

**COP-3 December 1997**

**United Nations Framework Convention on Climate Change (UNFCCC) – Kyoto, Japan**

The transcript that follows is of the debate about emissions trading that happened in the early hours of December 11<sup>th</sup> 1997.

In a nutshell the US insisted that emissions trading be made part of the Kyoto Protocol. The Developing Countries – led by the Africa Group, India and China – insisted that the quid-pro-quo had to be equal per capita-based “Contraction and Convergence” [C&C].

The US characterised C&C as a ‘future basis’.

As the Kyoto Protocol is seen as a stop gap - and for emphasis - this agenda-setting high-point is reproduced first.

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**ZIMBABWE: [for the Africa Group]**

*“ . . . . . we do support the amendment that is proposed by the distinguished delegation from India, and just to emphasise the point of the issues that still need a lot of clarification would like to propose in that paragraph the inclusion, after “entitlements” that is the proposal by the delegation of India, the following wording; after “entitlements, the global ceiling date and time for contraction and convergence of global emissions because we do think that you cannot talk about trading if there are not entitlements, also there is a question of contraction and convergence of global emissions that comes into play when you talk about the issue of equity . . . . . ”*

**Chairman:**

*I thank you very much. .... May I ask again the distinguished delegate of the USA if they have another suggestion to propose in connection with the proposals made by the distinguished delegate of India. He does.*

**UNITED STATES OF AMERICA:**

*“ . . . . . It does seem to us that the proposals by for example India and perhaps by others who speak to Contraction and Convergence are elements for the future, elements perhaps for a next agreement that we may ultimately all seek to engage in . . . . . ”*

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**Chairman:** I recognize the distinguished delegate of China

**CHINA (Mr. Zong):** Thank you Mr. Chairman. First of all, I wish to draw your attention to this new paragraph 10, which introduces the concept of emissions trading. Which was something we discussed in a consultation meeting in all seriousness at which ----- and China expressed very strong views of deleting, this concept of emissions trading because this is such a complex issue-very complicated issue with a lot of serious implications, issues which have never been discussed under the Commission process, either in SBSTA or in SBI. It is beyond the Berlin Mandate. So this extraneous issue which should not have been introduced. And under your chairmanship at that important meeting, you kindly agreed to delete the original article 6, which is the article on emissions trading. So we were surprised to see why this new practice, now put here, introducing this concept of emissions trading. Mr. Chairman, the argument is very clear. Unless we are clear about something we should not have it incorporated in the protocol, a legally binding document. Somebody says, you agreed to this now, we'll tell you day after tomorrow or next year. That is not a serious attitude Mr. Chairman I we appreciate that you have already removed that original article 6, on emission trading, and we were surprised to find this here. Similarly, in paragraph 11 on article 6 relating to trading in a different meaning including the so-called emissions reductions units and so on. So, article 6 brings us now to another issue, which is now GI. So all these are a bit confused, and the article – this paragraph 12 against your first 2 transfers. And emissions reductions units, all this, we wish to reiterate that this paragraphs should be deleted from the text. These three paragraphs, paragraphs 10, 11, 12 should be deleted. I thank Mr. Chairman.

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**Chairman:** I thank you very much I recognise the distinguished delegate of India

**INDIA:** Thank you Mr. Chairman. Sir, India is not finding it possible to accept emissions trading as in 3.10, 3.11 and 3.12. and we press Sir, for the deletion of these clauses. Sir, this is also the G77 and China position as expressed in a previous document of the Secretariat. Sir we cannot accept emissions trading without the prior determination of emission entitlements on an equitable basis. We cannot accept that a party can trade or sell anything, any commodity form, without having any rights. And this is fundamentally important because emissions trading involves the buying and selling of unused emission rights. And Sir, equitable emission entitlements is foundational to the right of development; something to which India as a developing nation is particularly sensitive to. First, we must determine the criteria for settling the entitlements, and which should be equitable criteria. And these entitlements, they cannot be derived from historical

emissions as this will freeze existing inequities in consumption/production patterns. So the question of emissions trading can be discussed only after the equitable settling of emission rights. And very clearly sir, trading quite simply is not a matter to be framed in terms of flexibility. It's a matter which has to be framed in terms of entitlement. And any idea which has the potential of depriving the world's developing countries, the world's poor, of equitable entitlement to grow, should not be allowed to take root. And there just cannot be any discussion sir on the modalities of emissions trading until the question of entitlements has been resolved. So we press for the deletion of 3.10, 3.11 and 3.12. Thank you Sir.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Saudi Arabia

**Saudi Arabia:** Thank you Mr. Chairman, and I would like to thank you for your effort in bringing this very comprehensive text of our draft protocol and I also would like to thank the Secretariat for - and those who work with you to produce such texts. Mr. Chairman my colleague from China and India I think made it very clear; I don't want to repeat that. But I think, Mr. Chairman, also - and I seek clarification - that there will be a draft decision to be taken up by COP with regard to this issue that it will be left to COP to develop methodology and guidelines etc with regard to this unknown, very complicated issue before us. And I think that, that draught decision could serve as, or could serve the purpose, for this unknown issue. And we don't think that we need to include them here at any time Mr. Chairman, and that is why we have provisions for amendments under the protocol. At any time the protocol can be amended but at least we should not pre-judge that this will be amended until we really are serious about the kind of work that will be taken up by the COP with regard to this issue of emissions trading. And having said that, Mr. Chairman, I think we totally support China and India on the asking of the deletion of paragraphs 10, 11 and 12. Thank you Mr. Chairman.

**Chairman:** I thank you very much. I like to confirm you the recent decision on this point is document L7 it will be distributed as a document which covers all points related to the adoption of this protocol include decisions of different things that we have to decide first. Then that decision because it has not been circulated yet, but there is a paragraph to request...a paragraph for the conference to decide on a start in the process to analyse this new animal we have now. The distinguished delegate of Mexico has the floor.

