# The Seattle Syndrome Hits International Climate Policy

The climate summit at The Hague ended without any agreement and thus disappointed hopes that it could give a clear start for international activities to reduce greenhouse gas emissions. Originally it had been intended to finalise the deal struck at Kyoto in 1997. The Kyoto Protocol set legally binding emission targets for industrialised countries but allows them in principle to use carbon sinks (forests and possibly soils), to trade emission permits among themselves and to invest in emission reduction projects in other industrialised countries (Joint Implementation, Jl) and developing countries (Clean Development Mechanism, CDM). However, the rules had not been defined in detail and at the 1998 climate summit a decision had been taken to finalise the outstanding rules by the end of 2000. Thus no industrial country so far has ratified the Kyoto Protocol.

The fronts at The Hague were clear from the outset. The USA and non-European OECD countries looked for maximising flexibility in the design of climate policy instruments as well as some creative accounting of sinks to reduce their perceived economic burden. In the case of the USA, the domestic policy atmosphere is extremely hostile towards the Kyoto Protocol and the uncertain outcome of the presidential election reduced flexibility in the negotiations. The EU held out for a cap on the use of emission permits and wanted to limit the use of sinks both domestically and internationally. However, these positions were never built on a strong consensus and were economically flawed. The fuel price protests in recent months as well as the relatively limited national climate action programmes also raised questions about the willingness to pay for stronger domestic climate policies within the EU. EU credibility was higher concerning'Strong compliance rules.

The formerly unified position of the developing countries towards the CDM had started to crack as many countries from Latin America and Africa were eager to get investment in CDM sinks projects. Many developing countries felt that flexibility should be limited somewhat and controlled by strong bureaucratic procedures. OPEC, with its newly found strength, asked for compensation of export losses and came up with staggering numbers.

In the first week of negotiations, medium-level bureaucrats became bogged down in wrangling on technical details of nevertheless great significance. Moreover, OPEC representatives tried to reduce the pace of negotiation. Media representatives did not follow these details and thus could not convey a sense of urgency. Few new proposals were put on the table - such as a time limitation to sinks accounting in the CDM and a method to differentiate between natural increases in sinks and those achieved by human intervention. New scientific inputs were alarming - a report by the renowned UK Hadley Centre stressed the potential for a breakdown of many terrestrial ecosystems at the end of the century which would lead to extremely high additional carbon emissions that could lead to a temperature increase of more than 6° C.

The second week saw a strongly chairman-centred conference with increasing importance of small groups of ministers. However, progress was slow and Dutch environment minister Pronk's compromise proposal only gave very brief general indications of political decisions that would need a lot of further refinement in subsequent negotiations. The proposal was:

(1) provision of additional funding for a very diverse bunch of developing country activities related to climate change - capacity building, adaptation, emission reduction projects,

forest protection, conversion of fossil fuel extraction-oriented economies. An in-kind emissions tax based on emissions targets of the core industrialised countries was suggested. Such a tax could raise enormous revenues. Another innovative proposal was the automatic kick-in of a (non-specified) tax on emissions trading and JI if less than one billion dollars of additional funding were achieved by 2005. However, the proposed adaptation tax on CDM projects was only 2%, i.e. not more than several hundred million dollars per year; (2) the purely political Executive Board of the CDM to be elected in June 2001 has a three-quarters majority voting rule that would slow down the decision process considerably; (3) voluntary commitment by industrialised countries to "refrain" from nuclear power CDM projects; (4) afforestation and reforestation allowed under the CDM; (5) prompt start for small-scale and renewable CDM projects that can use standardised baselines; (6) no cap for CDM, JI and emissions trading; (7) 70% reserve requirement to prevent overselling of permits; (8) decision on rules for emissions trading deferred to the first climate summit after the entry into force of the Kyoto Protocol; (9) traffic light approach to JI that kicks in strong verification rules if the host country does not fulfil its reporting requirements; (10) broad range of additional sinks (agricultural land and forest management) but limited to 3% of the emissions budgets; (11) 50% penalty on any emissions above the target and an additional 25% for each target period in which the "debt" is not repaid.

This compromise surely was not the economic optimum but would have been relatively sensible. The non-compliance penalties would have given a strong incentive to comply with emission targets as the implicit interest rates are above 8% per annum. Full international flexibility without the cap would have kept overall costs low and promoted projects abroad. Letting a limited amount of additional sinks in and allowing afforestation in the CDM would have led to a diversification of mitigation activity while incentives for avoidance of deforestation would have been provided by the adaptation fund. The quick start with small-scale projects in the CDM could have allowed institutional learning while not risking environmental integrity. The reluctance of industrialised countries to commit funds for developing countries would have been overcome by the threat of taxing emissions trading and JI alongside the CDM. On the negative side the proposal contained cumbersome bureaucracy and many critical issues were missing: distribution formulae for the funds for adaptation and other issues; ground rules and institutional processes to derive baseline methodologies for CDM projects; rules to prevent business-as-usual CDM projects ("additionally"); participation of stakeholders in the CDM project pipeline.

Pronk's proposal was greeted with considerable scepticism by all interest groups, but particularly by the EU. All-night efforts to resolve the deadlock failed apparently over the issue of the threshold for additional sinks.

The failure of the climate summit fits neatly into the pattern of high-level summit failures starting at the WTO summit in Seattle last year. It is a blow for the countries and companies that have already started implementing climate change strategies. They may now scale back their activities, especially in the preparation of CDM and JI projects. Business that had hoped for clarity concerning climate policy now faces even more uncertainty. A lot now depends on the willingness of some countries to take the lead, introduce domestic climate policy instruments and develop a framework for cross-border climate initiatives. The EU would be a perfect core for such an initiative.

The science of climate change does not give us a lot of extra time to wait, especially concerning the impacts on developing countries: International climate policy is not dead. Even if the Kyoto process has now been temporarily stopped, it will resume or another process will take over. Past negotiations in world trade have shown that "hiccups" in negotiations can be remedied. There has to be an international agreement that limits free-riding and it will surely contain measures that allow international flexibility. Thus the preparations made so far have not been in vain and we will continue on the long march to stabilisation of the global climate.

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