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MOVING FORWARD AND SETTING PRIORITIES AFTER KYOTO

Highlights of the OECD and IEA Forum on Climate Change,
held 12-13 March 1998, Paris

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**Highlights of the OECD and IEA Forum on Climate Change
held 12-13 March, 1998, Paris**

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Foreword

This report presents highlights from the third OECD and IEA Forum on Climate Change. Sponsorship of the Forum was from the OECD and the International Energy Agency under the guidance of: Robert Priddle, Executive Director of the IEA; and Bernard Wood, Director of Development Co-operation and Joke Waller Hunter, Director of Environment in the OECD. The Forum also benefited from the leadership provided by the three co-Chairs: Cornelia Quennet Thielen from the German Ministry of Environment; Ambassador James Michel, Chair of the OECD Development Assistance Committee; and Minister Akihiko Furuya of Japanese Delegation to the OECD. The meeting was a success in large part due to the strong participation of government representatives from around the world as well as participation of other industry, environmental organisations and expert stakeholders. The OECD and IEA Secretariats would like to take this opportunity to thank the many contributors and participants to the Forum.

This report was prepared by Mette Buch and Jan Corfee Morlot. It benefited from contributions from the staff team that supported the Forum: David Wallace, Lee Solsbery, Remy Paris and Stephanie Baile, Jean Cinq-Mars, Cilla Cerredo-Williamson, and Axel Michelowa (consultant).

MOVING FORWARD AND SETTING PRIORITIES AFTER KYOTO

Highlights of the OECD and IEA Forum on Climate Change held 12-13 March, 1998, Paris

Summary

Major challenges and priorities for next steps

The Kyoto Protocol is a step forward, demonstrating leadership by Annex I Parties to reduce greenhouse gas emissions as part of an international effort to respond to climate change. The Protocol establishes an overall target for Annex I Parties to limit greenhouse gas emissions by at least 5% below 1990 emission levels in the first commitment period (2008-2012). It is estimated that this will require a reduction of 25-30% compared to business as usual projections of emissions for these Parties. Such reductions will only be achievable if Parties can successfully integrate climate change objectives into overall national economic and social policy frameworks.

Clarification and implementation of the Kyoto Protocol is a near term priority for the international community. In the lead up to COP-4, and beyond to the first Meeting of the Parties to the Kyoto Protocol, a number of items of unfinished business are high on the agenda:

- creation of a framework for reporting, accounting, monitoring and verification;
- establishment of a compliance system;
- methodology questions and future inclusion of additional sink activities in the coverage of the Protocol;
- elaboration of the new mechanisms (emission trading, joint implementation and the clean development mechanism);
- evaluating the impact of single big projects on emission commitments (the "Iceland question");
- review of Articles 4.2.a and b (progress by Annex I Parties in meeting commitments to return greenhouse gases to 1990 levels by the end of the decade) and of Article 4.2.f (membership in Annexes I and II) of the UN Framework Convention on Climate Change;
- consideration of voluntary commitments for developing countries.

The COP 4 agenda should not be overcrowded to ensure that decisions are taken in Buenos Aires to effectively advance the understanding and implementation of the Protocol.

Despite the progress made in Kyoto, the Kyoto targets alone will not achieve the objectives of the UN Framework Convention on Climate Change. Therefore, as a priority Parties should continue to pursue implementation of their commitments under the Convention. A number of these commitments challenge the capabilities of countries. Improving technology co-operation with developing countries remains a critical problem. Another key is to strengthen co-operation and input from all stakeholders, including the private sector, which is responsible for the majority of the technology transfer that occurs world-wide. For developing countries, challenges include building institutional and human capacities to respond to climate change, better outlining the meaning of common but differentiated responsibilities under the Convention, and identifying approaches that contribute both to the objectives of local, national and regional development and to the objectives of the Convention.

Introduction

The OECD and IEA sponsored the fourth Forum on Climate Change in Paris, 12-13 March 1998. The objectives of this year's Forum were:

- to review the Kyoto Protocol to consider international priorities and analytical work to support implementation of the Protocol.
- to deepen the understanding of some key issues:
 - ⇒ the new mechanisms of the Protocol; and
 - ⇒ the possible role of technology co-operation with developing countries and development finance instruments in addressing the needs of the Convention and the Kyoto Protocol.
- to consider next steps and implications of the Kyoto Protocol for the broad UNFCCC audience as well as for the OECD work programme.

