listening for the most part as the G-77 has not as yet formulated its position on the items under consideration.

NGO Meetings

On June 4, USDEL representative s met with both business and environmental NGOs in separate meetings. (Reporting officer met on June 3rd with NARUC representatives.). We introduced the topic of NGO exclusion and it was not discussed at any great length in either meeting.

The business NGOs appeared more concerned about process than about specific issues. Some of them bemoaned the lack of position papers coming from the delegation. We indicated that we would be pleased to share copies of our written interventions. We were also passed a draft letter to the Secretary signed by several groups (including the Farm Bureau and the Global Climate Coalition) calling upon the U.S. to resist efforts by the Secretariat to change the rules under which NGOs are accredited. Our position, broadly speaking, does this, and we will take up the matter when the issue comes up for discussion.

Environmental NGOs began with Dan Lashof and Don Goldberg expressing their deep disappointment about being "blind sided" by USDEL. They suggested that we had not given them advance copies of papers as promised (by whom?) and indicated that they would have appreciated being shown a copy of the umbrella group submission prior to its delivery. Dan Lashof also said he would have appreciated receiving a copy of our non paper first-hand, and not from a third party government.

After the meeting, reporting officer told Lashof that we should have faxed NGOs unclassified copies of our non-paper and apologized for this oversight. However, during the meeting, however, we underscored that we had consulted with NGOs regularly and in some detail on all of the issues raised. We indicated that we hope to continue to consult with them in the future but did not believe we had acted in bad faith and did not accept the characterization of blind siding.

We noted that the umbrella paper was a joint effort and that we were not the principal drafter. In any event, it had only been finalized in the hour preceeding its delivery. Pouring some honey on these rather terse words, EPA's David Doniger indicated that he will organize a meeting of interested "experts" to take on board some additional views on the critical issue of liability.

Indeed, liability, sinks, sustainable forest management, our views on national communications, and issues related to the review of adequacy were among the many questions posed to us by our NGO interlocutors.

Russia Admitted Into JUSCANZ

Without any dissent from other members, the Russian Federation entered JUSCANZ on June 4. Sasha Metelnikov did not remark on any of the several subjects addressed, however. We do not intend to change our acronym to JURSCANZ or JUSCANZR to accommodate our new partner, however.

(for Brian Malcom)

SBI - Wednesday afternoon, June 3**Review of Adequacy of Commitments under 4.2(a)&(b)****Philippines**

G-77 is still conducting consultations on a paper which will provide their draft decision on review of adequacy of commitments under 4.2 (a)&(b)

Developing countries basically are against any review which would result in commitments for the near term future. Arguments included need to focus on development and eradication of poverty, Annex I countries have not made sufficient progress in emission reductions, Kyoto Protocol is just a document for future Annex I commitments. (China, India, Burkina Faso, Saudi Arabia, Gambia, Venezuela, Iran, and Kuwait).

However, Korea indicated a willingness to be flexible for establishing a consultation process at next COP or thereafter to consider growth targets for non-Annex I Parties – (although they also indicated that they weren't sure about characterization of this as an issue under review of adequacy of commitments. Another interesting intervention was from Central African Republic, which supported the Chairman's suggestion to request further advice from SBSTA on this issue, even though they also seemed to indicate their concerns that it wasn't yet appropriate for developing countries to take on commitments.

Annex I countries generally made the point that Annex I commitments alone are inadequate to meet the goals of the convention, and that it is appropriate to use COP4 to discuss future commitments (which would still allow growth for developing countries), keeping in mind common but differentiated responsibilities (Australia, UK/EU, USA, Canada, Hungary, and Switzerland). The UK/EU specifically called for a long term goal for no more than 2 degrees Celsius, no more than 550 ppm concentration, along with an eventual convergence of commitments based on appropriate indicators. They also noted that existing science could be used to determine that further action will be needed by all Parties under the 4.2(a)&(b) review.

Chair summed up by pointing out majority of Parties think it is not necessary to ask SBSTA for new information, and also that if we were to ask for additional information, it would be difficult or impossible to use the new information and meet the obligation to deliver a decision for consideration at COP4. He then proposed a contact group (chaired by Canada/Trinidad-Tobago) to determine if any information is needed from SBSTA, and if so, exactly what information is needed. Saudi Arabia, US and Venezuela all agreed that a contact group would be premature at this time, so Chairman postponed the idea of a contact group until the G-77 submits its written position (hopefully by COB Thursday, but otherwise by Friday), and would at that time decide whether the contact group would consider additional issues. Saudi Arabia and Philippines gave the Chair a hard time about his choice of proposed chairmen for the contact group, but he called on them to give him a bit of discretion.

Review of Listing in Annexes to FCCC (Turkey's request to be deleted)

Turkey was given permission to speak as an observer, and pointed out its good citizenship in the international environmental community and its special economic circumstances.

Their request to be deleted was supported by Azerbaijan, and Mauritania, (and at least one other country).

Australia, USA, UK/EU, Canada, and Hungary all indicated sympathy with Turkey's position if a compromise could be worked out, along the lines which would require some sort of appropriate commitment under the Kyoto Protocol.

The Chairman summed up by indicating his hope that with further work, an appropriate compromise might be reached by COP4.

Mechanisms Contact Group, Wednesday evening June 3

Contact Group Topics for Discussion:

- Activities Implemented Jointly (AIJ),
- Joint Implementation (JI),
- Clean Development Mechanism (CDM),
- Emissions Trading (ET),
- Elaboration of work program, and
- Allocation of the work between SBSTA and SBI.

Yvo DeBoer of Netherlands and Gylvan Meira of Brazil are the co-chairs of the group.

Apparently Yvo DeBoer raised three questions to the contact group:

(NOTE - I was a few minutes late, and didn't catch the three questions which were later referenced, but from the answers people gave, the questions seemed to be:)

1. How should we prioritize our discussion of the issues posed for the workgroup among the topics we were assigned:
 2. Guidance on what should be the timeframe for workprogram, and allocation of labor?
 3. Should NGOs be allowed to attend future contact group sessions
- (NOTE: One NGO with a prominent silhouette was indeed in attendance at the first session)*

Summary Results:

Priorities:

- USA suggested taking the mechanisms one at a time, with CDM and ET to receive the highest priority, as supported by the COP3 decision. Supported by Australia, Japan, Norway, and Canada (although Canada suggested grouping by FCCC Secretariat's division of the mechanisms into inventory-related mechanisms (ET) and project-related mechanisms (CDM, JI, and AIJ).
- Switzerland, UK/EU, and also AOSIS expressed a preference for discussing the "common elements" for all the mechanisms, such as compliance and monitoring issues (and any other issues to reduce uncertainty). The EU objected to the characterization that the COP3 decision had a higher priority for ET and CDM, emphasizing importance also of JI.
- India indicated that they had been selected to represent the G-77, and indicated a willingness to participate by listening. However, India made clear that the G-77 had not yet had time to develop a formal position, and seemed to contradict himself later by indicating a reticence about allowing substantive discussions before the G-77 had developed its position.

Chairman indicated that he would proceed by discussing the mechanisms one at a time, but keeping in mind the potentially common elements. He also agreed to provide advance notification about which mechanisms will be on subsequent contact meeting agendas.

Work Program

Philippines and Saudi Arabia indicated their concern that the contact group shouldn't consider working beyond the end of this current SBSTA/SBI session, because there wasn't any additional time before COP4. They also noted that some issues should be delayed until Kyoto Protocol is ratified in order to create the appropriate decision body (the COP/mop).

At least the US pointed out that the emissions trading issue is in particular specified as a COP issue under the Convention, and not a COP/mop issue under the Kyoto Protocol.

As mentioned above, the Chair indicated that the next session of the contact group would consider the mechanisms one at a time, but otherwise, this issue was left open.

NGO Attendance Issue

The contact group chairman supported opening future contact group meetings to attendance by NGOs. This view was strongly supported by several countries, including the US, Marshall Islands, Samoa, UK/EU and possibly Canada. and Japan.

Australia indicated no problem for this particular contact group, but expressed concern about the precedent and identified further procedural hurdles before such a decision to open the meeting could be allowed. This concern was supported by Korea, Saudi Arabia, and India.

The Chairmen decided to keep further meetings closed unless at a later date the contact group developed more consensus to support opening the meeting to NGOs.



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HIGHLIGHTS FROM THE MEETING OF THE FCCC SUBSIDIARY BODIES 3 JUNE 1998

The Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technical Advice (SBSTA) met in a joint Plenary session in the morning to continue discussions on mechanisms for cooperative implementation. In the afternoon, SBSTA discussed cooperation with relevant international organizations and national communications. SBI began discussions on the second review of the adequacy of commitments and amendments to Annexes I and II.

PLENARY

Many speakers, such as URUGUAY, NICARAGUA and SAUDI ARABIA, cautioned against straying from the ultimate objective of the Convention and spending an inordinate amount of time discussing cooperative mechanisms, which only serve selected countries. The AFRICAN GROUP said cooperative implementation should not overshadow the review of commitments, technology transfer and capacity building. CHINA warned that the Kyoto Protocol should not copy the Montreal Protocol. The Kyoto Protocol's implementation depends on technology and resource transfers to developing countries. He cautioned against imposing reduction commitments on developing countries.

NORWAY opposed quantitative caps on the use of flexibility mechanisms. With COLOMBIA, COSTA RICA and IRAN, he noted they are supplemental to domestic action. SOUTH AFRICA and IRAN noted that COP-4 cannot finalize work on setting modalities and guidelines for the mechanisms. SLOVENIA reiterated the urgency of action, calling for the proposed working groups to provide sufficient input to COP-4 on the elaboration of modalities, rules and guidelines.

AUSTRALIA, supported by RUSSIA, called for cost-effective mechanisms and said that credits should be transferable across the three mechanisms for the achievement of the Protocol's aims. The EU said the AIJ experience gained since COP-I can provide valuable guidance on questions of flexibility mechanisms in the Protocol. He proposed that SBSTA's work program at COP-4 include follow-up to the June 1998 reporting deadline. ARGENTINA stressed the importance of setting COP-4's priorities and suggested moving on those issues, such as the CDM, where consensus has been achieved.

GEORGIA cautioned that CDM, in its current form, makes developing countries dependent on the will of developed countries and said there is a need for financial resources to assist developing countries. MAURITIUS emphasized CDM for poverty alleviation and ETHIOPIA called for elaboration on this at COP-4. With

COLOMBIA, COSTA RICA, SLOVENIA, SENEGAL, NIGERIA, and IRAN, NORWAY called CDM a tool for sustainable development in non-Annex I countries that should also contribute to climate change objectives. He said additional time is needed for inclusion of sinks in CDM.

COLOMBIA and VENEZUELA recommended that CDM projects, *inter alia*, produce real emissions reductions and, with COSTA RICA, accord with host country wishes. Supported by COSTA RICA, NICARAGUA, ARGENTINA and IRAN, COLOMBIA opposed ignoring sinks, noting that they are also biodiversity deposits. COSTA RICA also opposed re-negotiation on what kinds of sinks are included. KOREA expressed reservations about the inclusion of forestry under CDM and cautioned against the temptation to micromanage CDM through extended bureaucracies. IRAN distinguished CDM from other mechanisms as a multilateral rather than bilateral mechanism, with international supervision. He cautioned against turning CDM into a clean energy mechanism. URUGUAY called for further definition and contact group discussions.

The AFRICAN GROUP, supported by SOUTH AFRICA, noted that African countries have neither participated in AIJ nor received funding because donors seem to prefer other regions. Several countries, such as BURKINA FASO, NIGERIA and the CENTRAL AFRICAN REPUBLIC, stressed the need to wait until the end of the AIJ pilot phase before drawing conclusions on its viability. IRAN favored continuation of the AIJ pilot phase and development of guidelines for it.

KOREA and NIGERIA stressed that emissions trading should supplement national reductions and cautioned that rules to govern it must be defined in advance to avoid compliance and verification problems. CHINA noted that emissions trading is illegal until the COP defines relevant rules, principles, and guidelines. Supporting emissions trading, the RUSSIAN FEDERATION said the Russian people had paid a very high price for "hot air" by reducing their living standards.

CANADA tabled a discussion paper on principles, modalities, rules and guidelines for an international emissions trading regime on behalf of Australia, Canada, Iceland, Japan, New Zealand, Norway, Russia and the US. The tradable unit would be Assigned Amount Units (AAUs). AAUs would be denominated in "CO₂ equivalent" and would express one metric tonne of CO₂ equivalent emissions. Each Annex B Party could issue serialized AAUs from its "assigned amounts." AAUs would be valid until used to offset emissions for the purposes of contributing to compliance.

Parties could trade directly and/or authorize legal entities to acquire and or transfer AAUs. Each Annex B Party would need to comply with Article 5 (national emission estimation systems) and

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Article 7 (emissions inventories). They must also establish and maintain a national system for recording their "assigned amounts" and tracking AAUs held, transferred or acquired. Each Party would also be required to report annually on activities and be assessed for compliance at the end of the commitment period.

The Chair announced the terms of reference for a joint SBSTA/SBI contact group to prepare a draft decision(s) on: the division of labor for forthcoming SBI and SBSTA sessions; substantive issues regarding AII, JI, the CDM, and emissions trading; and elaboration of a work programme.

SUBSIDIARY BODY FOR IMPLEMENTATION

On provision for the second review of the adequacy of Annex I Party commitments the PHILIPPINES, for the G-77/CHINA, supported by GAMBIA, INDIA, BURKINA FASO, SAUDI ARABIA, CHINA, COLOMBIA, VENEZUELA, BRAZIL, IRAN and KUWAIT said the Kyoto Protocol was the first step in the review process. At COP-4 Parties would examine the science to assess the adequacy of those commitments. The group would draft a decision for the SBI.

The EU welcomed provisions in the Kyoto Protocol for a review at MOP-2 and for initiating consideration of second period commitments. Noting the requirement for increasingly global participation, he said the EU was ready for discussions with all Parties at COP-4 and beyond, under FCCC Article 7.2, on regular review of the Convention implementation. He noted FCCC provision for non-Annex I Parties to opt for targets.

AUSTRALIA said all the scientific evidence indicates that actions by Annex I countries alone would be insufficient. The US noted findings that commitments are inadequate due to the small number of Parties involved, and called for an item on COP-4's agenda on voluntary commitments by non-Annex I Parties.

BURKINA FASO emphasized obligations related to developing countries, specifically technology transfer. CHINA, supported by HUNGARY, called for a review of FCCC implementation, not just commitments. CANADA said future reviews should cover the effect of actions by all Parties over time and that SBSTA should provide scientific and technical information for such review. HUNGARY noted many Annex I countries will meet their FCCC obligations. He opposed giving up SBI consideration of the review. SAUDI ARABIA recommended discussing non-Annex I Parties' commitments only after the Kyoto Protocol comes into force.

SAUDI ARABIA, GAMBIA, COLOMBIA, IRAN and INDIA opposed any consideration of voluntary commitments at COP-4. The CENTRAL AFRICAN REPUBLIC called for a decision on the adequacy of Annex I commitments before consideration of other country commitments. SWITZERLAND said the second review should, *inter alia*, address stabilization of GHG emissions by Annex I Parties, and, citing Article 7.2 (a), said the issue of adequacy should not be restricted to Annex I Parties. IRAN said it is natural to assess new Annex I commitments.

The EU noted that the scientific knowledge that demonstrates the inadequacy of commitments is clear. He noted that Article 7 discusses review of "implementation" of the Convention, not just targets. The US noted that the objectives of the Convention cannot be achieved simply through Article 4.2(a) or (b). CHINA insisted that Article 7's reference to "the" Parties does not include "all" Parties and warned "the North" that pushing too hard risks complete failure. Consensus was reached not to request SBSTA for more information yet. There was no consensus on the Chair's proposal for a contact group on the issue. Delegates agreed to wait for a forthcoming G-77 draft proposal on the review.

On review of information and possible decisions under Article 4.2 (f) (amendments to the annexes), AUSTRALIA, CANADA and the EU requested information on Turkey's approach to responsibility

ments. The US said any decision on review should include a provision that it be a regular item on the COP agenda. The Chair requested a draft decision.

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNICAL ADVICE

On cooperation with relevant international organizations, the MARSHALL ISLANDS sought clarification from IPCC regarding how regional implications will be covered in the Third Assessment Report (TAR). He supported establishing an interagency committee on the climate agenda.

The US discussed the current capacity of the IPCC to undertake further methodological work, the structure envisioned by IPCC to accommodate the short- and long-term needs of the Parties, and the expertise required to support work.

The US, AUSTRALIA and the EU urged Parties to prioritize observatory systems and highlighted the deteriorating conditions of the systems in use. The EU and UZBEKISTAN sought GEF resources to assist developing countries and countries with economies in transition in their observational work. The US, supported by JAPAN and the EU, called for collaboration with ICAO and IMO specifically in studies on bunker emissions.

Some Parties, including the MARSHALL ISLANDS, SAUDI ARABIA and the G-77/CHINA, objected to the establishment of an intergovernmental body on economic instruments since this work is currently being done by IPCC Working Group 3, and suggested that UNEP channel its resources and efforts through the IPCC. UGANDA underscored the absence of climate information on Africa and sought support for meteorological and hydrological services. IRAN asked if IPCC would address the climatic impact of solar cycles.

On Annex I national communications, the EU called for a Secretariat report on the revisions proposed by Parties for consideration at SBSTA-9 and COP-5. The MARSHALL ISLANDS said stricter adherence to existing guidelines, rather than full-scale revision, may be needed. The US highlighted the importance of inventories and sought revisions for guidelines on policies and measures, national circumstances and technology transfer. CANADA cited examples of inconsistencies in national communications stemming from a lack of clarity in the guidelines and said he would make a written submission. SWITZERLAND said the Secretariat should record the difficulties cited by countries and called for revision of in-depth review projects.

On non-Annex I communications, the Chair noted that SBI would consider this item.

IN THE CORRIDORS

Reactions to the non-paper on emissions trading were mixed. Some representatives of the submitting countries expressed satisfaction with its terms and said they were glad to have a tangible product for discussion. Other developed countries were apparently surprised at the timing of the non-paper's introduction and number of proponents. Some developing countries were very hesitant to offer substantive comments until they fully understood its implications.

THINGS TO LOOK FOR

SBSTA: SBSTA will meet at 10:00 am in the Maritim Room.

SBI: SBI will meet at 10:00 am in the Beethoven Room.

SPECIAL EVENT: Former AGBM Chair Estrada will speak at "Kyoto Protocol: Explanations and Reflections" at 6:00 pm in a room TBA.

CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

eeco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Subsidiary Bodies meetings in Bonn, June 1998.

Why Are We Here?

Delegates have been asking each other, NGOs and themselves what must be achieved in Bonn by the end of next week. Eco has come up with a short-list of priorities:

1. IPCC Special Report on Sinks. Agreement is needed on a set of questions and issues for an IPCC Special Report to broadly review the Land Use Change and Forestry sector in the context of the Kyoto Protocol. This Special Report, to be completed in time for consideration by COP6 in the year 2000, would provide the basis for COP/MOP Decisions on the issues raised in relation to Article 3.3, the question of additional activities in Article 3.4, the role of LULU activities in Article 6 Joint Implementation projects and any role for these activities under Article 12.

2. Principles for the Cooperation Mechanisms. Agreement on some of the basic principles which should govern the operation of these mechanisms is needed in order that a work programme can be developed to flesh out the operating rules for trading, JI and the CDM. Whilst

it is clear that not all relevant principles can be agreed here, at the least agreement should be reached on the need for the development of a strict liability, compliance and verification system. Further principles should be developed at COP4 and subsequent meetings.

3. Work Programme for the Cooperation Mechanisms. Agreement should be reached on a work programme for the Secretariat to develop draft rules, guidelines and operating procedures for these. It should contain specific guidance to the Secretariat on key issues and indicate clearly where the Secretariat should explore options. Where appropriate the Secretariat should be mandated to work co-operatively with the OECD/Annex I process on the specific design issues involved in the cooperation mechanisms.

4. Establishment of an Ad Hoc working group to develop a binding Article 18 compliance process. The output of such an group would be an amendment to the Kyoto Protocol which would have to be adopted, ratified and enter

—continued over col 3

Trade or Evade?

by Nick Mabey, WWF

The first post-Kyoto proposal on emissions trading shows that the priorities of the United States, Japan and friends are slanted heavily towards creating hidden, non-transparent markets for "hot air". WWF judged yesterday's "Umbrella Group's" proposal as flawed and incomplete, even when measured against the countries' own stated objectives. Most prominent, according to WWF's analysis are the risks that these proposed rules are highly susceptible to fraud. Unlimited trading in the first budget period could also increase real economic costs of reducing emissions in the future. WWF suggest that the Umbrella Group go back to the drawing board and create rules which will bring real, long term environmental benefits.

WWF evaluated the proposals against four key questions based on the goals which the Group said its proposed rules would achieve:

1. Will the rules encourage earlier emission reductions and reduce overall costs?

The rules reject a cap on the proportion of emissions that may be traded in the first budget period, arguing that this will prevent early emission reductions. However as a cap will limit the use of hot air to offset domestic action it is difficult to see why it prevents early reductions.

The Group also rejects a cap for supposedly raising overall costs of compliance. This might be true in the first budget period where "hot air" artificially lowers prices and stimulates "phantom" trading but delaying domestic action by excluding a cap will increase compliance cost in the second and subsequent budget periods. The reason is that investment patterns and technologies will not have shifted enough to meet tougher targets without high costs.

2. Are the rules consistent with the

—continued over col 1



Well-connected lobbyists need to keep in touch with news from home...

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CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

-Permits or Profit?, from front page Protocol's environmental objective?

The standard which should be used for measuring the rules is not the Protocol's environmental objective but the Convention's objective of preventing "dangerous" climatic change. By their failure to tackle hot air, the proposed rules would undermine the Convention and reduce the prospects of real action in the future. The utter lack of compliance mechanisms and devolution of most oversight functions to the national level means that these rules are highly susceptible to fraud.

3. Will the proposed rules give an efficient, effective and competitive trading market?

The proposed market does not allow transparent access for all Annex B parties to buy available permits through a central market place. This would encourage cartels based on market and diplomatic power. Reporting of individual trades at the UN level and compulsory price disclosure are both ruled out (31); factors which would promote anti-competitive practices and reduce the efficiency, effectiveness and fairness of the system.

The weakness of international oversight effectively means self-regulation. This would be like allowing US power companies to run the SO₂ trading system. The same type of loose regulation brought down the Asian financial markets.

4. Is the proposed system simple, transparent and certain?

How will liability for non-compliance be reflected in the market? Most private sector actors prefer joint buyer/seller liability to provide strong market signals for compliance. The proposed system would make buyer/seller liability hard to implement because monitoring and review are so weak. The unlimited inclusion of sinks, CDM permits and trading of all gases injects uncertainty in the system.

Proposals focus on immediate establishment of private trading which is premature until clear rules are established for state-to-state trades. The Umbrella Group system claims to avoid the need for detailed rules for private transactions by relying on "existing international markets". However, the international economic rules for such trading, and their legal consistency with the Protocol, are unclear because the paper does not define whether permits are considered goods, commodities, services, investments under WTO or other agreements.

The rules do suggest the minimum sanction of banning countries from selling permits if they are out of compliance, backed up by Article 18 measures (Section 10). However, true market certainty would only be given by automatic penalties which are not dependent on a political decision by COP/MOP.

TAR-gazing

The origins of the climate convention can be traced to observations by oceanographers, geophysicists, ecologists, and other scientists who recognized that the scale of human activity had become large enough to have global impacts. The objective of the convention recognizes the essential role of science in driving the policy process. Consequently, the Third Assessment Report (TAR) of the Intergovernmental Panel on Climate Change (IPCC) will represent a critical input to the evolving international climate protection regime.

Plans for the TAR were outlined Tuesday by Robert Watson, the indefatigable chair of the IPCC, who previously led assessments of the science of stratospheric ozone depletion and the impacts working group of the IPCC's Second Assessment Report. A key innovation planned for the TAR is a true synthesis document focused on providing answers, or at least insights, regarding key policy relevant questions. Dr. Watson solicited suggestions for additional questions that should be considered by the IPCC.

Particularly useful questions had previously been posed by the European Union, such as:

- Where possible, identify the risk of "surprises" in particular in the form of rapid and/or irreversible changes to the climate system.
- Can thresholds for severe impacts, climate instability etc. be identified for different greenhouse gas concentrations and rates of change which might give some insight into consideration of dangerous levels of greenhouse gas concentrations? (see FCCC/SBSTA/1997/MISC.4)

In light of recent scientific findings that strongly indicate that the IPCC's Second Assessment Report was too optimistic about the long-term potential for natural oceanic and biospheric sinks to take up excess anthropogenic greenhouse gas emissions given previously

unquantified positive feedback mechanisms. Dr. Daniel Lashof of the Natural Resources Defense Council has offered the following additional suggestions, which he posed at Wednesday's SBSTA meeting:

- What is the potential for positive feedbacks from climate change to increase GHG concentrations and climate change beyond the range identified in the main scenarios of the TAR?
- Given the risk of positive feedbacks, what insight can be provided on the range of global emission trajectories consistent with minimizing the risk of dangerous anthropogenic interference with the climate system?
- What actions can Parties take to minimize the risk that climate change will cause more catastrophic fires, such as those which have had such tragic impacts in South East Asia and Latin America this year?

SBSTA needs to recommend these and other policy-relevant questions to the IPCC to be considered in the TAR.

-Recommendations, from front page

into force before trading is allowed.

5. Getting science back into the setting of emission commitments. The second review of the adequacy of commitments in Article 4.2 (a) and (b) of the Convention provides an opportunity to build a process that provides a scientific basis for assessing emission commitments against the ultimate objective of the Convention. A process for defining agreed limits to the maximum extent and rate of climate change and of sea-level rise should be initiated by COP4.

6. Leave your umbrellas at home next time. Buenos Aires in November is reputed to have very fine weather. Delegates from Australia, Canada, Iceland, New Zealand, Norway, the Russian Federation and the USA in particular may wish to take note of this.



Lost 40 million tons aviation fuel. Last seen in Geneva at INC10. Box ICAO.

Young, attractive, seeks sponsor to finish studies, may be able to offer meaningful participation for the right price. Box CDM.

Droopy Jawel! I last saw you outside the final session in Kyoto smoking three cigarettes - you looked shattered! Please come back - I'll give you anything! Box OPEC. Look! medium-sized target, last seen in Japan. Smaller replacement doesn't cut it. Box EU.

Cunning Linguist. Can offer 40 new meanings for the word "supplemental", including some you never thought possible. Services available to highest bidder. Box 69.

Prescription for Progress: Two large bottles of Viagra to stiffen negotiators' resolve to satisfy deep need for a firm emissions cap. Delivery needed before November. Desperately Seeking SubSTANCE: I had a fleeting glimpse of you in December, but now you're nowhere to be found. I'm lost without you. Please come back! Let's Make A Deal: You like cold cash; I love hot air. We're made for each other! Reply to Box JUSCANNZ - principals only.