**[Intervention in Spanish from the Mexican Delegation]**

**Mexico:** Thank you Mr. Chairman. We believe that this protocol should include market mechanisms. And we're referring here to the joint implementation mechanisms and the mechanism to permit emissions rights trading. We believe that it is within the responsibility and sovereignty of every country to manage as reasonably as possible these things with a view to the overall good of the natural resources under their jurisdiction. And this would include the global atmosphere. We believe that these are desirable mechanisms in order to speed up the compliance with commitments directed towards protecting the global atmosphere. We believe that they are beneficial for all countries; we who are parties to the convention and those of us who can be parties to the protocol. Therefore, we believe that they- that paragraphs 10, 11 and 12 should remain in the text. We also believe that there is no conceptual substantive difference between what paragraphs 11 and 12 say and what paragraph 13 says. We believe, moreover, that in paragraph 10 the reference to the countries, the Annex1 countries, should be replaced by a reference to the countries in Annex B, which are those assuming commitments to limit or reduce their emissions and should benefit from the possibility of the market mechanisms to which we have referred. Thank you.

**Chairman:** Thank you. The distinguished representative of the Russian federation has the floor.

### **[Intervention in Russian from Russian Delegation]**

**Russian Federation:** Thank you Mr. Chairman. Mr Chairman, the considerations which have just been put forward by the previous speaker, the distinguished delegate of Mexico, are something which the Russian delegation shares. We think that indeed a reduction of emissions is a national resource of the state, which is able to implement it, and consequently it has a sovereign right to use it. In the Russian federation for quite some time we've been studying the problem of emissions trading very carefully, and although there are still some problems remaining which require to be solved, we do think Mr. Chairman that the proposal made by the United States on paragraph 3.10, .11 and .12 could be a very interesting mechanism which would substantially lighten the burden upon states which have obligations to reduce emissions. We therefore think that anybody who has any doubts about the fact that this mechanism could be useful could perhaps continue to study this question. Thank you Mr. Chairman.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Iran.

**Iran:** Thank you very much Mr. Chairman. First of all allow me to express my deep thanks and appreciation to you for the extensive efforts you made during this, actually, last eleven days. In order to bring the work of this company as a whole to a success, Mr. Chairman you know that many countries, among them G77 and China countries have continuously expressed grave concerns over this so-called emissions trading. At the same time, we know that this suggestion is coming from some Annex 1 parties while there has been no substantive discussion on the issue because the developing countries never thought that this might be a very effective mechanism to achieve the objectives of the protocol and of the Convention. Mr. Chairman, the problem here is that we are asked by these paragraphs 10, 11 and 12 to accept something which we don't know what it's going to contain. Mr. Chairman, although it's saying that the conference of the parties shall define relevant rules and guidelines for verification, reporting and accountability, the problem is that before knowing what those rules and guidelines and methodologies are, we could not be expected to agree with the concept in principal. Having said that, I think we had better delete the whole paragraphs 10, 11 and 12 and in that respect I fully support the comments made by our colleagues from India, China, Saudi Arabia and others in deleting it. And just be confined to a draught decision by the conference of the parties to assign a process of studying and determining the related factors for future possible action. Thank you very much.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Togo.

### **[Intervention in French by delegation of TOGO]**

**TOGO:** Thank you Mr. Chairman. I should like to support other speakers in congratulating you for the major piece of work that you have done in order to produce this document for us. Now, I think that as far as our work is concerned we should try to avoid in as far as possible having provisions which are not directly related to the Berlin mandate. Next, we have very little information concerning the procedures being proposed here, the process proposed. And we feel that there are parties which could give some indications in this regard. So those countries which are very much in favour of these various processes merely have to take the results of their experience and submit them to those other bodies I referred to. And, as has been proposed it would be worthwhile to propose a decision at COP3 first, before including options of this, that nature in the protocol. Because otherwise it's tantamount to issuing a blank cheque. Thank you.

**Chairman:** I thank you very much for your comments. I recognise the distinguished delegate of Uganda.

**Uganda:** Chairman, thank you very much. We may recognise that it is 2 o'clock in the morning, 2 o'clock on 10<sup>th</sup> December. I think I don't need to repeat the reasons why we think and we strongly support that article or rather article 3.10, 11 and 12 should be deleted. First of all it is outside the Berlin Mandate. Secondly, there are a lot of complex issues which involves emission trading. Even simple trading which we are fairly well used to, presents a lot of problems on who decides on the price. The market itself is not as free as it is advocated and I believe that we do not have any rights of saying a particular nation has got a right to pollute the environment until such a time when these issues are examined carefully and a careful decision has been taken. While the concept might present our future solutions, our strong view here is that this issue can not be included in the protocol. Future negotiations need to look at the merits of emission trading and until such a time that the methodologies are resolved under a complex issues like emission trading we cannot support the inclusion of these articles here. If that amounts to signing a blank cheque and giving it to your opponent to draw the money against your account which is not acceptable to us at all. We do support of course the views expressed by China, India, Saudi Arabia, Togo and many of the developing countries which have spoken before us. Thank you very much.

**Chairman:** Thank you very much. I recognise the distinguished delegate of the United Kingdom.

**United Kingdom:** Thank you Mr. Chairman and thank you to you and the secretariat for your hard work in preparing this text for us. We support the concept of emissions trading which we think is a useful flexibility, which can help us to achieve, to increase the reductions that Annex 1 parties can achieve. And with appropriately ambitious QUELROS and safeguards we would support its inclusion in this protocol. We would have been happy with the article 6 that was in the protocol, subject to some amendments which we are in consultation on, but in the light of some of the comments received in your informal consultations this afternoon and indeed that we have heard on the floor in this debate so far, we can understand your decision to provide a compromise by including it in this article here. So we would support that approach but we would suggest one amendment to paragraph 10 to clear up an ambiguity that appears to us. Our view would be that emissions trading should not start until appropriate rules and guidelines have been developed by the conference of the parties and therefore we would propose to amend paragraph 10 as follows. In the second line after

the words "emissions trading", we would insert the word 'once' and then continue as in the same sentence with the words:

"The conference of the parties". We would replace the next two words, that is "shall define" with the words "has defined" and in the next line, line 3, after the words "relevant rules guidelines", we would insert the words "comma, in particular". Paragraph 10 would then read:

"for the purpose of meeting its commitments under this article, any party included in Annex 1 may participate in emissions trading, once the conference of the parties has defined the relevant rules and guidelines, in particular for verification, reporting and accountability. Such trading shall be supplemental to domestic actions for the purpose of meeting its commitments."

