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TAGS: ENRG, ECON, PREL, SENV

SUBJECT: CLIMATE CHANGE NEGOTIATIONS: KEY ISSUES FACING US
IN THE RUN-UP TO THE KYOTO CONFERENCE

1. (U) Classified by Under Secretary Timothy E. Wirth
Reason: 1.5(b) and (d).

Summary

2. (U) Global warming is the major environmental and, arguably, one of the most important economic issues facing the United States and the world community over the coming decade. This message, while not requesting any specific actions from posts at the present time, is intended to provide you with background to the issues facing the current round of negotiations and to provide our assessment of the positions of various developed and developing country Parties. In particular, the multiple challenges faced in gaining broader acceptance of our still evolving positions, both internationally and domestically, are highlighted. As we move towards the final sessions of this

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UNITED STATES DEPARTMENT OF STATE
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2

round of climate change negotiations in Bonn in October and in Kyoto in December, we may need to ask you to engage appropriate senior interlocutors on the climate change issue in recognition of its growing importance to us as a key political and economic, and not singularly environmental, priority. End Summary.

Some Background

3. (SBU) As you are aware, the President recognized the problem of global warming as one of the leading issues of concern to the international community in his June 26th address before the UN General Assembly's Rio Plus Five Special Session. In this regard, the President announced at this meeting that he will be hosting a White House Conference on Climate Change at which a broad range of science and policy issues will be discussed. This conference is now scheduled to take place on October 6. Internationally, the climate change issue is currently being addressed through an intensive series of negotiations under the auspices of the Framework Convention on Climate Change (FCCC) and is scheduled to conclude next December in Kyoto, Japan, with agreement on a protocol or another legal instrument which should establish quantified objectives to reduce developed country green house gas emissions over a specific period of time.

4. (SBU) As is underscored in the paragraphs below, arriving at a satisfactory agreement in Kyoto is a difficult challenge. Much has changed since the Berlin Mandate, which set the parameters for the current negotiations, was agreed upon in April 1995, and we may not, in the end, be able to accomplish everything we had anticipated and hoped for in Berlin. For example, there is growing concern in the U.S. over the domestic and international political, economic, and environmental implications of the Berlin Mandate. The Berlin Mandate calls for the establishment of quantified objectives to limit and reduce developed country greenhouse gas (GHG) emissions over a specific time period. It called for such a target for developed countries only.

5. (SBU) Not only is the issue of climate change a complicated one from its scientific perspective, but it is also an issue where the economic stakes are extremely high. Indeed, the problem of global warming, in addition to its

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3

high profile as a matter of critical environmental concern, is arguably one of the the most important economic issues facing the United States and the international community over the coming decade, as well. The importance of this issue to the development of energy and energy use policies throughout the developed and developing world over the medium and long term cannot be over-emphasized, as the production and consumption of fossil fuels accounts for nearly 75 per cent of global CO2 emissions -- the principal GHG.

6. (SBU) In this regard, the United States is committed to support "realistic and binding limits that will significantly reduce our emissions of greenhouse gases." The Administration is engaged in an intensive effort to refine specific policies to meet this goal. The importance of this effort has been intensified by growing Congressional interest in this issue generally, and in this negotiating process specifically. For example, posts may be aware of a sense of the Senate Resolution (the Byrd-Hagel Resolution) unanimously passed in July which, inter alia, suggests that it will not provide its advice and consent unless developing countries join with developed Parties in establishing firm commitments at Kyoto in December.

7. (SBU) We have been working for some time to develop realistic targets and timetables and further initiatives -- including, as appropriate, initiatives concerning developing countries. Given the very tight timetable which faces us (with only one formal negotiating session remaining in October), at one point, we may have to weigh in with host governments at the most senior, appropriate level, if we are to achieve broader backing and support for our position.

8. (SBU) This message is designed to give posts a current update on the key issues which need to be resolved, if we are to be successful in Kyoto, and to preview our options for post-Kyoto actions. It also attempts to identify the positions of various individual and groups of countries which we have identified as the key players in this negotiation. Although we are not requesting any additional demarches on this topic at the present time, we are providing this cable as part of the background which we believe will be useful to posts if and when interventions on this topic are deemed necessary in the future.

