

Policy Note 1991:2

**Joint implementation
of commitments to
curb climate change**

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I The Problem

The work of the Intergovernmental Negotiating Committee on Climate Change (INC) constitutes a unique opportunity to create the first convention in a new generation of international environmental agreements. Climate change is a global issue in a true sense. The ability of the international community to take on a long term concerted action to curb climate change would indeed be a major step forward. No previous environmental issue addressed does entail the same complexity and the same number of links to social and economic development.

The causes of climate change are cross-sectoral. Response strategies will have to take into account the restructuring of all sectors of society. Responding to climate change implies changes at the core of economic activity, such as energy production and consumption, land use and major aspects of technological development. From this it follows that responding to climate change not only constitutes complexities when countries negotiate a coordinated effort, but also when governments shall implement commitments taken on.

The first steps in this coordinated effort should include a number of investments and policy measures undertaken for a number of reasons not only related to climate change, but for the sake of efficient resource management. It should be recognized, however, that the process of responding to climate change basically is an internalization of external environmental costs. Some of these costs may be compensated by gains from more efficient resource management, e.g. increased energy efficiency. In the long run; however, there is a cost, and as the countries of the world move further into more ambitious actions, the costs are likely to increase. The search for cost-effective implementation mechanisms is therefore essential.

II The case for cost-effectiveness.

The convention now being negotiated by the INC should be an instrument for cooperation well into the next century. It is therefore essential that the convention is built on principles and promotes mechanisms for implementation that will work in the long term perspective.

We see therefore a strong case for the climate convention to provide for a gradual process towards global cost-effectiveness. The resources that countries will make available to curb climate change will be limited. To

promote the best results, one should start from least cost approaches and gradually move towards full cost-effectiveness. Since climate change is global in nature, response strategies should also be. Recognizing that those limitations of net emissions now being negotiated will be far from what has been calculated by the IPCC as necessary to balance the global climate, one should be careful to get the best effect of investments in response strategies. Otherwise limited resources in the global response effort could be wasted.

III Common response from a differentiated international community.

During the first three sessions of INC there seems to be agreement that the Convention should be based on the common but differentiated responsibility of countries. So far the main discussion has centered on the different responsibilities, both for causing climate change and for working out and implementing response strategies, between developed and developing countries. Some suggestions have been made for further differentiation within these two groups. Also a number of suggestions have been made as to groups of countries in need of special considerations, with regard to consequences of climate change and with regard to abnormal burdens from response strategies. The discussion points in the direction of rather complicated negotiations on burden sharing, a discussion which reflects the differentiation of country situations.

Thus, in the convention one will have to handle differentiation between developed and developing countries, and probably even other groups of countries will have to be given special consideration.

There are large differences in the opportunities for and national costs of response strategies, even between countries on the same level of development, as well as totally inside the group of developed countries. Countries have different energy sources, energy systems and are in different phases of introducing energy saving technologies. These differences again do create variations in the costs of response strategies. Often it may turn out that countries which have invested the most in reducing environmental damage from their energy sector in the past, will meet the highest marginal costs in the future. With rigid rules of implementation under the Convention, along the lines of previous international environmental agreements, there is a risk of imposing the highest costs on those countries which have had the most elevated environmental policy efforts.

IV The Case for a Comprehensive and Flexible Approach to Commitments

On the background of the points mentioned, the Norwegian delegation to INC has proposed a flexible approach, whereby commitments taken on by countries on a differentiated basis can be implemented jointly with other Parties through a multilateral Clearing-House mechanism.

First of all the delegation of Norway has supported the proposal of the United States in the first session of the INC for a comprehensive approach. This approach will allow parties to choose which sources or sinks of GHG-gases they find most appropriate for response measures. This is one important element of achieving cost-effectiveness. In this respect one will probably have to move forward step by step, as the scientific basis for calculating the climate effects of alternative measures improve. In a first period one might expect that a majority of measures will concentrate on limiting emissions from the combustion of fossil fuels and perhaps on forests as sinks of carbon.