Thank you Mr Chairman.

**Chairman:** I thank you very much. I hope everybody has the suggestions just made by the distinguished delegate of the United Kingdom. It is clear that the idea in draft in the paragraph 10 was that first the conference shall define the relevant rules and guidelines and only after that, and according with those rules, and according with the conditions including the timing of those rules defined things could start but not before, and I hope that this clarification can help stop to solve some of the questions raised before, since the kind of analysis requested by many of the delegations is going to be done by the conference of the parties....

And I recognise the distinguished delegate of Kenya.

**KENYA:** Thank you Mr. Chairman. Chairman, I will be very brief in view of the very exhaustive discussions that have already taken place under your most recent intervention on this. Mr. Chairman, of course the Kenyan delegation supports those who have called for the deletion of these sub-paragraphs. I think very powerful and persuasive arguments have been made by many speakers, members of the Group of 77 that have spoken before me. But I am taking the floor Mr. Chairman, to maybe assist you reach a conclusion because much as we have had equally powerful arguments on the other side, in view of the lateness of the hour, really, we wonder whether it is really possible to reach agreement along the lines of having something under the protocol, under legally binding principles. Because to our delegation, it is not possible really at this stage, in view of the very persuasive arguments that have been put forward, that it would be rather too rash, I mean I think it is so uncertain that at this stage it is not possible to reach agreement under the legally binding principles, so maybe we could look for another compromise, but not under legally binding principles. Thank you Mr. Chairman.

**Chairman:** Now of course there is another possibility which is also contemplated here. Here, I mean in my project, in my conception of the point, which is to decide by the conference that this matter will be considered in the next conference of the parties by the end of the year next year, and that means, that during the year, work has to be done in order to bring to a decision through the conference of the parties. I thank you very much for your suggestion and I will take it into account. The distinguished delegate of Switzerland has the floor.

**SWITZERLAND:** Thank you Mr. Chairman, We do support the inclusion of the three articles, 10, 11 and 12, because we do think that emissions trading is indeed an efficient instrument in reducing greenhouse gasses, but we equally strongly support the establishment of clear procedures, and therefore hope that the UK proposal can be integrated. There is sufficient time available, in our opinion, that according to paragraph 11, trading is only possible in 2008 at the beginning of the reduction commitment period. We think that the US timing aspect could therefore easily be worked into the proposal with regard to the 4<sup>th</sup> session. Thank you Mr. Chairman.

**Chairman:** I thank you very much. The distinguished delegate of Grenada has the floor.

**GRENADA:** Thank you very much Mr. Chairman. My delegation has for some time been concerned about the concept of emissions trading, simply because we have found this to be a very new idea, and although it appears to be attractive we were concerned because of the lack of precision concerning the instruments and how this trading will actually take place. However Mr. Chairman, we are more concerned about the situation with the environment and the impression we are getting from the discussion that we've heard around the table, is that emissions trading will assist us in arriving at a decision here in approving a protocol and my delegation is supportive of any effort that will end up with us having a protocol. We appeal Mr. Chairman, to the delegations that have concerns, that perhaps we can find a way of compromise, along the lines that you have suggested, particularly since we do not expect emissions trading to take place actually before the year 2008 or so or thereabouts. Perhaps Mr. Chairman we need to retain the paragraph 10 and ensure that the trading which will take place is first approved by the COP at its next session, that's the fourth session, and that not only guidelines concerning verification, reporting and accountability, but also guidelines that are relating to implementation and the various modalities that will apply to the implementation should be included. Thank you very much Mr. Chairman.



**Chairman:** I thank you very much for your comment and your suggestions. I invite the distinguished delegate of Seychelles to take the floor.

**SEYCHELLES:** Thank you Mr. Chairman. Mr. Chairman, we came here to seek the commitments of the countries in Annex 1. We have the commitments in article 3, 1 and 2 and my delegation sees that only as the beginning, because the world has to continue to go green and become greener. I have listened to the arguments in various committees and again today I can only say that it is only fair for the countries in Annex 1 to have the mechanism to be able to implement the decision, and the rather difficult decision that they have taken with our support today. In this respect my delegation supports 10 with the amendments proposed by Britain and by the USA, which I believe alleviates the fears of some countries so expressed. Thank you.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Zimbabwe.

**ZIMBABWE:** Thank you very much Mr. Chairman. Mr. Chairman, my delegations' position regarding this issue, is that because of the uncertainties that surround this issue, I think we should postpone a decision including the considerations of guidelines and rules to COP 4 as you earlier on had suggested and I believe there is a draft decision to that effect. In fact we do appreciate that there is need for innovative mechanisms Mr. Chairman, but only if we can understand them and we are convinced that they will work for the benefit of us all. I would like to make reference to the issue of sinks which we did consider. I do recall very well that we limited the number of sinks on the basis that the other suggested sinks were surrounded by a lot of uncertainties, and I think this issue also is similar to the issue of sinks, so I think Mr. Chairman, our opposition, or our suggestion to delete these paragraphs are not based on the fact that we don't want emissions trading but we are saying that there are a lot of uncertainties and clarification in mechanism that have to be put into place to make sure that it works because we don't just want to have a paper, but we want to have mechanisms that do work and that do reduce the emissions of CO<sub>2</sub> and the other greenhouse gasses. Thank you Mr. Chairman.

**Chairman:** I thank you very much. But let me say that we are not adopting here the concept of trading, and we are not opening with this paragraph the possibility to have trading. The only thing we are doing is to open the possibility for the conference of the parties to develop something that if it is adopted and when the protocol comes into force and when the time of the budget came close or is already in, that possibility will be used, I mean trading will be used but not

to be used tomorrow, in no way and in no way before going through the process of analysing each and every point by the conference of the parties. And for that reason I don't believe there is an exact parallel or there's enough analogy with the issue of sinks, which also was a difficult issue for us to solve but have been solved. I recognise the distinguished delegate of Gambia

**GAMBIA:** Thank you very much Mr. Chairman. We all agree here that emissions trading is a complex process that we do not yet understand. A request has been made for the deletion of all three paragraphs; 10, 11 and 12. but in response to that, Mr. Chairman you have modified paragraph 10, assigning the conference of the parties to define the rules and guidelines etc. if the conference of parties has been assigned to define the rules to the effect you have a draft decision. Why should we start outlining rules in paragraphs 11 and 12? Because paragraph 11 is a rule, paragraph 12 is a rule, and we are assigning the conference of the parties to look into the rules and guidelines. So I do not see the need for paragraphs 11 and 12, having modified paragraph 10, assigning the conference of the parties to look into rules etcetera, because of the uncertainties. Thank you Mr. Chairman.

