



NATIONAL ROUND TABLE ON THE ENVIRONMENT AND THE ECONOMY
TABLE RONDE NATIONALE SUR L'ENVIRONNEMENT ET L'ÉCONOMIE

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Global Change Strategies International Inc.
Trade, Environment and Economy

COP4:
KEY OUTCOMES AND IMPLICATIONS
for the
NATIONAL ROUND TABLE on
ENVIRONMENT and the ECONOMY

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COP4: KEY OUTCOMES AND IMPLICATIONS FOR THE NRTEE

Report to the National Round Table on Environment and the Economy
Global Change Strategies International Inc.

This report summarizes relevant outcomes from the fourth Conference of the Parties to the Framework Convention on Climate Change, and outlines implications and possible opportunities for the work on the National Round Table on the Environment and the Economy.

OUTCOMES FROM COP4

The fourth Conference of the Parties (COP4) to the UN Framework Convention on Climate Change was held in Buenos Aires on November 3 – 13th, 1998. On the agenda for COP4 were a number of issues related to both the elaboration of the Kyoto Protocol, and the overall implementation of the Framework Convention. COP4 was the first set of Ministerial-level negotiations on climate change following the adoption of the Kyoto Protocol in December 1997.

After an all-night session finishing on November 14th, Parties adopted the **Buenos Aires Plan of Action**, which will provide a framework for international climate change negotiations over the next two years. The Plan of Action determines to strengthen the implementation of the Convention, and prepare for the future entry into force of the Kyoto Protocol. It contains a series of decisions related to both the Kyoto Protocol, and the implementation of the Convention as a whole. These include:

- Financial mechanism (the role and funding priorities of the Global Environment Facility);
- The development and transfer of technologies;
- Articles 4.8 and 4.9 of the Convention (adverse effects of climate change and mitigation policies);
- Activities Implemented Jointly (the pilot phase for Joint Implementation established in 1994); and
- Preparations for the first session of the COP acting as the meeting of the Parties to the Kyoto Protocol (also known as COP/MOP1), including work on *compliance*, and *policies and measures* for the mitigation of climate change.

Strong emphasis was placed in these decisions on the need for greater capacity building in developing countries. For example, additional guidance was provided to the Global Environment Facility to fund studies leading to the preparation of national programmes, the development or strengthening of national public awareness and education activities, and a series of more general capacity-building measures. Parties also adopted a wide-ranging decision to enhance technology transfer to developing countries.

The final, and most contentious, element of the Plan of Action relates to the 'Kyoto Mechanisms'. Formerly referred to as 'flexibility mechanisms', these include Joint

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Implementation (Article 6 of the Protocol), the Clean Development Mechanism (Article 12), and international emissions trading (Article 17). In what formed the crux of the final deal at COP4, Parties agreed to a *work programme* on these mechanisms, which includes an extensive list of issues to be addressed in time for final decisions in two years at COP6. The work programme was strongly supported by negotiators and observers alike, as it establishes *clear deadlines* for ensuring that the mechanisms are fully operational when the Protocol enters into force.

The work programme on the Kyoto Mechanisms gives initial priority to the Clean Development Mechanism, which is seen by an increasing number of developing countries as an important source of potential new investments in sustainable development-related activities. However, work related to all three mechanisms will proceed in parallel, in time for decisions at COP6 on specific issues, including: guidelines for JI; modalities and procedures for the CDM; and relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability for international emissions trading.

The work programme also includes a list of issues to be addressed in the development of the mechanisms. The list details a host of issues to be addressed by Parties, such as *supplementarity* (whether or not a quantitative limits or 'caps' should be placed on the use of the mechanisms by Parties); *equity and transparency* considerations; and *linkages between the mechanisms* (including the interchangeability or 'fungibility' of credits acquired through each of the mechanisms). Thirty-two issues related specifically to emissions trading were also identified by the Parties, including the definition of tradeable units, tracking and reporting of trades, and the participation by legal entities (i.e. private sector participants) in the regime.

Of the three mechanisms discussed in Buenos Aires, progress was slowest on emissions trading. It was clear from both the tenor of the debate and the wording of the final work programme that the substantive development of an international emissions trading regime will be the subject of protracted negotiations. Developing countries, represented by the Group of 77 and China, continue to voice strong concerns of an ideological or philosophical nature with respect to trading. For example, the G-77 continues to assert that the basis for allocating emission units within a trading regime should be per capita 'entitlements' or 'rights', rather than the targets adopted by Annex I countries in Kyoto. These entitlements would encapsulate each country's *historical* contribution to greenhouse gas emissions, as opposed to the currently accepted baseline of 1990 levels. While this is largely seen as a 'non-starter' by the majority of Annex I Parties, it nonetheless demonstrates the gulf which currently divides Parties on the issue of emissions trading.