Mature, world-weary gentleman seeks young, budding partners for voluntary activities, possible long-term commitment. Discretion assured. Reply to Uncle Sam at the Holiday Inn.

Help Wanted: Industry association, losing members, needs experienced spin doctor to square professions of concern for the environment with opposition to Kyoto Protocol. Tobacco industry experience helpful. Reply to Box GCC.

Magician. Can make things vanish that weren't even there to begin with! Great for Parties, especially those that need a boost! Box CIS.

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MESSAGE:

I tried 3 Times to FAX yesterday
And Failed to go Through. Sorry
for Delay. Please Call to confirm FAX

Denise

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5 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Update No.4 for June 4/5, 1998

Attached is one in a series of informal and unclassified reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn from the afternoon and evening meetings on June 4 through the sessions on June 5. More detailed accounts of the meetings on June 3rd and 4th, prepared by various members of USDEL, are being sent as a Supplement to Update No. 4. Although these reports are unclassified, their contents are not intended for use outside of the U.S. Government.

Also included with the message are the June 5th copy of the Earth Negotiations Bulletin. Interested addresses are requested to read the Supplement to this Update No. 4 for more detailed reporting by various USDEL members on activities on June 3 and 4.

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5 June 1998

Climate Change Meetings, Update No. 4 for June 4/5: Time to Re-Group in view of G-77/China's Continuing Hostility Towards Voluntary Commitments and Lack of Progress on the Flexibility Mechanism

A General Comment After Week One

It will come as no surprise to those who monitored the Berlin Mandate talks to learn that progress at these meetings of the Subsidiary Body on Implementation (SBI) and the Subsidiary Body on Scientific and Technological Advice (SBSTA) is being blocked by a clearly well-orchestrated effort by several important developing countries. In the complete absence of effective G-77 leadership on the part of Indonesia, India is now the tartly tongued representative and leading spokesperson in the joint contact group created to handle the issues related to the flexibility mechanisms. His approach to these mechanisms can be described as "skeptical" to be polite. His deliberate posturing is irritating to put it mildly, and there is no doubt that little progress will be made on these issues at this meeting if his wings are not clipped.

Sadly, India is not alone in grandstanding. A nearly equally ardent opponent of progress, the genteel-appearing Venezuelan delegate, Ambassador Herrera, has led the charge against voluntary commitments even being listed on the agenda for COP-4, among other sins, in his role as G-77/China representative on the SBI. He has been joined in this effort by other key OPEC fellow-travellers like Iran and Saudi Arabia, but they also have the backing of other members of the so-called "conference mafia" which includes the Philippines, Mauretania, and Antigua/Barbuda (although the latter two tell us they are in favor of leaving this item on the agenda).

Thus, there is very little progress to report on these key issues which are of importance to us. One SBSTA decision which was approved was in relation to the roster of experts (the form used to recruit them was approved), but this item on the agenda was discussed while the G-77/China were out of the hall kibbutzing, so it is not clear whether the decision will be pass without further scrutiny. Suffice it to say, that the lack of progress is not completely unexpected. The sharpness of the G-77's reactions is due more to the personalities involved, one expects, than it is to a genuine reflection of specific governments in some cases. (One recalls, in this regard, a statement made by Bernaditis Muller of the Philippines who is alleged to have remarked when she was criticized for one particularly ardent position she was taking which seemed inconsistent with general Philippines practice: "I represent by country, not my government.")

If there is one silver lining in an otherwise somewhat dark cloud, it is probably that we have forged - on the one hand - a much closer relationship with our umbrella group partners while - on the other hand - appear also to have improved the tone of our relations with the European Union. Our apology for not giving the EU an advance copy

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of our umbrella paper was accepted gracefully by the UK's Peter Unwin during an hour long U.S.-EU bilateral on June 5. We are working to try to forge common positions on some of the other contentious issues (aside from those on trading, such as on our reaction to the OPEC-inspired discussions on Article 4.8 and 4.9) and on a common approach on the issue of retaining "voluntary commitments" on the COP-4 agenda. We will also be holding the third meeting of the Common Interest Group (OECD and the Economies in Transition) on June 6th - something of a record. And who knows, maybe G-77 intransigence on these issues will provide the impetus for an Annex I bubble afterall!

So, at the end of week one, we are staying busy, not only in an endless series of plenaries and contact groups, but also on the margins of the meetings in various bilaterals. Both formal meetings and targeted sidewalk conversations have been held with Argentina, Chile, South Africa, Burkino Faso, Turkey, Korea, Mauretania, Senegal, Antigua/Barbuda, Samoa, the Russian Federation and our other JUSCANZ partners, among others. We are planning more targeted endeavors with AOSIS, Africa, and the Latin Americans next week. All three of the subsidiary bodies (including the AG-13 group) continued or began their work (in the case of the latter) by Friday June 5. End Comment.

All Three Subsidiary Bodies Meet

All three subsidiary bodies of the convention met on June 5. The first two of eight planned meetings of the Ad Hoc Working Group on Article 13 which is considering the possibility of establishing a multilateral consultative process met on June 5. Some progress was reported. Details will be sent on Monday.

The Subsidiary Body on Implementation (SBI) discussed numerous process and organizational matters related to its future proceedings (including those related to the Fourth Conference of the Parties (COP-4) in Buenos Aires. The SBI Chair, Bakary Kante of Senegal, formed two additional contact groups (one on the financial mechanism co-chaired by Antigua-Barbuda's John Ashe and our own Daniel Reifsnnyder) and a second on the issue of the review of the adequacy of Articles 4.2 (a) and (b) under the co-chairs of Canada and Zimbabwe.

The Subsidiary Body on Scientific and Technological Advice (SBSTA) also dealt with the development and transfer of technologies on June 4. In the absence of the G-77/China who were out kibbutzing, a decision was taken approving the form used by ycountries to nominate individuals to the roster of experts (this may be challenged; several developing countries have told us privately that they feel the time is ripe to resuscitate this idea which collapsed in 1996; we want to keep it buried.) The Brazil discussion was described as "interesting" (at least to one eminent geologist on USDEL) but not very "useful." Most of SBSTA's action took place in the halls and in the contact group on mechanisms, but even here no progress was possible due to G-77/China posturing.

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The following paragraphs provide highlights on a few of the more important or captivating issues and their status at the end of week one of this conference.

"Holding One's Horses" on the Flexibility Mechanisms

As indicated in earlier reporting, aside from the differences in approach and prioritization among developed country Parties with respect to the three principal mechanisms of joint implementation (JI), emissions trading (ET) and the clean development mechanism (CDM), there are also genuine as well as disingenuous concerns about these mechanisms as expressed by many key developing countries or groupings. Some of these are reflective of EU concerns about using these mechanisms to avoid domestic action; others are based on incomplete understanding of the mechanisms themselves; still other concerns are bogus and raised by countries which essentially want this process to fail.

Speaking on behalf of the G-77/China at a 15 minute meeting of the contact group on June 4th, India stated that progress on all three mechanisms had to be done concurrently, with careful attention being paid to common features. India further indicated that equity considerations would have to be taken fully into account if there is to be any movement on emissions trading.

India was not willing to consider matters further at that hour, so the co-chairs decided to develop a process proposal to be presented on June 5 for additional discussion at 3 PM. When this paper was submitted, India again declined to meet, stating that the G-77/China needed time to study it. The paper itself lays out a program of work which would conclude at COP-5 for the CDM and JI. There is, at present, no specific deadline mentioned for ET - a fix which we will insist upon if we decide to agree to this process at all.

The contact group resumed its deliberations at 6 PM local time on June 5. The UK, on behalf of the EU used this opportunity to circulate its own paper in reaction to our umbrella group submission of June 3rd. A copy will be sent to OES in the Department. However, despite the urgings of co-chair Gylvan Meira of Brazil, India indicated that the G-77 was still not prepared to even discuss this paper until next Wednesday. Reportedly, this reaction disgusted several Latin American proponents of these mechanisms, but for reasons which defy logic, none of them spoke up at this meeting (nor one must surmise) during the coordination meeting which preceded India's pronouncement on the groups behalf.

7

Voluntary Commitments Take Another Beating

At the morning meeting of the Subsidiary Body on Implementation (SBI), the question of the review of commitments under Articles 4.2 (a) and (b) was raised by Venezuela speaking for the G-77/China. Ambassador Herrera stated that the review should only involve the commitments of developed countries.

In response, the U.S. noted that the world had changed considerably since 1992. As we had during our discussion of this item on June 4, we made the point that the review of the articles in the climate convention are clearly inadequate due to the exclusion of a debate on the commitments of all countries and not just those of Annex I. Dan Reifsnyder, the U.S. spokesman, asked for several points of clarification about Herrera's statement. Saudi Arabia's Al-Sabban replied that the G-77 answer was explicit: the graduation concept for countries wishing to join Annex I already exists in Article 4.2(g) of the Climate convention. As to voluntary commitments, these were not acceptable to the G-77 at Kyoto and they are not accepted now. Sabban said the G-77 would not accept the issue of voluntary commitments on the agenda at COP-4.

Peru volunteered similar points as did China's lamentable Professor Zhong. The latter railed for twenty long minutes on this issue. (Fortunately, there was not a large television screen in place in the hall or one suspects that the good professor might have carried on for forty!). He agreed with Dan that since 1992, things had changed -- for the worse by his estimation in terms of the gap between rich and poor and on the basis of other indices. One thing did not change: the problem of climate change. During his diatribe, Zhong worked in the worn historical responsibility argument and stated that the developed countries must now "pay the debt they owe to Mother Earth."

China "Disses" the U.S. Concept of Meaningful Participation by Key Developing Countries

Zhong was dismissive of U.S. efforts to bring in advanced developing countries. There is no such thing he complained. He added that in the UN system there is no such thing category an advanced or key developing country, or will such a concept be acceptable to the G-77/China. He referred (but not by name) to the irrational proposal made by one Party (New Zealand) at Kyoto, and said that he hoped the proposed agenda item will be dropped --- "the sooner the better". He said that we (meaning the U.S.) can propose any amendment we want, reminding us that it takes three-fourths of the Parties to approve such a proposal and implying that such proposals would be distinctly "dead on arrival."

J

Mexico Also Unhelpful

Mexico also made an unhelpful statement (we have asked them for a text). The delegate noted that the concept of the assumption of voluntary commitments divided the international community in the lead-up to Kyoto. He suggested that the question of voluntary commitments should be raised once the Kyoto Protocol comes into force. After this happens, he promised that Mexico would look at the situation carefully and even consider a kind of "Berlin Mandate" on this issue. He also complained about a statement made about Mexico's membership in the OECD and said that it is inappropriate to discuss this matter outside that forum. (We are not clear to whom Mexico was directing its criticism; neither ourselves nor the EU has made any mention of the OECD four public interventions.)

Samoa Speaks Up

After appeals from SBI Chairman Kante to limit remarks to a discussion of this agenda item and to avoid discussion of the proposed agenda items for COP-4, the UK spoke and indicated its view on the inadequacy of Articles 4.2 (a) and (b). The statement lacked any bite.

Samoa was the only developing country party which took a somewhat different tack. Ambassador Slade, appearing somewhat nervous commented that it is true that developing country Parties should not really be expected to undertake new commitments in the absence of evidence that Annex I is doing its bit in the fight against global warming. -However, he also acknowledged that this is a global problem requiring a global solution. Even Samoa has a duty to curb its GHG emissions. He said that it is important for us to look, after COP-4, at ways in which all of us can play a "meaningful and helpful" role to address the problem. (Comment: We appreciated Amb. Slade's remarks, especially as we had politely chastised him at a June 4th reception for not showing the expected leadership by supporting Argentina's Amb. Kelly during the long G-77/China deliberation on this topic. End Comment.)

Contact Group Established

Debate on this agenda item ended with Chairman Kante proposing the establishment of a contact group to be co-chaired by Canada and Zimbabwe. When the question of the agenda for COP-4 was started, Argentina tried to soothe colleagues by indicating that she will try to think of a way to construct a consensus over the item in the proposed agenda. (Comment: Amb. Kelly is trying to find language which will cover the concept of "voluntary commitments" without using these two words which have become as pejorative in the context of these discussions as the term "evolution" had become during the lead-up to Kyoto. End Comment)

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In a rather unfair, threatening tone, Mohamad Al-Sabban of Saudi Arabia again urged that voluntary commitments be removed from the COP-4 agenda. He warned the host country to heed his advice, the implication being that the conference will collapse if Argentina does not heed its views. Further jousting on this subject was prevented by the end of the session, with China, the U.S., the EU, and Switzerland among the countries whose remarks were postponed until Monday, June 8th.

More Drama Postponed: Further Discussion of Article 4.8 and 4.9 Delayed (inadvertently) by G-77 Posturing on Voluntary Commitments

A principal trade-off with the G-77/China generally (and OPEC specifically) for their agreement to flexibility mechanisms in the protocol was a decision to undertake a process to identify and determine actions necessary to meet specific needs of developing country Parties arising from the adverse effects of climate change and/or the impact of response measures (Articles 4.8 and 4.9 of the FCCC). In a surprise development on June 4th, the Secretariat produced a detailed 12 page paper outlining a possible way to address this topic. We used this document initially to avoid the formal establishment of a contact group and were prepared at the scheduled June 5 discussion of this item to respond tepidly to this topic generally and to several specifics in the document (although we did not wish to give the paper much credence). In the end, however, because of the long-winded interventions on the earlier topic, there was no time to get into this paper. Instead, further discussion was postponed until Monday.



Earth Negotiations Bulletin

..... 10

A Reporting Service for Environment and Development Negotiations

Vol. 12 No. 80

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Friday, 5 June 1998

HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES

4 JUNE 1998

Delegates to the Subsidiary Body for Scientific and Technical
Advice (SBSTA) deliberated on methodological issues, the roster of

mental cost calculation, and, with IRAN, no conditionalities attach
to the activities of multilateral funding institutions, which was
opposed by CANADA.

The EU distinguished GEF review from future guidance; and,
with SWITZERLAND, CANADA and VENEZUELA, proposed
making it the permanent FCCC financing mechanism, subject to

Office of the U.S. Delegation
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Berliner Freiheit 2
Bonn
Federal Republic of Germany

URGENT

FAX 01 202 647-0217

DATE: Friday - June 5, 1998

TO: Ms. Denise Guede

From: Amb Mark G. Hambley

SUBJECT: Supplement to Climate Talks
Update No 4 for June 5

① Please send them note to following
as a supplement to our Update No 4
for June 5 which will follow
shortly.

② Thanks for your arrangements
with regard to San Diego.

Number of pages: 12
(including cover sheet)
excluding

Tel 011-49-228-7269-818
Fax 011-49-161-620-2821

Notes from Weds AM
SBSTA/SBI Joint Session on Mechanisms for Cooperative Implementation
(notes from Bill Breed)

This was the second session on Mechanisms for Cooperative Implementation, continuing the discussion from Tuesday afternoon.

In general, Parties from the Group of 77 spoke on the view that the CDM is for funding of Sustainable Development (SD), and not focused on "cost effective projects like JI/AJI projects" and also noted that COP4 was not the end of the process. Some mentioned the need for training and capacity building.

China addressed the mechanisms as only for achieving the objectives of the Convention, warned that we should not follow the Montreal Protocol model, that emissions reductions for developing countries would not work, and that Annex I countries were not meeting their commitments for technology and financial flows.

The African Parties (Central African Rep, Nigeria, South Africa, Senegal, Uganda, Ethiopia, and Burkina Faso) spoke on JI in Africa, stating that since there are no JI projects in Africa, they had no experience with JI and could not judge it yet, so the AJI pilot phase should continue. They also made note of their vulnerability to climate change, and the need for CDM funds for adaptation.

The Latin American countries (Paraguay, Uruguay, Venezuela, Colombia, and Costa Rica) addressed the inclusion of sinks under the CDM, and the need for clear guidelines and principles, and CDM as SD.

The AOSIS parties (Mauritius) addressed concerns for monitoring and verification, and need for clear guidelines and modalities.

Annex I parties in general spoke on calling for sinks in CDM, fungibility across mechanisms, and mentioned the need for cost effective implementation, minimizing transaction costs, and the importance of compliance. Some Parties (AUS, USA, NOR) called for no arbitrary limits on mechanisms. Canada introduced a paper on flexibility from the 'Umbrella Group'.

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SBSTA 3 JUN 98 15:30

- Opened by Chair - Kok Kee Chow

Item 2B Election of officers other than Chair

- Regional groups to consult, Return to item later

Item 2C - Organization of work

- Published schedule maybe modified

- Item 9. Roster of experts on Thursday swapped with Items 6(d)(e) on Methodologies on Friday

Names of 9 NGOs read out AND accepted for observer status

Item 2d Allocation of work 1/CP.3 para 6.
2e Organization of the work of future sessions

Items 2d & 2e to be considered together later after the chair consults with the chair of SBI

Comments on Presentations by Watson, Spence, & Stephen

- Marshall Islands - Not convinced of need for a panel on economic instruments
Get CBD decision referred to by Switzerland yesterday

- U.S.

-- would have liked to have ICAD/HMO speak

-- IPCC → methodologist work - work on Inventories → would like info

on structure to be used

- would like IPCC help on sinks
- Are there any other forms beyond a special report or technical paper on providing timely info on sinks
- SBSTA should urge ICAO/IMO to move forward
- International observation system needs support so it can be maintained
- UK (for EU)
 - Observational networks - support more effort including funding by GEF
 - IPCC welcome IPCC efforts. we request special report on sinks
 - Other Organizations
 - Welcome work and decision by IMO
 - ICAO - policies & measures should be discussed at SBSTA 19, including fuel taxes
- Indonesia (6-77)
 - Do not support an intergovernmental body of economic instruments as proposed by UNEP.
- Japan
 - IPCC - Appreciate work.
 - Support US view on ICAO/IMO on bunker fuels. Wait for results of ICAO/IMO studies
- Australia
 - Monitoring systems
 - Review of ICAO/IMO studies

4

of the system

-- Urge parties to support networks

-- SBSTA should quickly consider recommending
AT SBSTA 29

-- Need address IPCC work under Item 6.8
-Ligands

-- Support US view of need for support of
observation networks

-- GEF should help fund

-Uzbekistan

-- Don't have sufficient funds for observational
stations. GEF build new observational sites.
Bilateral funding support also appropriate

NRDC

-- Second Assessment Report too optimistic
on impact of sinks

-- what is Policy Questions for IPCC
proposed

-- Support EU Questions

WMO

-- Will work with SBSTA to prepare a
useful document

IPCC

-- Due emphasis will be given to
regional issues (reference to Marshall Is)

-- Indonesia response to IPCC ready to
report on economic instruments

-- Methodological work → evaluating
institutional structure for this work

-- Sinks Documents → will work with
SBSTA on time scale that meets needs

-- Some carbon will be addressed

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- in third assessment Report (TAR)
- TAR with look at feedback issues
- Request WDC policy questions
- Saudi Arabia
 - IPCC should continue its work. We did not task IPCC to look at economic instruments.
- IPCC
 - New work not being undertaken
- Item 4(a) National communications (Annex I).
- UK: Guidelines may need revision to Accommodate Kyoto Protocol. Secretariate should prepare document summarizing Party recommendations. Action at COP5
- Marshall Island
 - Procedures need improvement. Will consider Secretariate questions.
- US
 - Inventories more important than national communications. We may want to delete some requirements for reporting national circumstances
- CANADA
 - Update guidelines to include Kyoto Protocol
- Switzerland
 - Update to include Kyoto and experience with national communications
- Australia
 - Review is timely. Review finalized before time at 3rd Communications

6

- Chair proposed schedule

-- 15 Aug 98 Input by Parties

-- Before SBSTA #9 Secretariate organize workshop of Experts

-- COP4 Decision

- US

-- Roster of Experts may not include all experts

-- Overall timing is question for sessions COP4 vs COP5

- Chair

-- Will choose appropriate experts

-- Is a final date of COP5 acceptable

- US

-- Acceptable (COP5)

-- Inventory issues may go on until COP6

Item 4b Non-Annex I National Communications

- Chair → Leave issue to SBTA re current methodological issues

- South Africa

-- Please provide status of old COP decisions on non-Annex I communications

- Georgia

-- Need help to prepare high quality Report (Chair = not a SBSTA issue)

- Iran

-- While guidelines are simple, we need methodologies

7

SBI Afternoon Session
June 4, 1998
Submitted by Susan Wickwire

The topics on the agenda for the session included consideration of impacts of climate change and measures to address climate change; administrative and financial matters; and consultations with non-governmental organizations (NGOs). SBI Chair Bakary Kante opened the meeting by stating that relevant Convention Articles 4.8 and 4.9, and Kyoto Protocol Articles 2.3 and 3.14, and Decision 3/CP.3 would be considered as a group. The Secretariat presented a new document on the subject that was just prepared. Burkina Faso intervened to urge developed countries to fulfill their commitments with regard to Articles 4.8 and 4.9 by providing financial and technical resources and insurance to address climate change. He called for the creation of an Ad Hoc Committee to assess Annex I efforts to fulfill their commitments. He added that he welcomes joint implementation to promote technology transfer. Zimbabwe, speaking on behalf of the G-77 and China on this issue, expressed the need to organize an experts meeting before COP-4 to consider funding, insurance and technology transfer. The delegate added that the G-77/China would be meeting to develop its views further. Saudi Arabia made an extensive intervention. Mohammed El-Sahhan pointed out problems in the Secretariat's paper (misleading language, inaccuracies, etc.) and went on to ask that a decision be taken to gather information on Annex I countries: policies and measures (PAM) being considered to meet Protocol obligations; estimates of Annex I imports of fossil fuels with and without measures; the effect of PAM on Annex I imports of other items from developing countries; and the interest on external debt. He asked that the data be provided no later than September 15, 1998 for use at COP-4. He also suggested that Annex I countries make annual reports due April 15 to update their original submissions. Venezuela echoed these sentiments and hinted that slow progress on this issue could slow down consideration of the flexible mechanisms. Samoa and the Marshall Islands reiterated the AOSIS position -- the seriousness of the matter and the need for action. Both the EU and the US asked for more time to review the Secretariat's paper and the US wanted to put off the decision to form a contact group.

SBI Chair Bakary Kante then turned to financial and administrative issues. The Executive Secretary read a proposal to make some changes in budget that would not affect the overall total. The Secretariat also acknowledged recent contributions to the Convention, including that of the United States. In our intervention, the U.S. revived the notion that conference servicing cost should be paid by the Convention Parties and not the UN General Assembly and later clarified that it would apply in the next biennium. We also raised the notion of splitting the two-week session into two sessions. We asked the Secretariat to compile cost data on such a change for the discussion on arrangements for meetings in 1999 and beyond. Parties also agreed that the Secretariat would change the scale of contributions to make it consistent with the new UN approach.

The U.S. intervened first in the discussion on NGO participation. In our statement, we endorsed the proposal to reach a conclusion on this issue; called for the continuation of current accreditation procedures; and urged more openness and the inclusion of additional groups (agriculture, labor and quasi-government organizations). The UK, on behalf of the EU, wished to see the current access arrangement continue at the Chair's discretion and to see that the NGO community be limited to the current groups (business, green NGOs, and local government). The Marshall Islands also wanted to limit the groups but supported wider access. Canada reinforced the U.S. statement and also expressed disappointment that NGOs were not included in the smaller group on flexibility mechanisms. Jennifer Morgan from CAN and Norine Kennedy from the International Chamber of Commerce spoke on behalf of their constituencies. Kante concluded the session by announcing consultations with NGOs on Friday and the absence of any need to form a contact group on this subject.

HARRY KAUFMAN

8

SBI 5th Meeting
Thursday, 4 June 1998

Chair said will try to call on NGOs and possibly other groups 2 times per week.

National Communications (Agenda item 3 (b))

The Chair reviewed the process for considering non-Annex 1 Party communications, including a proposed workshop in Kuala Lumpur in August 1998. To date, 8 national communications (NCs) from non-Annex countries are in; 72 are in progress. The primary obstacle to more, and more expeditious, production of NCs is a lack of funds, as well as lack of trained staff. Funds and expertise are also lacking for the translation and dissemination of NCs. More workshops are needed to improve information on national and regional capacity.

Numerous non-Annex 1 countries concurred with the Chair (including Philippines, Thailand, Sri Lanka, Burkina Faso, Senegal, Central African Republic, Argentina, Morocco). The main point of a number of Annex 1 countries was to support for establishing a review process for non-Annex 1 NCs (Canada, the USA, Australia, Switzerland). Specific notes follow:

Philippines said that NCs are the first commitment of all Parties and thus a critical building block, and pointed out the link between NCs and technology transfer.

Knowledge of the date that GEF funds are actually available for producing NCs and other activities is critical to meeting deadlines, a point reiterated by numerous countries including Philippines, Burkina Faso and Brazil.

Philippines also stated that the role of implementing agencies (e.g., UNEP, UNDP, World Bank) is wanting, a factor which contributes to the low number of completed non-Annex 1 communications. Thailand and Azerb. added that the implementing agencies should respond to proposals more quickly.

Non-Annex 1 countries also spoke to the need for sustained funding from the GEF for their second NC (Mexico, Benin, Cook Islands) and for environmentally-sound technology transfer (Georgia). Uruguay suggested that sustained funding could serve to help implement voluntary GHG control programs.

The Chair agreed that GEF funding should not stop at production of first NCs as there are further needs for credible non-Annex 1 reporting. Nigeria suggested that the Secretariat recommend the establishment of regional GEF offices.

Venezuela proposed that NCs include reporting on the impacts of GHG control measures; China said that reviews should take into account the progress achieved.

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The UK/EU supported the idea of regional workshops but did not think it would take the place of expert individual reviews.

Financial Mechanism (Agenda item 4)

Philippines again led with points largely reiterated by other non-Annex 1 countries, *i.e.*, that the GEF must continue to operate – consistent with the FCCC – and that it include a focus on adaptation and capacity building. China and others said that the GEF should accelerate its operations.

A number of Annex 1 countries supported the appointment of the GEF as the permanent financial mechanism, subject to regular reviews. (UK/EU, Canada, also Venezuela). Switzerland and Australia said this designation should take place at COP-4. Saudi Arabia and Iran were against “rushing” to designate the GEF.

The Chair asked Antigua/Barbados and the USA to co-chair a working group to develop a draft decision for COP-4 on the financial mechanism.

16

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Maurice LeFranc

11

Notes from June 4 SBSTA Session 1000 - 1300

This SBSTA session covered following three methodological issues:

Emissions Inventories: Discussion opened with a summary by the Secretariat on Annex I national communications (FCCC/SBSTA/1998/Misc 2) and a description of their program of work. A number of Parties intervened in support of the report, however, several interventions indicated that the work program might be incomplete, particularly in light of what will be required under the Kyoto Protocol. The US, UK (for the EU), Hungary, and Poland identified a number of additional areas requiring further consideration including:

- standards of completeness
- emission factors
- uncertainty in inventory estimates
- standards for national systems
- guidelines for calculating project-level emissions
- land-use change and forestry inventory methods, and
- emission estimation methods for new gases.

