

Developed countries insist on post-Kyoto Protocol market mechanisms

Bonn, 14 June (Lim Li Lin) – The contact group of the Ad hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) reconvened on Monday, 13 June after agreement at the close of last week that the contact group would continue to discuss political issues, while spin-off groups on technical issues would be convened in parallel.

This agreement was reached after developing countries sought, and were given, assurances that the work on the technical issues would be conducted within the mandate of the AWG-KP, which is to agree on further greenhouse gases emission reduction commitments for Annex I (developed country) Parties under the Kyoto Protocol for the period beyond 2012. The first commitment period is from 2008-2012.

The contact group meeting on Saturday, 11 June, agreed that spin-off groups would begin to meet on the following technical issues: amendment to the Kyoto Protocol for the subsequent commitment periods; land use, land use change and forestry (LULUCF); emissions trading and the project-based mechanisms; methodological issues; and potential consequences.

This resolved the impasse that began at the last session in Bangkok in April 2011 and which continued during the first week of the ongoing talks in Bonn. Developing countries did not agree to convening small spin-off groups to discuss technical issues until the bigger political context was understood. This is because three countries - Canada, Russia and Japan - have declared that they will not agree to a second period of emission reduction commitments under the Kyoto Protocol, while other developed countries have placed conditions on their further commitments (see TWN Bonn Update No. 13).

Developing countries firmly insist that developed countries must commit to a second commitment period under the Kyoto Protocol, while developed countries are trying to replace it by laying the foundations for a new agreement that would include all “major emitters” as the outcome of the Ad hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA), that is negotiating in parallel for enhanced implementation of the UN Framework Convention on Climate Change.

The contact group meeting on 13 June continued the political discussion that began in Bangkok, with Parties posing and answering questions. The discussion centred around whether or not the flexible (or market) mechanisms of the Kyoto Protocol would continue without a second commitment period, and whether multilateral rules or individual domestic rules with regards to accounting and the market mechanisms would be preferable. (The Kyoto Protocol and its implementing decisions already contain such rules.)

Developed countries expressed their preference for multilateral rules and their intention to continue using market mechanisms, in particular the Clean Development Mechanism (CDM) beyond the Kyoto Protocol.

Developing countries on the other hand, insisted that the Kyoto Protocol was a package, and that developed countries cannot pick parts that it likes, such as the market mechanisms, without a second commitment period of the Kyoto Protocol. (Developing countries have also been insisting on multilateral rules, but for emission reduction commitments, in the form of the Kyoto Protocol and its second commitment period.)

Tuvalu began by asking Annex I Parties what the appropriate legal form would be (for their emission

reduction commitments), and whether they were expecting to see a legally binding agreement as the outcome of the AWG-LCA, in time for Durban? If not, it asked what are the elements for such a legal agreement coming out from Durban that would give Annex I Parties enough satisfaction for adopting a second commitment period?

The **European Union** asked according to which rules would Annex I Parties see themselves taking commitments?

China said that the conditionalities that Annex I Parties have attached to their further emission reduction commitments need to be further clarified, and agreed with the question by Tuvalu as it was relevant to whether the pre-conditions by Annex I Parties are of a technical or political nature. If they relate to the (accounting) rules or technical issues, this needs further discussion, but not if their intention is not to accept a second commitment period under the Kyoto Protocol.

New Zealand repeated that its long-term preference is for a single treaty. It can only consider taking a second commitment period (and no further commitment periods beyond that) under the Kyoto Protocol. It would like a comprehensive global agreement which puts the world on track to achieving the two degree Celsius goal, in which all major emitters and advanced developing countries take mitigation commitments.

With regards to what might be sufficient for Durban, it said that ministers will look at what are on the table in terms of legal form and at the mitigation pledges and how they are inscribed. It is a question of form and content, and has to convince the public that everyone is doing their fair share. It said it was hard to tell if it was possible to get there by Durban.

It considers the second commitment period as a transition, and that there is not likely to be a third commitment period as we know it. The second commitment period would be a transition to a single treaty, it said. It asked what is the “docking mechanism”, in which the Kyoto Protocol joins up with that treaty and brings it into a single cohesive global agreement.

