policy book

United States Department of State

Bureau of Oceans and International Environmental and Scientific Affairs

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X pages total

1. need cover page: what are Q's for focus; @ end of mtg, what to remember/do?

2. Daley has [illegible] on [illegible] obligations
   - need focus; Q: what is success @ Kyoto? what are int'l dynamics?
     if treaty & US out - we're blamed.
   - incentives for particip

July 15, 1997

TO: Distribution

FROM: OES - Rafe Pomerance

SUBJECT: Principals' Meeting: Developing Country Paper

Attached please find a draft paper on developing countries for consideration at the principals' meeting this Friday. We have scheduled a meeting on Wednesday, July 16, at the State Department from noon to 1:00 p.m. in Room 7835 to discuss it. For entry into the building, please contact Ms. Debra Clark-Ware on 202-647-2232.

If you are unable to attend the meeting, we ask that you send us your comments no later than COB, tomorrow, July 16, 1997. The fax number is 202-647-0217. If you have any questions about the paper, please contact Dr. Jonathan Pershing on 202-647-4069.

Thank you for your attention to this matter.

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DEVELOPING COUNTRY PAPER
(DRAFT 7/15/97)

Greenhouse gases are emitted by all countries in varying quantities. The United States is the world's largest emitter, with approximately 22 percent of the global total. Collectively, the developed countries of the world, including the countries with economies in transition (Russia/NIS and Eastern Europe) account for more than 60 percent of the global total. However, developing country emissions are growing much more rapidly than those in the industrialized world; within the next 30 years, developing country emissions will comprise more than half of the world's aggregate emissions although they will account for 80 percent of global population.

While compelling in suggesting the need for global action, these statistics obscure a critical point: per capita emission levels vary widely as do national totals, and developing countries have the lowest levels. Currently, global average emissions of CO2 are approximately 4 tons per person; this contrasts with emissions of nearly 20 tons per person in the United States, 16 tons per person in the OECD, and less than two tons per person in most of the developing world. Furthermore, the contribution to global concentrations of greenhouse gases is the result of cumulative emissions over time. When considered from this vantage, North America is responsible for 35 percent of the increase in ambient concentrations of CO_2 since 1800, Western Europe 26 percent, the USSR/FSU and Eastern Europe nearly 20 percent; the combined total of the developing countries is only about 15 percent. (see figures/charts).

Recognizing both the unequal contribution to global emissions, and the unequal capacity to develop and implement policies and measures to reduce emissions, the United Nations Framework Convention on Climate Change (FCCC) established differentiated levels of commitments for developed and developing countries. It called upon developed countries to take the lead in addressing the climate change problem, and to aim to return emissions to 1990 levels; it provided no similar aim for the developing country Parties. Similarly, in agreeing on the mandate for negotiations of a next step, the Parties recognized that developed countries had failed to "lead" over the three years after the FCCC was signed in Rio in 1992, a period during which developed country emissions continued to rise. The next step therefore focused on a more concerted effort by developed countries toward reducing the rising trend in atmospheric concentrations. Thus, while calling on developed countries to set "quantified emissions limitation and reductions objectives" and to elaborate policies and measures to reduce emissions, the mandate specifically stated that there would be no new commitments for developing countries, and that they would instead continue to advance the implementation of their existing commitments.

U.S. Protocol Proposal

Recognizing the need for a solution that involves all countries, yet agreeing that the Berlin Mandate appropriately acknowledges valid differences between Parties, the U.S. draft protocol proposal sought to develop a set of appropriate elements for a developing country strategy. It included three elements: (1) an elaboration of the existing commitments (defining what would be meant by "continuing to advance the implementation of existing commitments"); (2) establishing a new category (Annex B) of commitments for the most advanced developing countries (providing a halfway house between a limited obligation and the more extensive obligations agreed by the OECD members); and (3) calling for the negotiation of a new agreement by 2005 which would include legally binding emissions targets for all countries, including developing countries (the "evolution" concept).

The first element contained three separate components, including a requirement to annually inventory and report on emissions and actions taken to reduce emissions; (2) taking "no regrets" actions (actions which would benefit the climate system, but which might be taken for other economic or environmental reasons); and (3) calling for an in-depth review process so that the actions taken by developing countries could be assessed by a neutral group and examined for adequacy.