The US intervention also highlighted the need to upgrade the value and accuracy of reporting, need for continuous improvements in inventories, and an examination of why countries have not followed guidelines. Discussion of this item concluded with the Chair's proposal to convene two workshops on national communications: one on methodologies (an experts workshop) and one on guidelines (delegates).

Land-use Change and Forestry (LUCF): The Secretariat opened this discussion with a brief summary of their paper on methodological issues related to land-use change and forestry. Several Parties discussed the appropriateness (primarily US) of the Secretariat interpreting parts of the Protocol, and whether their interpretation supports the intent of the Protocol. Interventions also highlighted a number of other issues, including:

- UK (for EU) – inclusion of sinks should not undermine other actions to meet Art. 3 commitments, need methodologies for measuring change in soil carbon, quantification of uncertainty in LUCF and comparison of this uncertainty to other uncertainties, and clarification of relation of sinks categories in UNFCCC and Protocol
- Australia – favored interpretation 2 in the UNFCCC paper
- South Africa – concern that LUCF uncertainties might compromise attainment of targets, need to distinguish natural/anthropogenic actions, distinguish natural part of sinks, address wood stocks and products, and quantify negative impacts of sinks on other ecological and socio-economic components
- Canada – recommended a comprehensive approach including agricultural soils, sustainable farming practices, restoration of degraded soils, and soils as part of the CDM

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- Samoa – concern with blanket inclusion of sinks (inclusion of sinks introduces uncertainties and “distracts from the dependence on fossil fuels”), cap or remove sectors where uncertainties remain
- Iceland – restoration of degraded lands meet objective of UNFCCC
- Ozone Action (NGO) – no decisions on LUCF until Special Report from IPCC

Two primary recommendations came out of Party interventions:

- 1 The first recommendation was for SBSTA to request that the IPCC address specific LUCF issues prior to COP5. Disagreement within the details of this request related to whether IPCC should produce a Technical Report or Special Report, whether to focus initially on Art. 3.3 and then Art. 3.4, and whether IPCC should address LUCF issues outside of those in Article 3. Agreement to the need to define the terms in Art. 3.3.
- 2 The second recommendation was to link the LUCF work under the UNFCCC and Kyoto Protocol to other international conventions including biodiversity, desertification, oceans, and RAMSAR.

Impact of Single Projects on Emissions in the Commitment Period (Iceland proposal): Iceland presented its paper (FCCC/SBSTA/1998/Misc. 1/Add. 2) on need for exemption for single project that would unduly affect commitment. Several Parties responded that unless narrowly defined this proposal will provide loopholes under Art. 3, and stated their reluctance to give special treatment to individual projects; Parties also inquired why this activity can't be offset by flexibility mechanisms. Others supported further discussion of Iceland's request but asked for additional information on the specific project. The Chair requested that Iceland provide additional information that can be circulated for deliberation at next sessions.



United States Department of State

*Bureau of Oceans and International
Environmental and Scientific Affairs*

Washington, D.C. 20520

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FROM: Denise Goode
AGENCY/ROOM NO.: OES
OFFICE PHONE: (202)647-1555 FAX NO. (202)647-6876

MESSAGE:

7 June 1998

To: Please See Attached List

From: USDEL/Bonn -- Mark G. Hambley ~~VP~~

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Update No.5 for June 6/7, 1998

Attached is one in a series of informal and unclassified reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn over the weekend of June 6-7, 1998. A more detailed account of the SBSTA meetings on June 4th (prepared by DOD's Holly Kaufman) is also attached. Also included with the message is the June 5th copy of the Earth Negotiations Bulletin which we understand was left stranded in cyber space during the transmission of Update No. 4.

Although these reports are unclassified, their contents are not intended for use outside of the U.S. Government.

7 June 1998

Climate Change Meetings, Update No. 5 for June 6/7: AG-13 Continues its Work, while U.S., the "Umbrella" Group and the EU Ponder Next Steps**AG-13 Chugs Along**

AG-13 is a working group which is considering Article 13 of the Convention which concerns the possible establishment of a multilateral consultative process. Bonn is supposedly the sixth and last session of the AG13. The expectation of the Chairman, Patrick Szell of the UK is that the eight meetings scheduled on the MCP during this session will finalize MCP functions and procedures in order to present a text for consideration at COP-4. Although there has been reasonable progress on this issue in its four sessions to date (two on Friday and two on Saturday), there remain many contentious areas. If any generally agreed text emerges, it will probably be quite heavily bracketed. In any case, we will perhaps want to keep matters going if only to prevent the distinguished and Oxbridge-articulate Mr. Szell from being assigned to run a compliance working group should one be considered. As capable as he is, his views are decidedly eurocentric.

Good Meeting with the EU on Friday; A Less Satisfactory One on Saturday

On Friday, we had a good meeting with the EU. Attended by nine European countries (with Peter Unwin in the lead, with bit parts played by the Dutch and the French) we had hopes that we would be able to make progress in those areas where we already had broad accord or only marginal differences. Unfortunately, this optimism was strained somewhat at the Saturday meeting of the Common Interest Group.

Our Respective Papers on "Emissions Trading" Discussed - "Sort of"

We began the meeting with short presentations of our two papers outlining our views on emissions trading. Canada's John Drexhage, speaking for the umbrella group, went over key points of our paper. The EU posed no questions.

Speaking on behalf of the EU, the UK's Peter Unwin, indicating that he did not believe that the point of this meeting was to get into any details about our respective papers, and not wanting to focus on emissions trading specifically, confined himself to a recitation of key principles which underlie it - namely, the need to define complementarity, the need to emphasize domestic actions, the need to avoid "hot air" and the need for a strict compliance regime. Unwin ended by remarking that most of these principles echoed sentiments expressed by the G-77/China.

The EU Doesn't Get It: It's the G-77/China which is the Common Enemy (or is it?)

During the conversation which followed, the EU did not seem to get the key point that divided, the Annex I position collapses. United – even if we have not sorted out the key point of supplementarity – we have a chance of calling the G-77's bluff and moving this process towards a more aggressive approach on questions related to the four flexibility mechanisms at COP-4. In response, Unwin said that the EU wants to make progress at Bonn but indicated that, in his view, establishment of a work program was about all that could be envisioned. In view of G-77 attitudes, he said that resolution of the details for the three, key mechanisms (JI, ET, and the CDM might be possible by COP-5. He said that achieving this by COP-5 would be an "ambitious" target; COP-6, he continued, would be more "realistic."

EU Disposed to Take on Our Suggestions Regarding the Co-Chair's Proposed Time-Line

A suggestion made by the U.S., New Zealand and other umbrella group members that we avoid accepting the co-chairs' proposed time-line and work program and, instead, try to identify common elements and ask both Parties and the Secretariat to prepare papers and/or information on aspects of the mechanisms to further progress at COP-4, was taken under advisement by the EU with no particular sense of enthusiasm (although the Netherlands's de Boer appeared to voice his support). Unwin's one comment was to note that the G-77/China is unlikely to adopt any schedule of the kind suggested by the two-co-chairs – Meira of Brazil and de Boer of the Netherlands.

We basically appear to share common views on Activities Implemented Jointly except on the issue of crediting. This became clear during our discussion of JI where we were again stonewalled by the UK. Unwin had indicated during his opening remarks that the EU prefers to have JI taken as a first priority, although work could be continued on the other mechanisms, as well. However, Unwin also said that JI projects could only be credited within the budget period of 2008-12 – a view in sharp contrast to the one shared by the umbrella group.

Posturing and Delay by the UK?

Norway caught Unwin out on this apparent contradiction and asked why, if the EU does not favor a start to crediting JI projects until the beginning of the budget period, does it place so much emphasis on giving JI priority? Unwin responded, quite unconvincingly, with a remark that the EU wants to proceed on all of the mechanisms concurrently, but that it believes that JI can be finalized the earliest.

Apparent Luke-Warm Response to Our Suggestions for Intensified Dialogue

At several points during this two hour long meeting, we attempted to open the door to the EU to meet in small off-line groups to explore some of our differences and to try to find early confluence of views. Unwin, while not totally dismissing these proposals, was clearly not enthusiastic. Instead, he appeared more concerned about G-77 reactions.

Comment

The umbrella group will meet briefly on June 8 to assess this meeting and to try to develop our next steps before the next meeting of the contact group on mechanisms (currently scheduled for Wednesday at the behest of the G-77, although we are pressing for a Monday or Tuesday date). New Zealand has already expressed its frustration to us about the EU's continuing flexibility on several questions (even when they do not appear to make sense, such as Unwin's views on why JI should be a priority) and about its apparent hesitation to engage in intensified dialogue to try to overcome some of our outstanding differences.

It should be recognized that not all EU members take this attitude. The Netherlands is one such country, and we expect that Italy (whose senior officials have not attended these CIG gatherings) are another. For this reason, we tend to view the EU's current stance (as articulated by the UK) as reflecting a tactical decision. Knowing the importance which most umbrella group members attach to the early finalization of rules and guidelines for emissions trading, Unwin appears bent on playing fears of a joint EU-G-77 coalition against us in the mistaken belief that we will cave on either the issue of supplementarity or "hot air."

In contrast, he appears dismissive of the view that EU inflexibility, and their apparent unwillingness to engage us in a more intensified dialogue, may push us towards forming a bubble arrangement of our own. Moreover, Unwin (and other EU officials) remain very skeptical that the umbrella participants could ever form a bubble. For example, when we suggested that neither Article 6 nor Article 17 necessarily require any formal guidelines from the COP to become operational, Unwin was dismissive, indicating merely that this is not the EU's position. In any case, we will attempt to find ways to engage the EU during the next week on many of these issues. However, it takes two to tango, and at the moment our prospective partner appears to be suffering from a case of the vapors. **End Comment.**

HOUT KOUTIN

7

SBSTA 6th Meeting
Thursday, June 4, 1998

Development and Transfer of Technologies (Agenda item 7)

The Chair announced that South Africa and Poland will co-chair a contact on LUCF.

Discussion centered on the technical needs survey, technical information centers, the question of a technical work roundtable at COP-4, and the future of the technical work program:

Developing countries emphasized the difficulties many of them had in completing the technical needs survey. Reasons included the lack of appropriate experts and institutions (Uganda for the G-77/China), the immaturity of work on vulnerability and mitigation and subsequent lack of knowledge about the technology needed.

The USA said that the survey was insufficient for determining what developing countries need in the way of technology transfer. It recommended that non-Annex 1 countries include more information in their national communications on technical needs – a move that might encourage country submissions. Canada and Uruguay supported the idea. The USA also emphasized the importance of the private sector in technology transfer, especially through commercial projects and public-private partnerships. The USA endorsed both north-south and south-south cooperation.

Canada concurred on the importance of the private sector and supported the idea of regional workshops.

The UK/EU said technology transfer is useful only if it responds to specific, identified needs, and suggested that the Secretariat clarify how non-Annex 1 countries define them. Australia echoed both points, adding that the CDM and the CTI will help stimulate technology transfer. Chile and Iran also voiced support for the CDM. Japan will sponsor a capacity building/technology transfer workshop for Asia-Pacific countries in Thailand (Phuket) in August 1998.

Technology Information Centers

The USA said a large number of centers and experts already exist but developing countries may have trouble accessing them. It suggested the possibility of a better process on developing consensus on key technical needs.

Argentina concurred on the role of the private sector working in tandem with governments who set rules of the game.

South Africa/the African Group suggested that regional working groups submit funding proposals to the GEF for developing indigenous technical capacity.

Y

Uganda/G-77 & China proposed a "one-stop shop" database center where developing countries can access information on various technology matters (e.g., cost, ownership). Concurrence came from Iran and Uruguay on the establishment of technical information centers and need for funding.

Technical Work Program

The Chair said that the SBSTA will focus on the technical aspects of establishing centers, then the SBI will deal with the funding question. He listed a number of issues, including whether centers should be located in existing institutions, whether they should focus on key sectors and whether institutional models exist.

The USA again stated that the access to centers is problematic, not the absence of centers. It proposed several next steps: 1) production of a paper for adoption at COP-4 on the terms of technology transfer, with a September 1, 1998, deadline for suggestions on what the paper should contain; 2) identification of a representative group of experts, to include technical information users, key national and international organizations and Annex 2 Parties; and 3) one or more meetings to develop consensus on existing networks and centers and steps to meet technical needs.

The USA, UK/EU and Australia supported the idea of a roundtable at COP-4, with Australia suggesting it focus on a specific sector, namely electricity.

Uganda/G-77 & China said that the FCCC is a government to government agreement and thus Annex 1 countries, not private companies, need incentives to stimulate technology transfer. They suggested revisiting the idea of ITAPS.

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HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES 4 JUNE 1998

Delegates to the Subsidiary Body for Scientific and Technical Advice (SBSTA) deliberated on methodological issues, the roster of experts and technology transfer. The Subsidiary Body for Implementation (SBI) discussed national communications from non-Annex I Parties, the financial mechanism, adverse effects of climate change and impacts from responses, FCCC finance and administration and NGO participation.

SUBSIDIARY BODY FOR IMPLEMENTATION

On financial and technical support and GEF action on non-Annex I communications, the Secretariat stated that eight initial communications have been received, 23 are expected in 1998 and 30 in 1999. The deadline was March 1998. The EU and others called for a COP-4 decision on in-country expert reviews. The G-77/CHINA highlighted financial and technical constraints and capacity building for adaptation. SRI LANKA stressed all-region adaptation training. THAILAND noted difficulties with the adaptation assessment model. GEORGIA and AZERBAIJAN stressed continuing GEF support. Assistance was requested for: finance and know-how (MOROCCO); technical needs (BURKINA FASO); longer-term implementation (the CENTRAL AFRICAN REPUBLIC, ARGENTINA); vulnerability (ARGENTINA); emission mitigation in other sectors and formulation of implementation programs (URUGUAY, ARGENTINA); and second national communications (SENEGAL, MEXICO).

The G-77/CHINA reminded UNEP and UNDP that they are implementing agencies of the operating entity of the financial mechanism. NIGERIA suggested GEF sub-regional offices for project monitoring. BURKINA FASO, THAILAND, and AZERBAIJAN called for translations of guidelines. SENEGAL, with ARGENTINA, noted constraints on translation and dissemination of communications. The EU and AUSTRALIA stressed accelerating submission of initial communications, assisted by GEF. UZBEKISTAN stressed information exchange for Central Asia. BENIN requested facilitation of conference attendance from Africa.

On the financial mechanism, the Chair noted review of the FCCC's financial mechanism must be completed with a COP-4 decision. On guidance to the GEF, the Chair noted new needs since 1996 guidance was provided. The G77/CHINA called for: GEF adherence to COP guidance; no funding of activities inconsistent with FCCC principles; and, with EGYPT, attention to adaptation measures. EGYPT called for long-term sustainability. CHINA called for: a more streamlined project approval process; transparency in incre-

mental cost calculation, and, with IRAN, no conditionalities attached to the activities of multilateral funding institutions, which was opposed by CANADA.

The EU distinguished GEF review from future guidance; and, with SWITZERLAND, CANADA and VENEZUELA, proposed making it the permanent FCCC financing mechanism, subject to future reviews. SWITZERLAND stressed adequacy and predictability in the flow of funds. With AUSTRALIA, he noted a draft decision. SAUDI ARABIA cautioned against a premature conclusion. CANADA supported CDM support for adaptation activities. JAPAN said it contributes 20% of GEF funding and called for extensive evaluation. IRAN criticized a GEF overemphasis on energies. The Chair asked Dan Reifsnnyder (US) and John Ashe (Antigua and Barbuda) to chair a contact group to prepare a draft decision.

On implementation of Article 4.8 and 4.9 (adverse effects and impacts of responses), the Chair explained that consideration of Decision 3/CP.3 and the related Protocol Articles 2.3 and 3.14 had been added to the agenda item, as per a COP-3 request. The Secretariat introduced documentation (FCCC/SBI/1998/CRP.1), offering an analytical framework to facilitate a response that is compatible with the Protocol. BURKINA FASO called for an *ad hoc* committee, supported by the Secretariat, to assess Annex I Party efforts and report to the COP.

The G-77/CHINA, supported by the MARSHALL ISLANDS, suggested a role for SBSTA and the possible need for an expert meeting before COP-4. The MARSHALL ISLANDS also called for regional workshops on adaptation. SAUDI ARABIA proposed, *inter alia*, that: the Secretariat's analytical framework combine consideration of adverse effects and impacts; SBI form a permanent committee on implementation of Articles 4.8 and 4.9; COP-4 request information from Annex I Parties on policies and measures, fossil fuel imports during the first commitment period and estimated effects on other imports from developing countries; and processes not discriminate against any country clusters identified in Articles 4.8 and 4.9.

AOSIS stressed the urgency of the question of insurance and, with the MARSHALL ISLANDS, viewed the additions to the agenda item as technical rather than substantive. The EU favored CDM support for adaptation, but stressed a focus on mitigation. He noted that action on Article 4.8 must await more certainty on effects on fossil fuel use, calling for further input and discussion. VENEZUELA opposed limiting action to studies and called for a COP-4 decision. The US asked for more time for comment. SAUDI ARABIA opposed delaying formation of a contact group on this.

The Chair introduced discussion on involvement of NGOs and called for consensus at SBI-8. The US, opposed by the EU, called for including labor, agriculture, and quasi-governmental entities. SWITZERLAND extended this to all Agenda 21 major groups. The US,

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SWITZERLAND and CANADA opposed current exclusion of NGOs from the contact group on flexibility mechanisms. General support was expressed for Chair discretion on NGO access to informal meetings. The CLIMATE ACTION NETWORK asked for a proposal for additional participation and transparency in registration. An industry representative called for greater access to informal meetings with the Chair.

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNICAL ADVICE

On methodological issues, the US and EU stressed keeping the guidelines under review and incorporating additional methodological issues raised by the Kyoto Protocol. Supported by POLAND, HUNGARY underscored the need to enhance understanding of the three new gases under the Kyoto Protocol. POLAND said that there is a need to conduct further work on emission factors since these differ for different sectors, between and within countries. He called for guidelines for the preparation of default projections. The Chair proposed a workshop on national communications and another with the aim of addressing the problems identified by SBSTA.

Some countries, including JAPAN and the US, noted the urgent need for a decision on which anthropogenic activities should be included because it influences the ability of some countries to ratify and implement the Protocol. The EU reaffirmed that inclusion of sink activities should not undermine incentives for action on gross emission mitigation. AUSTRALIA and the US suggested prioritization of issues. MAURITANIA, with ICELAND, cautioned against concentrating solely on forests and conservation. AOSIS expressed concern over "blanket" inclusion in sinks of all land use and forestry activities as this would introduce uncertainties and distract the Protocol from focusing on fossil fuel dependence. COLOMBIA stressed that technical aspects of Article 3.3, such as establishing what is meant by net change in stock, must be resolved. Addressing Article 3.4 depends on the will of some Parties. NORWAY and CANADA sought to establish a process to enable COP-5 to consider sinks.

Several delegations said SBSTA should call on IPCC to address outstanding technical questions in a special report. The EU called for work on methodologies for quantifying changes in soil carbon as a result of forest activities since 1990, and on whether the current revised 1996 IPCC guidelines allow for transparent reporting and verification. With AOSIS, JAPAN, the US and AUSTRALIA, he sought clarification of the IPCC terms and definitions of afforestation, reforestation and deforestation. ICELAND said improvements to degraded land should be included in the list of human-induced activities. With the US, he said IPCC should evaluate the consequences of limiting activities that can be included. The US also highlighted, *inter alia*, effects of cropland and rangelands; improvements in forest management; and inventory and data reporting.

SOUTH AFRICA, supported by BURKINA FASO, said SBSTA should task the IPCC to examine, *inter alia*, methods for distinguishing natural and anthropogenic sinks, the role of carbon stocks and wood products, definitions of eligible land uses and the role of sinks in biodiversity protection.

CANADA said the capacity of agricultural soils presents a global opportunity for promoting sustainable farming and said soil sink projects should be included under the CDM. The US cautioned against delays in the CDM process and said sink-related activity must move forward in the project-based process. Some delegations, including CANADA, JAPAN and the US supported continuing discussions informally. The EU, NORWAY, DENMARK, COLOMBIA and ENVIRONMENTAL NGOs stressed links to other conventions, including those on biodiversity and desertification. Paul MacLons (South Africa) and Maciej Sadowski (Poland) will chair a contact group on the request to IPCC.

ICELAND, supported by AUSTRALIA, expressed concern for the difficulties posed to small countries arising from the setting of quantified limits on single project emissions and called for the

and separate reporting of process emissions. AOSIS expressed concern that a poor message will be sent if exemptions are listed when the Protocol is adopted. The US said additional accommodations must be cautiously approached. The EU recalled that differences are already addressed by differences in quantified emission reductions and was reluctant to give exceptions for single projects. SWITZERLAND said a separate methodological process would threaten credibility. The Chair asked Iceland to provide more information to the Parties.

On technology transfer, the G77/CHINA explained that the poor responses to the surveys to establish needs can be attributed to the absence of specific frameworks for the implementation of the Convention. AUSTRALIA called for the identification of synergies in technology transfer work under other Conventions. Together with the US, he noted that national communications of non-Annex I countries would be helpful in identifying technology needs and underscored the role of the private sector in furthering this sector. The EU expressed hope that the flexibility mechanisms proposed under the Kyoto Protocol would facilitate the transfer of technology.

CANADA said expertise in responding to questions already exists in the private sector and research centers. URUGUAY noted the need to transfer concrete emission reduction projects, not just surveys and reports. He recommended a financial mechanism for technology transfer. CHINA said the issue of technology transfer had been marginalized and noted that it is different from information centers. COP-4 should address this as a separate agenda item. CHILE saw much potential for technology transfers through the CDM.

On the issue of technology information centres, delegates called for: the identification and assessment of means to improve the flow of information and technology; the establishment of regional centres, greater engagement of the private sector; consideration of needs and participation of beneficiaries; and the need to develop, strengthen and use existing institutions.

On technology work programmes, comments addressed: improved government coordination; identification of barriers to transfer; incentives for transfers by the private sector; and a September deadline for submissions on the work programme. A contact group will consider technology transfer.

SPECIAL EVENT

In a special event, the World Bank stressed that the Prototype Carbon Fund (PCF) is not a scheme for the facilitation of emissions trading rights, but aims to demonstrate a means for carrying out project-based emissions trades in an efficient and equitable manner. The World Bank is not aiming to monopolize the future trading market, nor seeking a privileged position under the FCCC. It will not bring the PCF to the Bank's Executive Board for approval until after COP-4.

IN THE CORRIDORS

Observers have noted that European Union Parties are again locked in internal and prolonged debates over burden sharing, as the implications of the Kyoto Protocol are gradually absorbed by a number of member states. The debates are now focused on policies and measures. Some have observed that a significant gap exists between the European Union's top-level experts feeding into the Union's negotiating position at the FCCC and the capacity of home ministries' "delivery agents" to deliver the promised results, with all the consequences that could entail for the post-Kyoto process.

THINGS TO LOOK FOR

SBI: SBI will meet at 10:00 am in the Maritim Room
AG13: AG13 will meet at 10:00 am and 3:00 pm in the Beethoven Room.

SBSTA: SBSTA will meet at 3:00 pm in the Maritim Room.

GESAMT SEITEN 10

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8 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley *lvv*

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Update No.6 for June 8, 1998

Attached is one in a series of informal and unclassified reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn on Monday, June 8. A summary of AG-13 developments on June 5 and 6, prepared by DOD's Holly Kaufman and L/OES' Evan Bloom, respectively, is also passed along for your edification, as is a report on the June 5th formal meeting of the SBI (prepared by State's Susan Wickwire. Also included is an advance copy of the as yet not released list of questions on the flexibility mechanisms which is reportedly going to form the basis for the G-77/China intervention once this contact group resumes.

Although these reports are unclassified, their contents (with the exception of the **Bulletin**) are not intended for use outside of the U.S. Government. Copies of the June 8th copy of the **Earth Negotiations Bulletin**, which covers developments on Friday and over the weekend, plus the latest addition of the less reputable NGO rag, **ECO**, is being sent separately as Climate Talks Supplement to Update No. 6..

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8 June 1998

Climate Change Meetings, Update No. 6 for June 8: AG-13 Hits a Log-Jam; Delegations Disagree Over COP-4 Agenda and on Other Items**AG-13 Hits a SNAG**

Although the AG-13 discussions proceeded smoothly throughout Friday, on Saturday clouds appeared on the horizon for the first time. Rain showers continued on Monday. The main issue was over the G-77's proposal that membership on the proposed committee be proportioned on the basis of regional representation. The U.S. strongly disagreed, arguing that the membership should be selected half by Annex I and half by non-Annex I Parties. Australia and Canada supported the U.S. position, and at the Monday JUSCANZ, the group as whole appeared to indicated its support (or, more accurately, no one proposed an objection.).

During the June 8 deliberations, additional progress was made on this process, but the issue over the question of membership on the proposed multilateral consultative process (MCP) committee again remained deadlocked. Unfortunately, the EU caved on this issue. Asked why the EU would do so - especially when Annex I is being diddled on everything from the formation and activities of the contact groups to membership on the various bureau (see below), UK representative Peter Unwin said that the main reason is that the MCP does not involve finances, and hence, the EU does believe that there is a good reason to stand on the fifty-fifty principle.

Unwin asked reporting officer for any UN-related bodies where regional representation was not the rule. We indicated that we would seek Washington's advice on this. The point, we suggested, is why should we cave on this point, with its possible precedential repercussions, at a time when the G-77/China is failing to show any flexibility or a willingness to engage on other key aspects of our work program? Unwin took the point but refrained from responding directly. Switzerland, which is at odds with us on almost every aspect of climate policy, followed the EU on this matter. Norway, indicating that it hopes to refer the matter to home after these meetings end, suggested that it agrees with the EU that there is no substantive basis for rejecting the regionally based argument.

Bureau Threats and Deadlock

One small episode which gives some indication of the dynamics at this Bonn conference was encapsulated in a recent "discussion" on the composition of the bureau for the SBI. Bernadita Muller of the Philippines recently engaged in verbal fisticuffs with the Austrian representative of the Western European and Other Group (WEOG) on this question. (WEOG is the process group from the EU and most of JUSCANZ which selects candidates for specific Bureau positions for many UN-related processes. In the case of the SBI, WEOG's candidate for vice chair is Jose Romero of Switzerland who held this position last year.)

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Bernaditas insisted to our Austrian colleagues in strident terms that Romero would have to give up his seat as vice chair and exchange it for the rapporteur's post in the SBI to allow another Asian (an Iranian) to become Vice Chair of the SBI. Austria refused. Bernaditas countered with a threat to take WEOG's "intransigence" to the floor of the plenary.. Austria again refused, noting in equally strident, near-Teutonic tones that Asia is already represented with two other individuals on the Bureau (Saudi Arabia which took the seat of Japan) and Malaysia which is the Chair of SBSTA. (Comment: We have thus far been successful in keeping some backbone in the EU's position on this; Without an AGBM or some other mediatory process, the SBI is of greater importance than in the past. Romero is the only JUSCANZ officer, other than Norway which is our consensus candidate for the Bureau itself, replacing Canada, which has served two terms. End Comment.)

