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# Climate Change: Kyoto Protocol – Next Steps for North-South Cooperation

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Market-Based Mechanisms to Combat Global Warming



Report of a Panel Discussion  
convened by the  
NGO Committee on Sustainable Development

Sponsored by the  
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*The Committee on Sustainable Development is a Committee of the Conference of Non-Governmental Organizations in Consultative Relationship with the United Nations (CONGO). Comprised of international organizations with members in countries around the world, the purpose of the Committee is to monitor the implementation of commitments included in Agenda 21 and other agreements adopted at United Nations meetings that pertain to sustainable development, including economic, social and environmental aspects. The committee promotes and facilitates the exchange of knowledge and the dissemination of information on these issues. Permission is granted to reproduce text from this report with appropriate acknowledgement.*

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## Preface

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On the day of this meeting the temperature had risen to an abnormally high 90 degrees for early May. A fitting reminder of the findings recently released by the United Nations' Intergovernmental Panel on Climate Change. It was also shortly after President George W. Bush had announced his opposition to the Kyoto accord.

Mindful of the remark, attributed to Mark Twain, that everyone talks about the weather but no one does anything about it, the subject of this meeting was to examine the pragmatic, market-based proposals that had been introduced into the ten-year negotiations to reduce the manmade greenhouse gas emissions that contribute to global warming.

The Clean Development Mechanism, Joint Implementation, and Emissions Trading had been the focus of intense debate at The Hague meeting of Parties to the UN Climate Change Convention (COP 6) in late November — so contentious that the session ended without resolving these issues and its President Jan Pronk was forced to reconvene the session in Bonn in July 2001.

While the debate centered on the complexities and potential economic impacts of these procedures, the purpose of our meeting was to provide a public

forum for explaining the loopholes and the breakthroughs that might occur if these market strategies were put in place. Here, then, are the perspectives of five active players in the ongoing negotiations. All continue to hold the door open for the United States to return to the negotiating table. Whether or when this country, which is responsible for 23 percent of global greenhouse gas emissions, responds constructively to that invitation, remains uncertain at this writing. But the nations that have devoted ten years to working out a fairly negotiated agreement on targets and procedures are continuing the process. Global warming is not something that can be changed with a flick of a switch. It has been compared to a giant supertanker that takes time to turn around.

On behalf of the NGO Committee on Sustainable Development, I wish to thank UNEP for sponsoring this meeting and assisting in the publication of this report. We sincerely hope that by venting these different perspectives, the concerned public will better understand why these mechanisms could be an important step in slowing global warming and at the same time a positive way to involve developing countries in the process.

*Patricia J. Scharlin*

July 2001

Co-chair, NGO Committee on Sustainable Development  
UN Representative of the Rainforest Alliance

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## Introduction

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The UNEP Director, serving as the host and sponsor of the meeting, opened the discussion with the comment that there is rising anxiety around the world about global warming. It is an issue that reminds us of our interdependence and global inter-connectedness, he said. Moreover, the stakes are very high since the costs of global climate change are very high as are the costs of doing nothing about it.

The mission of the United Nations Environment Programme (UNEP) is to translate scientific findings into sound policy advice. He reminded the audience that UNEP worked with the World Meteorological Organization (WMO) to create the Intergovernmental Panel on Climate Change (IPCC) in 1988. The IPCC, composed of over 2,000 scientific and technical experts from around the world, has produced two comprehensive assessments during the last decade — the second of which established scientific consensus in late 1995 that human activity is affecting the global climate.

Each of these assessments was followed by a major international agreement: the creation of the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 and the Kyoto Protocol in 1997.

Three scientific working groups recently completed a third assessment that has found global warming to be occurring faster than previously thought. The Kyoto Protocol builds on the Framework Convention and specifies three flexible mechanisms to help meet the

challenge of combating climate change: Emissions Trading, Joint Implementation activities (JI) and the Clean Development Mechanism (CDM).