The Forum hosted more than 200 participants including delegates from 45 countries (OECD Members, economies in transition and developing countries), representatives of multilateral organisations, environmental non-governmental organisations, trade union and industry experts. Discussion over the two days began with broad perspectives about the Kyoto Protocol and priorities for its implementation. The programme also covered, in some depth, three issues: the new collaborative mechanisms of the Protocol (joint implementation, emission trading, and clean development mechanism); approaches for technology co-operation and application; and the connection between climate change policy objectives and development co-operation and finance.

This year's Forum provided a neutral setting for open dialogue and exchange among national government representatives and other stakeholders. Participants identified a number of specific issues as priorities for future work for the next Conference of Parties (COP-4) and thereafter in order to move toward full implementation of the Protocol and of the Convention. This report presents highlights and conclusions from the discussion.

Key issues emerging from Kyoto

The Forum began with the Executive Secretary of the UNFCCC providing an overview of some main issues emerging from Kyoto. These include: the establishment of targets for Annex I countries; questions about accounting and verification; the establishment of the new co-operative mechanisms; and the need for further development of the Protocol. Resolving these issues will be key to achieving a credible and effective greenhouse gas reductions under the Protocol.

The emission targets agreed in the Kyoto Protocol are a step forward to protect the earth's climate. Compared to the business as usual baselines that project a significant rise in emissions to 2010 (about 24%), the aggregate target of a 5.2% emission reduction on average in the period 2008-2012 is impressive. The targets establish burden sharing through differentiation for the various Annex I partners. If one considers major groups of countries the reductions are as follows: European Union -8%, countries with economies in transition -2%, another group of OECD countries with reduction targets - 6.7%, and a group of OECD countries with positive targets of +6.2%. Countries with economies in transition are projected to have a possible surplus with this emission target lying above their business as usual emissions. This is referred to by some as "hot air" and may be equivalent to about 10% of their 1990

emissions. However, the significance of this surplus is small compared to the significant reductions implied by the Kyoto targets.

Many different provisions in the Protocol address how to account for Annex I Party emission targets (sometimes referred to as “assigned amounts”). It will depend on: the treatment of sinks, the selected baseline for three new gases, and the functioning of the new collaborative mechanisms. The COP will need to decide on the modalities for accounting before the start of the first commitment period. A key is that each country with emission targets must have a credible national system for estimating emissions and removals.

The Protocol establishes three new collaborative implementation mechanisms -- joint implementation, international emission trading, and the clean development mechanisms. The mechanisms can be viewed from two angles: 1) which countries are involved; and 2) whether they are project or target-oriented. Joint implementation and emissions trading involve Annex I countries only, while the clean development mechanism involves non-Annex-I countries. The clean development mechanism and joint implementation are project-based, while emissions trading is target based. The Protocol language leaves open a number of important questions. Key issues to be resolved are environmental credibility, the participation of non-state actors and linkages between the mechanisms.

A number of milestones for the future implementation and development of the Kyoto Protocol are:

- the crediting of clean development projects from 2000;
- a possible entry into force of the Protocol in 2001;
- COP/MOP 1 in 2002;
- first review of the Protocol in 2003; and
- the demonstration of progress in 2005.

Overall the agreed emission reductions for industrialised countries are substantial compared to business as usual projections. Implementation of these commitments will require strong political will and co-operation among countries. Nevertheless climate change is a global problem. Achieving the objectives set out in the Convention will require global participation to reduce global greenhouse gas emissions. Argentina has indicated that voluntary commitments for developing countries will be part of the COP 4 agenda. A Brazilian proposal concerning long-term commitments for all Parties is also still on the table. An important question is how Annex B, which lists the quantitative targets of Parties, can be amended to include more Parties.¹

An understanding of the twists and turns in the history negotiations leading to agreement in Kyoto provides insights into possible future developments. Specific target numbers were not on the table until the beginning of the Kyoto negotiations and differentiation of targets were a late development. Originally, the Chairman of the Committee of the Whole (the formal negotiating body at COP-3) proposed a 6% aggregate reduction for Annex I countries but Russia and the Ukraine would not accept reductions. Emission trading was part of the initial draft text by it appeared to be a major stumbling block due to opposition from G-77 and doubts on the part of the European Union. Article 17 on international emission trading was a last minute compromise replacing a more elaborate and complete text. The clean

¹ As commitments apply to Annex I only, it has to be resolved whether an amendment of Annex B changes Annex I.

development mechanism, Article 12, was one of the big surprises of the negotiation. It was based on an original proposal from Brazil which had a completely different intent. The latter was to be a fund for technology co-operation to be financed by contributions from Annex I Parties that were not in compliance with agreed targets. Late in 1997, the United States and Brazil found a new formulation in which the intent was to establish a multilateral fund that would be financed by private investors in exchange for greenhouse gas credits. This formed the basis of the language now found in Article 12 of the Protocol.