Sinks Sinking?

While the flexibility mechanisms discussions have, for the time-being been frozen into inaction by the G-77/China which is preparing a list of questions to pose for the group on Wednesday (pls see below), much interest has been concentrated on the informal sinks discussions. Here, it may be recalled, we were hoping for a two-pronged approach – call for a technical paper on elaborating the meaning and implications of the protocol's Article 3.3 of the protocol's references to afforestation, deforestation, and reforestation and a special report to consider additional categories for sinks as described in the protocol's Article 3.4. We had been looking for a five to six month time-frame for completion of the former, with around 18 months for completion of the latter. Most importantly, a recommendation must be taken by this session of the SBSTA in order to give advice to the meeting of the 19th plenary of the IPCC in late September.

At the moment, hope for early action appears to be sinking (or, at least, listing quite badly). There are basically three points of view emerging in the contact group on this topic. The first is the EU view which apparently wants to avoid taking decisions until COP-6 in the year 2000 (or later). The second is our view, which as outlined above favors taking much earlier and more aggressive action now. We are broadly supported by our umbrella group partners in this view. The third view is that of the G-77/China which is, in itself, bifurcated by multiple interests: One tendency supports the EU, while another (albeit a smaller one focused on Central America) supports the U.S. position. Another tendency, led by Brazil, appears to be against sinks on sovereignty grounds.

Joint SBI/SBSTA Session Leaves More Questions than It Answers

Meanwhile, SBI and SBSTA met in a third session on the afternoon of June 8 to review the progress of the contact group on flexibility mechanisms. This 90-minute session left more questions than answers. India, China, the Philippines, and Saudi Arabia all spoke to the issue from one or two aspects. All, for example, criticized the establishment of a contact group on the allocation of work between the SBI and SBSTA, when this topic, according to them, can be handled by the mechanisms contact group which has the "division of labor between SBSTA and the SBI" as one of the three points in its proposed work plan.

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India and China also divulged that the G-77/China is preparing questions which they hope will explain their concerns and seek answers from Annex I Parties on the various mechanisms. Both claimed that Wednesday is the soonest that these questions will be available. (Comment: This is probably inaccurate. We obtained a purloined copy of at least the first draft of these questions on June 6; A copy is attached to this report. End Comment.)

The EU used its intervention to present, formally, its emissions trading paper which had been submitted on Friday at the truncated, informal contact group meeting. The U.S., Japan, Canada, and Russia all called for an early resumption of the dialogue. Japan and (somewhat surprisingly) Russia, in our view, made the most effective interventions. The Japanese, needling their Chinese neighbors, cited an ancient (Chinese?) proverb which translates: "When questions are identified, problems are almost solved." Russia commented on some of the principles cited by the EU in their paper. Noting that some of the provisions cause his delegation "difficulty", Sasha Metelnikov added that "hot air", as a descriptive term, is jargon in English which does not translate either accurately or politely in many foreign languages. Indicating that Russia had contributed to the Canadian paper which was submitted on behalf of the umbrella group, Metelnikov recommended that discussion be started on the list of principles in this paper's annex.

Despite a crescendo of criticism from the G-77/China that Romero's contact group should be dissolved, SBSTA Chair Chow Kop Kee declined to do so. Indicating (quite correctly) that this group had been established following discussion in both SBSTA and SBI, he said that it should continue its work, and he appealed to his G-77 colleagues to cooperate with Romero in providing recommendations to the SBI and SBSTA for their consideration. In view of the current dynamics within the G-77/China, we anticipate that this ruling and the Chairman's appeal, will fall on deaf ears.

NGO Rampant

One disappointing low-light of this joint session occurred when Chairman Choow called on an NGO representative to shed some new light on the situation. The NGO he called upon was Don Goldberg from CIEL (Committee for Environmental Law). Goldberg trashed our concept of emissions trading. He emphasized the importance of "main means," attacked "hot air" and generally sounded like Sven Auken. At one point, he even made the gratuitous assertion that "some NGOs" are opposed to both JI and the CDM because they are means for developed countries to avoid their commitments to take real reductions. We have asked Mr. Goldberg for a copy of his remarks. He will undoubtedly be challenged by some members of USDEL at tomorrow's scheduled meeting with the NGOs - If he is not too embarrassed to show. No business representative or contrary point of view was heard. We were told by the Secretariat that no one else had asked for the floor.

Purported Quicksilver

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MECHANISMS

Questions

The following is a list of questions on "mechanisms" which have emerged in discussions among the Group of 77 and China. Further discussions will follow. The questions are listed under : (1) General; (2) Article 6; (3) Article 12; and (4) Article 17.

(Revised version as of 7 June 1998)

General

1. What are the points of difference and points of similarity between the three mechanisms provided for in the Kyoto Protocol to the Convention?
2. How to ensure that the COP or COP/moP will maintain the responsibility for every stage of defining, developing, structuring, and institutionalizing the mechanisms?
3. How can it be ensured that domestic actions remain the primary source of GHG limitation and reduction, and that the new overseas mechanisms introduced in the Protocol remain supplemental to domestic action (how to promote demonstrable domestic action)?
4. How can it be ensured that these mechanisms lead to real and verifiable limitation and reduction of GHG emissions by developed countries?
5. What are the specific roles of each of the two main subsidiary bodies of the Convention in the operationalization of these articles of the Protocol?
6. What will be the systems for ensuring independent auditing, verification and accountability of the working of the mechanisms?

Activities and projects under Article 6

1. What will be the elements of the guidelines for joint implementation of projects, in particular, for ensuring transparency, accountability, reporting, and verification?
2. What will be the criteria to decide the baseline for the purpose of comparison of projects?
3. How can compliance with Articles 5 and 7 of the Protocol be ensured, and how is this related to the work to be accomplished under Article 13?
4. What will be the procedure for transferring or acquiring emission reduction units resulting from the projects under this Article?
5. What will be the mechanism for auditing and verifying these projects?
6. How will "legal entities", to be involved in these projects, be defined and how will the

responsibility of the Party over "legal entities" for the purpose of any project be ensured?

7. How will the benefits of a project be equitably shared between the participating Parties, ensuring that the result will be a "zero sum"?

8. What will be the reporting criteria of a project under this Article to the COP/moP?

Article 12

1. What will be the criteria for ensuring that each cdm project achieves the objective of "assisting Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and in assisting Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3."

2. How will the emission reductions of a cdm project be certified? What will be the certification procedure, and by whom will this be accomplished?

3. What is the definition of "part" in "...part of quantified emission limitation and reduction commitments" in Article 12.3 (b) of the Protocol? How will this be determined and by whom?

4. What will be the constitution, character and functions of the "Executive Board of the clean development mechanism?"

5. What is the role of Governments at each stage of development of the cdm project?

6. How will it be ensured that the operational entity of the cdm, as designated by the COP, functions under the direct and single authority of the COP?

7. How will Article 12.6 of the Protocol be implemented? What will be the criteria and processes for the cdm for arranging due funding?

8. How will Article 12.7 of the Protocol, which states that the COP/moP shall elaborate modalities and procedures for ensuring transparency, efficiency, accountability, auditing and verification, be implemented?

9. How will a baseline project be defined in contrast to a cdm project, and by whom?

10. What will be the process for auditing and verifying cdm projects, and by whom?

11. What will be the non-compliance action if a cdm project goes against the cdm criteria?

12. How to define "a share of the proceeds", and by whom, and who will this share be apportioned between administrative expenses and adaptation ?

13. How will the responsibility of the Party be ensured over the private/public entities

authorized by the Party to be involved in cdm projects, and that these "entities" are subject to the guidance of the Executive Board of the cdm. 9

14. How will it be ensured that the financing for cdm projects shall be additional to ODA, additional to the financial obligations under GEF and GEF funding, and additional to the financial obligations of the Parties as provided in the Convention and the Protocol?

15. How will the benefits of a cdm project be shared equitably between the participating Parties?

16. How will the participating Parties report their cdm projects to the COP/moP?

17. How will the balance be ensured between the objective of the non-Annex I countries for sustainable development and the objective for Annex I countries to achieve compliance under Article 3 in the funding of projects under this Article?

Article 17 (emission reduction exchange at country level)

1. What will be the legal basis for creating emission rights or entitlements for developed countries for the purpose of trading any unused emission rights or entitlements, and whether this legal basis will satisfy the principle of equity keeping in view the historical and current responsibility of developed countries to climate change and the ultimate objective of the Convention? (See also Articles 3.10; 3.11; and 3.12 of the Protocol).

2. How to ensure that activities undertaken under this Article by Annex B countries will lead to real and verifiable limitation and reduction of GHG emissions for meeting the objective of the Convention, and contributing the protection of the environment.

3. What will be the environmental or economic impacts of any areas of activities under this Article?

4. How to ensure that emission trading fully reflects the principle of equity and the principle of common but differentiated responsibilities between developed and developing countries?

(Two questions to be kept in mind, but not to be given at this point)

- How to ensure that emission trading will not be "hot air" or "deficit trading";
- How to ensure that countries trade on emissions reductions only (that is, "performance vs. business as usual.")

HOLLY KAUFMAN

10

AG-13 Meeting
6th Session
June 5, 1998

Article 13 of the Convention concerns the establishment of a "multilateral consultative process" (MCP). Bonn is the sixth and last session of AG13. The expectation is that eight meetings will take place here in order to finalize MCP functions and procedures and to produce text for COP-4.

Delegates at today's meeting reviewed the MCP trigger process, objective and mandate portions of the existing text. All decisions or suggestions today were compatible with the US position. A drafting group rewrote text according to the agreed upon or suggested changes.

Trigger: All delegates present agreed that one or more Parties, the SBI, or the COP could trigger the MCP. The Secretariat should not be able to trigger it by itself, but would provide information if requested.

Objective: Delegates agreed that the MCP Committee would be consultative and advisory, but did not reach a decision on precise wording.

Mandate: The drafting group's new text says that the MCP Committee, upon request, would clarify and resolve questions, provide advice and recommendations on the procurement of technical and financial resources to resolve implementation problems, and advise on compiling and communicating information. The meeting participants agreed that the financial mechanism referred to in the mandate paragraph was the same mechanism in the Convention and did not refer to the establishment of a new one.

Establishment of the MCP: All Parties present agreed that the MCP would be a standing, rather than an ad hoc, committee, not under the SBI.

Nature: The delegates agreed that the MCP results would be transparent and that the text would use that word specifically. They also agreed that it would be inappropriate for the process itself to be conducted publicly.

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The Ad Hoc Group on Article 13 (Multilateral Consultative Process) continued its deliberations on Friday, holding a further 2 sessions – 4 more are scheduled for next week. Although the meetings have been relatively free from controversy, and progress was made on a number of articles, storm clouds appeared on the horizon for the first time with a break between the US and G77 over the issue of apportionment of membership on the committee. While the US delegation took the position that it could not accept application of the "principle" of "equitable geographical distribution," and instead wanted membership on the committee to be selected half by Annex I and half by non-Annex I parties, G77 held that nothing but equitable geographical distribution was possible. So far, Australia and Canada have supported the US position, and Japan has indicated its support to us privately. The EU has not yet taken a position in the meeting. Another key issue – whether questions can be raised by parties about other parties (as opposed to by parties merely about themselves) – is still unresolved. The meetings continue on Monday morning.

Computer A – personal; The Ad Hoc Group on Article 13 - Friday

M

Meeting of SBI
June 5, 1998
Morning session

SBI resumed consideration of the adequacy of commitments (review of Article 4.2(a) and (b) with a Secretariat reading of a new G-77/China proposal. The U.S. raised a point of order to complain that it was inappropriate for the Secretariat to read the paper from the podium. Chair Kante agreed and called upon Venezuela, the lead for the issue, to read it. In terms of substance, the main point was that any effort to pursue new commitments for developing countries would be a "distraction" for COP-4 and "extraneous." The U.S. posed a number of questions through the chair, wondering whether the G-77/China intended for the subject to stay off the agenda for COP-4 all together and querying with regard to the timing and nature of subsequent reviews of commitments. The Venezuelan responded he was somewhat confused by the U.S. questions but indicated that the review would be limited to 4.2(a) and (b) and that the agenda was not under discussion but would be taken up later. The U.S. then came back with comments on whether the potential inadequacy of commitments stemmed from the fact that newly industrialized countries' evolving status was not captured in the current Convention annexes and suggested that the annexes may need to be modified. A lively discussion ensued with a number of interventions, most supporting the G-77/China position. Peru warned that the Kyoto Protocol struck a delicate balance to achieve consensus and that raising this issue would endanger the spirit of COP-4. China's Zhong emphasized "no new commitments in any guise or disguise." Mexico made an unhelpful statement, suggesting that the issue of voluntary commitments for non-Annex I countries should only be taken up when the Protocol enters into force and that OECD matters (read Mexico's OECD status but no OECD-like commitments) should be addressed only in that context. Kante closed discussion by announcing his intention to form a contact group on this matter.

SBI also took up the COP-4 agenda and came back to the arrangements for future meetings." The Executive Secretary announced Jordan's invitation to host COP-5 and provided cost information for holding two one-week meetings next year instead of one two-week meeting (per the U.S. proposal). The total was approximately \$750-850K. Argentina was also invited to make comments on the preparations for COP-4. With regard to the agenda, the Philippines urged consideration of making technology a separate line item. Venezuela urged that any ministerial meeting held at COP-4 be open and transparent and any decisions/declarations should be fully vetted with all Parties (to avoid perceived problems that occurred with Geneva Declaration at COP-2). Antigua and Barbuda expressed concern that a UNEP Ministerial planned for Buenos Aires just before COP-4 should not provide any input into COP-4 (to avoid a situation that emerged at the Biodiversity COP). Further discussion on the agenda and of the "compensation" issue (Article 4.8/4.9 and COP-3 decision) will take place Monday, June 8.

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Wamblay

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DATE: Monday, 8 June 1998

TO: Ms Denise Goude

SUBJECT: CLIMATE TALKS: SUPPLEMENT
to Update No. 6EGC
Please take
upstairs

Attached is the supplement
to Climate Talks, No 6 which
includes the June 8th issue
of the "Earth Negotiations Bulletin"
plus the latest copy of ECO.
Please prepare a typed cover sheet

Number of pages: 6
(including cover sheet)

Tel 011-49-228-7269-818

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CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

eccc



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 Subsidiary Bodies meetings in Bonn, June 1998.

Flex-Mex To Go?

By Jennifer Morgan, CAN-US and Alden Meyer, Union of Concerned Scientists

While the contact group on cooperative mechanisms seemed to bog down before it even got started, last week saw some progress on one of the mechanisms, emissions trading, with the tabling of non-papers by two major groups (JUSCRANZ plus Iceland and Russia, hereafter referred to as JUSCRANZ, and the EU plus a number of Central and East European countries, hereafter referred to as CEE/EU or "see you"). These papers set out their preliminary views on principles, modalities, rules and guidelines for an international trading regime. The two non-papers vary in the adequacy of their treatment of key issues:

- **Hot Air** – The CEE/EU proposal does a good job of addressing this problem by stating that "Net transfers by a Party shall not be greater than the amount of emissions reduced by that Party as a result of domestic action." JUSCRANZ failed to even acknowledge the hot air problem, much less propose a solution.
- **Supplementarity** – The papers differ drastically on the issue of limits to trading. While the CEE/EU proposal calls for a "concrete ceiling" on the use of all the flexible mechanisms, JUSCRANZ asserts that the COP is not even authorized to set such quantified limits.
- **Transparency** – This is essential as lack of transparency when combined with hot air could result in a trading regime open to preferential treatment, political manipulation and, as a result, even to countries exceeding the cap. The JUSCRANZ proposal merely states that "Some rules or a process to deal with instances of anti-competitive

behavior may be necessary." The CEE/EU proposal goes further by laying out options to block anti-competitive behavior, such as competitive auctions open to all Parties and/or notification to all Parties of a Party's intention to trade prior to the transaction. These or other mechanisms are essential to ensure the trading market is open, transparent and fully competitive.

- **Liability** – The CEE/EU proposal raises the critical issue of the need for partial or full buyer liability for tons bought from Parties found to be in non-compliance, in order to provide an incentive to buy tons from Parties that are likely to be in compliance. Once again the JUSCRANZ proposal ducks the issue, saying only that "Issues regarding allocation of risk need to be further explored."
- **Consequences** – Both proposals call for compliance with Art. 5 and 7 and the establishment of a national tracking system. The CEE/EU proposal goes further, requiring the creation, under Article 18, of a compliance regime before Parties can trade, but fails to even suggest options for what the consequences of non-compliance should be. Neither proposal addresses the need for automatic consequences for non-compliance to be established through the trading rules.
- **Modifications** – While the CEE/EU proposal recognizes the need for possible review and modification of the trading regime to accommodate new entrants in the future, the JUSCRANZ proposal calls for "flexibility" in the initial rules but does not specify what it means by this term. Could this mean openness to less stringent reporting and tracking systems for new entrants?

—continued over, col. 3

United States 'Sinking' the Titanic

by Kelly Sims, Ozone Action, for US-CAN

Like the captain of the Titanic, the US is steaming full speed ahead into very dangerous waters by pressing for a quick and dirty IPCC Special Report on sinks.

The US needs to reconsider the haste with which it is seeking a cursory look at the scientific issues surrounding sinks. It will gain very little from not fully addressing all aspects of Land Use Change and Forestry (LUCF) in the Protocol in one single Special Report. Narrowing the mandate will just result in having to request additional reports at COP5, further delaying answers to unresolved questions into the next century. To its credit, the US has historically emphasized the importance of strong science. It would be a shame for it to abandon this principle now.

The IPCC should reject pressure for a hasty assessment. If a job's worth doing, it's worth doing well, and especially in the field of science. Doing this Special Report properly will ensure that decisions are made based on the science.

—continued over, col. 3

Eco understands the US is considering change in the composition of its delegation

Where's the Equity?

by Nikhat Jamal Qalyum, Centre for Science and Environment

Global warming prevention will require an increasingly stringent cap on greenhouse gas emissions. How will such a cap, with its attendant economic costs, be distributed in a way that is ecologically effective, equitable and socially just?

This critical issue was addressed by the New Delhi-based Centre for Science and Environment (CSE), at a June 6th workshop co-sponsored by the German NGO FORUM. CSE's Director, Anil Agarwal, outlined the per capita entitlements principle for the allotment of equal rights to the atmosphere, as the starting point for defining the rules and modalities for any trading mechanism under the Climate Convention and its Kyoto Protocol.

Some of the conclusions drawn from CSE's analysis of the deficiencies and inherent infirmities of the Protocol:

- The Kyoto Protocol does not meet the criteria of either ecological effectiveness or social equity and justice, as Annex I Parties are allowed to meet their commitments without undertaking substantial domestic greenhouse gas reductions.
- The Protocol not only fails to recognise the atmospheric rights of current and future generations from developing countries, but actually provides atmospheric rights to industrialised countries based on their current emissions. This clearly violates the fundamental equity principle.
- The Protocol establishes "assigned amounts" for industrialised countries emissions during the first commitment period from 2008 to 2012, and creates "property rights" by giving developed nations the license to trade or bank these assigned amounts.
- Emissions Trading, Joint Implementation (JI), and the Clean Development Mechanism (CDM) let industrialized countries meet their emission reduction targets "on the cheap" by buying tons from developing countries or countries with economies in transition.
- The CDM reduces the role of developing countries to that of assisting Annex I Parties in meeting their targets. It establishes no basis for North-South co-operation on sustainable development of the developing world.

CSE asserts that the rules for emissions trading must be built upon the equitable principle of 'equal per capita entitlements' of all people on earth. Such a contraction and conver-

gence in emission levels would provide incentives to developing countries to trade their unused entitlements, and to move towards a low-emissions developmental path. This would create true "meaningful participation of developing countries" - a phrase oft-repeated by the United States, but never defined.

Long-term convergence towards a just and sustainable maximum per capita emission level is the only rational framework to meet the climate convention's ultimate objective. Far from being harsh on the industrialised countries, such a position is only asking for the future benefits of the atmosphere to be shared equitably among all the people of the world.

Copies of the CSE position papers and full statement are available outside the Salle Beethoven at the Hotel Maritim.



Perries from Heaven - The CDM will bestow riches beyond belief on all who take part!

Ludwig

Ludwig would like to alert delegates to a threat to their personal health in the Hotel Maritim. He has observed that the mini nuclear power plant on display in the lobby has clearly experienced powerful meltdown, exposing the inner workings, and allowing radiation to pour forth onto unsuspecting passers-by. Ludwig would, of course, rather it were the inner workings of the nuclear industry that were so exposed.

-Flex-Mex, from front page

• **Equity** - Neither proposal adequately addresses the need for a rapid transition away from the use of historical emissions baselines as the rationale for budget allocations towards a more equitable long-term allocation framework. Without such a transition the legitimacy of the cooperative mechanisms themselves will continue to be questioned by many (see "Where's the Equity", left column).

What is necessary before delegates head home at the end of the week:

JUSICRANZ - If you don't like the CEE/EU proposals on hot air, liability and transparency, propose your own alternatives. Vague statements about the need for further work will not suffice.

CEE/EU - While you are off to a good start, we need more specifics on liability as well as the consequences for non-compliance.

G77 and China - We need your input to this process. It is time for you to forcefully put forward your views on these issues in detail, or risk being confronted with a deal negotiated only among the Annex B Parties as you were in Kyoto.

Finally, all Parties should agree on a strong joint SB/SESTA work program to address all of the mechanisms, and should clearly identify the priorities for issues to be resolved in Buenos Aires.

-Titanic, from front page

best available scientific and technical analysis. Caving into US pressure will guarantee that many Parties perceive the IPCC as a tool of US policy.

SBSTA should request a broad and comprehensive IPCC Special Report to be completed without delay, but also without time pressure. This report should address all issues related to LUCF in the Kyoto Protocol, including the definitions contained in Article 3.3, further activities under 3.4 and Articles 6 and 12.

While we're on the subject of displays, what is the gas-guzzling Jaguar doing outside the front door? Is this the fossil fuel lobby's response to Greenpeace's 3-litre car, seen at the Maritim last year? A 4-litre car, this time referring to engine capacity rather than fuel consumption?

Finally, it appears that a number of ducks escaped from the heat into the Maritim on Saturday, and attempted to gain entry to the AG13 meeting. Ludwig asks: were they, seeking the cool, clear atmosphere of legal reasoning, or were they, rather, attracted by the glacial pace of the proceedings?



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HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES 5-6 JUNE 1998

On Friday, the Subsidiary Body for Implementation (SBI) discussed the second review of adequacy of commitments and arrangements for intergovernmental meetings. The Subsidiary Body for Scientific and Technical Advice (SBSTA) debated the roster of experts and methodological aspects of the proposal by Brazil. On Friday and Saturday, the *Ad Hoc* Group on Article 13 discussed the Multilateral Consultative Process (MCP). Contact groups also continued to deliberate outstanding issues.

SUBSIDIARY BODY FOR IMPLEMENTATION

On the second review of the adequacy of Article 4.2 (a) and (b), VENEZUELA, for the G-77/CHINA and supported by TOGO, said that: COP-4's second review must respect the FCCC mandate, as set out in Article 2(d); COP-4's review must not be distracted by extraneous consideration of new commitments for non-Annex I Parties; COP-4 should convene the next review at the same time as the review at COP/MOP-2 in accordance with Article 9.2 of the Protocol; and subsequent reviews should take place in the year preceding the termination of successive Protocol commitment periods.

The US asked the G-77/CHINA if the intention was only to confine discussion of the second review to that agenda item at COP-4; and about the timing of the next and subsequent reviews. The G-77/CHINA said the second review should be limited to that foreseen in Article 4; it would be logical to hold the next review at the same time as COP/MOP-2; and indicated flexibility on timing of subsequent reviews. The US said one of the bases of the inadequacy of Articles 4.2 (a) and (b) is the insufficient number of Parties subject to those commitments. Referring to newly industrialized countries, he noted an interest in exploring ways to move beyond the static world created by the Annex I list. A way to modify the Annexes was needed. HUNGARY said the timing of reviews should not be linked to the unratified Kyoto Protocol. SAUDI ARABIA recalled the existing FCCC provision for any Party to undertake Annex I commitments. PERU said the Kyoto Protocol was a very delicate balance. Raising developing country commitments at COP-4 would be a danger for the international community and for the environment. CHINA said the G-77/China position clearly stated that developing countries would not accept new commitments under any guise.

MEXICO said questions on OECD membership are inappropriate. VENEZUELA stated that 4.2(d) only calls for review of commitments under 4.2(a) and (b). The EU noted those commit-

ments are inadequate. AOSIS said that Parties should not distract from Protocol implementation, noting the CDM will assist sustainable growth with climate protection. The Chair asked Canada and Zimbabwe to co-chair a contact group to prepare a draft decision.

On arrangements for intergovernmental meetings (FCCC/SBI/1998/3), the Executive Secretary announced Jordan's offer to host COP-5. ARGENTINA noted ongoing informal consultations on a new COP-4 item on voluntary commitments by non-Annex I Parties. The PHILIPPINES requested a separate item on review of development and transfer of technologies (Decision 7/COP-2).

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNICAL ADVICE

On the roster of experts, CANADA, the UK, the US and NEW ZEALAND called for regular reviews as well as inclusion of gender considerations.

In response to a query from ETHIOPIA on the fate of previous submissions to the roster, the Chair noted that the compilation was a ongoing process. BOTSWANA stressed the need for adequate time for notifying and inviting the experts, and, supported by CHINA, stressed the need for regional distribution of experts. TOGO sought clarification on the absence of "air" from the areas of expertise.

Delegates considered the scientific and methodological aspects of a proposal made by Brazil (FCCC/AGBM/1997/Misc.3/Add.1) during the AGBM process and forwarded by COP-3 to SBSTA. BRAZIL recalled that the proposal contained a clean development fund that has been replaced by the Kyoto Protocol's Clean Development Mechanism (CDM). The proposal contained a technical and scientific aspect that establishes a methodology for linking the historical responsibility for increasing global temperature with the responsibility for lowering emissions. He proposed a contact group to consider the issue at this meeting and announced his government will convene an expert meeting soon. CHINA said the proposal highlights the "real" relative responsibility of Annex I and non-Annex countries.

GREENPEACE said some of the methodology needs enhancement, noting that the proposal contains no methodology for several technical and policy assumptions. He said further development would be useful for the second review of adequacy of commitments.

The EU, the US, SWITZERLAND and AUSTRALIA said the proposal requires broader discussion and expressed concern about *inter alia*: the method for reconstructing historical emissions; indicators that ignore the rate of change; and the availability of data.