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4

Key Issues in the Negotiation of Next Steps

9. (SBU) The U.S. proposal for next steps under the United Nations Framework Convention on climate Change has several key elements, each of which is under attack from various quarters. These include the target and timetable, issues involving developing countries, and our quest to introduce "flexibility" into the proposed outcome in implementation of any new agreement on climate change. Each of these elements is described below, along with a description of where we believe key individual and/or groups of countries are at the present time in terms of those negotiations.

I. Target and Timetable

10. (U) The Berlin Mandate (which was agreed in 1995 at the Climate Convention's First Conference of the Parties and which provided guidance for the negotiating process) calls for the establishment of quantified objectives to limit and reduce developed country greenhouse gas emissions over a specific time period. It called for such a target for developed countries only. At their Second Conference in July 1996, largely in response to a U.S. initiative, a significant majority of the Parties agreed that these quantified objectives should be legally-binding (objections only from OPEC, Australia and Russia).

11. (SBU) To date, the United States has not announced its own target, stating that we are in the process of undertaking a detailed economic analysis of the consequences of any commitment; we have been roundly upbraided for our delay in making a public announcement. Other key countries have yet to announce a target (e.g. no proposals have yet been submitted from Japan, Canada, or Australia) -- in part, it is believed, because they may be waiting for the U.S. to move first.

12. (C) Some countries (most notably the EU) have indicated that our other proposals (e.g., our flexibility provisions) may be held hostage to the announcement of a "reasonable" target level. For their part, the EU and others have announced commitments which in our view are anything but "reasonable." For example, the EU has called for a 15 percent reduction in greenhouse gases (only CO₂,

CONFIDENTIAL

CONFIDENTIAL

5

CH4, and N2O in the EU proposal) below 1990 levels by 2010 (with a 7.5 percent reduction by 2005); the Alliance of Small Island States (AOSIS -- a group of approximately 35 small island countries) has called for a 20 percent reduction in CO2 below 1990 levels by 2005, for developed countries only. We consider these numbers to be not only unrealistic but unhelpful to this negotiating process, as well.

13. (C) On the one hand, our projections for greenhouse gas emissions in the EU up to the year 2010, and review of the EU's rudimentary plan to meet its goal, make it appear extremely unlikely that the target proposed by the Europeans can be reached. On the other hand, while introducing a number that is politically attractive to several of its domestic constituencies, the EU has raised expectations to an unrealistic level which may make it difficult for the EU to reassess or compromise on its positions to the degree required to secure agreement at Kyoto.

14. (C) This said, we fully recognize that our ability to challenge the EU numbers effectively has been weakened by our failure to come up with our own targets and timetables. We would like to be in a position to announce our numbers or a range of numbers in time for the Oct 20-31 final AGBM (Ad Hoc Working Group for the Berlin Mandate) negotiating session in Bonn, but it is not clear yet if this will be possible, given the progress of the domestic policy debate.

15. (C) We continue to insist that framing a "structure" for an eventual agreement is more important, in our view, than identifying a specific "number" at the present time. This view has already been challenged by the EU and several developing countries, but it is the EU's insistence that "numbers come first" which has delayed further progress in closing the gaps between our two sides on other outstanding issues.

Differentiation Arguments Maintain Their Ground

16. (C) Some proposals from certain countries (e.g., Australia, Norway, and Japan) have also called for setting differentiated targets, arguing that differing national circumstances preclude any agreement which sets the same commitment for all developed country Parties. The U.S. has

CONFIDENTIAL

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6

opposed this form of an agreement at this time, arguing that it would be impossible to negotiate among the competing interests in time to reach a conclusion in Kyoto; this is borne out by the fact that no two differentiation proposals have yet been successfully combined.

17. (C) Despite our opposition, differentiation arguments appear to have gained currency over the past several months. Australia has promoted its own scheme which, while not gaining any specific adherents, has tended to propel the argument into the overall debate on targets and timetables. (Please see paras 41-49 for further discussion of EU and Japanese proposals.)

 The EU 'Bubble': Closet Differentiation and a Cover for Emissions Trading

18. (C) The EU, while outwardly calling for a flat rate target for all developed countries, has proposed an internal distribution of responsibilities, thereby effectively differentiating. This position has tended to undermine the EU's commitment to a flat rate target. From the U.S. perspective, the EU bubble with its differentiated internal targets should only be realized through emissions trading among EU nations -- in competition with foreign "trading" interests. This point is recognized by some European interlocutors. However, they insist that the flexibility inherent in their bubble arrangement is not necessarily a given for the rest of the world. "It all depends on your (read U.S.) number," they maintain.