At the same time, it is worth noting that splits are clearly developing within the G-77, particularly over the role and use of the Kyoto mechanisms. Several countries, South Africa in particular, openly disagreed with the official G-77 position on the Clean Development Mechanism in Buenos Aires. A number of Central and Latin American countries were reportedly discussing the formation of their own 'umbrella group' at COP4, for the purpose of trading with the Annex I Umbrella Group (which includes Canada, the U.S., and Japan, among others). In



addition, both Argentina and Khazakstan announced their intentions to assume *voluntary commitments* under the Kyoto Protocol prior to the first budget period (2008-2012) – a course of action which is directly opposed by G-77 leaders from China and India. At least part of the motivation for assuming voluntary commitments in these countries is the access they will gain to emissions trading with Annex I parties.

It was also clear in Buenos Aires that emissions trading has considerable support from both the climate change policy community and the private sector. A record number of business representatives attended COP4, many of whom participated in workshops on a variety of technical and policy-related topics. In addition, over 80 people and organizations participated in the Inaugural meeting of the International Emissions Trading Association (IETA), which was held in conjunction with COP4. The notion of establishing IETA grew from the work of the Earth Council-UNCTAD Policy Forum on emissions trading. The Policy Forum, which was begun in Chicago in 1997, has held three meetings to date (June 1997- Chicago, November 1997 – Toronto, and May 1998 – London), each attracting more and more people. As well, the Policy Forum has recently received \$1.25 million from the UN (Turner) Foundation to continue its work. When the meeting for IETA was called, however, there was somewhat of a backlash from some business groups in the USA who were concerned about potential possible UN involvement in what they felt should be a private sector run initiative. All these issues surfaced during the November 12th dinner meeting, and it was agreed that a step back as needed to get the direction of the group right. To that end, three “volunteers” will consult and draft a mission statement for the IETA – Richard Sykes of Shell International will lead the group comprised as well of Paulo Probstasio of the Brazilian Business Council and Bjorn Stigson, president of the WBCSD. The mission statement will be ready early in 1999.

IMPLICATIONS FOR THE NRTEE

The National Round Table has played an increased role on the climate change issue in Canada over the course of the past two years. The Forum on Climate Change convened by the NRTEE in 1997 brought together members of the Order of Canada in a unique fashion to advise the government and the Canadian public on the climate change challenge. Key elements of the Declaration issued by Forum members included support for the establishment of a National Atmospheric Fund. Further work by Forum participants and the NRTEE is likely to feature the potential of this initiative.

In addition, the NRTEE is applying its multistakeholder approach to the development of policy options on emissions trading domestically through its Greenhouse Gases Emissions Trading Program. NRTEE members also participate in the work of the National Issue Tables, as part of the national implementation process established by the federal and provincial governments to respond to Canada's climate change commitments.

In addition to its direct climate change program initiatives, a number of the NRTEE's other program areas have the potential to contribute significantly to domestic and international efforts on climate change. In particular, the NRTEE's Eco-efficiency Program and Sustainable Cities



Initiative offer opportunities for enhanced cooperation and policy development in key issues related to the elaboration and implementation of the Kyoto Protocol.

The following suggestions have been developed in the context of the NRTEE's mandate to identify, explain and promote the principles and practices of sustainable development at the national level. Emphasis has been placed on integration with ongoing program activities, as well as building on past successes.

i) Kyoto Mechanisms

While upcoming negotiations to establish an international emissions trading may prove difficult, the Plan of Action nevertheless establishes a clear timeline for decisions on the key elements of its design. Many Annex I Parties, including Canada, will also begin exploring options for the development of domestic trading systems over the course of the next two years. As such, current NRTEE initiatives, such as the development of options for a Canadian system, as well as its upcoming international workshop on emissions trading, will help maintain momentum and provide opportunities for valuable information-sharing.

With the establishment of a working group on domestic emissions trading under the national implementation process, the NRTEE does not plan to continue work on policy issues related to emissions trading. If the NRTEE wishes to pursue a substantive policy agenda in this regard at a later date, however, it may wish to consider focusing its efforts on issues relevant to *all three Kyoto mechanisms*. This would enable the Round Table to concentrate its resources on issues that will have maximum relevance to the elaboration of the Kyoto Protocol as a whole. Examples of possible themes could include *auditing and verification; compliance issues; or issues related to transparency and accountability*.