The additional proposal in achieving cost-effectiveness is to separate the commitment of each country Party with regard to curbing and later reducing net GHG emissions from the implementation of measures. This implies that parties could choose whether they want to implement their commitment nationally, or jointly on a bilateral or regional basis. In the short term commitments will be mainly on developed country Parties. One could foresee that Parties confronting relatively high costs of response measures inside their borders, would be inclined to look for joint strategies with other Parties. On the other hand, Parties whose economies permit a fair amount of "no regrets" options, will prefer implementation on a national basis. We foresee that the need and usefulness of joint implementation will grow over time as agreed commitments under the Convention advance.

The advantages of joint implementation will basically be the same as those achieved by a system for tradeable emission rights. This idea has been proposed in a number of studies. The idea is that, given a set of commitments to reduce emissions, a market will direct investments to those projects with the lowest marginal costs. The question remains how such a market based system could be established. The Norwegian proposal could be seen as a practical first step towards a system of tradeable emission rights. It does suggest, however, a market with game rules, particularly with regard to the actual beneficial effects of measures implemented jointly, under the scrutiny of a multilateral

institution. It has also been argued that differences in cost the structures in countries in the base-line year could be reduced in a market oriented system of implementation, thereby avoiding a complicated discussion on burden sharing.

Secondly, countries with no quantitative targets or less strict commitments where "no regrets" low cost limitation measures are widely available, could benefit from investment funding for projects which would otherwise not be funded, projects which would bring other benefits as well. The Clearing-House should give priority to projects presented by developing countries as part of their development plans.

One could therefore perceive the principle of joint implementation as a basis for a new partnership, a win-win game. Because of the mutual interest in low cost implementation, we foresee that the Clearing-House mechanism would provide new funding resources. In this way existing funds for development aid would not be rerouted to environmental programs at the expense of LDC programs for development and poverty reduction. The traditional relationship of "donors and receivers" would be replaced by an equal relationship of mutual interests between equal partners.

V The Clearing-House Mechanism

The option of joint implementation of commitments could be organized through a Clearing-House. The function for the Clearing-House will basically be to receive project proposals from countries with a "surplus" emission "quota", make an inventory of their effect of GHG-limitation, and link projects to investment funding from those Parties which want to meet part of their commitment outside their own borders. The GHG limitation effect of projects will then be credited to the source of funding according to agreed criteria.

The Clearing House is proposed as one out of three elements of the Financial Mechanism of the Climate Convention. The first element is a Climate Fund, set up by contributions from developed countries to cover the agreed incremental costs of commitments that developing countries take on.

The second element would be the Clearing-House, which will provide investment funding for projects that other Parties find justifiable as part of their economic development strategies, and which investing Parties find economically cost-effective in meeting part of commitments.

The third element of the financial mechanism would be to deal with aspects of the identification and transfer of technology.

VI The rules of procedure for joint implementation

It should be noted that projects presented to the Clearing-House, either from a Party or as a result of bilateral or regional cooperation, should be subject to approval by the Clearing-House under the policy control and guidance by the contacting Parties. The multilateral basis of the Clearing-House will be important to establish credibility for the principle of joint implementation.

The scrutinizing of proposed projects will have to be based on criteria agreed upon by Parties of the Convention. Criteria will have to take into account the best available knowledge, with due regard to remaining uncertainty. This will imply that a comprehensive approach will have to be established step by step.

The net limitation in emissions resulting from any specific project should be credited the country or countries that contribute to the financing of the project and deducted from their national commitments under the Climate Convention in accordance with agreement between the co-operating countries and subject to criteria approved by the Parties to the Climate Convention. Such crediting/verification would take place in the review process to be instituted as part of the framework convention. The mechanism would have a large portfolio of potential projects, thereby facilitating a more efficient matching of projects and funds than a system of purely bilateral exchanges.