19. (C) They also argue that EU circumstances are different from other countries, and that their "special relationships" make compliance more likely. In spite of this assertion, the EU has yet to announce how it will address member states compliance issues in the context of a Kyoto agreement.

 U.S. Domestic Views on "the Target"

20. (SBU) Domestic lobbying on the issue has also been intense: the environmental community has supported a stringent target, calling for emissions to be reduced below 1990 levels by 2010 (some NGOs have proposed a 20 per cent

CONFIDENTIAL

CONFIDENTIAL

7

carbon dioxide reduction below 1990 levels by 2005); industry groups, while split over the need for action (with the renewable energy industries calling for stringent near term commitments) have generally supported a much more cautious approach. Some companies have been vocal in rejecting the notion that any action needs to be taken at any time.

21. (SBU) Congress has not been specific about the target level, instead criticizing the Administration for not releasing more information and economic analyses demonstrating the costs of undertaking various levels of commitment. Some tentative analysis was shared with the Congress at a hearing earlier this summer; additional information is expected to be available as a result of the October 6th White House Conference. Nevertheless, in the absence of an announcement on a target (or at least on an approximate range for a target), it will be extremely difficult to make much progress on other issues during the forthcoming rounds of this negotiation.

II. Developing Country Commitments

22. (U) The U.S. and other Parties understand that critical environmental benefits of global efforts to address climate change will not be realized unless all Parties contribute to efforts to reduce greenhouse gases. Developed countries (including the OECD members states and countries with economies in transition) currently account for approximately 60 percent of global emissions. The United States, now the world's largest emitter (with 22 percent of the global total) will be surpassed by China within the next 20 years. On a per capita basis, our emissions are now more than eight times those of China's, and will remain more than five times Chinese levels even by 2020, however. By 2030, developed countries will account for less than half of global emissions. However, because of the lag time between emissions and changes in atmospheric concentrations, even by the year 2100, more than half of the global atmospheric concentrations of green house gases will still have been contributed by the developed world.

23. (U) The Berlin Mandate explicitly rejected the establishment of any new commitments for developing countries, although it called for reaffirming and continuing to advance the implementation of their existing

CONFIDENTIAL

CONFIDENTIAL

8

commitments. Recognizing the need to involve developing countries in next steps, the U.S. proposal has three elements that address developing country action:

(1) Language to better define the current commitments, including calling on developing countries to provide annual inventories of emissions, to take "no regrets" measures, and to have in-depth reviews of the actions they are taking;

(2) Language establishing a new subset of the more advanced developing countries (e.g., Korea, Mexico; called Annex B). While this group would undertake legally binding quantified commitments (i.e., targets and timetables), these countries' own emissions could continue to grow, and joining the group would be voluntary, and thus not at odds with the Berlin Mandate agreement; and,

(3) Language calling for the negotiation of a next step following Kyoto, in which all countries, including developing countries, would agree to adopt legally binding emissions targets. We have proposed, notionally, that such an agreement be concluded by 2005, although this proposed timeframe could change. This last item is popularly known as "evolution."

24. (C) Internationally, there is enormous opposition to the U.S. developing country proposals. Nearly all developing countries, but most vociferously the Chinese, the Indians and the G-77 representatives, have argued that all of the U.S. proposals (but, particularly, numbers 2 and 3 above) are beyond the Berlin Mandate, and impose new commitments.

25. (C) Some developed countries, particularly those in the EU, are willing to support the elaboration of current commitments, and a form of Annex B (e.g., the EU proposes an Annex X which is substantively similar), but strongly oppose any inclusion of a provision on "evolution" as part of the formal agreement. A similar position has also been taken (in corridor conversation) by the AGBM chairman. A few countries, including, Australia, Canada, New Zealand and Russia have supported the U.S. proposal on "evolution", and are likely to accept the other U.S. provisions, as well.

26. (C) This noted, both the EU and, increasingly, Japan appear insistent on taking a narrow interpretation of the

CONFIDENTIAL

CONFIDENTIAL

9

Berlin Mandate and requiring developed countries to take the first additional steps to address the problem of global warming, with the developing countries taking steps at some unspecified point in the future.