**Chairman:** I thank you very much...

I recognise the distinguished delegate of the Czech Republic.

**CZECH REPUBLIC:** Thank you Mr Chairman. Mr. Chairman the Czech Republic supports the inclusion of emissions trading into the protocol. As for paragraph 10, we prefer the amended wording as presented by the distinguished delegate of United Kingdom. Thank you.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Costa Rica.

**COSTA RICA: (36)** Thank you very much Mr. President. In the context of supporting this document and the text which has been proposed, we also agree with yourself regarding the necessity to relate flexibility with the goal of significant global emission reduction, and we know there is a trade off between these two. We think that the global goal which has been presented is significant, as is the proposal, and we would like to re-iterate our support for the proposed text.

**Chairman:** Thank you very much. I recognise the distinguished delegate of Chile.

**CHILE: (41)** Thank you very much Mr. President. I'll be brief, because it is exactly the third day of the morning/tomorrow [joke?]. We are at the third article of 28. I will be brief in my intervention. Firstly I would like to congratulate your great effort in obtaining this document through a difficult balancing act. Now I have the impression that the great effort of these last nine days has been forgotten. This theme has been classed as a minor theme. I think it is very significant, and the success of this meeting depends on it. We have to make an effort. We know that the reduction of emissions from the Annexe A countries is intimately tied to maintaining this concept. You mentioned that this is an animal. I don't know if this animal is angelic, however it has not assaulted us [this last sentence very difficult to understand].

This is a market instrument. It is an important element which will help drive the success of this protocol, and reduce emissions which is its fundamental objective. You have also pointed out the parameters of this aspect, and I think that at the next and fourth meeting we should work out what these parameters are.

**Chairman:** Thank you very much. I recognise the distinguished delegate of Paraguay.

**PARAGUAY: (42)** At the moment of posing the question, we are enriched by two versions to which we give the same value. However I have a few doubts, legitimate doubts on this theme of emission trading. Even though I am pushing for this, we are in favour of waiting [I may be wrong, this sentence very difficult to understand] At this time, our delegation, Mr. President, to this list of their efforts, there are conditions accompanying this text, requiring them to follow the same model as included in number 2 of article 3. This defines applying conditions to the countries of article B, and exists also in article 10, that emission trading for the countries of annexe B in any particular form and any particular year should be conditional on the progress demonstrated in their respective countries.

**Chairman:** Thank you very much. I recognise the distinguished delegate of Malawi.

**MALAWI:** Thank you Mr. Chairman, My delegation is opposed to introduction of an undefined emissions trading, one. Two my delegation recognises, or notices the contradiction that is in article 10 with article 11 and 12. Article 10,

second sentence says the conference of the parties shall define the relevant rules and guidelines of the verification, whereas in article 11 and article 12, the definition of those rules has already been put. My delegation is totally opposed to this. But for the sake of compromise, noticing the arguments that have been put by the United States, also the arguments that have been put by the United Kingdom, my delegation feels that we should actually only retain article 10 as proposed by the UK and delete articles 11 and 12. And I think if we proceed with my observation we might make some progress. Thank you.

**Chairman:** I thank you very much. Let me clarify another point that perhaps, we have been working through long time with these texts and perhaps things that seem to be obvious are not obvious. Paragraph 11 and 12 were never imagined as paragraphs that could be operative before the whole process of trading and the adoption of the rules and everything was adopted. The reference to paragraph ten, in paragraph 11 and 12, which is clearly confusing, part of the participants in this meeting perhaps could be clarified but the idea was never to proceed before having the rules adopted. On the other hand there are many schools of thought here, but there is a clear indication that people prefer to have this matter discussed by the subsidiary bodies to the conference and after that by the conference itself. I have a long list of the people, you have here but there other people before you, and indeed there are people who did speak before and are asking for the floor again. And I am sorry to take such a long time in this matter but I really think it is a critical point of the protocol. We either have this or not and according with the decision numbers will move a lot. This is clear. And we could have either way, but don't be surprised if the consequence are numbers going lower. I also have you Malaysia on the list. The distinguished delegate of Kiribati has the floor.

**KIRIBATI:** Thank you chairman. Climate change is a question of survival in Kiribas. The response to the moments of survival will require judgement based on rationality and instinct. Both tell me to support the inclusion of paragraph 10 in article 3 along the suggestions of the UK and the US. Thank you sir.

**Chairman:** I thank you very much, but the suggestions of the UK and the US are not exactly the same. The distinguished delegate of Philippines has the floor.

**PHILIPINES:** Thank you Mr. Chairman. Mr. Chairman, I listened to all the comments that have been coming through this evening. What has struck me most is your persistent comments, that if this mechanism were not allowed the numbers would go up, there would be much less reductions than we already have. Which to my mind and the mind of my delegation is really very little

already. So Mr. Chairman, we would be willing to go along with paragraph 10 with the amendments of the UK. Thank you Mr. Chairman.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Norway.

**NORWAY:** Mr. Chairman, the issue of emissions trading has been central in working out a compromise. We need to make an agreement, agree on the protocol here in Kyoto. As you know, Norway supports the concept of trading and believes that paragraph 10, 11 and 12 should be retained. We also support those who have suggested to amend the text from Annex 1 to Annex B in the second line of paragraph 10. Early definition at relevant rules and guidelines is essential and we support that this should be an issue at the meeting next year. This way the rules will be clear before emissions trading starts and this is important. Thank you.

**Chairman:** I thank you very much Madam. I'm about to complete the list of the speakers, the next one I have is Sri Lanka, the following one is Romania, Indonesia and then I go to China. Thank you, Sri Lanka has the floor.