On additional methodological issues for consideration by SBSTA, SWITZERLAND queried how the proposal by Brazil can be included under the Convention. The meeting decided that a sm

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Monday, 8 June 1998

group comprising (those who raised questions) work together in proposing concrete suggestions on advancing the proposal further. SWITZERLAND raised the issue of expert post reviews and evaluation of GHG inventories, and proposed a set of decisions for COP-4, which included calls for consideration of aerosols from combustion of fossil fuels, biomass burning and other greenhouse gas precursors as highlighted by the SAR; and the ratification of, and negotiation for a protocol to the Convention on Long-Range Transboundary Air Pollution.

AD HOC GROUP ON ARTICLE 13 (AG13)

On Friday, delegates began consideration of the heavily bracketed draft text from the last AG13 session (AG13-5). Chair Patrick Szell (UK) recalled that during AG13-5, delegates agreed that the MCP should be advisory rather than supervisory in nature. They also agreed that AG13 should complete its work by COP-4. He stressed that the meeting will discuss only the MCP and not the Protocol.

On paragraph 12, delegates debated who could trigger the MCP: one or more Parties, the COP, SBI or SBSTA, and/or the Secretariat. GHANA, IRAN and SINGAPORE said there was no need to include the other subsidiary bodies. The US, GHANA, ZIMBABWE, CANADA, the EU, AUSTRALIA and IRAN said the Secretariat should not be included. Regarding information from the Secretariat, delegates debated, *inter alia*, whether it would seek information upon request or on its own volition.

There was no agreement on whether one country could raise questions regarding another country. Many delegations recalled that the MCP was to be non-confrontational. The Chair sought language denoting that presenting questions to the MCP had only positive connotations. CANADA, supported by the US, suggested that raising the number of Parties necessary to trigger the MCP would make it less confrontational. The EU disagreed. Delegates also debated language on supplying relevant information when triggering the MCP.

On paragraph 2 (objective of the MCP), many delegates stated that this issue could only be resolved once the mandate of the Committee (paragraph 5) is agreed. Delegates also discussed the proposed language changes in paragraph 5 and underscored the importance of clarity. They did not resolve what kind of assistance (technical, consultative or financial) the Committee will provide to Parties. On paragraph 6, AUSTRALIA suggested that the Committee should not duplicate activities performed by other Convention "processes" as opposed to Convention bodies. GHANA suggested that the question go to a drafting group.

On paragraph 1, (establishment of the MCP), the EU, supported by GHANA, the US and AOSIS, preferred a "standing" Multilateral Consultative Committee reporting to the COP. A bracketed reference to the SBI was deleted. In paragraph 3 (nature of the MCP), delegates debated the description of the MCP as "transparent." Following discussion, the Chair invited the US to draft an interpretive statement for inclusion in the AG13 report, indicating that transparency should be understood as a reference to the overall process and outcome and not to the question of access to meetings. The Chair also proposed a drafting group, coordinated by Zimbabwe, to consider drafting questions.

AG13 discussion continued on Saturday. Regarding paragraph 4 (nature of the MCP), AUSTRALIA raised the possibility of duplication by the MCP of other FCCC dispute settlement work. The EU, UNITED ARAB EMIRATES and IRAN noted the MCP's purpose is advisory only.

Paragraphs 7 (Committee size) and 9 (Committee Constitution)

years; and permit the other subsidiary bodies' Chairs to participate as observers. They were divided over exact membership numbers, with the EU, SLOVENIA, the US and others favoring under 15 members while the G-77/CHINA called for 25 members. Most delegates accepted unbracketed text on equitable geographical distribution among regions, but the US proposed dividing membership equally between Annex I and Annex II. Language allowing for a roster of experts in paragraph 9 was not supported.

On paragraph 8 (expertise), delegates agreed, based on proposals from GHANA and the EU, the Committee should comprise persons nominated by governments who are experts in relevant fields, such as science, socio-economics and the environment.

ZIMBABWE, for the drafting group, reported that Parties agreed to remove brackets from paragraph 2 (objective), which is to resolve questions regarding implementation of the FCCC. The process will provide for advice on assistance to Parties to overcome difficulties in their implementation, promote understanding of the FCCC, and prevent disputes.

In paragraph 12 (taking up issues), ZIMBABWE said the four subparagraphs remain in brackets. The US queried the decision not to specify the SBI and SBSTA. SLOVENIA suggested that a Party raise questions with respect to its own implementation. On paragraph 5 (mandate), Parties debated the implications of a reference to provision of "the" appropriate assistance.

In paragraph 10 (deliberations), the EU, supported by SLOVENIA and GHANA, proposed that the Committee meet "at least once a year." Responding to US concerns, delegates accepted an EU proposal to merge paragraphs 10 (deliberations) and 11 (governance). On paragraph 11, the EU, supported by GHANA, preferred that the Committee report to each session of the COP, and agreed to deletion of a reference to the SBI. On paragraph 13 (outcome), GHANA, supported by the EU, proposed deleting "encouragement" from the elements to be included in conclusions and recommendations. The Chair noted deletion of the SBI. The US questioned an EU proposal to end the paragraph with: "with a view to the COP taking whatever decisions it considers necessary." The US suggested that the paragraph be consistent with the Committee's mandate and publication of recommendations. CANADA raised majority voting and provision for minority decisions.

IN THE CORRIDORS

Participants in the contact group on flexibility mechanisms reported little progress, particularly on emissions trading. Some delegates see emissions trading as unworkable without a strong monitoring network, but fear the costs of monitoring an international trading system could be exorbitant. In addition, much discussion in a five-hour G77/China caucus on Saturday focused on emissions trading and entitlements. Several argued strongly for per capita entitlements but no proposal has yet appeared. The Land Use Change and Forestry contact group reportedly reached tentative agreement on what could be delivered by COP-4.

THINGS TO LOOK FOR

AG13: AG13 will meet at 10:00 am in the Beethoven Room.

SBI: SBI will meet at 10:00 in the Maritim Room.

SBSTA-SBI: A joint Plenary will meet at 3:00 in the Maritim Room.

3

9 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley ~~WJ~~

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Supplement to Update No.7 for June 8/9, 1998

Attached to this supplement are copies of the June 9th copy of the **Earth Negotiations Bulletin**, which covers developments on Monday, June 8th, plus the latest edition of the less reputable NGO rag, **ECO**. This report should be read in conjunction with our daily update, No. 7, for June 7/8, 1998.

CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

eeco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Subsidiary Bodies meetings in Bonn, June 1998.

What Do We Sink About All This?

by Stephan Singer, WWF

Reportedly, yesterday's LUCF contact group kept up the momentum to deal with the Pandora's box of Articles 3.3 and 3.4 in the Kyoto Protocol. Finally, parties seem to accept the necessity and appropriateness of a Special Report (SR) by the IPCC to be ready in good enough time before COP 6, which would cover the many-fold implications of LUCF issues on the climate system, biodiversity, sustainable forestry and local/indigenous communities. It seems delegates may finally be ready to move inward and consider the many scientific, environmental, socio-economic factors involved. Delegates have already tabled a comprehensive list of questions to be considered in the SR. WWF and other NGOs would like to propose further clear recommendations for the SBSTA and for the contact group to elaborate.

The SR would be examining the technical and scientific issues related to forests, other land uses, and land use change. Particular focus should be placed on the implications of carbon sequestration strategies and practices on water, soils, biodiversity, and other environmental and socio-

economic impacts, as well as the overall contributions of forests, land use and land use change on global emissions by sources and removals by sinks.

In order to address both climate and forest protection, the SR *inter alia* must in particular address the following issues.

- The definitions of "forest" as well as reforestation, afforestation and deforestation; also, how can forest degradation be included under deforestation?
- Rules for defining the differences between carbon stocks due to natural phenomena and direct human-induced activities as well as between intent and consequence of human-induced activities. The latter would include changes in frequency and intensity of forest fires, effects of air pollution, outbreaks of pest and diseases, and impacts of transient climatic change.
- The implications of different time scales of terrestrial biospheric carbon stocks and their changes in relation to a) fossil fuels and b) the various accounting methodologies during and between commitment periods, as

well as before the first commitment period.

- Definitions and identifications of the most important carbon pools associated with the LUCF sector, such as soils, and above and below ground biomass. Assessment of the implications of excluding/including different pools for overall carbon emissions to the atmosphere.
- How to rectify the potential perverse incentive (resulting from ambiguous wording in the Protocol), which would allow credit for the cutting of old growth forests and substitute replanting.
- What are the implications for the atmosphere of known and unknown future feedbacks from the LUCF sector? How can indirect human-induced activities such as unabated and transient climate change affect wetland and peatland ecosystems, savannahs and grasslands as well as old growth forests? How does this accelerate or mitigate biospheric carbon turnover?
- What possibilities are there for a full carbon accounting approach rather than an activity approach?
- What are the implications of including LUCF activities under Articles 6 and 12?

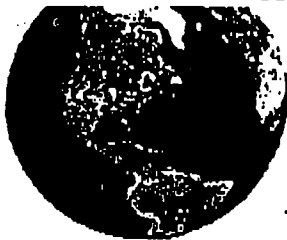
In addition to these scientific questions, delegates must be aware that any official workshops and intelligence gathering on this issue conducted by UNFCCC bodies must serve the process of achieving, in a sound manner, a Special IPCC Report on LUCF. Unwarranted American pressure for early and premature definitions is unhelpful if these definitions are not based on a sound IPCC process.

• NGO Party: 9pm, Weds., Insel Hotel, Theaterplatz, Bad Godesberg. Be there!



LUCF contact group hard at work yesterday...

ISSUE NO4 VOLUME XCIX FREE OF CHARGE



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HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES

8 JUNE 1998

The Subsidiary Body for Implementation (SBI) met to discuss arrangements for intergovernmental meetings, adverse impacts, national communications and NGO involvement. A joint SBI/SBSTA meeting convened in the afternoon to hear and discuss a report from the cooperative mechanisms contact group. The *Ad Hoc* Group on Article 13 (AG13) continued discussions on the Multilateral Consultative Process (MCP) in morning and afternoon sessions.

SBI/SBSTA JOINT SESSION

A joint SBI/SBSTA session considered work on cooperative mechanisms. Contact group Co-Chair Ivo de Boer (Netherlands) reported that the group had met three times to: identify issues related to the mechanisms; consider a work programme; and suggest decisions. The group had mandated a Co-Chairs' paper, submitted as a proposed schedule of work.

The G-77/CHINA, supported by the PHILIPPINES, SAUDI ARABIA and CHINA, called upon SBSTA to clarify methodological issues before substantive issues are discussed. He also noted, with CHINA, the G-77/CHINA's current consideration of this item; called for consideration of rules, guidelines and modalities and other relevant issues; and, with the PHILIPPINES, opposed establishing another contact group on similar issues. The Chair stated that the two groups' work should be harmonized.

The EU introduced a proposal on international emissions trading, noting differences to the Canadian proposal in addressing: supplementarity; environmental effectiveness, compliance mechanisms, market transparency, risk and liability rules, reporting requirements, and eligibility.

SUBSIDIARY BODY FOR IMPLEMENTATION

The Chair invited continued discussion on arrangements for intergovernmental meetings, including arrangements for COP-4 and the calendar of meetings. He noted a General Assembly (GA) resolution asking conferences to avoid collisions with GA meetings. After discussion, the Secretariat noted governments will have to decide how to address this. On COP-4's provisional agenda, the US said an item on voluntary commitments by non-Annex I Parties should be retained. The G-77/CHINA, supported by BRAZIL, SAUDI ARABIA and BURKINA FASO, said there was no group support for an item on voluntary commitments and, with CHINA, called for transparency in drafting high-level statements. JAPAN and CANADA supported the item on voluntary commitments for non-Annex I Parties. JAPAN noted a prospective proposal on incentives. CHINA, with SAUDI ARABIA and BURKINA FASO, said this item could lead to renewed confrontation. The EU called for a priori-

tized work program for Protocol activities. A number of outstanding questions remain, such as on implementation of commitments other than those in FCCC Article 4.2. The Chair will undertake informal consultations toward a draft conclusion and decision.

On implementation of FCCC Articles 4.8 and 4.9 with Decision 3/CP.3 and Protocol Articles 2.3 and 3.14, ZIMBABWE, for the G-77/CHINA, supported by SAUDI ARABIA, CHINA, INDIA, VENEZUELA and ETHIOPIA, called on the SBI to identify the needs of developing countries, requesting information from SBSTA and the IPCC. She called for a contact group to prepare a draft decision. She proposed that the item be taken up at all future COPs and proposed establishing a joint SBI/SBSTA working group. The EU welcomed the Secretariat's document (FCCC/SBI/1998/CRP.1) and noted the need for further analysis. On the paper's analytical framework for Articles 4.8 and 4.9, he said there was an overstatement of the certainty of information on adaptation. Possible actions were not restricted to funding, insurance and technology transfer. The SBI would not reach definitive conclusions by COP-4, which could initiate work by SBSTA. The US anticipated dramatic improvements in the state of knowledge concerning adaptation in the years ahead. He noted that the FCCC contains no provision similar to Article 4.4 obliging Annex I or Annex II Parties to compensate countries that could be affected by response measures. Any such obligation could have created a perverse disincentive to reduce GHGs. Instead, FCCC Article 4.8, on response measures, implies that, if possible, Parties should implement commitments while avoiding or minimizing impacts on developing country Parties. He noted the relevance of Protocol Article 2.3.

Regarding a call for Annex I Parties to submit information on potential impacts of policies and measures (P&Ms), he suggested that those whose own interests are at stake are better situated to identify impacts. In the absence of examples, he said it was premature to consider establishing a new subsidiary body. He said the possible impacts of response measures would be best raised individually by affected Parties. There could be no compensation for alleged adverse affects from implementation of Article 4 commitments. On adverse effects of climate change, and supported by CANADA and AUSTRALIA, he advocated starting with each Party's own assessment of its vulnerability in initial national communications. CANADA undertook to provide adaptation technology through the CDM. AUSTRALIA favored more work on the Secretariat's proposed analytical framework and anticipated working through the CDM. SAUDI ARABIA said complexity in other issue areas had not been given as a reason for deferring work. He expressed surprise at innovative interpretations of Articles 4.8 and 4.9 and the Protocol provisions. NORWAY supported CANADA and AUSTRALIA and

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underlined the importance of cost effective implementation. ZIMBABWE clarified that the G-77's proposal calls for an *ad hoc* working group to meet during the COP.

CHINA called for action on funding and technology transfer, noting these are not to be limited to the CDM. Responding to a US request for clarification on contradictions in P&Ms, SAUDI ARABIA, supported by VENEZUELA, noted GHG-intensive energy subsidies and taxes, and commitments to reduce petroleum use alongside increasing domestic production. GEORGIA noted the readiness of many non-Annex I countries to take on voluntary commitments on GHGs, with adequate support under Article 4 within the framework of CDM. A contact group Co-Chaired by Tibor Faragó (Hungary) and Salamat Mohamad Salamat (Iran) will discuss the G-77/China's draft decision.

The US called for constructive dialogue on the flexibility mechanisms and noted the similarities between the UK and Canadian papers on emissions trading. The RUSSIAN FEDERATION said differences in group positions on trading could be narrowed. JAPAN suggested that the contact group reconvene in light of G-77/China's willingness to engage. CANADA said a prompt decision on the mechanisms was critical for encouraging: ratification of the Protocol; early reductions; and reduced cost. On the EU and Canadian papers, he noted commonality on reporting, monitoring and verification. The PHILIPPINES asked for clarification about the role of the contact group and, with INDONESIA, expressed concern about the ability of small delegations to participate in contact groups. The Co-Chair drew attention to a Secretariat paper on organization of work (FCCC/SBI/1998/1). He said all that was required was an endorsement of proposals on which subsidiary body was to deal with which issue. The CENTRE FOR INTERNATIONAL ENVIRONMENTAL LAW (CIEL) said there were issues regarding the mechanisms of grave concern to the environmental community. CIEL did not envisage that emissions trading would be used to evade responsibilities or weaken commitments. He offered sets of principles for the operation of the mechanisms.

The SBI considered a draft conclusion on national communications from Annex I Parties (FCCC/SBI/1998/CRP.2). An EU proposal for a draft COP-4 decision on revised guidelines was not supported. A SWISS proposal not to limit submission of Parties' views to "the scheduling of" subsequent communications was accepted.

On a draft conclusion on involvement of NGOs (FCCC/SBI/1998/CRP.3), the US, supported by SAUDI ARABIA and VENEZUELA, the EU, and CHINA, deleted a request for additional information on the objectives of NGOs. The EU supported existing arrangements accrediting three NGO constituencies. SAUDI ARABIA, supported by CHINA and VENEZUELA, proposed that "Parties" rather than "Chairmen" agree on NGO participation in informal contact groups. Delegates accepted a US compromise allowing participation unless the group objects.

AD HOC GROUP ON ARTICLE 13

AG13 continued deliberating Paragraph 13 (outcome), specifically questions on the reporting of the Committee; access to the reports of the work of the Committee, and whether reports should be subject to consent of Parties concerned.

The US and G-77/CHINA questioned the need to link paragraph 11 (governance) and 13 (outcomes), since they address two distinct issues: general reporting of the Committee's overall work and reporting of the outcomes of that work. On reporting of the Committee's work, the US queried the frequency, form and content of reports to the COP. The G-77/CHINA and the EU suggested annexing a summary of conclusions and recommendations to full reports. The reports would be submitted at the ordinary sessions of the COP.

On the G-77/CHINA suggestion to make the reports, conclu-

procedures. CANADA called for cross-reference to paragraph 5 (mandate of the Committee) and avoid use of language that expands or confuses the mandate of Committee. On consent by Parties, the G-77/CHINA noted the importance of doing so especially in situations where the concerned Parties did not trigger the process, say this is necessary for fairness and appropriate acceptance of the conclusions.

The G-77/CHINA also proposed noting that the outcome of the Committee's work shall include, as necessary, measures for the effective implementation of the Convention. CANADA and the EU said the G-77/China proposal changes the scope of the process, by referring to the entire Convention rather than the Parties in question. GHANA said comments from the MCP participants should be included in the report to the COP. The EU said the comments should be included if they diverge from the outcome of the process.

On paragraph 14 (evolution), delegates accepted text noting that these terms of reference may be amended by the Conference of the Parties. The Chair proposed that unresolved problems should be resolved in a drafting group.

CANADA, Chair of the drafting group, reported that Parties had agreed the MCP can be triggered by: a Party with respect to its own implementation; a group of Parties with respect to their own implementation; a Party or group of Parties with respect to implementation by another Party or group of Parties; and/or the Conference of Parties. On paragraph 15 (outcome), language was included that allows for concerned Parties' comments on the conclusions and recommendations to be forwarded with the report to the COP. The group agreed to defer decisions on the size and representation of the Committee to the final AG13 sessions, to allow further consultations. At the end of the session the delegates received a revised draft text.

IN THE CORRIDORS

Industry lobbyists are looking for clearer indications from the Parties as to their expected role under Article 17 on emissions trading. Some have pointed out that, until now, the private sector's role has been assumed but far from assured. The spectrum of interests and positions within the industry lobby converge around the general concern that maximum flexibility be built into the flexibility mechanisms so that the free market can "get on with it." "There's the Protocol and there's real life," commented one observer on the key role of the markets. There is some skepticism about the level of capping flagged by the EU.

IN THE CORRIDORS II

Some delegates voiced concern about the contact groups' progress or the lack thereof. On flexibility mechanisms, details from developing country delegates on a G-77/China position were sparse and frequently far from optimistic. Some were dismayed that emissions trading discussions are overshadowing those on the CDM. Others feared that discussions on the CDM would not address all developing countries equally. Still others cautioned that contact groups designated last week have not yet met, while new groups may proliferate.

THINGS TO LOOK FOR

SBI: SBI will meet at 12:00 am in the Maritim Room.

AG13: AG13 will meet at 10:00 am in the Beethoven Room.

Article 6 Workshop: This group will meet at 1:00 pm in the Haydn Room.

Reception: Launch of "Rising Voices Against Global Warming", a book by Azza Taalab, with keynote speaker, Michael Zammit-Curajar, at from 6:30-8:30 pm in the Maritim Piano Bar.



United States Department of State

Bureau of Oceans and International
Environmental and Scientific Affairs

Washington, D.C. 20520

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(Excluding Cover Sheet)TO: Distribute (See Attached)

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FAX NO.: _____

FROM: Ms. Denise GoodeAGENCY/ROOM NO.: OESOFFICE PHONE: (202) 647-1555FAX NO. (202) 647-6876

MESSAGE:

10 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Update No.8 for June 9/10, 1998

Attached is one in a series of informal and unclassified reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn from the evening of June 9 through the morning of Thursday, June 10. Although its contents are unclassified, they are not intended for use outside of the U.S. Government.

Copies of the June 10th copy of the **Earth Negotiations Bulletin**, which covers developments on Monday, June 9th, plus the latest edition of the less reputable NGO rag, **ECO**, are also included with this report.

More detailed reporting on SBI, SBSTA, and AG-13 developments prepared by various members of USDEL are reported in Supplement to Update No. 8.

10 June 1998

Climate Change Meetings, Update No. 8 for June 9/10: Little Progress and Delegates Complain about a Lack of Clear Direction from the Various Chairs**AG-13: U.S. and Allies Still Holding Firm**

As was the case for the past 48 hours, we have continued to insist on our position that the committee monitoring this process be established on the basis of equal representation between Annex I and Non-Annex I. AG-13 Chairman Patrick Szell muddled the waters generally by issuing a new draft on June 9 whose one characteristic was to infuriate most of the delegations in the room -- albeit for different reasons. Canada provided a useful s

uggestion under which both the G-77 and U.S. proposals on representation would have been placed in the text as an either/or option and with no brackets. We accepted this proposal, but as of noon on June 10, the G-77/China was still balking. AG-13 discussions were to have ended on June 10. Due to this dispute, they continued until 12:30 AM this morning and resumed again this morning. We are hanging tough.

Finally, A Meeting on Flex-Mechs (Flexibility Mechanisms) is Scheduled

After a three day wait, the G-77/China is prepared to introduce its list of questions to us on the afternoon of June 10. Venezuela reported to us at a U.S.-hosted lunch on June 10 that the group had, indeed, spent several hours crafting questions which they believe should help us make progress in our deliberations on these mechanisms. A team of "umbrella group" members has prepared good, solid answers to the first three pages of purloined questions so we should be able to make an informed response.

Ukraine Signs On to the Umbrella Paper

Despite its late arrival in Bonn, the Ukrainian delegation told us on June 9th that they wish to become one of the countries associated with the Umbrella group's paper of emissions which was submitted by Canada to the joint session of June 3rd. As this development came as something of a surprise, we double checked with Ukraine on June 10 to ensure that this was being done even though the group had not had time to incorporate any of the suggestions proposed by Ukraine on the preliminary draft. Our interlocutors replied that this was alright. They would raise a few points during a future meeting of the "umbrella group."

The Vice Minister of the Ministry for Environmental Protection and Nuclear Safety added that he had seen the EU submission on this topic as well: "It contains items which are against the national interests of my country," he stated. Ukraine also asked that it be listed as a co-sponsor for the umbrella group's presentation of this paper the evening of June 10. We are happy to oblige (although we recognize that attendance will probably be less than would be normal, as our presentation will conflict with the opening

game of the World Cup between Brazil and Scotland. (Action Request: OES/EGC should ensure that the Embassy, the country officer, and the OVP are informed of this latest twist. End Action Request.)

While Mexico, Panama and El Salvador Sign the Kyoto Protocol in New York

Mexico, Panama, and El Salvador became the 38th and 39th signatories to the Protocol on June 8th, while Mexico became the 40th on the following day. We understand that President Zedillo signed while he was in New York. One of the Mexican delegates told EB's Mario Merida when he mentioned the event, "Yes, we hope the U.S will now follow our lead."

Bilateral Outreach to the G-77 Continues

We have continued our meetings with members of the G-77/China. On Wednesday, June 10, we hosted a group of senior officials from Latin America to discuss our SO₂ emissions trading experience and to respond to their questions about its applicability to a future international carbon trading regime. In discussing developing country issues, we were again surprised to note that some of our interlocutors still did not understand that the commitments we are talking about are not as stringent as our own or even, necessarily, those of countries in Annex B of the protocol. Obviously, more basic ground work is necessary on this point. Questions on the SO₂ system were asked by all of the participants (including Ambassadors Kelly and Stein of Argentina and Chile, the Ambassador of Costa Rica, and representatives from Mexico and Venezuela. Three noon shows were representatives from Peru, Colombia, and Brazil, all of who pleaded prior engagements, travel, or scheduling conflicts.

Seven Other Contact Groups in Differing Stages of Disarray

In addition to the joint flex.mechs contact group, there are seven other formal contact groups reporting back to either the SBI or SBSTA. These include one on the Brazilian proposal; one on sinks, one on technology, one on the financial mechanism for the Convention (the GEF); one on reviewing commitments under Article 4.2 (a) and (b) of the Convention; another on reviewing the impacts of climate change on Parties (Art. 4.8 and 4.9), with the sixth one dealing with the allocation of work between the two subsidiary bodies. Following are brief status reports:

Brazil: A revised text has been submitted. It calls for more work on the technical aspects of the proposal, with Brazil considering hosting a workshop to study some of the ideas presented.

Financial Mechanism: A group of eight met for the first time to try to draft language on the GEF as the financial mechanism for the Convention. As mentioned in Update No. 6, this work has been complicated by the G-77's new paper on this topic which appears, at first reading, to be part of an effort to recapture the ground lost in last year's battle at Kyoto on Article 4.1. We have warned our very capable Australian colleague to beware of his Philippino negotiating partner who is particular well-schooled in the art of badgering negotiators almost to death on these matters.

Articles 4.2 (a) and (b): A rather turgid meeting was held on this topic late on the evening of June 9, with another meeting scheduled for June 10. There is a wide gap in views about the adequacy of commitments. The G-77/China contingent argued that there are no new commitments implied in these articles for developing countries. Meanwhile, the U.S., the EU, and Japan have all taken the opposite view: e.g., these articles are inadequate because the geographical focus thus far has been almost entirely on Annex I Parties to the convention. The two co-chairs (Zimbabwe and Canada) are considering preparing a report which summarizes the views of both sides without tendering a decision. Our strategy-meister in these matters, Dan Reifsnyder, has suggested to Canada privately that it might be preferable to use this report as a fall-back and to lead off with a draft decision. Knowing that this is likely to be refused by the G-77/China, the co-chairs could propose a report as a compromise formulation. It is not known whether the co-chairs will accept this advice or move in a different direction.

Articles 4.8 and 4.9 (impacts on Parties): The two co-chairs of this working group on the impacts of climate change on the Parties produced an eight page document on this subject, drawing heavily on submissions from countries (including from us). The G-77/China did not like this approach and submitted their own paper. In some ways, we like the G-77/China paper more; for one thing, it is considerably shorter. However, we want to maintain solidarity with the EU as far as possible on this item. We see no reason to move ahead with rapid conclusions on this issue which is of interest only to the G-77 in the absence of movement on issues of importance to ourselves. A five hour meeting on this topic is scheduled for this afternoon/evening. We will have to see how far we get.