The last Conference of Parties to the treaty (COP6) failed to reach agreement on the operational details for Emissions Trading, JI and CDM, among other issues, when it met in The Hague in November 2000. Then in April of this year, Mr. Amin said, the Bush administration announced it would not accept the Kyoto Protocol, although since then there have been recent movements forward.

The COP6 President, Dutch Environment Minister Jan Pronk, remains hopeful that progress can be made when the formal talks resume in Bonn, Germany, in July. The United States has said it will be participating.

UNEP's Executive Director Klaus Toepfer has said that the U.S. cannot be ignored by the negotiating parties since it emits around 23 percent of greenhouse gases. "While it is an important part of the problem, it is also an important part of the solution. It has the advanced economy with the technology able to avert the threat posed by climate change."

Whether governments can reach agreement in Bonn or not, it is imperative that action to reduce emissions begin now. There is much to gain by making the world less energy dependent and more climate friendly.

*Adnan Z. Amin*

Director, UNEP New York Office

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## Daniel Lashof

*Senior Scientist, Natural Resources Defense Council*

Dr. Lashof noted that UNEP has played a very important role in negotiations over the last decade. He said the CDM has been called the “Kyoto surprise,” because it was negotiated behind the scenes by the United States and Brazil, based on a modification of a Brazilian proposal. It has been viewed with suspicion by various parties and environmental groups, seen as a potential loophole that would allow the U.S. to comply with the Protocol without making any real reductions in greenhouse gases. The CDM is a system that would give industrialized countries credit for financing technologies in developing countries aimed at reducing emissions.

But should the CDM be “relegated to the dustbin of history” given that President George W. Bush has indicated no interest in negotiating the Protocol? His answer was “a definite ‘no’” for two reasons: First, the CDM leaves the door open for future U.S. participation. Meanwhile, the other parties need not wait for the U.S. to continue their work on the Protocol but they should not ignore legitimate U.S. concerns. He believes that it is now up to Europe and Japan to exercise leadership in finishing negotiations on the rules and to secure — by the World Summit in September 2002 — a coalition of parties that will ratify the agreement so that the Protocol can enter into force despite U.S. non-participation.

Dr. Lashof did not expect the Bush administration to reverse its position any time soon. “Their position is driven, in my view, by ideology and special interests and appears to be immune to analysis and negotiation,” he said. This does not mean that U.S. views should be ignored, because it is in everyone’s interest to have the U.S. participate and join at some point. This could happen before the first implementation period, Dr. Lashof added.

He noted that there is overwhelming public support for reducing emissions in the U.S., and environmental organizations will continue to gather public support and to pressure the government. Over the next few years they will work hard to convince U.S. legislators to enact legislation that will reduce carbon dioxide pollution from power plants and automobiles, the two largest sources of global warming in the U.S., that together account for about 80 percent of the

emissions growth in recent years. Proposals to clean up power plants and cars have broad public support, he said, and there is a real opportunity to pass such legislation over the next few years. Given this, the upcoming congressional elections in 2002 and a possible change of administration after the next presidential election in 2004, there are real prospects for making significant reductions in emissions. The U.S. could be “within striking distance of complying with Kyoto targets, taking into account the flexibility mechanisms” in the agreement. (The U.S. target is a cut of 7 percent below the 1990 level.)

The second reason to keep working for an effective CDM, Dr. Lashof said, is that it “represents a mechanism to promote clean development in developing countries.” However, he cautioned that the CDM could be a giant loophole that gives industrialized countries emission credits for projects that they were already planning, or worse, for projects that are environmentally destructive. It is increasingly recognized that the CDM does not, in fact, transfer any emissions reduction obligations to developing countries. Participation is entirely voluntary. But what it does is to give industrialized countries an alternative that lowers the cost for industrialized countries and provides new resources for sustainable development.

The political debates concerning the CDM in The Hague focused on project eligibility and governance. In particular, whether nuclear power projects or land-use change and forestry projects should be eligible; and the composition and selection process for the executive board. These are important issues that must be resolved. And they almost were at The Hague, he said.