27. (C) Without a greater coalescence of views with regard to developing countries, the United States will be unlikely to agree to any proposed protocol or other legal instrument. What we have placed on the table so far must be regarded as minimum requirements.

28. (C) The U.S. Senate (most specifically through the Byrd-Hagel Resolution) has indicated that it will refuse to provide its advice and consent to the agreement unless developing countries undertake legally binding commitments at the same time as we do and has also underscored that no future agreement should harm the U.S. economy.

29. (SBU) Industry has pushed aggressively for developing country commitments, arguing that our competitive edge is at stake if we act and developing countries (particularly major competitors such as China) do not. The fairness issue is also a critical factor. Given the global nature of the problem, it is argued that it is not "fair" to place the entire burden for action on developed country Parties alone. Meanwhile, the environmental community has supported action by developing countries at a later stage, arguing that the developed world must take the lead both by virtue of its responsibility and its greater capacity to act.

30. (SBU) Clearly, these views must be taken into account as we move into the final stages of this negotiation. The U.S. will not accept an agreement that is inconsistent with two fundamental elements -- first, to maintain economic growth while we act to protect the environment and, second, to ensure that all countries commit to take meaningful, concrete steps to address the problem of climate change. These elements are essential for public support in the United States and for approval by the U.S. Senate.

III. Flexibility

31. (U) The U.S. proposal calls for setting legally binding targets and timetables for all developed countries, but also seeks to maximize the flexibility provided to each

CONFIDENTIAL

CONFIDENTIAL

10

country to meet the agreed target. To this end, we have opposed adopting mandatory, common or harmonized policies and measures such as those currently being advanced in the EU protocol proposal. In the EU category are included the adoption of a common carbon tax, the agreement on standard appliance efficiency standards, the removal of subsidies, and/or the development of an aviation fuel surcharge (possibly adopted through ICAO).

32. (C) In the development of its policy initiatives, the EU has convened a number of meetings to which all industrialized countries (with the notable exception of the United States and Australia) have been invited; to date, no consensus on appropriate policies and measures has emerged, and despite the EU's efforts to amplify its views at the August negotiating session, there does not appear to be one in the offing.

33. (U) The U. S. draft text, while not offering a target date or level, does establish the concept of an emissions budget, providing flexibility in planning over a number of years instead of requiring countries to meet a single point target. The budget thus would smooth inter-annual variability arising from economic fluctuations or unusual weather that might change the level of national emissions in unplanned ways. To date, the budget period remains undefined, but discussions domestically have suggested it be between three and ten years.

34. (U) The draft U. S. protocol also allows for both borrowing (from a future budget period) and banking (from a previous budget period) to provide additional flexibility in controlling emissions. In addition, the proposal allows countries to offset domestic emissions through an international emissions trading regime, and through joint implementation. Emissions trading would be allowed between countries with emissions budgets (and thus limited to developed countries and to countries with economies in transition, as well as with any countries that voluntarily chose to join Annex B).

35. (U) Joint Implementation, which is project based, would be also allowed between developed and developing countries, although because of problems of "leakage" (in which emissions reduced in one place might merely be displaced to another location due to the lack of national level caps), more stringent reporting and monitoring

CONFIDENTIAL

CONFIDENTIAL

11

standards might need to be imposed to insure credible offsets.

 Reactions to U.S. Proposals: "Mixed but Encouraging"

36. (C) U. S. proposals have had a mixed reception internationally. Harmonized policies and measures, to one degree or another, are opposed by many other countries, who also fear adverse competitive impacts and strait-jacketing countries with significantly different national circumstances. The EU approach on policies and measures was criticized by various key Parties (including the U.S., Australia, and the G-77 and China representatives) at the August negotiating session in Bonn.

37. (C) Emissions trading (which opens up possibilities now only enjoyed by EU member states) is fairly widely accepted, while joint implementation with credit is generally opposed (both by developed and many developing countries) until the end of the pilot phase (i.e., the year 2000) known as activities implemented jointly (AIJ). Borrowing is unanimously opposed (except as a device to deal with compliance concerns), whereas banking is broadly accepted. Meanwhile, the multi-year emissions budget concept seems to be gaining adherents and may ultimately be adopted in the negotiations.