Negotiations on the inclusion of developing countries also took a number of critical turns in the last stages of COP-3. Some countries opposed the original negotiating text which included an “Article 10” to allow developing countries to voluntarily accede to Annex B of the Protocol. OECD countries presently not in Annex I – Mexico and Korea – were split on this issue. Also, late in the negotiations, the United States and the European Union set out new conditions which stepped up resistance from developing countries. In the end, key developing countries were still opposed to Article 10 thus it was dropped in order to reach consensus on the remaining elements of the Protocol. Establishing a framework for voluntary commitments by developing countries to limit emissions thus remains as a challenge to be taken up in future negotiations.

The new collaborative mechanisms

A session of the Forum explored key questions associated with the new collaborative mechanisms established under the Protocol. Discussion focused in particular on possible elements of future decisions required for implementation: questions relating to rules, modalities and guidelines.

The discussion generally endorsed the principles of environmental effectiveness, economic efficiency, and equity as a starting point. Other principles raised included: simplicity; transparency; and consistency with other provisions of the Protocol.

Key principles for the new mechanisms:

- environmental effectiveness;
- economic efficiency;
- equity

Under the principle of environmental effectiveness, credibility and transparency are key. A challenge is to develop rules ensuring that the three mechanisms contribute to achieving the emission reduction obligation contained in the Kyoto Protocol rather than undermining it. The overall emission reduction objective of the Protocol should be facilitated through the use of the mechanisms. Strong verification, monitoring and compliance approaches, as well as reporting, will be instrumental. The quality and effectiveness of emission trading, in particular, depends upon the quality of national greenhouse gas inventories.

There is concern over the “hot air” phenomenon and the harm that might be done if “hot air” is traded. Trading of this “hot air” could facilitate the achievement of national targets but, at the same time, increase the difficulty of achieving the Protocol’s overall emission reduction objective. “Hot air” may be an important issue, but it is also transitional and should not distort the way the mechanisms operate in the long term. A variety of other issues may be equally as important to the environmental effectiveness of the mechanisms. For example, many participants stressed the need for domestic action. Domestic action plays an essential role in shaping markets for technology change and other innovation.

Under the principle of economic efficiency, the mechanisms should provide cost-effectiveness benefits by allowing investments in emission reductions to occur where the mitigation costs are lowest. Limiting the red tape or transaction costs of trading and crediting will be important to allow the market for emission

reductions to develop to its fullest. Creation of open and transparent markets, with active participation of private sector actors, is central to achieving greater economic efficiency through the use of the new mechanisms.

Under the principle of equity, it is important to maintain open access to the market for trading and crediting. It will be necessary to avoid distortions to international competitiveness and to ensure that there are no hidden subsidies in the rules for the mechanisms. For emission trading, this does not necessarily mean that uniform allocation approaches should be required among Parties. Further, the competitiveness concern is equally as relevant for other policies and measures as it is for emission trading.

Beyond similar technical issues for the new mechanisms lie important differences in their structure and purpose. In particular, the clean development mechanism aims to assist non-Annex I Parties to achieve sustainable development and to contribute to the ultimate objective of the Convention. The mechanism is also to assist Annex I Parties to comply with agreed targets by permitting transfers of credits to occur among Annex I and non-Annex I Parties. As noted above, important differences also lie in the participation and the project bases of the clean development mechanism.

The clean development mechanism has a number of unique features. The language of the Protocol shows it is conceptually different than the other mechanisms. The clean development mechanism has different and more constraining administrative or governance provisions. It is to be “supervised by an executive board” that is likely to be a sub-group of Parties to the Protocol. Also, credits under the mechanism are to be certified. Further the mechanism will only make sense if it is the channel for new private investment in developing countries. The clean development mechanism should not be a channel for public funds as that would lead to competition with development co-operation.

Discussion in the Forum highlighted a number of open questions concerning details of the clean development mechanism. These include:

- governance issues
- the eligibility of sequestration projects;
- the tracking of crediting;
- implications of the specific allowance of crediting from 2000 (Article 12.10) and whether this applies only to the clean development mechanism or to the other mechanisms as well;
- how to administer funding as a “share” of project proceeds for administrative costs and adaptation;
- whether experiences from the pilot phase of “activities implemented jointly” can be used to shape the design joint implementation and the clean development mechanism under the Protocol;
- the question of dilution of the 5% Annex I Party emission cap that might occur through the implementation of the clean development mechanism and the opportunity to address this concern through Article 12.3.b.