He noted that the U.S. brought significant analysis and expertise to the negotiating process, particularly with regard to the CDM, that must now be replaced by other parties.

Other important aspects of the CDM that were not given due attention at The Hague meeting were “environmental additionality, environmental impacts and public participation. “Environmental Additionality” he described as “giving credit only where credit is due. In other words the emission reduction credits generated by CDM projects must represent real reductions to the

atmosphere that would not have happened without the CDM mechanism itself.” He added that unfortunately there are incentives built into the CDM that tend to push governments in the direction of using it as a loophole that could result in higher rather than lower global greenhouse gas emissions. This is because the cheapest project to fund is one that would have happened anyway and at no additional costs. Developing countries might take advantage of this as long as they get additional resources. Dr. Lashof stressed that by allowing bogus credits resources to developing countries would actually be reduced. “If the market is flooded with cheap credits, then legitimate projects will be crowded out and the price of credits will fall and the total resource transfers that the CDM might have otherwise generated will diminish.” This problem can be avoided, he added.

“Remarkably, President Pronk, in his informal set of proposals offered in the wake of The Hague standoff, was silent on what project baseline would be used to measure environmental additionality — the credits that would be generated from a particular project. We need to insist on rigorous methodologies and standardized baselines for projects that ensure that credit is only issued where credit is due.” He said that priority should be given to small-scale renewable energy and energy efficiency projects. And “large-scale coal and nuclear projects should be excluded.”

The second essential provision is to establish a rigorous environmental impact review process for clean development projects, so we can be sure that the CDM

supports projects that provide net benefits, not only for greenhouse gas emissions, but for the local environment, that they don’t displace indigenous people and that they don’t have any unanticipated negative consequences. All CDM projects, and especially carbon sinks if allowed, should be subject to transparent assessments of environmental and social impacts. These should be prepared by independent auditors using international standards and with full public participation including the opportunity for review and comment.

The third issue is that we establish procedures that guarantee public participation in all phases of the project cycle. Public participation will help guarantee that the first two conditions are met (environmental additionality and positive environmental benefits). He suggested that project design documents, assessments, public comments, monitoring and verification reports, and all other relevant information should be made available on the UNFCCC web site when this information is made available to Parties. This would give the public “meaningful opportunities to participate in the process.”

In concluding, Dr. Lashof said that the United States has abdicated its responsibility to take the lead in international efforts to combat global warming. Other parties need to continue to protest this vigorously. They need to fill the vacuum and adopt sound rules for implementing the Protocol and bring it into force “while leaving the door open to future U.S. participation.” If they do that he believes that over the next several years the U.S. will come back into the process in a productive way. ■

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## Kevin Fay

*President, International Climate Change Partnership (ICCP)*

As a representative of an industry coalition with members in the U.S., Canada, Europe and Japan, Mr. Fay opened his presentation by saying, “The job of the ICCP is not to make the policy process faster or slower but to make it go smarter.” He noted that the range of views on the science of climate change within the private sector is “all over the map” but the consensus is that it is “a serious environmental concern.” He recognized that there is no magic bullet that will solve the problem of climate change, but rather that it is a very complex issue. There are some in the business community that are very much opposed to the Kyoto Protocol

and they are very outspoken, especially in the United States. Yet around the world most want to deal with the issue as long as policy makers lead the way. The balance between environmental and economic interests in the climate negotiations is yet to be determined, as are the target timetables for market-based mechanisms and the inclusion of sinks and tradable credits.

There are three points in the UNFCCC that his organization supports. First, there is the commitment to reduce emissions, though non-binding. Second, there is a commitment to stabilize greenhouse gases at a certain level, though unspecified. Third, there is the notion of

“common but differentiated responsibilities” for developed and developing countries. While “we recognize that there will be differentiation, we also recognize that ultimately from an environmental credibility standpoint and from an economic viability standpoint, both developed and developing nations must have a role in this process for the long term.”