38. (SBU) Domestically, these issues have also drawn some fire, although there is broad support both in the Congress and the private sector for many of these elements of the U.S. proposal. The business community strongly supports U.S. opposition to the adoption of common or harmonized policies and measures. It also broadly supports emissions trading and joint implementation, except that business groups note that successful trading regimes require a binding cap on emissions, which they tend to oppose.

39. (SBU) The environmental community has been split on many of these issues. Many are skeptical of the emissions trading and joint implementation concepts; all oppose borrowing; and most could accept the budget concept, as long as the budget period were relatively short.

 IV. International Perspectives

CONFIDENTIAL

CONFIDENTIAL

12

40. (SBU) Countries and groups of countries line up in largely predictable camps according to national proclivities and circumstances. Six discrete groups of countries can be identified, although within each, there remains a considerable diversity of opinion regarding both discrete elements of the U. S. proposal and the appropriate components of an agreement for Kyoto.

 The European Union

41. (C) The most prominent and cohesive of the groups on this issue has been the European Union (led by the Germans, the UK and the Dutch, with the French -- under their new "green" Environment Minister Voynet -- attempting to put France at the "progressive" forefront). With strong green domestic politics driving their positions (and, in the case of Germany, with enormous emissions reductions that have accrued from closing down inefficient former East German power plants and factories), the Europeans have proposed extremely aggressive next steps. The EU has called for a 15 percent reduction in greenhouse gas emissions below 1990 levels by the year 2010 for developed countries, with a reduction of 7.5 percent by 2005.

42. (C) While the U. S. analysis (plus, we understand, even the analysis of the European Commission's Energy Directorate (DG-XVII) suggests that this is an unrealistic goal, even for Germany, it has given the Europeans a moral high ground from which to challenge all other country positions. The EU has also rejected efforts to more fully engage developing countries (arguing that they have significantly lower per capita emissions and, therefore, ought not to be required to undertake commitments at this time).

43. (C) Finally, while supportive of the concepts of flexibility, the EU rhetoric has seldom followed this course: They have proposed legally binding, harmonized policies and measures to be applied to all countries (such as a carbon tax); they have opposed joint implementation; and they have rejected the concept of borrowing. However, in spite of their differing views, no agreement will be possible internationally without EU support. Unfortunately, the difficulty with which the EU is able to establish "coordinated" positions may call into question

CONFIDENTIAL

CONFIDENTIAL

13

its ability to make the critical shifts in position necessary to forge a final accord.

Non-EU OECD Members (principally Japan, Canada, Australia)

44. (C) This group of countries has multiple objectives: Japan, as host of the Kyoto meeting, is anxious to see a success, and is willing to sublimate almost any national priority to see this achieved. However, the Japanese have thus far registered little coordination internally. The powerful Ministry of International Trade and Investment (MITI) and the environment agency are fighting over the direction of the policy, with the Foreign Ministry and Cabinet Office playing the somewhat hapless role of arbitrator.

45. (C) Japan has endorsed a differentiated approach (one which would allow each country to have different commitments based on some criteria for national circumstances. Moreover, Japan argues that its low per capita emissions entitle it to lesser future action). It has opposed emissions trading and joint implementation (on the grounds that it will result in capital flight), and it has been unwilling to push too hard for developing country engagement (on the grounds that it could result in the derailing of the negotiations for Kyoto).

46. (C) At recent meetings, Japan's position has shifted somewhat, apparently under the mediating influence of the MFA and the personal interest taken in this issue by PM Hashimoto. Japan now appears to support some kind of evolution commitment at Kyoto. Moreover, its one time strident opposition to joint implementation and emissions trading has been somewhat moderated. Most recently, the Japanese have told us that they are willing to accept our concepts (including emissions trading (albeit with unspecified conditions) in exchange for support for their position on the target).

47. (C) Canada, too, has mixed views; its provinces are divided on appropriate action, with little authority in the hands of the federal government to implement any binding agreement absent provincial support. Alberta, with its strong petroleum producing background, wants to proceed cautiously. Quebec, on the other hand, with its strong

CONFIDENTIAL

CONFIDENTIAL

14

hydroelectric export potential, favors a more aggressive policy.

48. (C) While Canada has expressed an interest in establishing harmonized policies and measures, it has been a staunch supporter of JI and emissions trading and has been a strong proponent of fully engaging developing countries in next steps. The recent electoral results have given a push to those in Canada supporting a "differentiated" approach, although Canada has been hesitant to broach this publicly in view of U.S. sensitivities.

