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The state of the Kyoto Protocol negotiations

After the fourth UNFCCC
Conference of the Parties
(COP4) in Buenos Aires
2-13 November 1998

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Oslo, 27 November 1998

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Executive summary

The fourth Conference of the Parties (COP4) under the Climate Convention (UNFCCC) took place in Buenos Aires, Argentina, from 2–13 November 1998. Summing up the conference, the main impression is that the climate process is moving ahead, but the speed is slower than many had anticipated and hoped.

There has been progress on some issues, but only in terms on agreeing on the agenda and timetable for further negotiations. No decisions will be made at COP5, but postponed until COP6 in October 2000. Given the complicated and extensive agenda ahead, a lot of hard work remains before most of the “open brackets” from the Kyoto Protocol are filled.

A large fraction of business, both in Europe, Asia and the U.S., seem to have changed their strategy from slowing down the climate process to a green strategy due to future market possibilities that are likely to arise in green technologies and project and quota markets.

Argentina and Kazakhstan announced that they would take on voluntary commitments for the first target period 2008-12. Argentina will announce its commitment at COP5 in October 1999. Also interesting was the American signing of the Kyoto Protocol on 12 November as the 60th Party. So far two countries, Fiji and Antigua and Barbuda, have ratified the Kyoto Protocol.

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1 The players, positions and negotiations

This was the first COP after the Kyoto meeting in December last year, where the Kyoto Protocol was adopted. A number of important and challenging issues were not settled in the Kyoto Protocol, but were left for further negotiations (i.e. “the open brackets”). The Parties have crystallized into three main groups, “the umbrella group”, “EU and friends”, and G77/China. See Table 1 for an overview of the interests and positions of these groups of countries.

The “umbrella group” is Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine, and the United States. EU and friends are, in addition to the 15 member countries of EU, Switzerland, and 8 Central and East European Countries (CEE). The umbrella group prefers emissions trading rules that keep as much flexibility as possible. They strongly oppose a quantitative ceiling on the flexibility mechanisms, which is favored by EU and friends.¹

EU and friends prefer stricter rules for emissions trading to induce domestic actions to stimulate technological progress that can make more ambitious targets achievable in next target periods (i.e. after 2012). Furthermore, they want to limit “hot air” trading with Russia and Ukraine through rules like “net transfers by a Party shall not be greater than the amount of emissions reduced by that Party as a result of domestic action”.

EU has taken a step back from insisting on a quantitative ceiling on emissions trading, since there is large gap in positions within EU.² Apparently there is a big discussion within EU on this issue, where the most “ceiling-friendly” countries are Austria, Denmark, France and Germany.

¹ The flexibility mechanisms, which are joint implementation (Art. 6 in the Kyoto Protocol), the clean development mechanism (CDM; Art. 12), and emissions trading (Art. 17), have now been baptized the Kyoto Protocol mechanisms due to some Parties’ dislike of “flexibility” (in particular G77/China).

² At COP4 on 12 November 1998 Austria on behalf of European Community and its Member States stated that “A concrete ceiling on the use of the flexibility mechanisms has to be defined in quantitative and qualitative terms and based on equitable criteria to achieve these aims”.

Table 1: Interests of some countries and groups of countries according to degree of vulnerability to climate change impacts and size of costs due to impacts from climate policy measures.^{a)}

Vulnerability w.r.t. climate change impacts	Less vulnerable to climate change impacts	Vulnerable to climate change impacts
Costs due to climate policy measures		
Low costs due to impacts from climate policy measures	USA EU Most of “umbrella” group [Ambitious targets if high concern about climate change]	AOSIS Most of G77/China [Ambitious targets, but industrialized countries must take the first steps]
High costs due to impacts from climate policy measures	Norway [Ambitious targets if high concern about climate change, but realizes this will be costly]	OPEC [Slow down policy measures; more concerned about cost of measures than cost of climate change impacts]

a) Note that AOSIS-countries and OPEC-countries are members of G77/China, and that USA and Norway are members of the umbrella group (AOSIS is the Alliance of Small Island States).

The position of the G77/China group is closer to the EU and friends position since they want to constrain the use of the flexibility mechanisms to induce the Annex I countries to concentrate on domestic actions to abate emissions.

The signs of splits within the G77/China group were many, and in particular with respect to the Clean Development Mechanism (CDM) and other flexibility mechanisms, and to voluntary commitments. Latin-American countries, with the exemption of the OPEC-member Venezuela, and most African countries, are keen to participate in the flexibility mechanisms since they see a large market potential for selling emission quotas and getting access to new, efficient technologies through joint implementation projects.