What is most significant about the Kyoto Protocol is the decision to use market-based mechanisms as the means of achieving binding commitment. He warned that this does not mean that the private sector is enthusiastic about the targets and timetables; rather there is “an extraordinary amount of concern that the targets may be too much, too soon.”

It’s important to note that in the Kyoto Protocol the governments chose to abandon the traditional method of “command and control” environmental regulation. His organization recognizes that Kyoto is a work in progress and it is not ready for ratification yet.

Recently some very negative signals have been sent to the private sector that gives us concern about the workability of the agreement. As mentioned above, these problems are in the areas of sinks, the fungibility of tradable units between emissions trading, the CDM, and JI. Now there is the issue of technology lists of what you can and cannot use. “These lists are not something the private sector wants to see; we’d rather see national sovereignty prevail,” he said.

Another problem with the Kyoto Protocol and with UNFCCC is that there is no long-term objective of how you define success. The concern is that Kyoto only covers a five-year period; we don’t know what the ultimate objective is. The scientific community has not yet focused on this. The lack of a long-term objective discourages developing country participation whereas “if everyone understood the long-term objective it would be better.”

We need to start to consider the role of developing countries beyond just the CDM and to address the notion contained in the UNFCCC of “common but differentiated responsibilities.” For the sake of environmental credibility, he said, “If we’re trying to prevent the atmosphere from doubling or tripling its concentrations of greenhouse gases, then that includes everyone. And yes, there are some equity issues involved, but ultimately everybody must participate. It is okay to differentiate. That probably means there are going to be funding discussions about providing assistance to developing countries for capacity building and other activities.” Negotiators haven’t gotten to that discussion yet because everyone has been focused on the first target and timetable of the Protocol.

Mr. Fay then mentioned a few specific developments at The Hague meeting that, he said, were not constructive and needed to be resolved if the process is to go forward. One concerned the “fungibility” of the units of the CDM. He said that it was either unclear or decided against. “If these units are not fungible then we don’t have a CDM,” he asserted.

The controversy over carbon sinks was another. Mostly developed nations parties were not able to agree at The Hague on whether sinks should be included in the CDM. The Pronk paper did address this saying the issue will be researched and taken up again at the next Conference of Parties.

The creation of lists of technologies to be prohibited is not liked by the private sector: For example, the prohibition of nuclear power from being counted as a CDM project. While there are many debates in the United States and around the world about the viability of nuclear power, he felt it was problematic to start a precedent of creating such lists. “Just as governments are able to decide whether or not to participate in the CDM, they should be able to decide what technologies are suitable for their countries.”

The fact that the CDM is not resolved, he said, is a “lost opportunity, because it’s the only provision of the Protocol that allows for some addition to developing country budgets.” Most industry representatives think the CDM is important in the short term because more than 50 percent of the infrastructure investment taking place in the world today is in developing countries. It is important that this investment be the most “climate efficient” possible. The CDM is a step in this direction but ultimately full developing country participation in the process is what is going to ensure that that investment is what is best for the climate.

Although the Protocol has established a useful outline for proceeding, the current concern has to do with two factors — the targets and timetables, and the developing country issue — at least politically in the United States. Mr. Fay noted that the Pronk paper is useful in that it assures that CDM credits will be fungible, but it may not be enough. He closed by agreeing with Dan Lashof that it would be foolish to expect that this administration would be able to have a concrete position to deal with the types of issues that are being put forward for discussion in July.