While the first of the U.S. elements is considered within the ambit of the Berlin Mandate by nearly all Parties to the FCCC, to date, most other countries have argued that the other two (i.e., Annex B and evolution) are beyond its scope. The U.S. has been urged to drop its proposal for a new annex (with many countries suggesting that the annex concept be revisited in light of the revision to the existing groupings in the Convention, scheduled for 1998). We have also been urged to drop our proposal for evolution (in favor of a separate agreement at some future date).

Incentives for Developing Country Participation

While a combination of peer pressure and self-interest may guide the willingness of developing countries to commit themselves to legally binding obligations to reduce emissions, a series of incentives may facilitate this choice. To this end, the Administration has established a number of elements in its developing country approach (both within the draft protocol proposal – but more significantly outside the agreement). These include: a strong bilateral assistance program; an ongoing commitment to providing a contribution to the Global Environment Facility (designed to support the incremental global benefit of development projects); calls for reorienting the loan guidelines for the international lending institutions; and the establishment of a proposal for joint implementation (which would encourage the private sector to undertake projects in developing countries to reduce emissions and claim credit for these reductions against a domestic obligation).

The first of these, announced in the President's New York statement at the U.N. Special Session on the Environment, establishes a $1 billion, five-year package to help developing countries plot a climate friendly path to development. The primary component of this initiative will be a five year minimum of at least $150 million per year in bilateral assistance for climate related programs, and the potential to use development credits dedicated to climate friendly investment projects. The initiative will also include a $25 million 5-year interagency program to assist developing countries to meet the terms of the FCCC. A significant focus in this initiative will be on using credit tools to induce greater U.S. private sector involvement in transferring climate friendly technologies.

Our financial contribution to the GEF was one of the original incentives to developing countries to support the FCCC – and to take action to mitigate climate change. However, while the U.S. had pledged a contribution of $430 million to the GEF over a three year period, Congressional funding has lagged considerably. FY96 contributions were at $35 million rather than $110 million and FY97 prospects are just about as bleak. To date, we have no proposals within the Administration to cover our previous pledged amounts. In combination with the steadily declining percentage of the U.S. budget that is directed toward development assistance, the reduced U.S. contribution to the GEF will make any subsequent calls for developing country action much more difficult to sustain.

One of the most significant elements of the U.S. approach to encourage developing country participation is joint implementation (JI). Similar to the concept of emissions trading, JI allows countries to offset emissions at home through projects undertaken elsewhere. However, unlike the situation in emissions trading, under a JI regime, projects could be undertaken in developing countries – countries without legally binding emissions budgets. The analytic work performed to date suggests that allowing JI could reduce costs within the U.S. substantially. Emissions trading could reduce costs by as much as 40 percent. JI could reduce costs by another 50% – or by as much as 80 percent below costs in systems which did not allow trading or JI. Developing countries see enormous benefits as well, in the form of technology transfer and private sector investment flows. In spite of the potential benefits, significant opposition remains: developing countries are concerned at the loss of control over domestic emissions; environmentalists are concerned that it may be impossible to measure project based emission reductions, and some in the private sector and Congress have suggested that JI will result in significant transfers of wealth overseas.

The International Reception: Views on Developing Countries by Negotiating Blocs

Other countries have had a varied reaction to the U.S. proposals on developing country engagement in the process. The following blocs are active in the negotiations, and provide a sense of the current dynamics in the process.

European Union. While calling for an extremely aggressive commitment from developed countries (15 percent reduction in emissions below 1990 levels by 2010) the EU has proposed only very soft commitments on developing countries. They have supported U.S. proposals for elaborating commitments in the FCCC Article 4.1, and have proposed that Mexico and Korea commit to the same obligations as those in the OECD (not too far removed in substance from the U.S. Annex B), but are not prepared to accept the U.S. language on "Evolution" adopted as part of the Kyoto agreement. They do not support JI with developing countries.