However, on the whole, it seems as if G77/China has had more success in Buenos Aires than the umbrella group and EU in influencing the agenda and timetable for the climate process ahead.

2 Plan of action

COP4 adopted an action plan containing six elements:

- a) financial mechanisms,
- b) development and transfer of technologies,
- c) implementation of UNFCCC Art. 4.8 and 4.9 (on compensation to developing country Parties subject to the adverse effects of climate change, and/or the impact of the implementation of response measures),
- d) Activities Implemented Jointly (AIJ) under the pilot phase,
- e) the flexibility mechanisms, and
- f) propositions for the first Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol (COP/MOP), plus compliance and Policies&Measures.^{3 4}

³ MOP is an acronym for Meeting of the Parties to the Kyoto Protocol.

⁴ Policies and Measures refers to a list of specific measures proposed by EU in the negotiations leading up to the Kyoto Protocol, which was not, however, included in the Protocol. This proposal has now reentered as part of the action plan.

3 The flexibility mechanisms

3.1 General

COP4 also adopted a specific action plan for the three flexibility mechanisms, where priority is given to CDM. A final decision on the mechanisms is scheduled for COP6 in October 2000.

Attached to the action plan is a list of 142 research issues divided into a general part, CDM, joint implementation, and emissions trading, see the Annex. This list is open to proposals from the Parties regarding new issues and elaboration on the specific issues until 28 February/31 March 1999.⁵ The deadline is set to make the material available to the tenth Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI) meetings in May/June 1999. Two technical workshops will be convened before 15 April 1999. The special bodies SBSTA and SBI will, with the support of the secretariat, produce a synthesis of the proposals. The secretariat shall also prepare a plan to facilitate capacity building for developing country Parties.

3.2 Clean development mechanism (CDM)

Some developing countries show a positive attitude towards CDM, whereas others are skeptical. Even within some countries there is a wide variation in views. Views differ with respect to whether sink projects can be CDM projects. Article 12 in the Kyoto Protocol on CDM does not specify if sinks (i.e. Land-Use Change and Forestry projects (LUCF)) can be included.

The United States did not want to leave out sinks from CDM, at least not at this stage, whereas EU argued that CDM should not include sinks, unless COP/MOP decides otherwise. G77/China argued that CDM should have priority to the other Kyoto Protocol mechanisms, whereas the umbrella group was concerned that the mechanisms should be developed in parallel. The umbrella group felt that too much focus on CDM could narrow down the total market of the mechanisms for the first years, and would reduce the incentives of developing countries to take on voluntary commitments to gain access to the emissions trading and joint implementation markets.

3.3 Activities Implemented Jointly (AIJ) and Joint Implementation (JI)

The AIJ pilot phase was initiated at the second COP in Berlin 1995. It will last until year 2000. Per July 1998 98 AIJ projects have been reported to the UNFCCC. An evaluation of AIJ reporting was conducted during the Bonn meeting this summer. The important question is

⁵ "Invites Parties to submit further proposals on principles, modalities, rules and guidelines for the mechanisms under Article 6, 12 and 17 of the Kyoto Protocol by the end of February 1999 as an input to technical workshops, and additional proposals, by 31 March 1999, for compilation by the secretariat as a miscellaneous document for the Subsidiary Body for Scientific and Technological Advice and the Subsidiary Body for Implementation at their tenth sessions;"

to what extent experience with AIJ so far can support decision making on JI and other flexibility mechanisms in Buenos Aires. Unfortunately the value of this experience is limited due to non-standardized and insufficient information in the project reports. The reports in most cases only give a broad picture of the set-up of the projects, whereas details on cost calculations, baseline and net abatement effects are in many cases not specified or clear.

At COP4 the umbrella group wanted to review the pilot phase with a view to using the experience to develop rules for joint implementation (with crediting) and CDM. The G77/China group argued that there is so far too little experience to build on, and that their capacity to participate in projects and evaluate them should be enhanced. Therefore the pilot phase should be extended till after year 2000. COP4 decided to continue the pilot phase, and "... , with a view to the Conference of the Parties taking a conclusive decision on the pilot phase and the progression beyond that, no later than the end of the present decade."