49. (C) Australia is the "black sheep" of the OECD family. A conservative government with strong ties to basic industries and coal, Australia sees only economic costs from any effort to participate in next steps. While it supports most of the market-based flexibility approaches advocated by the U.S., it has been the strongest proponent of a differentiated commitment regime, arguing that its reliance on coal should entitle it to substantially greater emissions than those allowed to less carbon-intensive economies. In recent months, Australia's Prime Minister John Howard has spoken about the possibility of Australia's withdrawal from the Climate Convention. At a minimum, Australia has continued to voice its opposition to signing on to any legally binding target until it learns what this target is.

 The Large Developing Countries

50. (C) Perhaps most influential in the larger group of developing countries, China, India and Brazil have a special significance in the developing country pantheon. Drivers of the G-77 position, they are the three largest developing country greenhouse gas emitters (and China is the world's second largest after the U.S.). Their concern is with both the impending costs of adaptation to climate change (the effects of which are anticipated to be felt more dramatically by developing than developed countries) and to reducing costs of reducing GHG emissions; their reaction is to take a standard north-south line.

51. (C) These countries essentially argue that global warming has been caused by dereliction on the part of the developed world, and suggest that it is the OECD that

CONFIDENTIAL

CONFIDENTIAL

15

should pay for the clean-up. They further argue that only when OECD emissions are equal to those in developing countries should the latter have to participate in agreements.

52. (C) In spite of this public rhetoric, these countries (particularly China and Brazil) have shown a great willingness to engage constructively on this issue on a bilateral basis. They have actively undertaken domestic climate change mitigation efforts, and have privately indicated support for many elements of the U.S. proposal. However, they remain publicly opposed to our developing country elements, and must be moved off this position to enable the successful negotiation of an agreement that can be ratified in the U.S. Senate.

OPEC (and, especially, Saudi Arabia)

53. (C) A more effectively organized bloc in the climate negotiations, the OPEC countries have been led by Saudi Arabia and Nigeria, with strong support from Iran and Kuwait. Advocating a strident G-77 line when it suits their interests, and an ardent free-market approach in other cases, these countries base their opposition to any action on fears that global emissions reductions will mean a loss in oil revenues.

54. (C) While probably unfounded in the near term (given the rate of growth in global demand), there may be validity to this concern in the medium to long term (30 to 100 years). In an effort to block the negotiations, these countries have argued that the science is faulty (a position at odds with almost all other countries views), that the economics will render any action so costly as to be impossible to undertake.

55. (C) To prevent what it views as a detrimental agreement, the OPEC block has created procedural barriers to reaching agreement (including blocking the adoption of rules of procedure). Unfortunately, because of this last tactic, any agreement in Kyoto must be taken by consensus (which might be loosely interpreted as the absence of 'recognized' objections), and the OPEC countries could form a critical blocking group.

CONFIDENTIAL

CONFIDENTIAL

16

56. (C) This said, we may have some wiggle room from the Saudis and other OPEC members. Their concern at the moment is with the EU's unrealistic proposal for a 15 percent reduction by the year 2010. Depending on where we come out in Kyoto, we may be able to mollify Saudi and other OPEC concerns. Engaging them -- rather than isolating them -- paid dividends at last June's U.N. General Assembly's "Rio Plus Five" Special Session. Here, for the first time during this series of climate negotiations, the Saudis and other OPEC members endorsed the language on climate change.

57. (C) The Saudi delegate noted at the time that this change reflected, in part, the fact that his country's position is "evolving." Unfortunately, this "evolution" was not much in evidence at the August negotiating session in Bonn where the Saudis quite effectively orchestrated their fellow OPEC states in adding unnecessary brackets to texts and otherwise complicating the proceedings in even rather innocuous areas (such as the preamble or principles for the proposed protocol).

Russia and the Other Economies in Transition

58. (C) For most of the negotiations, this group has been a relatively quiet observer to the negotiations. Furthermore, as many of the Eastern Europeans are anxiously awaiting their turn to apply for EU membership, they are reluctant to oppose EU positions, and, in fact, have increasingly voiced support for them (for example, during the discussion of policies and measures). Most have seen dramatic declines in their own emissions due to economic decline and few anticipate even returning to 1990 levels until 2005 or 2010.

