

Michaelowa, Axel

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# International Climate Negotiations Gather New Momentum

Expectations for this year's climate summit in Bonn were subdued. The pace of climate diplomacy had considerably slowed down since the historic deal at Kyoto in 1997. The Protocol agreed there set legally binding emissions targets for greenhouse gases for industrialised countries in the period 2008 to 2012. It defined the principles of a number of innovative flexible instruments - joint emission targets, emissions reduction projects with other industrialised countries ('joint implementation') and developing countries (through a 'clean development mechanism' (CDM)) and emissions trading between industrialised countries. These instruments, if applied on a large scale, will substantially reduce the costs of reaching the targets. However, Kyoto had only set up the framework; substantial work on the details of the agreement remained to be done. As was to be expected, the interest groups involved now put a lot of irreconcilable demands on the table. The Buenos Aires conference of 1998 managed only to agree on a list of almost 150 questions concerning the flexible instruments that should be resolved within two years. Speed further decreased when the developing countries blocked any substantive discussion at the interim meeting in June of this year. Moreover, the domestic climate policy environment in major countries has deteriorated. CO<sub>2</sub> emissions have risen by 11 % in the USA since 1990 and by 13% in Japan, even if the increases slowed down somewhat last year. The US Congress is openly hostile towards climate policy and will not ratify the Protocol unless major developing countries accept emissions targets. In the EU, emissions are around the 1990 level but there is no agreement on common policies and measures and only haphazard implementation of national ones. Only a handful of small developing countries has ratified the Protocol so far. The ratification threshold of industrialised countries accounting for 55% of the 1990 emissions is still far from being reached. However, some big companies such as BP Amoco and Shell have started to see the chances offered by the flexible instruments. They have set company-wide emissions targets, started to develop internalemissions trading and are beginning to invest in projects in developing countries.

Prior to the Bonn meeting, the USA wanted to gain time by postponing the 2000 climate summit to 2001 by arguing that the result of the presidential elections may change the domestic background. Many observers feared the blockade by developing countries would continue. The discussion of substantive points of disagreement had been ruled out by all. Thus it was a pleasant surprise that a constructive negotiating climate developed at Bonn. Guidelines for the reporting of national emissions and its independent review have been defined. Kazakhstan and Argentina want to set up emission targets. A consolidated negotiating text on the flexible instruments was agreed. The deadline for results was set at November 2000 at the climate summit in The Hague. Two interim meetings instead of one should allow the speed of negotiations to be increased. Many ministers have called for ratification of the Protocol by 2002.

Which stumbling blocks remain? The issue of emission sinks in general is still open and has been put on hold until the release of a special report by the Intergovernmental Panel on Climate Change. However, the draft report is already available and it is clear that the final version will not answer all the critical questions.

The USA wants the use of the flexible instruments to be unrestricted while the EU has argued that their use should be capped. However, the EU's proposed formula for defining the cap is so clumsy and economically nonsensical that it is unlikely to succeed. Countries in transition are interested in preventing restrictions on the trading of 'hot air', i.e. the gap between their target emissions and their actual emissions caused by the breakdown in the economy, while the EU and environmental NGOs want to minimise hot air trade. The developing countries are eager to get approval on the CDM as they hope for huge investment flows. In contrast to the other instruments, credits from the CDM will already accrue from 2000. Of course everybody wants a share of the cake. Africa, fearing that it will be left behind, argues for regional quotas. Latin America wants forestry projects to be included, which is opposed by most environmental NGOs. The amount of tax to be levied on the CDM to finance adaptation projects has not been specified and it is unclear whether the tax will be extended to cover the other flexible instruments as demanded by the developing countries, who fear distortion of competition. Moreover, the institutional setting of the CDM has to be decided, especially the composition of its executive board.

On emissions trading, India and China have voiced heavy opposition as they regard the current allocation of emission rights as inequitable. OPEC countries are asking for the financial compensation of losses to export revenues. The industrialised countries wish to avoid the blocking of the trading mechanism by linking the negotiations on all flexible instruments.

Some crucial issues have not been tackled at all so far by the negotiators. For the project-oriented flexible instruments, a reference scenario is necessary to calculate creditable emission reductions. The setting of this 'baseline' should avoid crediting of fictitious emission reductions. This is particularly relevant for the CDM as any emission credit enhances the overall emission budget available to industrialised countries. In the case of joint implementation, the emission credit is subtracted from the host country's target, which will avoid the granting of fictitious credits. While being environmentally credible, baseline setting should not be too costly and cumbersome for project proponents. A pilot phase for climate projects abroad which started in 1995 has shown that it is very difficult to develop consistent baselines on a purely project-by-project level. Thus, many have argued in favour of standardising baseline methodologies. This, however, inevitably leads to the adverse selection of projects. Furthermore, it is unclear whether profitable projects should be allowed to earn emission credits or not. Obviously, the private sector would like this to be the case but it would jeopardize the environmental integrity of the Protocol. Researchers should discuss these issues in detail with negotiators but so far no attempt has been made to do so.

For the flexible instruments to be credible, a strong system of independent verification and of non-compliance rules is necessary. Otherwise a country could sell all its emissions permits and then default on its emission target. This is acknowledged by all countries and verification rules are unlikely to pose major problems. However, the kind of sanctions and the triggers for their application remain unclear. In contrast to the baseline issue concrete proposals by NGOs and researchers are on the table. Some argue that a 'compliance fund' should be set up, to be financed by a share of each trade. Others argue for a 'traffic light' approach, where the liability shifts from seller to buyer at specified thresholds.

Climate negotiations have so far been most successful if deadlines had to be met in the not too distant future. As the final days in Kyoto showed, 'negotiation by exhaustion,' can be a powerful vehicle for bridging differences. The EU should concentrate on getting the rules for the flexible instruments sound and environmentally credible by trading in its demand for a cap. However, even if The Hague is successful, the big question remains whether the USA will eventually ratify. The failure of the nuclear test ban treaty has shown that US parliamentarians are willing to sacrifice issues of global importance for short-run domestic policy advantages. Far-sighted politicians should therefore develop ideas for an agreement that can be implemented by a leadership group of countries without the USA.

*Axel Michaelowa*