

DEVELOPMENTS IN THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE (UNFCCC)

Communication from the UNFCCC Secretariat

This background paper is circulated to Members of the CTE in preparation for the MEA Information Session on 5 July 2000.

1. The United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol (the Protocol) form the core of the emerging climate change regime. The UNFCCC establishes its overall framework. This Agreement, which entered into force in 1994, sets the regime's objective as the stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that will not disrupt the Earth's climate system. It requires all Parties to develop national programmes addressing emissions by sources and removals by sinks of greenhouse gases. Industrialized countries and countries with economies in transition (Annex I Parties) must also adopt national policies and measures that will limit their emissions and enhance their GHG sinks and reservoirs. The 1997 Kyoto Protocol further requires Annex I Parties to reduce by 2008-2012 their collective GHG emissions to five percent below 1990 levels.

2. With the FCCC in force and the Protocol in the process of ratification, both Annex I (developed countries) and non Annex I Parties (developing countries) are moving forward with the development and implementation of measures to meet their commitments. For Annex I Parties, this includes not only the development of policies to reduce emissions from sources and enhance sinks, but also the development, transfer, and diffusion of environmentally-sound technologies, practices, and processes to developing countries.

3. Annex I Parties can adopt a range of market-based and regulatory policy instruments to meet their commitments. Some are market based in that they use economic forces to change behaviour, such as: energy pricing strategies; changes in agricultural and forestry subsidies; tradable emissions permits; and advanced technology development and demonstration programmes. Other policies include the more traditional regulatory approach, such as: minimum energy efficiency standards, technology standards, and fuel restrictions. Countries will generally adopt a mix of these instruments depending on national circumstances.

4. The Protocol defines three interlocking mechanisms, adding an additional dimension to the development of national climate change policies. Under the Clean Development Mechanism (CDM), Annex I governments and private companies may obtain Certified Emissions Reductions (CERs) by participating in projects in developing countries that reduce GHG emissions and satisfy local development needs. Under Article 6 (joint implementation - JI), two Annex I governments or private companies can share Emission Reduction Units (ERUs) for projects implemented jointly in that country for which emissions reduction costs are lowest. Finally, emissions trading is the purchase of parts of assigned amount (PAAs) by Annex I governments and companies with high marginal

abatement costs from those with lower costs. CERs, ERUs and PAAs can be put toward the Annex I Parties' Protocol obligations during the 2008-2012 compliance period.

5. Unlike traditional financial instruments, the Kyoto Protocol mechanisms assign an explicit role to market actors. Under the CDM (and JI, to a minor extent), for instance, legal entities accredited by Parties will validate projects and verify and certify emissions reductions. While their details are still the object of negotiation, it is undoubted that the mechanisms will require the private sector to interact on an unprecedented scale. As the Kyoto mechanisms become operational and the "carbon" market emerges, Annex I Parties can be expected to pursue a course of action that maximizes the opportunities offered by these mechanisms to reduce the overall cost of implementation of the treaty.

6. The procedures and mechanisms related to compliance under the Kyoto Protocol will determine the credibility of the transactions and the eligibility of Parties to participate in these market-based arrangements. The compliance system being negotiated includes both facilitative and enforcement functions. It is expected that the negotiations on the key elements of the compliance system will conclude at COP 6, in November 2000.