Technology: Draft language on a report is being circulated. Four of nine conclusions were resolved on June 9. However, the G-77/China disrupted further action by introducing two further non-papers on the group. One paper is on capacity building; the other is a call for a technology transfer mechanism (a "TTM"). Discussion continues.

Allocation of Work: As reported in Tuesday's update, the group on the allocation of work postponed its next meeting until Thursday by which time it is hoped there may be a better understanding of what issues there are to allocate. Chairman Romero of Switzerland has invited Parties to submit written comments to him to further clarify positions and to provide input to the final decisions. We plan to do so, but thus far have not found the time.

Sinks: As reported, there has been much activity (and even greater interest) in the sinks contact group. While both the G-77/China and the EU pushing for a report from the IPCC on this topic by COP-6 (sometime in the fall of the year 2000), the U.S. and other JUSCANZ partners are pushing for faster action. The compromise proposed on June 8 (and reported in Update No. 7) failed to gain EU backing, however. At a late night session on Tuesday night, the EU would not budge from its position that all sinks work (even that on Article 3.3 and proposed amplifications of the words "afforestation, deforestation, and reforestation" must await the conclusions of a comprehensive IPCC special report which will take about 18 months from the next IPCC plenary. This would mean that the reports might be available by the time of COP-6 (or somewhat earlier, perhaps, in the May/June 1999 timeframe).

7

Turkey Decision Postponed

A very vexed Turkish envoy (former Turkish OECD Ambassador Alptuna) was forced to admit that his proposal to obtain Turkey's withdrawal from Annex I and II of the Convention in order to permit it to ratify the agreement lacked sufficient consensus to pass at this session. Chairman Kante of the SBI suggested that the issue be postponed until the next SBI meeting in November, just prior to the COP. He asked Ambassador Herrera of the G-77 to continue his consultations on this matter.

(Comment and Action Request: We should try to engage Turkey soon on this issue soon. On June 10, we suggested to Alptuna (at Hungary's suggestion) that we arrange a meeting in Aarhus (Denmark), on the margins of the CEC environment ministers' meeting, between the Turkish environment minister and DAS Pomerance, who will be heading the U.S. delegation. On the climate issue, we sense that Turkey is feeling increasingly abandoned and isolated: -- first and foremost by its OECD partners and, second, by the G-77 which does not like the idea of any potentially new member into the ranks of non-Annex I taking on a commitment -- even one as weak as the one suggested by Turkey. The Ambassador agreed to pass along the suggestion, but the Department may wish to formalize the request in a cable. **End Comment and Action Request)**

It is unlikely that the Ambassador will be able to issue his statement in light of these discouraging responses. We suggested that he give himself until the next meeting of the SBI which will be just before COP-4 to submit a proposal. This would give us all time to clarify matters.

NGO Discussion:

Our NGO discussions remain under considerable strain with several mainline groups coming to the defense of CIEL's Don Goldberg's strident criticism of the umbrella position on emissions trading. We understand that there was a meeting of NGOs this afternoon protesting Secretary Albright's recent letter (to COMPASS, perhaps?) on ICAO and IMO bunker fuels. We will report more as both appropriate and relevant.

Company: CSC
Employee Name: 98

Period In Germany: Full Year
Period Outside Germany: N/A

Marital Status: 2 (1=single, 2=married)
Church Tax: 1 (1=no, 2=yes)
Tax gross up: 2 (1=no, 2=yes)
Social insurance: 1 (1=no, 2=yes)
Soc. ins. gross up: 1 (1=no, 2=yes)

Number of Children: 3
Months to consider: 12
Child payment - child 1: 0.00
child 2: 0.00
child 3: 0.00
more than 3 children: 1 (1=no, 2=yes)

SER: 1.00 HCC = DM 1.7700

Taxable Income:

Compensation	HCC	DM	DM
<u>Expat</u>			
Base Salary	36,500.00	64,605.00	
Salary Adjustment (5% per year)	3,741.00	6,621.57	
1987 German Tax Paid by Employer	0.00	0.00	
1998 German Tax Paid by Employer	10,249.59	18,141.78	
Private Life Insurance	0.00	0.00	
HOLA	23,280.00	41,205.80	
COLA	3,649.92	6,460.36	
German Soc. Sec. Paid By Employer	0.00	0.00	
German Tax Paid By Employer	23,168.36	41,008.00	
 Total Employment Compensation		178,042.31	
Business Expenses		-2,000.00	
Taxable Employment Compensation			176,042.31
 <u>Spousal income</u>			
Base Salary	0.00	0.00	
Other	0.00	0.00	
 Total Employment Compensation		0.00	
Business Expenses		0.00	
Taxable Employment Compensation			0.00
 Rental Income/Loss	0.00		0.00
Dividend/Interest income	0.00		0.00
Other Income/Loss	0.00		0.00
 Income	99,458.93		176,042.31
 Deductions			
future care		-7,830.00	
special expenses		-216.00	
extraordinary burden		0.00	
child allow.		-20,738.00	
head of household		0.00	
deduction acc. § 10a/10i EStG		0.00	
 Total Deductions	-16,261.02		-28,782.00
 Income Subject to Tax	83,197.91		147,260.31
 Income Tax	21,960.45		38,870.00
Offset child payment	0.00		0.00
5.5% Extra Levy (Solidaritätszuschlag)	1,207.82		2,137.85
Church Tax	0.00		0.00
20.00% Tax on Priv. Life Ins.	0.00		0.00
Payment acc. to FigZuIG	0.00		0.00
Baukindergeld	0.00		0.00
 Total Hypothetical Tax	23,168.28		41,007.85
 Income for progression:	0.00		0.00
Annex Tax:	21,960.45		38,870.00

3 24

10 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12;
Supplement to Update No.8 for June 9/10, 1998

Attached to this supplement are copies of the the following detailed reports about developments at various June 8 and 9 meetings and side events at the on-going climate talks:

- (A) Notes on the June 8th joint session of the SBI and SBSTA on flexibility mechanisms prepared by DOE's Bill Breed;
- (B) Notes on the June 9th SBI session prepared by Debbie Stowell;
- (C) Notes on the June 9th contact groups on Articles 4.8 and 4.9, prepared by Debbie Stowell;;
- (D) Notes on the June 9th contact group on Article 4.2(a) and (b) prepared by Debbie Stowell;
- (E) Notes on IEA/UNEP meeting on the Clean Development Mechanism prepared by EPA's Maurice LeFranc;
- (F) Notes on the June 9 sessions of AG-13 prepared by DOD's Holly Kaufman;
- (G) Notes on the June 8th Emissions Trading Seminar sponsored by UNCTAD prepared by EPA's Sharon Saile; and,
- (H) Notes on the June 9th Business Council Emissions Trading Seminar prepared by Sharon Saile.

A

4

Mechanisms for Cooperative Implementation – June 8, 1998
Joint Session of SBI/SBSTA
(notes by B. Breed)

G77 and China

- India, Saudi Arabia, China, Philippines, & Indonesia spoke
- Asked for delay for two days to prepare position, stated there was no hurry to move this issue through before COP/MOP
- Raised issue with the number of contact groups
- Stated that the "Protocol limits trading"

EU

- Introduced paper on Emissions Trading (a Misc. Doc.)
- UK (for EU) criticized umbrella group paper on issues of liability and transparency

Canada

- Spoke for umbrella group paper at a previous meeting
- Supported Chairs' formation of the contact group
- Stated the need to advance work
- Noted the similarities of the umbrella group paper with parts of the EU paper
- Last page of umbrella paper could be the basis for rules
- US, Japan also spoke

Russia

- Spoke strongly to dispute the use of the "hot air" language as inappropriate

CIEL (Center for International Environmental Law)

- List of positions on emissions trading/CDM, paralleling the EU approach

B

5

SBI Session 9
June 1998
Debbie Stowell

The SBI met to consider two draft decisions--Annex I National Communications (agenda item 3(a)) and Involvement of Non-Governmental Organizations (agenda item 11).

Although many Parties only received these documents at the start of the session (US and Saudi Arabia intervened on this point), the two decisions were reviewed.

The first four paragraphs of the draft decision on National Communications were adopted as written. Adoption of the fifth and final paragraph dealing was postponed. This paragraph, as originally drafted dealt with the discussion on the scheduling of the third and subsequent national communications. This paragraph was modified during the session so as to only initiate discussion on submissions in SBI. The EU also introduced language which would request SBSTA to provide a draft decision for COP-5 on revised guidelines for the preparation of the communications. The US expressed concern and asked that Parties instead submit views by 1 September, 1998. The EU asked for time to consider this proposal.

On NGO involvement, the majority of the discussion focussed on whether Parties in a contact group or the chair would have the authority to exclude NGO's from the contact group. The language adopted leaves it to the discretion of the chair unless there is an objection by Parties. This leaves the meetings open unless there is an objection. The Canadians made a helpful intervention interpreting the language to mean that the chair would take the pulse of the group when making its decision.

C + D

6

Contact Group on Article 4.8 and 4.9
Second Meeting
June 9, 1998
Debbie Stowell

The contact group on Article 4.8 and 4.9 met for the second time to review a draft decision by the co-chairs (Hungary and Iran). The draft decision was based on submissions by three countries (the US, the EU and possibly Saudi Arabia) as well as interventions made during the plenary discussion on this issue. The majority opinion was that time was needed to review the lengthy document (6 pages of text and 2 pages of appendix containing various related articles from the Convention and Protocol).

Interestingly, the G-77/China had indicated during the first meeting of the group that they would present a draft decision for the groups consideration. They have as yet not been able to produce a consensus text on this issue. The contact group is expected to resume the afternoon of June 10 to discuss the draft decision and possibly the proposal from the G-77.

(D)

Contact Group on the Review of the Adequacy of Commitments (Article 4.2 (a) and 4.2 (b))
June 9 1998
Debbie Stowell

The contact group met for two hours to discuss how to proceed on the issue of the review. This group was well attended. From the G-77/China there was Venezuela, China, India, South Africa, Gambia, Samoa, Saudi Arabia. Korea and Mexico were also present. From Annex I countries Australia, Norway, Canada, Japan, the US, and the EU were present.

The majority of the discussion surrounded the issue of voluntary commitments by non-Annex I countries. Whereas most Annex I countries felt that voluntary commitments should be considered, non-Annex I countries held to their position that this could not be an outcome of the review. They firmly believe that the COP should do a review of how 4.2 (a) and (b) has been implemented by Annex I countries, excluding the possibility of voluntary commitments. Some Parties also referred to the Berlin Mandate in their reasoning for no voluntary commitments. The EU was helpful on this issue, arguing that the review doesn't exclude the possibility of a decision by the COP on Annex I. Japan and Australia also intervened on their concerns over narrowing the scope of actions that the COP can take by excluding voluntary commitments.

Korea spoke to say that it supports the inclusion of voluntary commitments on the COP-4 agenda, but felt it should be a separate agenda item from the review. Mexico was not supportive on this issue. They also stated that they wanted the COP to reaffirm that it will be the only body to review the Annex's—not regional or other type of groupings.

The group is expected to meet 10 June to review a document prepared by the co-chairs.

Notes on IEA/UNEP Meeting on "New Partnerships for Sustainable Development: The Clean Development Mechanism (CDM) Under the Kyoto Protocol" - June 9, 1998

The meeting was opened by Lee Solsberry, IEA and Steve Gorman, UNEP who provided a brief overview of what was accomplished in the recent regional workshops held in Brazil, India and China (although there was no discussion of the China meeting). Speakers at the meeting were Ambassador Elsa Kelly, Argentina; Gylvan Meiro Filho, Brazil; Milind Pathak, India; John Novak, EEI; Annie Peterson, EDF; J. Eduardo Sanhueza, Chile; Eveline Trines, SGS, Switzerland; and Simon Worthington, BP, United Kingdom. Both Ambassador Kelly and Gylvan Meiro Filho spoke of principles needed for CDM (e.g., simple and transparent; sound procedures for accounting, certifying and verifying; and establishment of credible baseline for estimating reductions).

Ambassador Kelly also stressed that establishing the executive board and determining the relations of other functions was a priority, and presented the concept of "interim guidelines" by COP4/COP5. Gylvan Meiro Filho discussed the need for internal systems in Annex I countries to enforce penalties for non-compliance by private sector participants. Gylvan concluded by saying that CDM "if implemented correctly may be significant from all points of view." Other speakers simply re-capped what had occurred at regional meetings.

Submitted by Maurice LeFranc, June 9, 1998

8 HOLLY KAUFMAN
June 10, 1998

F

NOTES ON AG-13 - June 8, 1998 afternoon and June 9, 1998

• June 8 - 5th session - afternoon

The drafting group reported ~~some~~^{one} decisions and a changes on items previously agreed upon.

Trigger: The mcp can be triggered by a Party with respect to its own implementation, a group of Parties with respect to their own implementation, a party or group of parties with respect to implementation by another party or group of parties, and/or the cop. The SBI will not be able to trigger the MCP.

Outcome: Concerned parties may comment on the conclusions & recommendations forwarded with the report to the cop.

• June 9 - sixth session

The linked issues of representation & committee size were the topic of the day - and night, with the emphasis on ~~the~~ representation. After much deliberation, the G-77 and the U.S. - supported by Australia, Canada, New Zealand & Japan, agreed to disagree. However, the Chairman's draft report language on the subject caused more rounds of debate on the divisive issue. Discussion lasted into the early morning, & will resume on June 10.

5

45 9

SUMMARY on UNCTAD Emissions Trading Session, Monday Evening, June 8

UNCTAD Presentation on their latest report, on the principles, modalities, rules and guidelines for ET

Speakers:

Frank Joshua (UNCTAD)

Tom Tietenberg (Colby College, Maine, USA)

Zhong Zhang (Univ. of Groningen, Netherlands)

Axel Michaelowa (France)

(Michael Grubb and Byron Swift could not come, but are listed as contributors to UNCTAD's latest report)

Tietenberg gave the main presentation, with some additional remarks on specific topics from Zhang and Michaelowa. This presentation was well attended (around 100 people) with a good mix of JUZCANNZ, EU, and developing country delegates and NGOs from both environmental and business community. Very lively question and answer session on the key issues highlighted below. Tietenberg's presentation on their report emphasized the following points:

Report proposes an implementation strategy for Article 17 of Kyoto Protocol, with following features:

- Allowance trading is based on caps established in Annex B, and denominated in CO2 equivalents (specifically noted the contrast of allowance trading with credit trading)
- Kyoto Protocol enables trading based on all 6 gases – because of the domestic fungibility of CO2 equivalents, an amendment to the protocol would be necessary if Parties wished to restrict the trading system to a subset of the gases or sectors
- good monitoring and tracking systems with standardized reporting for both emissions and allowances
- grace period to allow Parties to come into compliance
- strong penalties, including an emission offset provision

Most interesting comments on key issues:

HOT AIR: Recommends that no restrictions be placed on trading system to address this concern.

- amount of "hot air" depends on your calculations
- has not been a controversial issue with previous trading programs because the allocation amount is seen as necessary to get the political agreement from different constituencies,
- don't create a permanent solution to solve a temporary problem)

SUPPLEMENTARITY: Recommends that no concrete ceilings be imposed on the trading system

- However, they included a recommendation to impose a transaction tax on any allowances imported from non-OECD countries (Russia and Eastern Europe) into OECD countries

COMPETITIVENESS: Recommends that domestic allocation decisions be left to individual governments

BUYER/SELLER LIABILITY: Was not a strong recommendation, but leaned toward a hybrid system

- Seller liability works in a system which includes "rule of contract law" and strong penalties
- There must be an expectation of compliance for a any system to work
- Various buyer liability features are based on expectations of differential compliance among Parties (specifically, people have more faith that buying countries will comply with the Protocol)

Sharon Saul's
note

H/

1b

SUMMARY on Business Council Emissions Trading Seminar, Tuesday Evening, June 9

NOTE: This Business Council seminar had almost no developing country delegates - some EU delegates and lots of industry NGOs (I didn't notice any environmental NGOs in the audience either). The session started out with probably close to 100 people, but after the first 4 presentations, the attendance had dropped to about 50 people. This session was much more heavily weighted toward formal presentations, with much less interactive time for questions and answers.

Speakers:

Ned Helme, Center for Clean Air Policy
Dr. Paul Metz, European Business Council for Sustainable Energy
Mark Stanga, York International (heating and ventilation company)
Frank Joshua, UNCTAD
Geir Hoybie, Norwegian Business Council
John Palmisano, Enron Corporation
Charlotte Grezo, British Petroleum
Jim Wolf, American Standard (also chair of Business Council climate task force)

Ned Helme led off the presentations with a quick explanation of emissions trading, and spent time presenting his suggestions for a domestic early emission reduction program (based on a set aside of allowances deducted from the capped amount in 2008-2012). He concluded with a suggestion for how a number of Annex B countries could forge an agreement to jointly implement an early emission reduction program by creating their own set asides and allowing international trading of these early credits. John Palmisano gave his usual pitch for credit based trading as the mechanism, which could then eventually evolve into allowance trading.

Paul Metz and Geir Hoybie each gave a European view which indicated the interest of Europeans in starting their own domestic and EU-wide emissions trading systems for GHGs.

Mark Stanga, Charlotte Grezo, and Jim Wolf all gave business perspectives which indicated why their companies support emissions trading and the other flexibility mechanisms to ensure the lowest possible cost of achieving emission reduction limits set by the governments. Because their companies see benefits in reducing GHG emissions, they all emphasized the need to start these programs early, and to create as much certainty about their commitments as possible. (Jim Wolf actually said that they wouldn't need early credit if governments would just start the emissions trading program early)

Sharon Saiki's
notes



United States Department of State

Bureau of Oceans and International
Environmental and Scientific Affairs

Washington, D.C. 20520

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DATE: Thursday, 11 June 1998

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From.
~~SUBJECT~~ USDS/Bonn - Mark G. Nambley

Subject: Climate Talks Update No. 9
For Thursday, June 11, 1998

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June 2-12, 1998

Revised 6/9/98

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Climate Talks, Bonn Germany
June 2-12 1998
Continued

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3

11 June 1998

To: Please See Attached List

From: USDEL/Bonn - Mark G. Hambley *Mark G. Hambley*

Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Update No.9 for June 10/11, 1998

Attached is one in a series of informal and uncleared reports outlining events at the meetings of the three subsidiary bodies of the Framework Convention on Climate Change (FCCC) which are meeting in Bonn, Germany, from June 2-12, 1998. The three subsidiary bodies are the Subsidiary Body on Implementation (SBI), the Subsidiary Body on Scientific and Technological Advice (SBSTA), and the Ad Hoc Working Group on Article 13 of the Convention (AG13) which is addressing the issue of a possible multilateral consultative process.

This report covers events in Bonn from the evening of June 10 through the morning of Thursday, June 11. Although its contents are unclassified, they are not intended for use outside of the U.S. Government.

Copies of the June 11th edition of the Earth Negotiations Bulletin, which covers developments on Wednesday, June 10th, plus reports on the June 10 meetings of the contact group on mechanisms and on AG-13 are also included. There was no copy of NGO rag, ECO, to day (the NGOs were out partying late last night - while many delegates were toiling away at the late night sessions).

4

11 June 1998

Climate Change Meetings, Update No. 8 for June 9/10: Crunch Time Approaching?**AG-13: Bracketed Text Completed with Decision on its Disposition Waiting**

After negotiations which can most simply be described as "arduous", we were able to stymie EU and G-77 efforts to push this process to conclusion with representation on the process mechanism based on geographic distribution. Instead, both this option and our option for equal Annex I and non-Annex I representation remain in the text. We were assisted in this effort by most of our JUSCANZ partners (except, quite naturally, Switzerland). Kudos of the day to EPA's Claire Breidenich, DOD's Holly Kaufman, and especially to L/OES's Evan Bloom for their persistence in maintaining our future prerogatives for the time-being. Our fight today is to prevent the question of the multilateral consultative mechanism (MCP) from being placed on the agenda for COP-4. This may not prove feasible, but we will give it a try.

Flex-Mechs (Flexibility Mechanisms) Meetings Continue but with little Forward Movement

Other than the fact that the various parties are engaged, little forward movement has been recorded during the several hours of meetings on "flex-mechs" since Wednesday night. The G-77/China introduced two papers that resulted from their three days of meetings. The two papers are (1) an initial list of issues on mechanisms of the Kyoto Protocol (the list of questions, most of which we had already seen and (2) a proposed work program on the mechanisms.

Unfortunately, the first portion of the work program includes items on the purpose of our exercise; raises the issue of "supplementarity", and the question of extending a "part of the proceeds" (from the CDM) to JI and emissions trading, as well. Although the group commented for several hours on the methodological and technical aspects of the G-77/China's work program on the CDM on Thursday night, it was unclear how the body would progress during its remaining sessions. The U.S. joined the G-77/China in expressing its disapproval of efforts to spell out in terms of specific years the work program for implementing the mechanisms. The G-77/China joined the EU in demanding that supplementarity and caps be considered for all of the mechanisms. We are trying to urge parties to use the questions submitted by the G-77/China as the basis for our discussions at COP-4. It is not clear if this will work, given current EU opposition.

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Bilateral Outreach to the G-77 Continues

We have continued our meetings with members of the G-77/China. On Thursday, June 11, we hosted over lunch a group of senior officials from Africa to discuss our SO₂ emissions trading experience and to respond to their questions about its applicability to a future international carbon trading regime. The meeting was useful, both developing contacts with some influential officials, and in exposing them to our views on emissions trading in an informal give and take setting.

Progress Stymied in Many of the Other Contact Groups

In addition to the joint flex.mechs contact group, there are seven other formal contact groups reporting back to either the SBI or SBSTA. These include one on the Brazilian proposal; one on sinks, one on technology, one on the financial mechanism for the Convention (the GEF); one on reviewing commitments under Article 4.2 (a) and (b) of the Convention; another on reviewing the impacts of climate change on Parties (Art. 4.8 and 4.9), with the sixth one dealing with the allocation of work between the two subsidiary bodies. Following are brief status reports:

Brazil: As has been reported, a revised text has been submitted. It calls for more work on the technical aspects of the proposal, with Brazil considering hosting a workshop to study some of the ideas presented.

Financial Mechanism: A group of eight met for a second time to try to draft language on the GEF as the financial mechanism for the Convention. As mentioned in Update No. 6, this work has been complicated by the G-77's new paper on this topic which appears, at first reading, to be part of an effort to recapture the ground lost in last year's battle at Kyoto on Article 4.1. We believe that a very short decision to continue the discussion at the next meeting will be all that we can expect as an outcome.

Articles 4.2 (a) and (b): Another very difficult meeting was held on this topic late on June 10. The draft decision is not acceptable to the G-77/China. China has insisted that it is not correct to refer to this process as a review of "adequacy." The correct term, according to Prof. Zhong is the second review of commitments of Annex I. Our objective during the remaining meetings is to ensure that this item remains on the agenda at COP-4 in a way which permits us to use it to discuss "voluntary commitments" as desired. The G-77/China insisted on postponing this discussion until the conclusion of the Thursday afternoon SBI discussion.

Articles 4.8 and 4.9 (impacts on Parties): The two co-chairs of this working group on the impacts of climate change produced an eight page document on this subject, drawing heavily on submissions from countries (including from us). The G-77/China did not like this approach and submitted their own paper. In some ways, we liked the G-77/china paper more; for one thing, it is considerably shorter. However, we maintained solidarity with the EU which preferred the longer draft, and had a very difficult meeting with the G-77/China during Wednesday evening. We are not inclined to move much further on this topic in view of G-77/China stalling in most other areas. We have suggested to Co-Chair, Tibor Farago, that it might be best to find a way to continue this discussion at the

next meeting rather than try to reach any conclusion at this meeting. We are scheduled to have another long discussion on this issue on Thursday night. We are canvassing our EU colleagues to determine our best strategy.

Technology: Progress in this group has also been blocked by the the G-77/China's insistence that consideration be given to the two papers which it abruptly introduced on June 9. One paper is on capacity building; the other is a call for a technology transfer mechanism (a "TTM"). A short decision indicating that the discussions will continue at the next meeting now looks at being the most feasible outcome.

Allocation of Work: The group met on Thursday with the U.S. joining other Parties (but not the EU) in insisting that this group cannot allocate any work in the absence of decisions by the SBI and SBSTA. The EU did attempt to put the MCP on the agenda for COP-4.

Sinks: The demarches requested from Washington on this topic appear to have had their intended, positive effect. Thank you! The EU now appears willing to consider an option acceptable to us - a workshop on Article 3.3 in August, a second on Article 3.4 after COP-4, with a special report being requested by the IPCC on both topics. However, it is not clear whether or not the G-77/China will accept this decision in view of their failure to obtain what they wanted in the Article 4.2 (a) and (b) and Article 4.8 and 4.9 discussions. Progress on this front has been in "yo-yo land" for the past ten days, so please stay tuned.

Comment:

It is clear that these discussions have come to crunch time. Delegates' emotions are fraying amidst the lack of progress on almost all fronts. We are seriously discussing with our Annex I Partners how we can put this meeting out of its misery before some real damage is done, but no one as yet has a good formula. The afternoon SBI meeting and sinks discussions should be key in this regard. However, it should be noted that the only regular G-77/china attendee at the sinks talks has been the Marshal Islands representative. It is not clear what weight, if any he can carry in G-77 circles. Despite his assertions to the contrary, one suspects that if China, India, Brazil, the Philippines or another group of countries want to block any proposed sink compromise, they will roll the Marshal Islands quite easily. **End Comment.**

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Notes from Contact Group on Mechanisms – June 10, 1998

The meeting was chaired initially by Gylvan Meiro Filho (co-chair DeBoer joined the second half of the session).

- G77 and China introduced two papers that resulted from their three days of meetings: 1) *Initial List of Issues on Mechanisms of the Kyoto Protocol (Group of 77 and China)* and 2) *Proposed Work Programme on Mechanisms of the Kyoto Protocol – Group of 77 and China*.
- Chair began meeting by reviewing work programme submitted by G77/China
- US intervened by pointing out the similarities between the G77 list of issue and the co-chairs workplan
- Discussion continued on G77 workprogramme – focus on issue of complementarity and “part of proceeds” and appropriateness of inclusion in the workprogram
- G77 and China, echoed by UK for EU supported inclusion of this item (EU linked to need for caps, etc.)
- After several hours comments were received on the Methodological/Technical components of only the CDM portion of the workprogramme (leaving JI, AIJ, and Emissions Trading).
- DeBoer offered to have the Secretariat incorporate comments from various papers and discussion into a revised co-chair generated work plan – G77/China adamantly insisted that this not be done and that we focus on their paper
- Later, DeBoer offered to “refine” the Methodological section of the G77 workprogramme to reflect discussions – G77/China refused to allow this, indicating that any revision to their work program would result in G77/China having to begin deliberations on the refined paper from the beginning
- Conclusion of the meeting was to continue through the G77 work programme item by item

8

Notes on AG13 6/10/98
Holly Kaufman

AG13 continued to meet in small groups today. Bracketed draft report text for the divisive issue of geographical representation was finally agreed after a final consultation between the US and Ghana (for the G77/China). Thus, AG13 is not settled and requires future negotiations at COP-4 or afterwards.