The Kyoto Protocol’s key decision was to employ a market-based mechanism approach. If they want private sector participation, they need to ensure that those mechanisms are going to work as efficiently as possible and they need to keep that in mind if they want U.S. participation in the future. ■

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## Mohammad Reza Salamat

*Counsellor, Permanent Mission of Iran to the United Nations and Representative of the Group of 77 and China*

Mr. Salamat first emphasized the importance of addressing climate change issues. He listed issues that are of direct interest to the developing countries: funding mechanisms, technology transfer, capacity building, the articles of the Convention that talk about how adverse affects of climate change should be mitigated. He said he would discuss the future of the Kyoto Protocol first, and secondly the positions and concerns of developing countries regarding the Clean Development Mechanism. He said that while he agreed with many of the positions of the previous two speakers, there were certain points where his perspective, that of the developing nations, differed. He added that efforts were being made to reconcile the economic concerns of the oil-producing states and denied that these countries were obstructing negotiations on the Protocol.

He addressed the recent pronouncement of the Bush administration, listing the reasons given for the U.S. rejection of the Kyoto Protocol. First, there is the uncertainty about the science of climate change. Second, there is the belief that the Protocol is unfair to industrialized countries and third, the belief that the Protocol will harm the economy of the U.S. Addressing the first point, he said that the Third IPCC Report predicted higher global emissions than the Second, which should necessitate immediate action and ratification of the Protocol. "We cannot wait until we have full scientific understanding of climate change before taking action," he said.

Addressing the point about unfairness of the Protocol to developed countries, he called attention to the widely acknowledged fact that industrialized countries emit most of the greenhouse gases. It was also politically acknowledged in the Framework Convention, which brought agreement between the countries of the South and North that the developed countries should take the lead in combating climate change. Secondly, developing countries' energy consumption would naturally increase to meet their development and poverty reduction needs. This will result in increased emissions of greenhouse gases by the developing countries. This has also been clearly recognized in the UNFCCC. The Convention states as a principle that developing countries will not have any specific targets for meeting climate change. However under article 4.1, these countries have been

asked to take measures to mitigate climate change anyway, despite the absence of specific targets or timetables. He referred to the general commitment taken by all countries to reduce greenhouse gases under the Convention. Thus it is not accurate to say that developing countries have not undertaken any commitment.

He then turned to the Bush administration's contention that the Protocol provisions will cause economic harm to the United States, and that this concern was not recognized during the negotiations. But in response to this assertion, Mr. Salamat pointed out that the Kyoto Protocol was largely inspired by the "thoughts and theories" of the United States. Issues such as emissions budgets, multi-tiered targets and the need for a long-term approach were ideas that came from the U.S. and have been incorporated into the Protocol. Moreover, the mechanisms (CDM, Joint Implementation, and Emissions Trading) are U.S. proposals. There was a lot of resistance from the European Union and developing countries over uncertainties about these mechanisms and their impacts, but they accepted the mechanisms anyway, just to have the U.S. in the negotiations. In particular, he stated, "Emissions trading was quite unfamiliar to developing countries, and we didn't really know what we were agreeing to, but in order just to have the U.S. and others in we made these concessions."

The targets were also lowered for the United States. Sinks were allowed for the same reason. There was a lot of resistance to the U.S. proposal that all six gases\* should be included as a "basket," but the developing countries nonetheless accepted it.

What will happen if the U.S. is not in the negotiations? Mr. Salamat asked. What about those less developed nations that don't have the capacity to adapt themselves to the adverse affects of climate change? What will happen to ten years of negotiations? "We, the developing countries think that this stance of the Bush administration sends a bad message to the international community — particularly in an increasingly globalizing world," he remarked. This withdrawal from multilateral processes is not limited to climate change or the Kyoto Protocol but rather seems to be part of a new overall strategy of the Bush administration. He mentioned the withdrawal from the International

Criminal Court as one example.

One could argue that this is a new unilateralism on the part of the U.S. He added, "While I agree that efforts should be made to bring the U.S. back into the process, at the same time I think a clear message should be sent to the Bush administration by the rest of the world that their approach to critical international issues like climate change is not acceptable so that they reconsider their approach."