3.4 Emissions trading

Emissions trading as such was not a big issue at COP4, since the negotiations focused on the agenda for all the Kyoto Protocol mechanisms, see section 3.1. There was some discussion of a ceiling on the use of the mechanisms (confer section 2), and on priority to CDM or parallel development of all mechanisms (confer section 3.2).

4 Land-use change and forestry projects (LUCF)

A process for addressing rules for accounting land-use and forestry changes has been initiated. SBSTA has requested the IPCC to prepare a special report on technical and methodological issues related to land-use, land-use change, forestry, and related carbon sequestration strategies. This report is likely to be finalized by year 2000.

A parallel process is to take place in SBSTA on issues that are supplemental to the IPCC work. A second SBSTA workshop will be organized next spring to explore methodologies, uncertainties, and research and data needs.

COP4 decided that the first COP after the completion of the IPCC report should forward a draft decision on definitions, modalities, rules and guidelines to the first COP/MOP (according to Art. 3.3 and 3.4 of the Kyoto Protocol).

5 The adequacy of UNFCCC Article 4.2 a and b

Article 4.2 a and b of the UNFCCC states that Annex I countries should adopt national policies and take corresponding measures to individually or jointly reduce their greenhouse emissions to their 1990 levels by year 2000. Parties agreed that the present commitments are insufficient to meet the aims of the UNFCCC, but could not agree on reasons or on actions required.

Even if the language is not legally binding, G77/China used every opportunity to argue that developed countries are shirking their responsibilities in this regard, and wanted to tie this issue to the present negotiations on developing the Kyoto Protocol. No conclusion was possible on this issue at COP4.

6 Compensation of developing countries parties under UNFCCC Article 4.8 and 4.9

Compensation by Annex 1 Parties of developing countries parties was an important issue at COP4, similar to the negotiation process leading up to the Kyoto Protocol. G77/China, and particularly the AOSIS, are very concerned that they will be the first and most vulnerable to suffer from climate change. On the other hand OPEC members fear that measures undertaken in the industrialized countries to curb greenhouse gas emissions may have adverse effects on them through reduced oil prices.

COP4 decided on an agenda to work on this issue, with the aim to take a decision on any further actions at COP6. The focus is on information gathering and further analysis into adverse effects of climate change and climate policy measures. SBSTA is to compile the information, and then the material is to be considered by the subsidiary bodies.

The Intergovernmental Panel on Climate Change (IPCC) shall provide further assessment on these matters.

7 Voluntary commitments by developing countries

The host country Argentina put this delicate issue on the agenda. There is a strong opposition to raising the issue among many G77/China countries, confer the discussions at the Kyoto conference. For the U.S., early commitments for at least relatively rich developing countries, is vital to ratify the Kyoto Protocol in the Congress.

Some developing countries are positive to the idea, but there is a strong pressure from the skeptical G77/China majority. The hard-liners are China and India, and to a somewhat smaller degree Indonesia and Brazil. The latter two countries seem to have softened their position on this issue, probably because they see possibilities for profitable emission trading and joint implementation projects generating transfer of efficient technologies.

An interesting issue is how to determine the targets for non-Annex 1 countries taking on voluntary commitments, such as Argentina and Kazakhstan. If these countries are allowed to decide on their own, the importance of such targets is likely to be reduced.

8 The agenda ahead of us

The agenda for the climate process is very challenging. The “hidden” brackets in the Kyoto Protocol are now on the table, and finding solutions require both technical and political craftsmanship. There are both strong political conflicts and a number of technical difficulties.

The agenda on the Kyoto mechanisms containing 142 issues can be summarized as “Everything you ever wanted to know about the flexibility mechanisms”. This process will be difficult to handle, and requires political guidance.

The agreement on greater use of intersessional ministerial meetings could be a helpful move in this direction. Parties will have to submit proposals on the Kyoto mechanisms in time for the next meetings of the subsidiary bodies in Bonn 31 May to 11 June 1999. COP5 will take place from 25 October to 5 November 1999.

Annex: Work programme on mechanisms

Not available electronically. See web site: www.unfccc.de

This is CICERO

CICERO was established by the Norwegian government in April 1990 as a non-profit organization associated with the University of Oslo.

The research concentrates on:

- International negotiations on climate agreements. The themes of the negotiations are distribution of costs and benefits, information and institutions.
- Global climate and regional environment effects in developing and industrialized countries. Integrated assessments include sustainable energy use and production, and optimal environmental and resource management.
- Indirect effects of emissions and feedback mechanisms in the climate system as a result of chemical processes in the atmosphere.

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