



Earth Negotiations Bulletin

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A Reporting Service for Environment and Development Negotiations

Vol. 12 No. 79

Published by the International Institute for Sustainable Development

Thursday, 4 June 1998

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-1 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 AIJ, 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 would be 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 responsibilities. The EU said all OECD countries should have stated commit-

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.