Mr. Salamat then referred to the positions of the major parties to the Kyoto Protocol concerning ratification of the agreement in the absence of U.S. participation. Developing countries have sent a clear message that the UNFCCC and the Kyoto Protocol are both

valid international instruments and should be ratified. "The U.S. has signed, but not ratified both instruments," he noted. "There are some international norms that once you sign something you are not bound to ratify it but you are morally bound not to take steps at the domestic level that might create obstacles to ratification, and the Bush administration is clearly creating a lot of obstacles at the domestic level."

We will not close the doors but this does not mean that we will accept whatever they propose," concluded Mr. Salamat. ■

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\* The greenhouse gases covered by the Kyoto Protocol are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons and sulfur dioxide.

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## Julio Garcia-Burgues

*Head of the Unit for International Matters, Trade and Environment, Environment Directorate General of the European Commission*

Mr. Garcia-Burgues stressed that the European Union remains strongly committed to ratification and entry into force of the Protocol by 2002. He stressed that this is a firm political commitment made by the European heads of state and government. He reiterated Mr. Salamat's comments that climate change is very real and that in fact it is more serious than previously thought. He pointed out that the IPCC estimates that within the century there will be an average increase in temperature of between 1.4 and 5.8 degrees centigrade. "This really is a huge global warming that will have very detrimental impacts particularly in the poorest countries which have limited technical and financial means to adopt adaptation measures."

Addressing this challenge requires leadership and action by industrialized countries. "We are the main cause of climate change and we need to set an example by reducing our emissions of greenhouse gases." This is fully consistent with the principle of common but differentiated responsibilities reflected in the Convention, he said, but added, that it is also an ethical imperative. He emphasized that the governments would prefer to have the U.S. on board. "The U.S. is the biggest polluter and its involvement is clearly very important." For this reason, he said, the EU was prepared to talk about the specific problems the U.S. might have. "But for us it is essential that this is done

within the Kyoto Protocol which is the only existing process to combat climate change." He remarked that the EU was ready to be flexible and would try to accommodate the U.S. concerns. In fact, many of these concerns are already reflected in the Protocol.

The European leaders do not believe the Protocol is dead. "One party cannot stop progress by others." At present there is an overwhelming majority of countries that stand ready to keep working on the basis of the Protocol. The EU is convinced that the negotiations should be continued at the resumed COP-6 in July toward entry into force of the Protocol by 2002. In this context Mr. Pronk's recent proposals are a good starting point.

Concerning CDM, Article 12 paragraph 2 of the Protocol states CDM is to help developing countries achieve sustainable development in addition to reducing greenhouse gases. Thus there should be a double dividend. This double dividend raises two fundamental conceptual problems. The first is how to ensure that CDM projects contribute to sustainable development. The second is how to ensure that the emissions reductions achieved through CDM are real and credible. Regarding the first problem, the EU is in favor of CDM projects that meet the objectives of the developing countries' national strategies for sustainable development. The second problem could be resolved through

the “positive list approach” or the identification of specific categories of projects that would be eligible under the CDM (not favored by industry). While this is our preferred approach, some of Mr. Pronk’s proposals could provide a basis for compromise.

We also agree with Mr. Pronk that nuclear projects should be excluded from the CDM because of the many risks associated with them. Also at issue is whether other projects with detrimental social and environmental impacts should be excluded. Large hydropower projects for instance.

Regarding the credibility of emissions reductions — the environmental integrity of the CDM — this requires the establishment of transparent validation, monitoring, verification and certification procedures. These are essential to ensure that the reductions are accurately measured or calculated. Safeguards must be established to ensure that cost efficient projects that would be financed under normal market conditions (“business as usual”) are not included under the CDM.

The sinks issue is one area where our thinking diverges from Mr. Pronk’s proposal. We believe that sinks should be excluded from CDM projects as long as issues surrounding scientific uncertainty, scale and risks have not been resolved. At present the removal of atmospheric carbon dioxide emissions through sinks cannot be calculated in a reliable manner. At the same time there could be possible negative impacts on biodiversity that should also be addressed.