59. (C) Russia remains the outsider in this grouping, as it seldom aligns with the EU. Instead, it has tended to find greater common ground with the U.S. in support (after a fashion) of emissions trading and in urging developing country participation. A successful Gore-Chernomyrdin process has had enormous positive spill-over into the climate arena, with Russian positions often modified to reflect U.S. input. Ultimately Russian views (as a major global power and as the world's third largest emitter) will be influential in the final agreement, and may be pivotal in gaining acceptance of trading in the Kyoto decision.

CONFIDENTIAL

CONFIDENTIAL

17

60. (C) An additional point which should be given careful consideration arises from the likelihood that Russia will remain below its 1990 emissions levels well into the 21st century. The problem of these "paper tons" (or "unearned" GHG reduction credits) is one which will have to be taken into account when developing any emissions trading or joint implementation arrangements.

61. (C) In 1990, the former Soviet Union (FSU) emitted 1029 MMT of energy-related carbon emissions. In 2010, the FSU is expected to emit only 872 mmt. Even under the strict EU proposed reductions, by 2010 the FSU would enjoy surplus reductions of "2.6 million tons, without having undertaken any GHG reduction measures. It could offer these free, "surplus" reductions to the highest bidder under an emissions trading program.

The Latin Americans: Solidarity Lacking?

62. (C) Central and South America present a more diverse picture about approaches to this negotiation than any other region in the world. Costa Rica and several other Central American countries have essentially broken ranks with others in the G-77 in their support for joint implementation with credit. Only Costa Rica has spoken publicly with any vigor on this matter, but the support of other Central American countries has been noted.

63. (C) Brazil, one of the key players due to its growing emissions profile, has submitted a detailed protocol proposal of its own. Although this proposal is complicated and controversial (based, as it is on historic emissions patterns going back to the beginning of the industrial revolution), it nonetheless does address compensation (through the establishment of an international fund supported by penalties paid by Parties which do not meet their reduction goals) and acknowledges the need for engagement by developing country Parties (albeit over a very long time-frame beginning in the 22nd century).

64. (C) Argentina is also a key player which often acts as a moderating influence among the G-77. AGBM Chairman Estrada, Argentina's Ambassador in China, has worked assiduously to find common ground with U.S. positions. He has not yet been successful, but he has taken a personal interest in some of our innovative concepts, including that

CONFIDENTIAL

CONFIDENTIAL

18

of our Annex B "graduation mechanism." (On the other hand, Argentina is the only G-77 country to publicly support aspects of the EU's efforts with regard to policies and measures.)

65. (C) And then there is Venezuela. An active member of the OPEC caucus, Venezuela has worked with Saudi Arabia to promote a formula which would have us "reimburse" oil producing countries for any income losses suffered by a drop in revenue from petroleum exports. Venezuela is also against joint implementation and has introduced a proposal in the policies and measures debate which, effectively, prohibit all common policies and measures -- even those undertaken voluntarily such as joint implementation.

 Other Countries -- with a Focus on Africa

66. (C) Other countries mostly play lesser roles in the negotiating process. Largely composed of developing countries, 'which' countries become key players is more a function of individual personalities than institutional positions. For example, the Philippines has been a significant voice in the G-77 rhetoric, while Malaysia has often been a voice of reason in discussions on technology issues.

67. (C) Conversely, Tanzania (now the chair of the G-77) and Zimbabwe (whose Minister of Environment is the current President of the Conference of the Parties) are given a great deal more prominence than they would otherwise have. These countries may be individually persuaded by elements of the U.S. position, and will occasionally voice public support for these, but most of their positions are driven by internal G-77 politics, largely dominated by the more organized OPEC group, or by the large and dominant big developing countries.

68. (C) This said, we have noted increased angst among the African delegations generally during the past two negotiating sessions. Our corridor conversations tend to highlight their growing disgruntlement at being lumped into the same category as China/India/Brazil and the other large emitters among the G-77/China phalanx. Over time, we might be able to muster greater support among many African countries for our positions on key aspects of our proposal (including those involving JI, emissions trading, Annex B,

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19

and perhaps even "evolution" as long as it does not impact on them). The problem we face, as is all too apparent, may be the absence of sufficient time to do so.

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