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HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES 10 JUNE 1998

The Subsidiary Body for Implementation (SBI) and the Subsidiary Body for Scientific and Technical Advice (SBSTA) held stock-taking Plenary sessions in the morning. SBSTA also discussed education and public awareness. The *Ad Hoc* Group on Article 13 (AG13) heard a progress report from its Chair. Contact groups were convened throughout the day to consider outstanding issues.

SUBSIDIARY BODY FOR IMPLEMENTATION

The SBI met for progress reports from SBI and SBI/SBSTA contact groups and other informal consultations. On amendments to Annexes I and II, Ambassador Herrera (Venezuela) reported that informal consultations regarding Turkey's status had not resulted in consensus, and, supported by TURKEY, recommended deferring the item to SBI-9, which was agreed.

José Romero (Switzerland) reported that the joint contact group on allocation of work for COP/MOP-1 had deferred its second meeting pending receipt of input from Parties and the joint contact group on mechanisms. Tibor Paragó (Hungary) reported that the contact group on implementation of FCCC Article 4.8 and 4.9 (adverse effects and impacts) was reviewing a compilation of written inputs.

Jennifer Irish (Canada) reported that the contact group on review of adequacy of Annex I commitments under Article 4.2(a) and (b) identified areas of convergence and divergence among group members on the scope of review.

Dan Reifsnyder (US) reported that the contact group on non-Annex I communications and the financial mechanism review appointed a group of "four non-G-77/China members and four non-Annex I members" to recommend a decision for the contact group. One question under discussion relates to translation and dissemination. SBI Chair Kante noted the decision allowing NGO observers access to contact groups if there is no objection from any Party.

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNICAL ADVICE

SBSTA opened with brief progress reports from the contact groups on land use change and forestry and development and transfer of technology, and from the joint contact groups on COP/MOP-1 and mechanisms. The Chair called on Parties to exercise flexibility on scientific and technical aspects of the issues since political aspects will be dealt with by SBI. On education, training and public awareness (FCCC Article 6), the Chair reported that the Secretariat and UNEP held a workshop on Tuesday. The workshop highlighted the scope for cooperation on public awareness and noted that public

awareness should not be limited to particular events; the need for more effective climate awareness strategies; and the need for Parties to provide more information on particular awareness building strategies.

UNEP reiterated the importance of public support in the implementation of the Convention. SRI LANKA and IRAN called for equal distribution of information packages prepared by CC:INFO to countries beyond those included in country study programmes. SWITZERLAND said that the existing information units of the Secretariat and UNEP should be used to further the work under Article 6 and, with the CENTRAL AFRICAN REPUBLIC and IRAN, called upon the IPCC to provide reports in languages other than English.

The AFRICAN GROUP, GAMBIA and SRI LANKA called upon Parties to make available resources for institutional capacity enhancement and to expand the sphere of African countries participating in country studies. She said that there was a need: to operationalize Article 6; expand activities to all facets of society and stressed that such activities are neither cheap nor short term. To this end, she stated that the proposal to expand the mandate of UNEP is worth considering. Supported by INDONESIA and CANADA, she called upon SBSTA to request a Secretariat paper on work under Article 6 for SBSTA-9. She recommended that SBI include a budget-line for the implementation of Article 6 in their funding proposals as well as for translation of documents to other languages; and noted the importance of timely delivery of resources for the implementation of education programmes.

The US: noted the need to understand the drivers of change; highlighted work of programmes such as the IGBP-START (Systems for Analysis Research and Training); and noted the coordinating role the Secretariat can play in North-South exchange of experience. The CENTRAL AFRICAN REPUBLIC and CANADA noted the need for information and expertise sharing and a resource centre for copyright-free material.

The EU called for a review of the scope of current education programmes and the development of more specific reporting guidelines. TOGO stressed that public awareness programmes should not be based on political or economic considerations that place the least developed countries on the periphery. The UK distributed a national report that he hoped would be helpful to others in developing their approaches.

AD HOC GROUP ON ARTICLE 13

Chair Patrick Széll reported on the status of consultations among three Parties on the group's report. On whether representation within the Multilateral Consultative Committee (MCC) should be equally divided between Annex I and non-Annex II Parties or based on equi-

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major regional distribution, delegates had agreed to emphasize that "some countries were of the view that," rather than "one country suggested that," the division be 50%-50% and that the "G77/CHINA and some other countries" held the other view. This depended on agreeing whether and how to include "equitable geographical distribution" in the MCP text itself. A number of formulations had been rejected.

In the evening, the group addressing the Committee issue agreed that the text would go forward to the COP with bracketed language. AG13 will meet on Thursday to adopt the report of the meeting.

CONTACT GROUPS

Land Use Change and Forestry: The contact group on land use change and forestry removed few brackets from text regarding the timing and content of the IPCC workshop, special report and TAR. Delegates agreed to language noting that the purpose of the IPCC workshop, to be held prior to COP-4, will be to consider data availability, based on definitions used by Parties, in relation to Article 3.3. BRAZIL and the EU preferred that SBSTA "consider" a second workshop after COP-4 to focus on issues arising from, *inter alia*, Article 3.4. The US preferred that SBSTA "hold" such a workshop.

On the timing of a special report, delegates disagreed on whether the report would provide information for [COP-6] or [the Conference of the Parties serving as the Meeting of the Parties]. A bracketed sentence was added, based on proposals from CANADA and AUSTRALIA, stating that in the interim Parties may wish to consider relevant issues, particularly 3.4.

Regarding the relevant Articles for consideration in the special report, the EU and the MARSHALL ISLANDS preferred deleting references to Articles 4 and 7 from a list including Articles 3.3, 3.4 and 3.7. The US said the list should mention all relevant Articles and suggested 20 Articles for inclusion. AUSTRALIA and NEW ZEALAND disagreed with the EU proposal to delete language stating that issues not covered in the special report will be included in the TAR. The PHILIPPINES proposed text to distinguish the issues for the special report from those for inclusion in the TAR.

Adverse Effects and Impacts: The contact group on FCCC Articles 4.8 and 4.9 (adverse effects and impacts) met in the afternoon to discuss the Co-Chairs' text. The G-77/CHINA proposed modifications based on its draft decision paper.

On the "analytical framework," the UK, AUSTRALIA, and the US raised a number of questions. JAPAN cautioned that a reference to Protocol Articles 2.3 and 3.14 suggested implementation of the Protocol. On separating the effects of climate change and impacts of response measures, AUSTRALIA said different modeling approaches are used. SAUDI ARABIA, supported by the UAE, said the distinction could be made later. The G-77/CHINA proposed alternative language from Decision 3/CP.3 on undertaking a process.

The G-77/CHINA deleted reference to the Berlin Mandate. The US bracketed references to Protocol Articles 2.3 and 3.14. On the identification of "possible" adverse effects and "possible" impacts, the US, supported by the EU, deleted references to "possible". On actions necessary to meet needs and concerns of developing countries, the US and the EU proposed following FCCC Article 4.8 on "consideration" of actions necessary and on "funding, insurance and the transfer of technology." The G-77/CHINA, and VENEZUELA preferred "identifying" actions. SAUDI ARABIA placed "identifying" and "consideration" in brackets together with the US-proposed reference to the FCCC. The EU proposed combining paragraphs on identifying adverse effects and impacts with those on the needs and concerns. The US added "specific" needs and concerns.

Technology: The contact group on technology transfer considered conclusions and debated proposals on next steps for technology information centres. Under a proposal from the US and

the EU, the first step would be to assess the extent to which managers and technicians in relevant sectors are aware of such technologies and processes, followed by the identification of sources and supplies. SBSTA would request the Secretariat to, *inter alia*, identify the desired functions and services to be provided by such centres and networks. Under a G-77/China proposal, SBSTA would state that initial priority should be given to supporting the establishment and enhancement of national and regional technology information centres. The group will meet Thursday.

Second Review of Adequacy of Commitments: a Co-Chairs' draft decision, based on previous inputs, was distributed in the contact group on second review of the adequacy of Article 4.2(a) and (b), which then adjourned. The meeting was scheduled to reconvene at 7:20 pm for questions and clarification. Substantive views were expected on Thursday. The draft decision, *inter alia*: initiates the second review at COP-4; offers two alternatives on when future reviews should take place; and requests the Secretariat to prepare a synthesis for COP-4.

Mechanisms: The joint contact group on mechanisms, chaired by Gylvan Meira Filho (Brazil), met to discuss a Co-Chairs' draft proposed schedule on mechanisms under Kyoto Protocol Articles 6, 12 and 17 (projects for reducing emissions or enhancing sinks, CDM, and emissions trading).

ARGENTINA recalled the address by Maria Julia Alsogaray, Argentina's Secretary of Natural Resources and Sustainable Development, that there is a great interest, almost a consensus, on the early functioning of the CDM and emissions trading. Argentina, as the host of COP-4, has an obligation to work for consensus and is in the process of consulting with all regional groups, particularly the G-77/China and GRULAC.

The G-77/CHINA presented an initial list of issues to address, and stressed consideration of fundamental issues before timing and schedules of work. NORWAY, on behalf of a group of countries and supported by the US, recalled a non-paper on emissions trading distributed by the group last week, and the package of four mechanisms agreed in Kyoto. He stressed that quantitative caps, which could lead to fewer developing country projects, had not been adopted in Kyoto. Referring to another non-paper, the EU stressed domestic actions and called for: ceilings on use of mechanisms; guidelines, rules and procedures; a compliance regime as a prerequisite; and parallel work on the mechanisms. The US suggested basing group discussions on both the G77/China questions and the Co-Chairs' draft proposed schedule.

In the evening, delegates received the G-77/CHINA's proposed work programme on mechanisms. The proposal lists the methodological and technical work, institutional issues, process and linkages under CDM, Article 6 and emissions trading. The G-77/CHINA suggested deferring AJ until after the pilot phase designated at COP-1. The EU noted other linkages besides those in the Co-Chairs' paper. Delegates began discussion on the G-77/China's listed issues. As of 11:00 pm, delegates had discussed 17 items of the list.

THINGS TO LOOK FOR

SBSTA: SBSTA will meet at 10:00 am and 3:00 pm in the Beethoven Room.

AG13: AG13 will meet at 11:00 am in the Maritim Room.

SBI: SBI will meet at 3:00 pm in the Maritim Room.

CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

eco



Eco has been published by Non-Governmental Environmental Groups at major international conferences since the Stockholm Environment Conference in 1972. This issue is produced co-operatively by CAN groups attending the Subsidiary Bodies meetings in Bonn, June 1998.

1998 Off to a Sizzling Start

On Monday, the US National Oceanic and Atmospheric Administration (NOAA) released a report showing that average global temperatures for the first five months of 1998 significantly exceed previous records for those months. The analysis also examines the ten strongest El Niño events of this century, and finds that they have become both more frequent and warmer.

For the five months as a whole, average global surface temperature was 1.76°F (0.98°C) above the average for those months over the period 1961 to 1990. It was half a degree warmer than the same period in 1997, which itself was the hottest year of the 100-plus years

that people have been keeping temperature records. Thomas Karl, senior scientist for the National Climatic Data Center, told the *New York Times* that this temperature jump is "really quite spectacular." Noting that the trend is confirmed by both surface and satellite readings, he stated "we're very confident that 1998 far exceeds anything we've seen before."

The 1997-98 El Niño event is partly responsible for this warming trend. But Karl notes that the average global temperature for this period has been nearly one degree F over the 1961-1990 average, which is twice as much over the average as recorded during the equally

—continued over, column 3

Which treaty is this?

Japan is considering a proposal in which the GWP-weighted destruction of domestic CFCs are added to a parties assigned amount. The Japanese government argues that without such a provision, parties would not have an incentive to destroy CFCs contained within refrigerators, fire extinguishers and other ozone-depleting banks. Japan may, however, have overlooked the one powerful incentive to destroy banked CFCs (and other ozone depleting substances as halons) – recovery of the ozone layer.

ECO can think of several reasons why this new proposal is not a good idea. Legally, gases controlled by the Montreal Protocol are excluded from the Kyoto Protocol and Climate Convention. Adding CFCs (or halons) to the Kyoto Protocol would break the letter and spirit of this agreement.

Furthermore, many parties to the Montreal Protocol have established domestic provisions that do provide incentive for CFC destruction. This proposal, therefore, appears fundamentally self-serving and just another veiled attempt to circumvent real greenhouse gas reductions. Why not show environmental leadership and propose a CFC destruction provision to the Montreal Protocol where it belongs?

Conspicuous Absence?

Apologies to Switzerland for leaving it out of the group backing the CEE/EU non-paper on emissions trading in the article in Monday's *Eco*. Not "see-you" but "seize-you"?



NGO Party: Tonight 9pm, Insel Hotel Bad Godesberg. Everyone welcome... (well almost everyone!)

ISSUE NO5 VOLUME XCIX FREE OF CHARGE

CLIMATE NEGOTIATIONS BONN JUNE '98 NGO NEWSLETTER

From Hot Air to Tropical Air

Tired of hearing about Hot Air? Unfortunately, if steps are not taken to limit hot air you'll hear more about it for a long time.

In buying Russia and Australia off with budgets that look more like unlimited spending accounts, we may be setting a precedent that will echo far into the future, and create a far bigger block to meaningful commitments than any entrenchment by the G-77 and China.

Kyoto is with us and it's too late to revisit the inflated budgets of Russia and Australia, but it's not too late to control the hot air. Why not adopt a mechanism that gives Russia the opportunity

to sell real emission reductions but cools its hot air? The CEE/S/EU non-paper offers solutions which could solve some of these problems.

If the mantra on the need for meaningful commitment were to be stilled for long enough, it might be realised that the precedent set could echo in any future allocation to the developing world if steps are not taken to limit hot air. The Kyoto Protocol's precedent of commitments that are anything but meaningful sends a message to the developing world that if they hold out for long enough they too can get paid for a meaningless commitment.

Telling the People

by Frances MacGuire, *FoE International*

There may be no such thing as a free lunch but it seems that free food did much to attract delegates to a workshop yesterday on promoting Climate Awareness Programmes (CAPs) for the general public under Art. 6 of the Convention.

The workshop identified other public concerns that compete with climate change. Globally, on a sliding scale, unemployment, inflation, crime, violence and the growing gap between rich and poor all have a higher profile in people's minds; whereas human rights, population growth, illegal drug use and threats of regional conflict are considered as less important.

Perhaps the biggest challenge is convincing people of the need for individual action when they may not feel individual benefits. To make climate change relevant to people's daily lives,

imaginative, well-resourced programmes tailored to the culture and language of individual countries are needed. These require copyright-free publicly accessible materials on the risks of climate change and the threats to people's pockets and homes, as well as information on what actions individuals can take. An outreach campaign for the IPCC's Third Assessment Report must be adequately resourced, addressing emission reductions, the scientific basis of climate change, and the links between climate change, sustainable development, biodiversity and desertification.

The Convention can only succeed with the support of the public and key interest groups. With a bit more commitment to CAPs perhaps the public could be convinced that the Convention is more than just an opportunity for trading,



Methane verification spot-check...

Ludwig

In line with the SBI's new enlightened policy on NGO participation, Ludwig duly presented himself to the Co-Chair of the LUCP contact group yesterday with a polite request to attend the

meeting. Sadly, he was rebuffed – clearly the deliberations were too sensitive for the crass and ignorant approach for which NGOs are so well known. How odd then, that Ludwig is *proactive* that he saw a representative of Edison Electric, complete with green badge, leaving the meeting when it finished. Does this perhaps prove what we have long suggested – these people cannot really be described as NGOs?

Missing the Forests for the Trees

The American Forest and Paper Association (AFPA) – the US timber lobby – recently wrote to the US State Department to explain AFPA's position on forest sinks and emissions. AFPA argued that areas of afforestation, reforestation, or deforestation must be counted separately from other forest carbon stocks. AFPA asserts that reforestation should be defined as "The establishment of forest, naturally or artificially, on an area previously in forest cover." This means replanting seedlings after timber harvest such as clear cutting.

AFPA goes on to state that deforestation should be defined as "To clear an area, other than purely temporarily, of forest. Clear cutting (even with stump removal), if shortly followed by reforestation, is not deforesting." Adopting this logic, AFPA could clear cut a forest, not count that cutting as a carbon emission, but then count the subsequent re-growth resulting from replanting as a carbon sink.

We wonder if AFPA would be so kind as to convince our banker to adopt this sort of approach to our checking account. We want withdrawals from our bank account not to be subtracted from our account balance, and when we re-deposit the withdrawn money, we want the amount to be added to our account balance.

—*Temperature, from front page*
strong El Niño event of 1982-83. The analysis thus suggests that the effects of El Niño – such as wildfires, droughts, and heavy rains – are compounded by rising global temperatures. The impacts "are going to become more frequent in the future" if global temperatures continue to increase as projected, he said.

US Vice President Gore, who released the new analysis in Washington, said "this report is a reminder once again that global warming is real, and that unless we act, we can expect more extreme weather in the years ahead." Gore called on the Congress to approve the administration's \$6.3 billion, five-year Climate Change Technology Initiative, which has been experiencing opposition from many members of the Republican majority in Congress.

Valete

Lisbeth Dissing, former leading light of the Danish delegation, has died after a long fight against cancer. A tireless champion of the environment, she was a friend and inspiration to the NGO community. Her work will long outlive her.

N. W. 356 1

Office of the U.S. Delegation
Holiday Inn Hotel
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Bonn
Federal Republic of Germany

FAX 001 202 647-0217

DATE: Friday, 12 June 1998

TO: Ms. Denise Gooden
FROM: USDEL/Bonn -- Mark G. Nambley
SUBJECT: Supplement to Climate Talks
Update No. 10 -- Final Report

This is the final report from
USDEL/Bonn. It forwards
the supplement ~~presented~~
mentioned in Friday's Update No. 10
and should be read in that
regard.

Number of pages: _____
(including cover sheet)

Tel 011-49-228-7269-818
Fax 011-49-161-620-2821

2

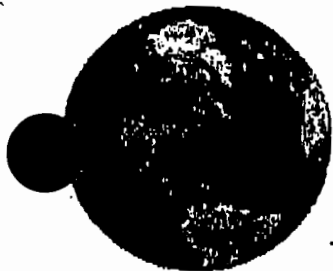
11 June 1998

To: Please See Attached List
From: USDEL/Bonn - Mark G. Hambley
Subject: Report on the FCCC Subsidiary Body Meetings in Bonn: from June 2-12:
Supplement to Final Update No.10 for June 11/12, 1998

Attached to this supplement are copies of the June 12 edition of the **Earth Negotiations Bulletin**, ~~plus the final issue of the NGO rag, ECO~~. There may also be included some late developing items if they are received in time for inclusion (noon on Friday). We are also including a copy of the decision reached on the flex-mechs issues.

C pls note the G-77/China's final statement with its hard line on developing country commitments and -- especially -- its penultimate paragraph.

This is the last fax transmission from USDEL/Bonn. AW FEEDER ZAYN!



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HIGHLIGHTS FROM THE MEETINGS OF THE FCCC SUBSIDIARY BODIES

11 JUNE 1998

The Subsidiary Body for Scientific and Technical Advice (SBSTA) met in the morning and afternoon to adopt decisions. The Subsidiary Body for Implementation (SBI) met in the afternoon to consider election of officers, non-Annex I communications, review of information and arrangements for intergovernmental meetings. The *Ad Hoc* Group on Article 13 (AG13) adopted the report of its meeting. Contact groups continued discussions throughout the day.

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNICAL ADVICE

Chair Kok Kee Chow (Malaysia) introduced draft conclusions on Annex I communications (FCCC/SBSTA/1998/L.2), which were adopted without amendment. Regarding draft conclusions on emissions inventories (FCCC/SBSTA/1998/L.3), the US proposed that SBSTA encourage the IPCC/OECD/IEA inventories programme to give high priority to completing its work on uncertainty, as well as to preparing a report on good practices in inventory management for consideration by COP-5. Draft conclusions on the roster of experts (FCCC/SBSTA/1998/L.4) were also adopted.

In the afternoon, the delegates adopted the conclusions on impacts of a single project on emissions in the commitment period (FCCC/SBSTA/1998/L.5) and acknowledged the additional information provided by ICELAND (FCCC/SBSTA/1998/Misc.1/ Add.4). ICELAND specified that separate reporting can only be initiated in the event that the assigned emissions amounts are exceeded as a result of single projects.

The delegates also adopted conclusions (FCCC/SBSTA/1998/L.6) on Methodological Issues: Scientific and Methodological Aspects of the Proposal by Brazil (FCCC/AGBM/1997/MISC.1/ Add.3) that recognize the outstanding issues raised in the proposal and welcome the offer by Brazil to host a workshop to develop them further.

SUBSIDIARY BODY FOR IMPLEMENTATION

On election of officers other than the Chair, the Chair announced that regional coordinators had reached no agreement and therefore proposed keeping the item under consideration for COP-4.

The PHILIPPINES, for the Asian Group and supported by INDIA, PAKISTAN, CHINA, SAUDI ARABIA, INDONESIA, KUWAIT AND IRAN, stated that no agreement had been reached on the election of the Vice-Chair because the incumbent regional group intended to keep it for a second term. The Asian Group had asked for a guarantee to honor the UN principle of geographical rotation after the next term but this had been rejected. On behalf of the

Western European and Others Group (WEOG), AUSTRIA recalled that the Rules of Procedure allow a second term and called for making use of the experience of WEOG's candidate. She expressed WEOG's willingness to undertake further consultations.

On communications from non-Annex I Parties, contact group Co-Chair Reifsnnyder (US) said he hoped for a resolution of some translation issues by Friday. On review of information and possible decisions under FCCC Article 4.2(f), VENEZUELA reported that consultations with Turkey are ongoing. The Chair said the issue would go to SBI-9. On arrangements for intergovernmental meetings and COP-4, the Chair noted that his conclusions had been circulated in a non-paper. JORDAN said his government would be pleased to host COP-5. The Chair said the date and venue would be kept open until SBI-9. SAUDI ARABIA sought clarification on the high-level segment at COP-4. The Chair said the President of Argentina would attend the COP-4 opening ceremony on 11 November, and high level speeches would follow on 12 and 13. The US queried SBI recommendations that all heads of delegations be "accorded equal treatment" and that the segment be conducted in a "transparent manner." CHINA cited the lessons of the past. The Chair proposed consultations between the US and Venezuela. The EU wondered if the recommendations on the high-level segment showed proper respect for and trust in the host country. VENEZUELA said the organization of the COP was the responsibility of the FCCC and the recommendations on equal treatment and transparency were not directed at Argentina. He noted his pleasure at the UK's interest in the respect due Argentina. ARGENTINA said she did not believe the paragraph was offensive to her country. Her country had defended it in the G-77/China group.

AD HOC GROUP ON ARTICLE 13

AG13 Chair Patrick Széll reported on the contact group tasked to resolve outstanding issues on paragraph 11 (Committee) of the report of the meeting and on paragraph 9 of the terms of reference for the Multilateral Consultative Process (MCP). The group has agreed that: in paragraph 9, "geographical distribution" will not be placed in brackets, but a footnote denoting that this represents the G-77/China view will be included; the proposal by the US to designate half the members for Annex I Parties and half for non-Annex I Parties will be placed in brackets with a similar footnote denoting that it represents the view expressed by some Parties. The report of the meeting and draft of the MCP were adopted and will be presented at COP-4.

CONTACT GROUPS

Land Use Change and Forestry: The contact group on Land Use Change and Forestry adopted the Chair's revised draft conclusions. Under the conclusions, SBSTA would, *inter alia*, organize a workshop prior to COP-4 to consider data availability in relation to

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Article 3.3; plan a workshop after COP-4 to focus on issues arising from Article 3.4; ask the IPCC to prepare a special report to enable the COP to take decisions on land use, land change and forestry at COP/MOP-1. The special report would address the methodological, scientific and technical implications of the Protocol, particularly Article 3. The conclusions state that issues not covered by the special report would be included in the TAR.

Technology: On technology information centre(s), the G-77/CHINA requested more time to reach a group position. The EU asked for comments on the remainder of the text. Following proposals from the PHILIPPINES, the US cautioned against reopening agreed text. The group could not reach a conclusion and will consider the issue at SBSTA-9.

Adverse Effects of Climate Change and Impacts of Response Measures: The contact group on implementation of FCCC Articles 4.8 and 4.9 (adverse effects and impacts) reconvened to review a Co-Chairs' compilation together with a G-77/China draft decision paper. SAUDI ARABIA bracketed a US proposal to reference an AGBM roundtable and the IPCC Oslo workshop on the economic impacts of Annex I actions on all countries. Parties disagreed over the "considerable uncertainties" associated with the assessment of adverse effects of climate change and "very considerable uncertainties" regarding the impact of response measures. The US, the EU and AUSTRALIA said the uncertainties regarding the impact of response measures are greater. SAUDI ARABIA preferred "considerable uncertainties" regarding response measures and proposed merging effects and impacts in one paragraph. He bracketed the word "very." The US objected and said there were huge uncertainties surrounding the impact of response measures. The G-77/CHINA agreed to use two paragraphs and proposed deleting the word "very." The G-77/CHINA and the US supported deletion of a paragraph noting the difficulty in distinguishing between natural and human-induced climate change. The EU placed it in brackets.

On a paragraph requesting the SBSTA to provide information, JAPAN proposed deleting a reference to Protocol Articles 2.13 and 3.14, and said Parties needed to agree a process for delivery of the information. VENEZUELA proposed adding a reference to assisting the COP/MOP-1 in its consideration of the Protocol Articles. The alternative proposals referencing the Protocol were placed in brackets. The EU, supported by AUSTRALIA, JAPAN and the US, preferred to drop the list of information requests and to reference an earlier paragraph in the Co-Chairs' text, on identification of effects and impacts. The additional request for information related to the [identification] of adverse effects and impacts was also placed in brackets together with a reference to vulnerability assessment. The US added national communications under FCCC Article 12 to information sources. Parties agreed a paragraph stating that the Secretariat could assist SBSTA by, if necessary, drawing on the roster of experts and organizing expert meetings.

Mechanisms: The contact group on mechanisms continued discussion of the elements of the G-77/China's proposed work programme. Countries were limited to volunteering proposals for additional elements and questions for clarification. For CDM and Article 6 projects, delegates considered elements under methodological/technical work, institutional issues, process and linkages, as well as participation in projects under CDM. For emissions trading between Annex I Parties, delegates considered general issues.

On emissions trading, the US questioned the inclusion of language on rights and entitlements of Annex I Parties. The G-77/CHINA commented that "rights" is in the literature on domestic common property resource trading schemes and in the FCCC regarding the right to develop. The EU, with the US, stated that entitlements for trading have already been established under the Kyoto Protocol. The US said it is not "rights" but "assigned amounts" that are discussed in the Protocol, and that the emissions and allocations

of non-Annex I Parties will only be addressed in the longer term when they participate. He invited discussion on this. Several delegates questioned the inclusion of language on funding of adaptation in the G-77/China's paper.