The equity issue — how to ensure that the CDM

operates in an equitable manner taking into account also the principle of common but differentiated responsibilities — raises the question of financial additionality. The CDM has been designed as an instrument to mobilize “new and additional financial resources” in favor of developing countries. This means that the funds available under other existing instruments should not be diverted into the CDM. Here the EU agrees with Mr. Pronk that if public funds are used to finance CDM projects, they should be additional to other financial obligations. However, less developed nations could be disadvantaged in the operation of the CDM because their projects would tend to be smaller and less interesting from an economic perspective. Mr. Burgues suggested two solutions to this problem. First, to establish accelerated procedures for small CDM projects and second, to reduce transaction costs by excluding small projects from the share of proceeds envisaged in the Protocol to finance the functioning of the CDM and the adaptation fund. We are happy to see that these two elements are included in the Pronk proposals.

Mr. Garcia-Burgues agreed that the CDM should not be thrown away just because of the uncertainty surrounding the U.S. position. The CDM is an innovative instrument that would allow concrete and practical projects, make environmentally sound technologies competitive, and it would contribute to building confidence and mutual trust between developed and developing countries. For this reason “the CDM should have a prompt start.” ■

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## Ted Ferguson

*Department of Foreign Affairs and International Trade, Canada*

Mr. Ferguson said that Canada viewed the CDM and JI as extremely important mechanisms for engaging developing countries, for transferring clean technology, and for looking at the role of forestry and agriculture in the climate system and to improve sequestration in those cases. These are unique parts of the Protocol that one hasn’t often seen in previous international environmental agreements, namely, provisions that actually engage the market/private sector in ways that help to attain the targets. But there is a push and pull between the private sector views vs. developing country views. While everyone has more or less the same environmental goal in mind, it

is a challenge to create a system that is satisfactory to so many different countries and viewpoints. For example, the many different industry opinions and policies that must be integrated into the mechanism. We should not forget our fundamental environmental goals in the midst of this complicated process.

With regard to the implementation of the CDM, there is uncertainty about the rules for the mechanisms. The negotiations and the procedures for implementation are closely linked. Moreover, there is a lot of activity going on (much of it led by the private sector) in terms of looking at the economic value of emissions reduction.

The private sector is looking to government to set up the rules of participation in the mechanisms. Without agreement on these rules, the full potential of these mechanisms will not be realized. Also there will be reduced investment in developing countries in clean technologies and renewable energy that otherwise might have occurred.

The “uniqueness” of the Clean Development Mechanism, Mr. Ferguson said, was best described by a colleague from Colombia who commented that this mechanism was unique because it could satisfy the needs of a rich country and a poor country at the same time. It does this by attaching economic value to the reduction/sequestering of greenhouse gases. While there is general support for the concept, a number of technical issues need to be resolved.

In the negotiations we have gone to great length to define the very complicated technical aspects of these mechanisms. Several years of meetings and negotiations have gone into negotiating a text that is clear. That is what industry has asked for — clear rules and how to participate in this market. “Clarity and transparency are key,” he asserted. “A credit has to equal a one-time emissions reduction or sequestration.”

In Canada the government has an office that

engages high emitters looking for credits, with technology providers and project developers. It is part of a program with the World Bank called the Prototype Carbon Fund — a mutual fund of investors investing in emission reduction projects ahead of the completion of the Kyoto Protocol. “We’ve been getting a great deal of learning experience from that process, indicating a good window into what the CDM and JI could offer in the future.”