It asked whether developing countries would accept a second commitment period if too few (Annex I) countries were willing to commit, or if the level of ambition was too low?

Saint Lucia echoed the EU’s question about which rules do Annex I Parties anticipate taking their

commitments? It also asked about the eligibility (of Annex I Parties) for the market mechanisms going forward, and how to address the issue of surplus assigned amount units (AAUs) as a technical matter.

Algeria said that a second commitment period is crucial and should be addressed in order to avoid a gap between the commitment periods. It said that the commitment of Annex I Parties is very important, and this needs to be done first. Only then could we see how to engage the other emitters through a new framework, it said. Without legally binding targets, Annex I Parties would not be obliged to buy carbon credits, and the CDM would not be efficient without the second commitment period, it said.

The Chair commented that there are existing rules under the Kyoto Protocol and that there were various proposals in the AWG-KP negotiations to amend and improve them. However, some Kyoto Protocol Parties will not be taking their commitments under the Kyoto Protocol, but there are no other negotiations for accounting rules, and this could be useful to explore, he said.

Australia said that it was committed to a legally binding climate change regime, covering mitigation by all major emitters. This means that it is linked to the negotiations under the AWG-LCA, which should help but not hinder the legally binding outcome, towards an eventual treaty. It said that in terms of a legally binding outcome, it helps to have a single agreement, bringing in all major economies. It said that it took a holistic approach to the rules. Some of them it likes, and some can be improved. It said that the rules discussion should be taken forward and linked with the AWG-LCA.

Saint Lucia then asked the three countries that have expressed their lack of enthusiasm for taking on a second commitment period whether they see their targets converting to AAUs, which is the accounting framework of the Kyoto Protocol which allows for comparability of efforts. If not, it would be difficult in terms of allowing access to the CDM, joint implementation (JI) and emissions trading (the flexible or market mechanisms of the Kyoto Protocol). It asked how these countries see the accounting in the new treaty that they want, and whether the targets are merely domestic.

New Zealand said that if there is no second commitment period, this does not mean that Kyoto Protocol Parties will stop their mitigation. They will keep on doing them, just without international commitments until there is an agreement. It said that

it will not be dismantling its emissions trading scheme, nor stopping its research on agriculture mitigation. It said that the CDM will continue, and that there will be demand for it from Annex I Parties. It said that the outcome from Cancun has acknowledged clearly that the CDM will continue.

Tuvalu expressed its discomfort that it was not getting a response to its questions. Without some clarity and assurances, it is very difficult to understand the context of the rules, it said. It said that New Zealand's view of the second commitment period as a docking mechanism would have implications for the length of the commitment period, among other things. It said that it is not clear how much of a legally binding outcome is required by Durban.

It said that the Parties that have domestic emissions trading schemes would face problems. The international system was now bound under the Kyoto Protocol with its rules. Credits can be generated from outside this system, but their fungibility would be in question. There could be a CDM-like system, but its certified emission reductions (CERs) would not be eligible under the international system that we have now.

It asked Canada, Japan and Russia how they see their efforts in JI and CDM, noting that their continued participation is in question. It asked whether they have alternative and CDM-like approaches.

Australia said that its 2020 target is irrespective of any international agreement. It intends to continue its mitigation action, and was prepared to be more ambitious. The higher end of its pledge is conditional on access to deeper and global markets. It said that the continuation of CDM is part of the global agreement. It said that by Durban there should be some certainty with regards to the global agreement, and that the legally binding commitments should be internationalized.

Zambia asked how Annex I Parties how they foresee the legal form and regime that to which they refer.

Brazil said that the CDM is the flexibility in the Kyoto Protocol for Annex I Parties to fulfill their emission reduction targets. If there are no targets and no second commitment period, then there is no CDM, it said.

Japan said that the CDM will continue in the new framework. It said that there is room for improving the CDM, and this perception is also shared by developing countries. It said that it would like to

contribute to such a discussion with a view to better utilisation in the new framework.