Non-EU OECD Members (principally Japan, Canada, Australia). This group of countries broadly supports including developing country obligations under the Kyoto Agreement. Australia and Canada are the most vocal in support of action, while Japan, as host of the December session, is concerned that an aggressive approach would potentially derail the negotiations. As nearly all countries in this bloc have extensive competitive trade outside of the OECD, they are more aggressive in demanding developing country action (For comparative purposes, nearly 90 percent of EU trade is within the OECD, while for Australia, it is only about 50 percent.) With the exception of Japan, this group supports JI.

Big Developing Countries (China, India and Brazil). These three countries are the primary drivers of the developing country position – and some of the world's largest emitters (China is second after the U.S., and India is number six). These countries have taken a standard north-south line, arguing that global warming has been caused by the developed world, and calling upon the industrialized countries to pay for the clean-up. They claim that when developing countries have incomes and per capita emissions equal to those of the North, they will then participate in the clean-up effort. In spite of their often strident public rhetoric, these countries (particularly China and Brazil) have shown a willingness to constructively engage on this issue on a bilateral basis. They have active domestic climate change mitigation efforts, and have privately indicated a support for many elements of the U.S. proposal. However, they have all opposed JI.

OPEC. Well organized in the climate negotiations, the OPEC countries have been led by Saudi Arabia and Nigeria, and advocate positions designed to slow or block the negotiations.

These countries have strongly urged: (1) that developing countries should not have to act now (recognizing that this is antithetic to the U.S. view and will therefore help derail negotiations), and (2) that industrialized countries should compensate developing countries that might be affected by any action taken in industrialized countries to reduce emissions (principally noting that reduction in oil revenues should be compensated). This group has also created procedural barriers to reaching agreement (including blocking the adoption of rules of procedure); this last tactic may require any agreement be by consensus in Kyoto – and allow OPEC countries to block at the end.

Small Island States. A group of 37 small island states have banded together to create an alliance (AOSIS) that seeks to balance OPEC's influence. Largely composed of member countries with low lying territory which will be gradually inundated by climate- associated sea level rise, these countries have pushed an aggressive next steps to combat the problem – calling for a 20 percent reduction in industrialized country emissions below 1990 levels by the year 2005. Unfortunately, despite their convictions, they are often quelled by the big developing countries and by OPEC – so that their moral righteousness is often muted in public debates. Thus, in spite of a recognition that to solve the problem, all countries must participate, the AOSIS countries have been reluctant to support U.S. calls for developing country action; their proposal omits any mention of any developing country commitments to be undertaken as part of the Kyoto agreement, and they oppose JI.

NIS/FSU. While active in some elements of the negotiations (e.g., emissions trading), this group has been relatively silent on the issue of developing countries. Russia has a proposal similar to that of the U.S. on evolution – but they have not been particularly vocal on this position. They have supported JI.

Other Countries. Playing mostly lesser roles in the negotiating process, the influence of these countries is more a function of individual personalities than institutional positions. These countries may be individually persuaded by elements of the U.S. position (and will occasionally voice public support for these), but most of the positions are driven by internal G-77 politics – largely dominated by the more organized OPEC group, or by the large and dominant big countries. The formal G-77 position on developing country obligations has been to deny any obligation to act under the Kyoto agreement, to insist that developed countries transfer to developing countries appropriate technologies and resources, and to call for compensation, and to date, to oppose JI.

The Domestic Debate: Congress, the Private Sector and the Environmental Community

While for the majority of the deliberations under the FCCC, the issue of developing countries had taken a back seat to the establishment of a target and timetable, it has more recently moved to the fore. For most observers, the issue seems to have been created as a red herring to derail the negotiating process. Certain industry lobbies opposed to any action to address climate change have parlayed their message on developing countries into Congressional objections, full-page newspaper advertisements, and international consternation.

Those concerned with developing country participation have pointed to two principal rationales for action: (1) that the problem cannot ultimately be solved without developing country participation, and (2) that any action we take, if not balanced by equal developing country commitments, will have an immediate, significant and negative impact on our competitiveness. While there is some grain of truth in both arguments, neither is fully supported by an analysis of the U.S. proposal. On the first, the U.S. draft protocol language does not envision a lengthy gap between developed and developing country commitments, and recognizes that the international negotiations at this stage will never stand for a concurrent commitment in light of the enormous disparity in per capita emissions, per capita income and historic contribution to the problem. On the latter, the level of action likely to be called for is anticipated to be so low as to be of limited value in reducing global emissions – but also too low to significantly effect international competitiveness. While more stringent reductions might have this effect, any such future reduction obligations would be anticipated to cover all countries. awk