**SRI LANKA:** Mr Chairman, listening to this debate going on this subject, there seems to be two views. One where the people who are convinced of the viability of the trading emissions as an instrument of reducing emissions and the other, those who are not convinced but who are willing to see the feasibility. Can't we marry these two concepts together and to say something like; "the conference of parties shall examine the feasibility of trading emissions as an instrument of reducing reductions and if so formulate rules and regulations for this purpose", something like that which marries the two concepts and then we can go forward on this process.

**Chairman:** I thank you very much for your suggestion. Next speaker is the distinguished delegate of Romania.

**ROMANIA:** Thank you Mr. Chairman. Mr. Chairman, my country supports that paragraph 10, 11 and 12 should be retained in the text of the protocol. It is clear that the emissions trading is to support the scope of this conference and it is certainly also that it is the need that rules for emissions trading should be set as soon as possible and I strongly support the proposal requesting that the next session, the 4<sup>th</sup> conference should set those rules. Thank you Mr. Chairman.

**Chairman:** I thank you very much. The distinguished delegate of Indonesia has the floor.

**INDONESIA:** Thank you Mr. Chairman. My delegation is listening carefully to the views expressed by some Annex 1 and non Annex 1 parties concerning the paragraph 3.10, 3.11 and 3.12. that will be related to the following article 4 and article 6. With this kind of process, my delegation rather afraid that we will not finish to do our job to have the protocol that everybody is expecting to be born during this COP 3. So because of this situation Mr. Chairman, my delegation appeals to all parties to have the compromise solution on these issues. I believe that everybody like to see in our protocol, right now to focus on the emission reduction so emission trading or other kind of instrument is only a part of that effort to reduce the emission. So my delegation do not against the idea of emissions trading but probably somewhere we need to arrange, not directly in this protocol but probably in some kind of resolution under this COP 3 that there should be follow up. Thank you very much Mr. Chairman.

**Chairman:** I thank you very much and I thank you also for your invitation to parties to compromise their positions because it is the only way to go ahead and it is the only way to have our protocol. Now I recognise the distinguished delegate of China.

**China:** Mr. Chairman, thank you very much. As you can see that we opposed the draft resolution. Actually you have helped solve half of the question. Half of the question is solved because you recognised that it has to be studied; rules, guidelines, regulations. Now Mr. Chairman, we realise why this be studied properly. First, many colleagues have said that there is something unknown, something full of impressions. Secondly, it does not, or may not contribute to actual reduction. Thirdly it could lead to shifting of reduction overseas. All these are possible. So these have to be examined. That is why Mr. Chairman why you would kindly listen to more views so that we believe that this question have to be addressed. Question of its implications its modalities its rules, its regulations its accountability. All this have to be addressed before it can really be put in to the legally binding instrument. That we hope you will consider. So that a proper solution would be solved, I know that many other colleagues are still asking for the floor, but I submit to you the essence of the matter, you cannot agree to something unless you know basically what is the rule of the game. And what each word leads to, what will that bring about, what increase there will be. All these are serious questions Mr. Chairman, and I hope this will not be made a conditionality to any figures. It's a different thing, Berlin Mandate asked for

quantified limitations projects, QELROS and timeframes. Berlin Mandate didn't say you should go to this kind of mechanism which is so new to many of them with implications still not known to people. So I hope Mr. Chairman you could consider all this aspects thank you.

**Chairman:** I thank you very much. I considered these aspects from long ago. And I feel that there is understanding in consensus here in order to have the conference of the parties to study to the conditions as my friend ...and I like to call it. On that it is clear we have consensus. On what is not clear. It is also clear that we have consensus that the animal should not be let run around before we know it very well. And then let's have it in a kind of lab to be studied, before letting him go wild to different places. I recognise now the distinguished delegate of the USA.

**UNITES STATES OF AMERICA:** Thank you very much Mr. Chairman. We have listened with great interest to the discussion here and I think that our conclusion with regard to the paragraph that we are currently discussing is that some compromise has indeed emerged. There seems to be room here for us to find common ground. Common ground that I think we have shared with our colleagues from the EU and with many others who have spoken. It seems to us however that there are areas where we need further to consider. We do understand what emissions trading is. As you have said, it is a concept that has been with us for quite some time. This is not the first iteration of our consideration. We have examples that we can consider of other aspects in other fora where it has been remarkably successful, and has proven to be a cost effective tool to advance the implementation of our agreements. I need only point to such areas as sulphur dioxide, where we have had experience and our own experience has translated across borders to cost effective reduction of a criteria pollutant that's really quite a problem. In this context, both paragraphs in 11 and 12 speak explicitly to the understanding that we do have of that we have reached. And while we do believe there is a need to continue discussions on the specific aspects of verification and reporting and accountability, we don't need to delete everything, we don't need to erase the last years of discussion and of agreement that have lead us to this point. The compromise that we have seen would thus be reflected with changes to paragraph 10 and with the retention of both paragraphs 11 and 12. Thank you very much.

**Chairman:** I thank you very much. Should I understand from your last intervention that the distinguished delegation of the US agrees with the proposals of amendment suggested by the delegation of the United Kingdom.

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Then you do agree, ok thank you very much. Then at least we have only one proposal to consider. But perhaps that is not enough to reach agreement, because there are other views around. The distinguished delegate of India has the floor.

**INDIA:** Thank you Mr. Chairman. I refer this house Sir, to some very helpful suggestions which we have received, particularly the UK amendment and the Burkina Faso amendment, but first Sir, its not just procedure, its not just verification and reporting and accountability questions. A far more foundation is the question of entitlement, because we are according the right to emit. And the UK amendment and the Burkina Faso amendment, they do not address the issue of prior determination of entitlements before the dispensation of emissions trading can be brought in place. We Sir, in going along with the spirit of accommodation and compromise would like to suggest the following: I am reading first at rapid pace and then I will go again at a slower speed. Yes for the purpose of meeting its commitments under this article Sir, I am referring you to paragraph 10, "any party included in Annex 1 may participate in emissions trading once the conference of the parties shall defined the relevant rules for" here is the suggestion Sir, "relevant rules for equitable"

**Chairman:** Sir I am sorry, Mr. Sharma, there is a bit confusion in the interpretation lines. Could please the interpreters try to go back to their own places you know, forgive me. Somebody's microphones. We are receiving the Russian version through the English line.