A general list of market-based mechanisms, he believed, was a “win-win” arrangement for developed and developing countries, especially encouraging private sector involvement in emissions reductions. Climate change is such a huge problem that the private sector must be involved in the solution and can help to stimulate technology transfer and capacity building at the same time. Benefits to the host country can include improved energy efficiency, improved air quality and access to climate-friendly technology. Through voluntary participation, industry can signal where CDM efforts should be directed. There will be opportunities for companies from both developed and developing countries. He concluded saying, “We’re really enthusiastic about CDM and other market-based mechanisms under Kyoto and we’d really like to see them go ahead.” ■

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# Appendix

## Texts of the Articles referred to by the presenters

### Article 4, Paragraph 1, Joint fulfillment of commitments

Any Parties included in Annex I that have reached an agreement to fulfill their commitments under Article 3 jointly, shall be deemed to have met those commitments provided that their total combined aggregate anthropogenic carbon dioxide equivalent emissions of the greenhouse gases listed in Annex A do not exceed their assigned amounts calculated pursuant to their quantified emission limitation and reduction commitments inscribed in Annex B and in accordance with the provisions of Article 3. The respective emission level allocated to each of the Parties to the agreement shall be set out in that agreement.

### Article 6, Transfer and acquisition of emission reduction units (Joint Implementation)

1. For the purpose of meeting its commitments under Article 3, any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that: (a) Any such project has the approval of the Parties involved; (b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur; (c) It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7; and (d) The acquisition of emission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3.
2. The Conference of the Parties serving as the meeting of the Parties to this Protocol may, at its first session or as soon as practicable thereafter, further elaborate guidelines for the implementation of this Article, including for verification and reporting.
3. A Party included in Annex I may authorize legal entities to participate, under its responsibility, in actions leading to the generation, transfer or acquisition under this Article of emission reduction units.
4. If a question of implementation by a Party included in Annex I of the requirements referred to in this Article is identified in accordance with the relevant provisions of Article 8, transfers and acquisitions of emission reduction units may continue to be made after the question has been identified, provided that any such units may not be used by a Party to meet its commitments under Article 3 until any issue of compliance is resolved.

### Article 12, Clean development mechanism

1. A clean development mechanism is hereby defined.
2. The purpose of the clean development mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3.

3. Under the clean development mechanism: (a) Parties not included in Annex I will benefit from project activities resulting in certified emission reductions; and (b) Parties included in Annex I may use the certified emission reductions accruing from such project activities to contribute to compliance with part of their quantified emission limitation and reduction commitments under Article 3, as determined by the Conference of the Parties serving as the meeting of the Parties to this Protocol.
4. The clean development mechanism shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to this Protocol and be supervised by an executive board of the clean development mechanism.
5. Emission reductions resulting from each project activity shall be certified by operational entities to be designated by the Conference of the Parties serving as the meeting of the Parties to this Protocol, on the basis of: (a) Voluntary participation approved by each Party involved; (b) Real, measurable, and long-term benefits related to the mitigation of climate change; and (c) Reductions in emissions that are additional to any that would occur in the absence of the certified project activity.
6. The clean development mechanism shall assist in arranging funding of certified project activities as necessary.
7. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall, at its first session, elaborate modalities and procedures with the objective of ensuring transparency, efficiency and accountability through independent auditing and verification of project activities.
8. The Conference of the Parties serving as the meeting of the Parties to this Protocol shall ensure that a share of the proceeds from certified project activities is used to cover administrative expenses as well as to assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation.
9. Participation under the clean development mechanism, including in activities mentioned in paragraph 3(a) above and in the acquisition of certified emission reductions, may involve private and/or public entities, and is to be subject to whatever guidance may be provided by the executive board of the clean development mechanism.
10. Certified emission reductions obtained during the period from the year 2000 up to the beginning of the first commitment period can be used to assist in achieving compliance in the first commitment period.

### Article 17, Emissions trading

The Conference of the Parties shall define the relevant principles, modalities, rules and guidelines, in particular for verification, reporting and accountability for emissions trading. The Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3. Any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments under that Article.

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## Selected Resources

Climate Change: Information Kit, July 1999, UNEP, available at [www.unep.ch/iuc/submenu/infokit/factcont.htm](http://www.unep.ch/iuc/submenu/infokit/factcont.htm)  
Global Environment Outlook 2000, 1999, UNEP and Earthscan Publications; available at [www.unep.org/geo2000](http://www.unep.org/geo2000)