Notwithstanding these arguments, opponents to the treaty have persuaded many that the developing country issue is adequate reason not to act now. Senator Robert Byrd (with more than 60 co-sponsors) has proposed a sense of the Senate resolution which warns the Administration that the Senate will not provide advice and consent to ratification of any agreement that does not call for and adopt new scheduled developing country commitments in the same time period as those adopted by developed countries. The Global Climate Coalition (made up of the coal companies, the coal-fired utilities and many in the manufacturing sector) has set forward a similar – albeit more rhetorically strident – position. They have actively sought to delay, postpone or derail negations since they began. The environmental community, strongly supportive of the developed countries acting first, has yet to make a clear and cogent case for this view – and has been unable to persuade many in the Senate of its validity.

<u>Getting to Yes: Agreement in Kyoto</u>

An agreement in Kyoto that accommodates the current U.S. developing country position (which while considerably more stringent than that of any other country is substantially less stringent than that demanded by the Senate) will be extremely difficult to achieve. The next scheduled negotiations (July 28-August 7) will not resolve any of the developing country questions, absent some change in the U.S. position. However, we can anticipate that the meeting will be a difficult one in which U.S. intent to seriously address the climate change problem will be fundamentally questioned. Reports (similar to those that surrounded the Denver Summit and the New York UN session) will be repeated. To avoid another repetition in October (at the last officials level negotiations prior to the Kyoto meeting), a number of steps should be taken – although even these do not guarantee success in December..

1) It will be necessary to continue an intensive diplomatic campaign to convince other countries of the appropriateness of our views – and the fact that we will "walk away" from an agreement which does not adequately cover our developing country concerns. Such an effort must proceed at all levels, from the staff level to the cabinet; to be successful, it must ultimately include both the President and Vice President. Calls to key players in each of the international blocs will be necessary to persuade – and ultimately to exhort – to join in on the U.S. position. A possible pitfall here is that some developing countries may not want an agreement yet – not only OPEC, but China may choose to let us take the heat for derailing negotiations.

2) It will be necessary to reach a domestic agreement on the level and timeframe of a target which would be acceptable to us – and it must be sufficiently progressive to convince other countries we are serious about the problem – and therefore "entitled" to demand more from developing countries. A signal of the direction in which we intend to move must be given as soon as possible. If no signal is provided by July (<u>at the next negotiating</u> session), we will begin to see elements of the U.S. position – particularly our developing country positions – removed from the table.

3) It will be necessary to compromise with others – particularly developing countries. This will necessitate giving up or postponing some of our most cherished ideas. We may need to be

flexible in the timing of various actions (e.g., JI might be postponed until 2005 in order to be included in the agreement, or we might delay beyond 2005 in agreeing on a new legal instrument). It will be difficult to know where the final "deal" is until the end of the day – December in Kyoto.

4) Developing countries must be mollified. This will be particularly difficult in light of the U.S. inability to pay our pledged contribution to the Global Environment Facility. Persuading developing countries that they must engage in next steps while at the same time denying them financial support to help them undertake these steps will be nearly impossible. An aggressive effort must be mounted to support the GEF replenishment, and to seek Congressional support for paying off our earlier pledge. The President's announcement of the $1 billion initiative may also be viewed with considerable skepticism internationally – as it largely involves reprogramming of existing funds (a factor which will not be well-received by many in the developing country community) and the fact that we do not yet have a clear view on how the funds will be distributed. However, properly packaged, it could provide an enormous boost.

5) Of the U.S. developing country proposals, the most difficult to obtain will be agreement on "evolution" (the commitment from all parties to negotiate a next step with legally binding obligations, including for developing countries, by 2005. Nearly as hard will be getting agreement for the creation of a new category to allow countries to "graduate" from the ranks of developing to developed. To get the international agreement will ultimately require high level contact and arm-twisting; no amount of technical or scientific support for the U.S. position will be persuasive. Given the enormous importance attached to the developing country commitments/in Kyoto, decisions will need to be made (probably at the cabinet level) on what negotiating flexibility might be given to the U.S. delegation on these issues.

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