Shasha could you follow the Russian version ... ok... Will the distinguished delegate of India do it again; because... when you start reading your proposal, something was confused. Would you please, Sharma do it again. The distinguished delegate of India has the floor.

**INDIA:** Thank you Sir. After the words; "define the relevant rules" that's in the third line, after "shall define the relevant rules", we insert; "relevant rules for equitable allocation of initial entitlements for such emissions trading". That's all Sir. Would you like me to repeat, Sir? Thank you Sir.

**Chairman:** Please Sharma, do it.

**INDIA:** I am reading the entire para' again Sir.



"For the purpose of meeting its commitments under this article, any party included in Annex 1 may participate in emissions trading, once the conference of the parties shall define the relevant rules for equitable allocation of initial entitlements for such emissions trading and guidelines for verification, reporting and accountability etc." Thank you Sir.

**Chairman:** Thank you Mr. Sharma, Is there, we should say "has defined", not "shall defined", "has defined". Is that correct? Thank you. OK. This is let's say a sub amendment to the amendment produced by the distinguished delegate of the UK. I am glad we are going to see the light, some point, some place, far away perhaps but some light at the end of the tunnel. I am going to give the floor to delegations which are asking for the floor and then I am going to ask those who produced the original amendment if they are in a position to assimilate the sub amendment introduced by the delegation of India. The distinguished delegate of Malawi has the floor.

**MALAWI:** Hello Mr. Chairman, I did not request to speak again. I still support you know the amendment made by the UK.

**Chairman:** I thank you very much, it was my mistake. The distinguished delegate of the United Arab Emirates.

**UNITED ARAB EMIRATES:** Thank you Mr. Chairman. I don't see if these amendments modifications are any help to understand the concept. Accordingly I support the deletion of 10, 11, 12. Thank you.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Uganda.

**UGANDA:** Thank you Mr. Chairman. When we made our point we made it really on principle. That there are really a lot of substantial issues imbedded in this concept of trading emission and until such a time that those concepts are clearly analysed and made available to many parties who may not be able to have the capacity to do that analysis, we would have found it very difficult. Our colleague from India has clearly put it, that until the issue of equity has been addressed, it is exceedingly difficult to see how a party can say "I am trading my emissions", how much emissions? And what is your entitlement. Now when we were negotiating on the QELROS, we were told that stronger commitments could not be undertaken because this is a continuous process. And we felt that was

sensible. Now in this case, when we say that we did not have sufficient information and therefore there was need for us to have analysis and have information made available to us it seems that our colleagues were not seeing our point. The concept per se may not be entirely unacceptable, but fact that there are a lot of other issues that need a lot of clarification, a lot of studies and a lot of decision making and noting small delegations like ours who are do not have all the expertise to consult to within, we felt that there was a need for us to delete this article. But maybe we could possible consider the proposal by India, it sounds it could take the concerns of our delegation, provided that the subsequent articles 11 and 12 are deleted. Thank you very much.

**Chairman:** I thank you very much. I recognise the distinguished delegate of Saudi Arabia.

**SAUDI ARABIA:** Thank you Mr. Chairman, to be very brief, we support the intervention by our colleague from Uganda, we think that there is a merit in the proposal by India and given the comment by many delegations with regard to their concerns for this paragraph, we think that some kind of modification can be done in paragraph 10 with the understanding of course that 11 and 12 is are some premature state that we need to leave it up to COP to put whatever rules that will follow, so we are in total support of the previous speakers who asked originally to delete the whole three paragraphs but now paragraph 10 could stand with the right modification that we'd would like to see in writing before agree. Thank you.

**Chairman:** I thank you very much, I recognise the distinguished delegate of the USA.

**UNITED STATES OF AMERICA:** Thank you Mr. Chairman. We would very strongly object to the proposal from the distinguished delegate from India which would vitiate significantly the workability of this mechanism, which again I repeat is so absolutely fundamental to the ability of the Annex 1 countries to undertake the obligations we are going to assume. The initial allocations are in fact in the countries targets and we've taken a very aggressive one. The negotiation in effect of equity is what we are about in this emission trading system, that's the whole purpose of the effort. We would be pleased to see parties take on these commitments, take on national budgets. And then to participate in the trading, which again will make such a major contribution. I would stress again not to let this opportunity of such historic nature slip through our hands it is something that is essential for us to do and we would not be soon forgiven if we missed the

opportunity or we took amendments that made the trading system unworkable. This is unfortunately one such instance. Thank you.

**Chairman:** I thank you very much. Does the distinguished delegation of the USA have another suggestion to cover the gap of concern by a great number of delegations here.....

Perhaps in a few minutes I will go back to you if you have a new idea. The distinguished delegate of Philippines has the floor.

**PHILIPPINES:** Thank you Mr. Chairman. I was just thinking Mr. Chairman, that the Indian proposal can actually be accommodated in the present text, really not as an allocation but really as part of the study to be done in the context in the context of all of emissions trading, so therefore its seems to me that all of the proper language can be found if all of our colleagues here in different proposals can come together and find the right language. Thank you Mr. Chairman.

**Chairman:** I thank you very much. The distinguished delegate of Zimbabwe.

**ZIMBABWE:** Thank you very much Mr. Chairman. Mr. Chairman, would like to make a statement we do support the amendment that is proposed by the distinguished delegation from India, and just to emphasise the point of the issues that still need a lot of clarification would like to propose in that paragraph the inclusion, after "entitlements" that is the proposal by the delegation of India, the following wording; after "entitlements, the global ceiling date and time for contraction and convergence of global emissions because we do think that you cannot talk about trading if there are not entitlements, also there is a question of contraction and convergence of global emissions that comes into play when you talk about the issue of equity. So I would like to propose that that aspect be included as well or as an aspect that needs to be looked into when we look into this issue of emissions trading. Thank you Mr. Chairman.

**Chairman:** I thank you very much. As I see the evolution of this discussion, perhaps there some movement made by the distinguished delegate of India. The addition to the proposal my text modified by the UK plus the proposal of India. I call on the distinguished delegate of Zambia.