The **EU** said it would like to continue the rules based system in the Kyoto Protocol. Its legislation for 2012 and the European Trading System are in place, it said. It expected the CDM to continue post 2012 as there would be demand by the companies that have targets and are included in the ETS. Post 2012, it wants a multilateral set of rules, otherwise countries will be forced to choose what to do themselves and will make up their own rules when the rules disappear, and this would result in proliferation of the rules.

With regards to the conditionalities for agreeing to a second commitment period, it said that some are within the context of the Kyoto Protocol rules. There are also political conditionalities that sit outside, and the more clarity we have on the future, shape, timetable, the more we can make the political case to finalise the agreement here, it said. For political clarity in Durban, the outcome should reflect that all are equally serious, it said.

Canada said that its target is not simply a domestic target; it is a political commitment in an international context. The legal outcome and the rules based framework is what we are discussing in the AWG-LCA, it said. If there is effective measurement, reporting and verification (MRV) and systems of review, it will provide the framework for comparability of effort for a rules-based system in the context of all major emitters. It said that it is looking at the global markets options, and contemplating how CDM fits in, is important. There are things we like, and things to improve, and it is important to have the discussion in a wider context, it said.

Russia said that its pledges are under AWG-LCA track, and it depends on whether we reach legal agreement there or not. It spoke about a global carbon market and access to the markets by all countries in a new legal agreement. It said it has already overachieved all its obligations under the first commitment period.

Papua New Guinea said that it wanted a second commitment period, and there is a need to increase the level of ambition. It said that a REDD (Reducing emissions from deforestation and forest degradation in developing countries) plus mechanism can help countries reach higher levels of ambition. It said that LULUCF rules should respect environmental integrity, and it supported the continuation of the current Kyoto Protocol system.

New Zealand said that the CDM is not only for Annex I Parties to fulfill their commitments. It is also to assist sustainable development in developing countries. It said that legally, there is no end date to the CDM, and it was not anticipated that it stands or falls under the Kyoto Protocol. As matter of policy, it has been an important conduit of billions of dollars and new technology to developing countries. It said that developing countries want to extend the geographical spread of CDM, which means that they think it is a good thing too. It asked, why undo something with so much potential and win-win for all. It said that New Zealand intends to continue using CDM and trading schemes. Multilateral rules are better than the “wild west”, it said.

Bolivia said that the objective of the Kyoto Protocol is for developed countries to reduce their emissions. The CDM is far from the objective of the Kyoto Protocol, it said. Without a second commitment period, there is no purpose for and no possibility of the CDM. It said that the AWG-KP and AWG-LCA negotiating tracks must be kept separate as they have different objectives. It reminded that the agreement to start the spin-off groups on technical issues was subject to the understanding that the work is under the framework of the second commitment period. It emphasized increasing the level of ambition for emission reductions, and said that developing countries are doing even more than developed countries to reduce their emissions.

Brazil said that it was very keen to have the CDM continue and expand and this is one of the most important parts of the second commitment period. CDM is part of the Kyoto Protocol, and countries cannot just pick what they want from it, as it is a package, it said.

China agreed that the flexible mechanisms are only part of the second commitment period of the Kyoto Protocol.

The **EU** agreed that the CDM is part of a broader package. Its strong preference is to have a decision on it in the context of the completion of our work within its mandate. It said that the gap between the commitment periods may happen and that is what we have to think about. In a transitional situation, it fears losing the rules based multilateral system. It asked what would then happen with the share of proceeds for adaptation as it has been very important to the Adaptation Fund so far. It urged for keeping in mind political will rather than any legal impediments to continuing the CDM.

India said that the Kyoto Protocol is a balanced package, and that it supports the CDM. It said that the two negotiating tracks of the AWG-KP and the AWG-LCA should be kept separate, and reminded Annex I countries that as far as the AWG-LCA track is concerned, progress was already agreed in Cancun, and the focus should be on the ambition levels of developed countries.

Brazil said that there are two different gaps to keep in mind: One that is provoked by the lack of time for ratification and entry into force of the second commitment period, even though it is adopted in Durban. Another is if agreement is not reached in Durban. It said that it was only considering the first scenario for Durban.

The Chair summarized the discussion by saying that there was convergence around a multilateral rules based system, and for the continuation of the flexible mechanisms.