The NRTEE may also wish to explore cross-linkages between its Climate Change Program and other ongoing NRTEE initiatives. For example, its work with the World Business Council on Sustainable Development in designing and implementing a core set of eco-efficiency performance indicators could offer valuable insights to ongoing policy discussions on climate change. Of particular interest could be the potential application of these indicators, particularly in the area of energy intensity, to the establishment of national or sectoral baselines for projects under the CDM or joint implementation (baselines must be established for these projects in order to calculate whether or not the resulting emissions reductions are greater than those which would have occurred in the absence of the project activity). The NRTEE's work in this regard could also provide useful insights into discussions on alternative forms of non-Annex I commitments under the Protocol.

Similarly, the NRTEE could consider integrating climate change considerations more fully into its Sustainable Cities Initiative. This initiative, which aims to strengthen and develop Canada's competency in urban-based public-private infrastructure (PPI), focuses on 'urban scale' projects such as transit systems, water supply and wastewater treatment facilities, and district heating systems. Many of these projects have significant greenhouse gas emissions reduction potential. The NRTEE may wish to explore fostering on-the-ground partnerships on a pilot basis between



Canadian companies and 'short listed' cities in climate change-related areas, with particular focus on projects that could qualify for credits under the CDM. Such an initiative could provide Canadian companies and policy makers with valuable CDM-related experience which could help inform Canada's longer term CDM strategy. Partnerships could also be explored with various players, such as the new JI/CDM office at the Department of Foreign Affairs, the Federation of Canadian Municipalities (FCM), or the International Council for Local Environmental Initiatives (ICLEI).

ii) Capacity Building

Another critical issue to which the NRTEE could make a considerable contribution is in the area of capacity building. As indicated above, this is an increasingly important issue in virtually every aspect of the Kyoto Protocol and the Framework Convention as a whole. Decisions approved by the Parties in Buenos Aires underlined the importance of capacity building to enable non-Annex I countries to participate effectively in the Protocol and the Convention. Creative and easily replicable models are badly needed as countries struggle to address various elements of the climate change challenge. The NRTEE is well placed to share its experience as a balanced forum for consensus building, public education, and the development of policy options.

In terms of the Kyoto mechanisms, it is clear that considerable effort needs to be expended internationally over the next few years, to both increase general understanding of the purpose and functioning of these mechanisms, and to resolve outstanding technical and methodological questions. The NRTEE's upcoming workshop on emissions trading could offer a valuable opportunity to support this process of education and capacity building, particularly amongst non-Annex I countries. If so, it is suggested that the NRTEE consider approaching the Earth Council-UNCTAD Policy Forum on Emissions Trading as a potential partner in this initiative. The Policy Forum has a mandate to engage in public outreach and education on emissions trading, and, as noted earlier, recently received a significant grant from the UN (Turner) Foundation to assist them in fully this mandate.

In addition, the NRTEE may wish to consider potential capacity building initiatives in the area of public outreach and engagement in decision-making more generally. The NRTEE Forum and proposed regional roundtable models would be extremely valuable to non-Annex I countries, who are currently evaluating how best to address the climate change challenge in their countries. In fact, the majority of non-Annex I action plans surveyed by the U.S. Country Studies Program identified a pressing need to improve the awareness of the general public about the potential threats of climate change. In addition, many of these countries underlined the importance of building consensus on climate change issues amongst decision-makers and members of the public¹. The NRTEE offers a world-class model of just such an approach.

The NRTEE may wish to explore opportunities to highlight this model internationally, and provide training opportunities for other countries, particularly non-Annex I Parties. One possible

¹ National Climate Change Action Plans: Interim Report for Developing and Transition Countries, U.S. Country Studies Program, 1997.



venue could be related to the ongoing development of National Communications, currently underway in many developing countries around the world. As a company actively engaged in capacity building exercises in many of these countries, GCSI may be able to help position the NRTEE in this fashion.

Many opportunities exist for the NRTEE to build on its existing and past work on climate change and other sustainability issues. With its multistakeholder and consensus-based approach, the NRTEE is uniquely placed to contribute to policy development and international capacity building efforts related to all aspects of the Kyoto Protocol and the Framework Convention on Climate Change. As a first step, the NRTEE may wish to explore opportunities to partner with a number of international organizations and institutions on a pilot phase. This will enable the NRTEE to further refine the niche it wishes to fill on the climate change issue in the lead-up to COP6.

Fax Cover Sheet



To: David McGulnty

Date: Dec. 16/98

Fax #: 992-7385

Re: Final Revisions to the
NRTEE Paper

From: Cathy Wilkinson

Total Pages (incl. cover): 8

David:

As requested, the COP4 Paper with final revisions.

If you have any questions, please feel free to contact me.

Cathy