**ZAMBIA:** Thank you Mr. Chairman. I'll be very brief, my delegation, supports paragraph 10 as amended by the United Kingdom as well as the new proposal from India, would like to paragraphs 11 and 12 to be deleted I thank you Mr. Chairman.

**Chairman:** I thank you very much. ....Perhaps a way to show the real meaning of this paragraph will be to separate it from the article on commitments and to bring to an article on interim arrangements and the interim arrangements will be to make that study.

We have an interim arrangement in our convention and perhaps we could have interim arrangements in the protocol, in order to solve the need to analyse this situation and in the future decide what is to be done. The distinguished delegate of Colombia has the floor.

## **COLOMBIA: (90)**

**Chairman:** I thank you very much. .... May I ask again the distinguished delegate of the USA if they have another suggestion to propose in connection with the proposals made by the distinguished delegate of India...? He does.

**UNITED STATES OF AMERICA:** Thank you very much Mr. Chairman. We appreciate you giving us the floor one more time in this debate. We feel that it is somewhat unfortunate that we have continued so long and apparently gone so far afield from a topic which seems rather focused, an issue which we think there is quite a degree of convergence on. We heard support for the proposals that were made by ourselves, by the UK, by Mexico, it does not seem to us that other items were particularly supported here or in fact could form the foundation for any consensus. It does seem to us that the proposals by for example India and perhaps by others who speak to Contraction and Convergence are elements for the future, elements perhaps for a next agreement that we may ultimately all seek to engage in. They don't seem to us to be part of a trading regime, much less a trading regime that we would speak to in the context of this agreement. So Mr. Chairman, we would hope that at this point we perhaps could move through this discussion and get beyond these three paragraphs where we do believe that we do have good reason to take them on, to endorse them recognising the very substantial reduction in detail, that's contained by the elimination of a full article addressing these issues and the retention of only these three brief sentences now in this article.

**Chairman:** I wish everybody would agree with you but it doesn't seem to be the case you know. I recognise the distinguished delegate of China.

**CHINA:** Thank you Mr. Chairman. After having heard one delegate speaking three times, I think now I become clearer of the subject. Mr. Chairman, we really take it very seriously if when we talk about emissions trading what's to know as our Zimbabwean colleague says, the global ceiling, we share one globe. If somebody divide up that globe what is the room for others to develop. This is one serious issue. That's why we support strongly Indian amendment, bringing out, highlighting this issue of rules for equitable allocation of entitlements, or emissions entitlements. Mr. Chairman, this is a matter for Human Rights. It's not a light matter. Secondly Mr. Chairman, if you want to have trading, well in a country you can have a central government or a federal government, which can assign, allocate, quotas, permits, but internationally, who would do that? Therefore Mr. Chairman, you need to solve organisational matter issues, related legal issues, institutional issues, and methodological issues. All issues have to be solved before this can function equitably and properly. So Mr. Chairman, that's why we support you early decision, draft decision, that SUBSTA and SBI should be requested to do a serious work and report back to the COP 4 or as practicable. Mr. Chairman, I think now you have heard all the views. Its just doesn't make sense to say it's cost effective. Yes but cost effective for whom? That question has to be answered. So Mr. Chairman, all in all, please note that emissions trading per se, cannot bring about actual reduction, it could be a transport, transferring or transaction, but what we are all for is genuine actual reduction. We don't mind if the target is low, however it has to be genuine. It has to be actual, as many of our colleagues have stressed. In that context Mr. Chairman, after thorough study, after COP 4 or COP 5, justifies that these would not, would contribute to protecting global climate while not having adverse impacts on all the countries, in particular developing countries, then of course it can be, carried on. Pending that Mr. Chairman, it is very difficult to have it as a legally binding instrument. I thank you very much Mr. Chairman.

**Chairman:** I thank you very much. I am really concerned, perhaps we about to blow up the whole possibility of having the agreement... I invite the delegates to reflect on the consequence of what we are about to decide. It was understood from long ago that trading was part of the flexibility required by some members by the members who were going to reduce emissions in order for them to participate in the exercise. This was discussed many times. It was always agreed that further studies should be done and it is clear that we could ask the conference to advance on these studies. But in order to reflect in the future life of the protocol whatever results of those studies are going to have, it is necessary to establish a link between the work, the future work of the conference and the text, the legally binding text we are going to adopt. If that

link is missing, we are going to face difficulties. I am not in a position to say that we have consensus in anything beyond the idea of asking the conference of the parties to study the problem and to produce a result to be considered at the fourth meeting of this conference. I could keep giving the floor to a number of delegations, but I don't see many new ideas coming on. Of course perhaps there are nuances or details but not the substantive contributions and on one side I have seen flexibility, on the other side, perhaps less flexibility and we still need more flexibility to advance. I am sorry to say that perhaps we are far away of the agreement; we were supposed to be closer. I am not surprised because when I started the exercise of this, when I present my report on the conference on the work done to the ABGM I said that a number of countries were against the adoption of the convention, were against the adoption of the Berlin mandate, and were also during the process of the Berlin Mandate not helping us as I was looking for help. But in addition to that there are other countries which were in spite of the exercise we have will be better off if we simply don't have any agreement. And perhaps that is the point we are facing now. I invite you to reflect and to try to bring as closer to an agreement because the way we are going is not getting us any closer to the end of our, not this paragraph, the whole matter. Next speaker is the distinguished delegate of Lithuania.

**LITHUANIA:** Mr. Chairman. If we no one single mechanism can be neglected targets we have set in this legally binding protocol. Therefore my delegation of Slovenia support paragraph 10 as it has been amended by the UK. Further I believe that this maybe force free assumption that this emission trading mechanism is somehow very decisive entry it will take a very large amount. I believe it is stated in the paragraph 10 itself it is supplemental to domestic action etc. so I believe that this-the positioning of this paragraph together with paragraphs 11 and 12 can really contribute to our- to the common targets we are always trying for. Thank you very much.

Chairman: I thank you very much. The distinguished delegate of Iran has the floor.

**IRAN:** Thank you very much Mr. Chairman, I will try to be as brief as possible. Mr. Chairman in principle, you know how much difficulty my delegation has with this whole concept, however given the time constraints and in the spirit of flexibility I may only leave with paragraph 10 provided that the amendments made by India are fully incorporated and provided that paragraphs 11 and 12 are also deleted and I also think Mr. Chairman that your latest suggestion with regard to taking out this paragraph 10 to another place is a very good and valid suggestion. I could go along with your suggestion. Thank you very much.