Additional elements were proposed by Annex I Parties, including SWITZERLAND, the EU, the US, CANADA, AUSTRALIA and NEW ZEALAND. Under emissions trading, new text covered, *inter alia*, involvement of legal entities and verification, reporting and accountability with regard to principles, modalities, rules and guidelines. Under the other topics additions were proposed on such topics as: review of implementation of Article 6 by expert review teams; methodological issues surrounding additionality; guidelines for projects and project base-lines on sinks; an overall institutional framework; Executive Board supervision; and accessibility of participation. A proposal for guidelines on the eligibility of projects initiated under the AU pilot phase for generation of emissions reduction units was opposed by the G-77/CHINA.

The Chair proposed to prepare a set of "Chairs' personal notes" based on the discussion.

In the evening, Chair Meira Filho (Brazil) recalled that work remained on linkages under CDM and Article 6. Delegates received a revised proposal on the work programme on mechanisms incorporating additions from the morning session, as well as "Chairs' personal notes." The EU sought clarification on whether issues mentioned yesterday would be reflected in the proposed work programme. The US queried the status of the new paper and objected to the Chair's suggestion that no new items or categories should be added. Noting the efforts to provide flexibility, the US said he could not accept the paper as a consensus document. The Chair clarified that due to time constraints, the contact group could not wait for consideration of issues raised by the US and proposed addressing them in the next session. The US objected to the Chair's proposal, saying all ideas must be presented in a complete way.

SAUDI ARABIA noted the efforts made by the G-77/China and stressed that other issues must be considered. He said that all issues are a package and progress on one issue cannot be expected while others are blocked. The US expressed disappointment that the G-77/China position paper (FCCC/SB/1998/Misc.1/Add.5) had just emerged as a miscellaneous (misc.) document. He called for a break to study the document.

Following several breaks, the Chair proposed to take into account all comments discussed, prepare a Co-Chairs' report with a section on personal notes and on the proposed work programme, including new submissions of items. The paper will have no legal status and will not be subject to editing. He requested the group to allow the Co-Chairs to conclude this and only show the outcome to representatives of the G-77/China, the EU, the US, Saudi Arabia and any interested Parties before presenting it to the Chairs of the subsidiary bodies. The group adjourned at approximately 10:45 pm.

Review of Adequacy of Commitments: The contact group on review of adequacy of Article 4.2(a) and (b) met in a closed meeting in the afternoon.

Allocation of Work for COP/MOP-1: The contact group on allocation of work for COP/MOP-1 failed to reach agreement. The Chair stated that he would report the results to the Chairs of the subsidiary bodies.

THINGS TO LOOK FOR

SBI: SBI will meet at 10:00 am and 3:00 pm in the Maritim Room.

SBSTA: SBSTA will meet at 10:00 am and 3:00 pm in the Beethoven Room.

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12 June 1998

ENGLISH ONLY

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

Eighth session

Bonn, 2-12 June 1998

Agenda items 6 (b) and (c) and 8 (b) to (d)

SUBSIDIARY BODY FOR IMPLEMENTATION

Eighth session

Bonn, 2-12 June 1998

Agenda item 8 (b) to (d)

PREPARATORY WORK NEEDED FOR THE FOURTH SESSION OF THE
CONFERENCE OF THE PARTIES ON THE ITEMS LISTED IN
DECISION 1/CP.3, PARAGRAPH 5

Submissions by PartiesAddendum

1. In addition to the submissions already received and contained in documents FCCC/SB/1998/MISC.1 and Add. 1, 2, 3, 4 and 5, two further submissions have been received.
2. In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced in the language in which they were received and without formal editing.

FCCC/SB/1998/MISC.1/Add.6

BNJ.98-132

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PAPER NO. 1 UNITED KINGDOM OF GREAT BRITAIN
AND NORTHERN IRELAND

(On behalf of the European Community and its member States and Switzerland)

PRELIMINARY RESPONSE OF THE EU AND SWITZERLAND TO THE INITIAL
LIST OF ISSUES RAISED BY G77 AND CHINA ON MECHANISMS OF
THE KYOTO PROTOCOL

In order to help all Parties to consider these issues further, the EU and Switzerland set out below our preliminary responses to the questions raised by the G77 and China. We have set out these preliminary responses here to share them with other delegations, but wish to consider these issues more fully in future.

The EU and Switzerland welcome this valuable input from the G77 and China. The issues raised are important, and need to be properly addressed.

General

1. *What are the points of difference and points of similarity among the three mechanisms provided for in the Kyoto Protocol to the Convention.*

The EU and Switzerland see both similarities and differences between the three mechanisms. Because of the similarities, we believe that the framework for the three mechanisms should be developed in parallel to ensure consistency.

Joint Implementation (JI) and International Emissions Trading are mechanisms that operate between developed countries, whilst the CDM involves developing countries and one of its twin objectives is to assist those countries in achieving sustainable development. Other differences and points of similarity will be mentioned in our later answers.

2. *How to ensure that domestic actions by developed countries are their primary means of GHG limitation and reduction, and that the overseas mechanisms remain supplemental to such domestic actions by developed countries, for the purpose of meeting their quantified emission limitation and reduction commitments.*

This is an important issue. The EU and Switzerland believe that domestic action should provide the main means of meeting commitments under Article 3, and that there should be a concrete ceiling established on the use of flexible mechanisms to ensure this. A paper on international emissions trading tabled by the EU and other countries (FCCC/SB/1998/2/MISC.1/Add.3) explained that we had not yet come to a firm view on how such a ceiling should be defined. We would welcome discussion with other delegations about how best to define the ceiling.

3. *How can it be ensured that these mechanisms lead to real and verifiable limitation and reduction of GHG emissions by developed countries.*

This is also a very important issue, which is closely linked to question 2. It is crucial that these mechanisms deliver real and verifiable emissions reductions, and do not create 'loopholes' that undermine the objectives of the Protocol. This is why the EU and Switzerland believe that principles, rules, modalities and guidelines for these mechanisms need to be defined to ensure real and verifiable emissions reductions, before these mechanisms can be used by Parties to help meet their emissions reduction commitments.

4. *How to ensure that the COP or COP/MOP will maintain the responsibility for every stage of defining, developing, structuring and institutionalizing the mechanisms.*

We believe that the relevant Articles are very clear with respect to the responsibilities of the COP and the COP/MOP.

5. *What are the specific roles of the SBSTA and the SBI with regard to these mechanisms.*

In accordance with Article 15 of the Protocol, we believe that SBSTA and SBI should continue to operate in their respective roles as subsidiary bodies of the COP/MOP under the Protocol as they currently operate as subsidiary bodies of the COP under the Convention. This will be a matter for further discussion when elaborating the details of the operation of the mechanisms.

6. *What will be the systems for ensuring independent auditing, verifications and accountability of the working of these mechanisms.*

Independent auditing, verification and accountability is essential for confidence to be established in these mechanisms. This question is therefore very important, and needs to be fully addressed in our development of the three mechanisms.

Article 6 projects

1. *What will be the elements of the guidelines for projects under Article 6, in particular, for ensuring transparency, accountability, reporting and verification.*

The EU and Switzerland have already outlined some important elements of the guidelines for projects under Article 6 in our Statement last week. We have developed a more detailed paper, together with Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Slovakia and Slovenia, which we have tabled.

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2. *What will be the criteria for deciding the baseline of projects.*

It is essential that projects provide reductions in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur. JI thus needs to be assessed on a project basis, and project baselines need to be established against which environmental benefits can be accounted or estimated. Again, this is an issue that is further addressed in the paper mentioned above.

3. *How can compliance with Article 5 and 7 of the Protocol be ensured, and how is this related to the work to be accomplished under Article 18.*

Article 6.1 c) makes clear that Parties can only use JI to help meet their commitments under Article 3 if they are in compliance with Articles 5 & 7. The EU and Switzerland believe that all Parties that conduct JI projects should submit an annual report in accordance with Article 7 of the Protocol. The EU and Switzerland believe that an independent mechanism for verification should be put in place which might, inter alia, use the provisions established under Article 8. The EU and Switzerland believe that adoption and ratification of a strong compliance system according to Article 18 is a prerequisite for the use of any of the flexible mechanisms to meet commitments under Article 3.

4. *What will be the procedure for transferring or acquiring emission reduction units resulting from projects under Article 6.*

As stated in Article 6, the Parties involved must approve and agree the creation and transfer of ERUs. The requirements for such transfers need to be further developed.

5. *What will be the system for auditing and verifying projects under Article 6.*

A national mechanism for accounting, certification and documentation and for verification of emission reduction and removals by JI projects needs to be in place before emission reduction units (ERUs) from JI projects can count towards fulfilment of commitments. In addition, the EU and Switzerland believe that an independent mechanism for verification should be put in place which might, inter alia, use the provisions established under Article 8.

6. *How will "legal entities", to be involved in these projects, be defined, and how will the responsibility of the Party over "legal entities" for the purpose of the projects be ensured.*

This is an important question that is relevant to all cases where legal entities are permitted to participate in international flexible mechanisms. We want to underline that Parties remain responsible for their assigned amounts, and so will wish to have sufficient monitoring, verification and enforcement of the activities of the legal entities which they have authorised.

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7. *How will the benefits of a project under Article 6 be equitably shared between the participating Parties.*

Allocation of the direct benefits of a project are a matter for negotiation between those Parties. If projects could also enhance the capacity of host countries to take domestic action of their own, and could create other secondary benefits in the host country, such as a reduction in local pollution effects.

8. *What will be the reporting criteria of a project under Article 6 to the COP/MOP.*

The reporting criteria should be based on the uniform reporting format for AJJ under the pilot phase. It should also take into account any recommendations on improvements to this format. More detailed proposals are contained in our paper.

Article 12 - Clean Development Mechanism

1. *What will be the criteria for ensuring a balance wherein each CDM project attains the objective of assisting developing country Parties in achieving sustainable development in accordance with their national priorities and strategy, and assisting developed country Parties in achieving compliance with their commitments under Article 3.*

The COP/MOP will be responsible for establishing modalities and procedures to ensure that the twin objectives of Article 12 (of assisting non-Annex I Parties in achieving sustainable development and of assisting Annex I Parties in achieving compliance with their QELRCs) are met through the cdm. We support the idea of the COP/MOP (and prior COPs of the Convention) considering how this should be done in detail. We look forward to further discussion with the G77 and China and other Parties on how to achieve this.

2. *How to ensure that the CDM shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Protocol.*

The Article explicitly states that the cdm shall be subject to the authority and guidance of the COP/MOP (Article 12.4).

3. *How to ensure that the executive board of the CDM shall function under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Protocol.*

The executive board will be an executive board "of the clean development mechanism" (Article 12.4) and therefore subject to the authority and guidance of the COP/MOP in accordance with that Article (in line with our response to Q.2 above).

9. *How will Article 12.6 of the Protocol be implemented? What will be the criteria and processes for the CDM for arranging due funding.*

The implications of the wording of Article 12.6 are not clear and need to be discussed and agreed. We would note, however, that the Article states that the cdm shall "assist in arranging funding", rather than "arranging due funding", as your questionnaire suggests.

10. *How to ensure the independent auditing and verification of CDM project activities.*

(See also our response to Q.6 under "General" above.) The EU and Switzerland believe it is essential to ensure that the auditing and verification of cdm project activities is independent (Article 12.7).

11. *What will be the criteria for deciding the baseline of projects.*

(See also our response to Q.2 under "Article 6 projects" above.) We believe that the criteria and modalities for establishing effective baselines under Article 6 and Article 12 should be consistent, particularly since these are both project-based mechanisms. Further work would include a clear definition of additionality and of the calculation of baselines, to confirm that cdm projects will produce real, measurable reductions.

12. *When should the benefits of CDM projects accrue to the participating developed country Parties.*

(Please also see our response to Q.18 below.) The modalities by which the benefits of cdm projects might accrue to participating Parties remain for discussion.

13. *What will be the action for non-compliance if a CDM project goes against the CDM criteria.*

We believe that Article 18 should apply in respect of non-compliance by Parties under all flexible mechanisms. (See also our response to Q.3 of the "Article 6 projects" questions above.)

14. *How to define : "a share of the proceeds", and how will this share be apportioned for administrative expenses and adaptation.*

This is an important issue on which we would welcome further discussion with other Parties.

15. *How will the responsibility of a Party be ensured over the private/public entities authorized by the Party to be involved in CDM projects.*

Please see our response to question 6 of the "Article 6 projects" questions above.

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16. How to ensure that CDM projects are equally distributed so as to benefit all developing country Parties, in particular the least developed country Parties, and that the distribution of projects does not exacerbate regional/sub-regional imbalances.

The EU and Switzerland would wish to see the cdm contributing to sustainable development in a large number of developing countries and regions over time. Since the modalities for cdm project activities have not been agreed and since there are a number of ways in which cdm projects could be generated, there is no clear answer at present.

17. How will it be ensured that the financing for CDM projects shall be additional to ODA and other international funding, additional to and separate from the financial obligations under GEF and additional to the financial obligation of the Parties as provided in the Convention and the Protocol.

This is a very important question. The EU and Switzerland expect that the majority of funds for project activities under the cdm will come from the private sector. Therefore, financing for CDM activities should not compete with ODA and GEF funding.

18. How will the additional economic benefits, if any, of a CDM project be shared equitably between the participating Parties.

We would be grateful for an explanation of the meaning of the phrase "additional economic benefits", since it does not feature in Article 12.

19. How will the participating Parties report their CDM projects to the COP/MOP.

Reporting is a very important element of the system. It will be a responsibility of both Parties and any participating private/public entity to report accurately on their activities. The detailed reporting requirements will have to be elaborated by the COP/MOP as part of the requirements of Article 12.7 to "elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities."

20. What are the implications of Article 12.10 of the Protocol.

The EU and Switzerland believe that an analysis of the implications of Article 12.10 is important. But this should be seen in the wider context of making the cdm truly effective and operational in promoting long term reductions and sustainable development. The EU and Switzerland also believe that the cdm cannot become operational until a clear framework has been established on this and other issues.

Article 17 - Emissions Trading between developed country Parties

1. *How will the emission rights and entitlements of developed country Parties be determined and created for trading emissions? Will this be consistent with the principle of equity keeping in view the historical and current responsibility of developed countries to climate change and the ultimate objective of the Convention.*

The basis for emissions trading under Article 17 of the Protocol will be the quantified emission reduction and limitation commitments established under Article 3 and Annex B of the Protocol. The second part of the question is an issue that goes much wider than the area of flexible mechanisms, and should be further considered in the context of increasing participation in global efforts to combat climate change. In this context, the EU and Switzerland reiterate their belief that in the longer term, methods to allocate reduction or limitation targets, should eventually lead to convergence of emission levels based on appropriate indicators.

2. *How to ensure that any emissions trading between the developed country Parties shall be supplemental to domestic actions for the purpose of meeting their quantified emission limitation and reduction commitments.*

As stated earlier, this is an important question, which has also been raised by the EU and Switzerland. The EU and Switzerland have stated that domestic action should provide the main means of meeting commitments under Article 3, and that there should be a concrete ceiling established on the use of flexible mechanisms to ensure this. A paper on international emissions trading tabled by the EU and other countries (FCCC/SB/1998/MISC.1/Add.3) explained that we had not yet come to a firm view on how such a ceiling should be defined. We would welcome discussion with other delegations about how best to define the ceiling.

3. *How to ensure that emissions trading between developed country Parties will lead to real and verifiable limitation and reduction of GHG emissions for meeting the objective of the Convention and contributing to the protection of the environment.*

This is also a very important issue. It is crucial that these mechanisms deliver real and verifiable environmental benefits, and do not create 'loopholes' that undermine the objectives of the Protocol. If Parties assigned amounts are higher than their expected emissions - so-called 'hot air' trading may occur. This would lead to higher emissions than would be the case in the absence of a trading system. It is essential that the rules, modalities and guidelines that are developed for emissions trading should prevent this. For example, this could require that net transfers by a Party shall not be greater than the amount of emissions reduced by that Party as a result of domestic action.

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4. *What will be the environmental or economic impacts in any area due to emissions trading between developed country Parties.*

Emissions trading between developed countries should lead to emissions reductions where abatement costs are lowest. This means that more reductions will occur in developed countries that have relatively cheap abatement opportunities. In the absence of 'hot air' (see above) emissions trading should not lead to emissions being higher - so the environmental impact should be unchanged compared to a situation in which no trading were allowed. But the overall costs of emissions reduction should be reduced for participating Parties.

5. *How to ensure that any emissions trading between developed country Parties fully reflects the principle of equity between developed and developing countries.*

Equity is an important issue. But emissions trading under Article 17 of the Kyoto Protocol will only take place between developed countries. It should not affect equity between developed and developing countries.

6. *How to ensure that emissions trading between developed country Parties shall conform to the principles, modalities, rules and guidelines including any compliance procedure to be defined by the COP.*

The EU and Switzerland believe that adoption and ratification of a strong compliance system according to Article 18 is a prerequisite for the use of any of the flexible mechanisms to meet commitments under Article 3. The EU and Switzerland also believe that we need to define the principles, rules, modalities and guidelines before international emissions trading can begin.

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PAPER NO.2: UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND
(on behalf of the European Community and its member States and Bulgaria, Croatia,
Czech Republic, Hungary, Latvia, Poland, Slovakia, Slovenia and Switzerland)

NON PAPER ON JOINT IMPLEMENTATION
(as part of detailed comments on the mechanisms)

Purpose

This paper sets out the preliminary views of the European Community, Austria, Germany, Finland, Portugal, France, Sweden, Belgium, Spain, Denmark, Greece, Italy, Ireland, The Netherlands, Luxembourg, United Kingdom, Bulgaria, Croatia, Czech Republic, Hungary, Latvia, Poland, Slovakia, Slovenia, Switzerland on the guidelines on joint implementation. The above Parties believe that trading, CDM and JI should be developed in parallel and the frameworks for them should be consistent with each other.

We believe that the flexible mechanisms adopted in Kyoto can make a cost-effective and efficient contribution towards fulfilling the commitments decided on in Kyoto and that they should ensure verifiable environmental benefits and minimise potential adverse environmental, social and economic effects. Project-based approaches such as joint implementation between Annex I Parties, offer the opportunity for intensive cooperation between these Parties. They could provide a mechanism which directly serves the objective of the Protocol and the Convention by developing the capacity of host countries to implement the Convention. In particular, these projects could enhance the capacity for host countries to take domestic action of their own. Joint implementation projects must be compatible with, and supportive of, national environment and development priorities and strategies, policies and measures and must contribute to cost-effectiveness in achieving global benefits. In developing JI the COP should take account of the lessons of the pilot phase of AIJ and should consider the future status of AIJ projects.

2. This paper includes a draft decision for COP4 on joint implementation.

Principles

3. Recalling the principles and objectives of the United Nations Framework Convention on Climate Change, and the Kyoto Protocol, joint implementation shall be designed to contribute to the achievement of real, cost-effective and verifiable environmental benefits whilst ensuring that:

- (i) **additionality:** JI projects should provide reductions in emissions that are additional to any that would otherwise have occurred, as is stipulated in Article 6(1)(b) of the Protocol;

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(ii) **supplementarity:** JI projects shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3. In this regard Article 6.1d, 12.3b and 17 of the Kyoto Protocol should be taken into account. In this context a "concrete ceiling" on the use of all the flexible mechanisms has to be defined. The guidelines governing the joint implementation system should reflect this principle*;

(iii) **transparency:** information that improves knowledge about project opportunities and the results of project based activities should be made publicly available;

(iv) **eligibility:** a mechanism for accounting, certification and documentation and for verification of emission reductions and removals from JI projects needs to be in place before emission reduction units from JI projects can count towards fulfilment of commitments;

(v) **compliance:** a strong compliance regime under Article 18 must have been adopted by Parties and been ratified by Annex I Parties who want to participate in JI.

* The above Parties have not yet come to a firm view on as to how the ceiling should be defined and welcome discussions with other delegations. The ceiling could be defined in relation to a number of variables, including: the assigned amount, 1990 emission levels, or required effort by a party.

Draft Decision CP/4**Implementation of Article 6 of the Kyoto Protocol**

The Conference of the Parties,

Pursuant to Article 6 of the Kyoto Protocol,

Recalling decision 1/CP.3,

1. Decides in accordance with article 6.2 of the Protocol to elaborate guidelines for the implementation of this Article, including for verification and reporting, for recommendation to COP/MOP-1 for adoption.
2. Decides in accordance with article 6.1 of the Protocol that guidelines should be developed in order to ensure that:
 - a) Any such project has the approval of the Parties involved (article 6.1 (a));
 - b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur (article 6.1 (b));
 - c) A Party may not acquire any emission reduction units if it is not in compliance with its obligations under articles 5 and 7 (article 6.1 (c));
 - d) The acquisition of emission reduction units shall be supplemental to domestic actions for the purpose of meeting commitments under article 3 (article 6.1 (d)).
3. Decides that elaboration of the guidelines should meet the following principles:
 - a) A strong compliance regime, according to Article 18, must have been adopted by Parties and been ratified by Annex I Parties who want to acquire from or transfer to another Party emission reduction units in accordance to Article 6;
 - b) Projects should bring about real, measurable and long-term environmental benefits related to mitigation of climate change, whilst minimising adverse environmental, social and economic effects;
 - c) Procedures and administrative requirements should be elaborated in such a way that they work efficiently and cost-effectively, and are consistent with the environmental objectives of the Protocol.

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4. Decides that guidelines should be elaborated on the following issues:

- a) Common methodologies for determining project baselines and actual emissions or removals, in order to assess additionality and the reductions of anthropogenic emissions from sources or enhancement of anthropogenic removals by sinks of greenhouse gases;
- b) Common methodologies for certification, project monitoring and verification of actual reductions of anthropogenic emissions from sources or enhancing anthropogenic removals by sinks of greenhouse gases;
- c) Reporting requirements on annual basis, based on the uniform reporting format taking into account any recommendations on improvements to the format that may arise from the review of the AIJ pilot phase to improve information and transparent reporting;
- d) Accounting procedures under Article 3.10 and 3.11;
- e) Review of implementation of Article 6 by expert review teams as required by Article 8.4 of the Protocol;
- f) Eligibility of projects to enhance removals by sinks based on those guidelines consistent with article 3.3.

5. Decides that

- a) the recommendation for guidelines on paragraph 4 (a) to 4 (e), to be adopted by COP/MOP-1, should be finalised at COP-5 ;
- b) the recommendation for guidelines on paragraph 4 (f), to be adopted by COP/MOP-1, should be finalised at COP-6.

6. Requests the subsidiary bodies as appropriate at their next sessions to assist COP in preparing these guidelines.

Check against delivery

**CLOSING STATEMENT BY
HIS EXCELLENCY AMBASSADOR IZHAR IBRAHIM
OF THE REPUBLIC OF INDONESIA ON BEHALF OF THE GROUP
OF 77 AND CHINA**

**BEFORE THE MEETINGS OF THE SUBSIDIARY BODIES OF THE
UNITED NATIONS FRAMEWORK CONVENTION OF CLIMATE
CHANGE**

BONN, 12 JUNE 1998

Mr. Chairman,

I have the honor to deliver this statement on behalf of the Group of 77 and China. I would like to take this opportunity to take stock of a number of issues and to underline areas where greater focus is necessary.

Arrangements of COP-4

The COP-4 must respect the mandate of the Convention. The COP-4 should not be distracted by issues which are extraneous to the letter and spirit of the Convention, namely though introduction of any new commitments for the developing country Parties.

The High Level Segment of the COP-4 should reiterate the determination of all parties to advance the implementation of the existing commitments under the Convention on priority basis, pending the entry into force of the Kyoto Protocol. The Group of 77 and China would like to reiterate that the High Level Segment must not be bound by any declaration originating in any body or meeting that is extraneous to COP-4.

Transfer of Technology

The Group of 77 and China expresses concern at the lack of progress in technology transfer to developing countries, despite the relevant provisions of the Convention as well as the relevant decisions of the COPs adopted in earlier three sessions. The Group urges expeditious action in transfer of technology and strengthening the endogenous capacities and capabilities in developing countries.

Second Review as Stipulated in Article 4.2 (d) of the Convention

The Group of 77 and China is deeply concerned that most of the developed country Parties will not be able to honor their commitments of returning to their 1990 levels of anthropogenic emissions of greenhouse gases as required of them by the Convention. The Group urges the developed country Parties that have not made demonstrable progress in returning to their 1990 levels of emissions to make efforts in good faith in honoring their commitments by action between now and the year 2008.

The Group reiterates that there must be no new commitments, voluntary or otherwise, introduced for all developing countries, under any guise, in such reviews.

Financial Mechanism

The Group would like to see an effective review of the financial mechanism. However, it is not getting the necessary cooperation on improvement of the functioning of the operating entity, on an interim basis. Until this cooperation moves forward, the group would have to further review this financial mechanism.

Mechanisms of the Kyoto Protocol

The Group of 77 and China maintains that the mechanisms of the Kyoto Protocol have to proceed on a step-by-step basis, as the protocol has yet to enter into force, and that a common understanding has to be reached on the nature of these mechanisms. The study of methodological

issues is a first step to be taken. All the mechanisms have to be examined on the basis of the principles of equity, sustainable development, the other principles, and the objective of the Convention. The issues relating to the Clean Development Mechanism (CDM) should be addressed first. The Group further maintains that domestic actions by the developed countries should be their primary means of greenhouse gas limitation and reduction, and that the overseas mechanisms should be supplemental to such domestic actions by developed countries for the purpose of meeting their quantified emissions limitation and reduction commitments.

AG-13

The AG-13 negotiations have raised a matter of grave concern to us. There is a concerted effort to erode the well-established UN principle of equitable geographical representation in the establishment of the Multilateral Consultative Committee (MCC). This is a fundamental principle that every UN member should respect and honor. The Group cannot accept any other arrangement that seeks to dilute this carefully conceived principle.

Since the Multilateral Consultative Process (MCP) is expected to be a non-confrontational, cooperative and consultative process, it is all the more essential that the Committee adheres to the principle of equitable geographical representation in its establishment.

Articles 4.8 and 4.9

Group of 77 and China emphasizes that these Articles relate to the concerns of all developing countries including the least developed country Parties arising from adverse effect of climate change and the impact of the implementation of response measures. The Group is disappointed at the lack of progress in implementing these provisions even after six years of deliberations. The Group urges immediate implementation of Articles 4.8 and 4.9 of the Convention as these relate to the very survival of many of the member states.

Mr. Chairman,

The developing country Parties have on their own undertaken many projects, policies, and activities to address the problem of climate change and achieve sustainable development. The Group is confident that these efforts contribute meaningfully to modify the longer term trends of climate change. In this context, the provisions of new and additional financial resources and transfer of technology, as specified in the Convention, must be implemented.

Mr. Chairman,

On behalf of the Group of 77 and China, I would like to thank the Executive Secretary, the Secretariat Staff, translators, interpreters, Conference officers, for their tireless work and dedication. I would also like to take this opportunity to express sincere gratitude to the government and the people of Argentina, our hosts to the COP-4.

Thank you, Mr. Chairman.