**Chairman:** I thank you. I recognise the distinguished delegate of Samoa.

**SAMOA:** Mr. Chairman, I think any attempt of trying to deal with these rather complex matters by trying to find them within the context of paragraph 10 would overload this paragraph in my opinion. Mr. Chairman one of the problems is that it's a mix of concepts that we are trying to deal with. I do believe and I strongly support the proposal from the United Kingdom, I believe that this is a practical solution to the uncertainties, the rules that would need to be developed. The proposal by the distinguished delegate of India – it is appropriate that these matters be mentioned now. It is not a proposal that I agree with. This particular idea came up in the informal consultations, the distinguished representative of India is aware of my own views on the matter, I had thought that it was accepted that these matters deserve to be studied at a future date, in the sort of process that is involved in the proposal by the United Kingdom. I do repeat that I think it would be over loading paragraph 10 to attempt to deal with it now; the avenue of considered attention is available by the COP 4 process. If there is need to find specific language so that the question of entitlement for instance is included for consideration by COP 4 this could be dealt with in the draft decision that you are contemplating Mr. Chairman. On the question of allocation, I would have thought that that is essentially taken care of on the basis of differentiation. Thank you very much Mr. Chairman.

**Chairman:** I thank you very much. I recognise – I recognise the distinguished delegate of Niue.

**NIUE:** Thank you Mr. Chairman, its Niue. But I support the distinguished delegate from .....distinguished delegate from UK for his amendment and also just wish to relate the trading, very similar to the fishing licences that are going on at the moment where quite a few companies are just trading fishing licences and I don't see much difference from that. Thank you Mr. Chairman.

**Chairman:** The distinguished delegate from Malaysia has the floor.

**MALAYSIA:** Thank you Mr. Chairman. And when in one hour's time I have to leave to catch a plane, I don't know when we can go to article 10. I am offering you a solution Mr. Chairman. I hope that in this way we can move forward. There is actually a consensus that the subsidiary bodies should look into those methodologies guidelines so on and so on. And there are so many conceptual issues to be raised and to be understood by parties before some parties would

like to participate and some parties would have concern. Mr. Chairman, maybe as an interim solution, why don't I suggest that you refer the whole issue of emissions trading for the elaboration of the two subsidiary bodies and make a concrete recommendation in the coming COP and that will have been a very good step for us, to move for us from this couple of paragraph to move on to something that I would be happy to see article 4 when I leave in an hours time. I'm sure that my colleague, the Chair of SBI will be happy to assist the conference of parties to understand the issues of this, I would request therefore Mr. Chairman if you could make a decision at this time. Thank you very much.

Chairman: I thank you very much... I will suspend the meeting for five minutes in order to complete the consultation and after that I will make a proposal for you. Because I mean if you have only two hours to catch your plane, I think I have four and perhaps you have your baggage already prepared, I didn't – I don't. To suspend the meeting for five minutes,

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Thank you very much. I – after the discussion we have, I think that I have a clear understanding of the possibilities to do on what can be done in this area and now I'm going to propose you two things. One is to take out paragraph 3.10 of the article 3 and to produce a new article 17bis. Which I am going to read. And second I will read you the relevant paragraph, ha ha... What's wrong?

I'll try again, ok, I was saying that after the discussion we have here, this I don't know morning, evening or whatever, we are here and consultations, rather informal and not very well organised I maintain, during this brief break, I am going to propose you two texts. That I hope will receive your consensus. One thing is I will take our article - the paragraph 10 from article 3. And I will propose a new article 17bis, which will have the characteristics of a provisional arrangement or interim, will have the characteristic of an interim arrangement, in the same way we have something before in the convention. And I am going to read you this paragraph, and the second thing is a draft decision to be adopted by the conference. Perhaps I first read the draft decision to be adopted by the conference. This is part of the larger draft decision which will contain different points related with the work of the committee of the whole, on this matter and on other matters, methodologies and matters which were which were related to our draft protocol. The draft decision in the pertinent paragraphs will say, that the conference request the chairman of the Subsidiary body for scientific and technological advice, and the chairman of the subsidiary body for implementation, taking into account the approved budget for the biennium, 1998, is that the support,... 1998, 1999 and the related programme of work of the secretariat, to give guidance to the secretariat on preparatory work needed for the consideration at the fourth session of the conference of the parties on the following matters and to allocate work on these matters to the respective subsidiary bodies as appropriate. Then there is a methodological matter first and the second matter is: "definition of relevant principles, modalities, rules and guidelines in particular for verification, reporting and accountability for emissions



trading ... to article 17 bis of the protocol. I will read again the part of the decision, draft decision that is related of this item, we were discussing trading. The conference requests the chairman of the subsidiary body for scientific and technological advice and the chairman of the subsidiary body for implementation, taking into account the approved programme budget for the biennium 1998, 1999, and taking into account the related programme of work of the secretariat, to give guidance to the secretariat on preparatory work need for the consideration for the fourth session of the conference of the parties on the following matters. And to allocate work on these matters to the respective subsidiary bodies as appropriate." Then the first is a point A on methodologies and second is a point B "definition of relevant principles modalities rules and guidelines in particular for verification, reporting and accountability for emissions trading. ...To article 17bis of the protocol, of the protocol, this is the decision, the draft decision. I am going to read now the article 17 bis, which I propose to you. It comes with the deletion of paragraph 3.10. Article 17bis: "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 purpose of fulfilling their commitments under article 3 of this protocol, any such trading shall be supplemental to domestic actions for the purpose of meeting quantified emissions limitations and reductions commitments under that article. Let me read it again, at dictation speed. I will ask Richard to read it.

**Richard:** Article 17 bis. 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 of this protocol. Any such trading shall be supplemental to domestic actions, for the purpose of meeting quantified emission limitation and reduction commitments under that article.

**Chairman:** I thank you very much for reading that. I sincerely think that these texts reflect both the draft decision and the new article 17 bis. reflect the only possible consensus at this stage in our meeting. And taking this into account we adopt these texts. It's so decided.

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