Participants highlighted the potential role of the clean development mechanism for fostering climate-friendly technology co-operation and urged greater clarity on these issues. They also cautioned against the mechanism being used by investors to compete for the cheapest abatement projects, which could lead to uncoordinated and ultimately counter-productive efforts. Finally, it will be important to avoid a situation where competition among certifying agents provides perverse incentives to break the rules. For

example, agencies might find that if they lower standards for certification, they do more business. As a result, care will be needed with the rules for implementation of certification.

Discussion also considered some experience in Costa Rica in the testing and development of a market for emission credits. Experience from their pilot activities on joint implementation shows that a strong domestic legal framework is essential to allow crediting. Third party certification (pre-approval) and government guarantees of the emission reductions raises confidence in the environmental performance of projects. An important tool is a reserve pool of credits which acts as a buffer to guarantee performance. Good quality data is the foundation of the crediting transaction. With respect to a market for the credits, a floor price can be established to reflect opportunity costs for the project activity and estimated marginal cost of mitigation.

Forestry projects present different issues that need to be carefully addressed. For example, it is important to consider long-term sustainability of the forest resource, including biodiversity objectives. Special care must be taken to ensure quality data, market confidence and environmental credibility of project activities. The Costa Rican experience may be valuable to consider whether and which sink activities might be included in the mechanisms under the Protocol.

In summary, the Forum underscored a number of cross-cutting technical issues that need consistent treatment among the new mechanisms. These include:

- monitoring, reporting and verification;
- participation of non-state actors;
- linkages between the mechanisms;
- common issues regarding rules and methodologies;
- common units for transfers;
- baseline determination for joint implementation and the clean development mechanism projects;
- identifying and addressing possible distortions in international competition resulting from certain design features;
- interpretation of “supplemental.”

While these issues cut across all three mechanisms there are important differences among the mechanisms. Importantly, the clean development mechanism is intended to serve development objectives as a priority and this alone will require its separate consideration as Parties move forward to clarify the Protocol.

Collaborative approaches to application of climate friendly technologies in developing countries

One session of the Forum explored the possibilities for greater collaboration amongst the range of relevant stakeholders to foster effective application of climate-friendly technologies in developing countries. Participants reviewed issues related to technology co-operation in the context of the new development co-operation approach based on partnerships with developing countries.

Discussions in this session centred on selected initiatives and research:

The approach to genuine partnerships between OECD countries and developing countries emphasises the lead role of developing countries and their people in setting out their own development strategies. It looks to donor agencies to:

- serve as facilitators to help strengthen local capacities for managing development programmes;
- encourage local commitment, ownership and participation;
- provide needed complementary resources; and
- carry out co-ordinated and coherent policies supportive of sustainable development.

- The IEA proposed a framework for technology collaboration that would go some way in establishing stakeholder roundtables. The framework could include, *inter alia*, co-ordination on national needs assessments; prioritisation exercises; training; institutional strengthening; financing. This should involve as many stakeholders as possible from both donor and developing countries including economic, energy and environment ministries; development agencies; local governments; and private investors. In this framework, the IEA could serve as a focal point for such collaboration, building on its comparative advantage as a neutral body with expertise in co-ordinating such fora. A proposed IEA pilot activity to test this concept is designed to identify a range of measures to optimise the performance of coal-fired power plants in China. The pilot project would further develop methodologies for collaboration.
- The United States Agency for International Development (USAID) described the initiative to create forums for stakeholder co-ordination for the transfer of climate-friendlier technologies. Pilot activities are on-going in 6 developing countries: Brazil, Indonesia, Kazakhstan, Philippines, India, Mexico. The goal is to remove market barriers and encourage private sector investment in these new markets. The projects are based on a participatory approach in an attempt to meet local sustainable development goals and to promote capacity and institution building. USAID wish to expand this effort to include more donors.
- A presentation of the USAID pilot exercise in the Philippines showed how the process involved the creation of a joint steering committee of 10 government agencies and representatives from the private sector to oversee technical co-operation programmes. These programmes in the energy sector include a wide range of components such as policy planning, technical capacity building, and project financing.
- Research results from a study carried out by the University of Amsterdam showed that one way of helping a participatory approach is to establish effective communication structures; focus on institution building; and improve access to information in developing countries. A roundtable of stakeholders could help meet these needs and provide a mechanism to facilitate continuous learning about how best to enhance application of climate-friendly technologies. This would ideally be located in a host country institution, or network of institutions, in order to help develop the capacity of those local institutions.
- Relevant experience within the Asian Development Bank showed that “Consensus Guidelines” and “Communication Protocols” help to avoid overlaps and duplication among actors involved in

collaborative projects. These instruments could play an important role in securing a successful participatory process.

- The Global Environment Facility (GEF) described its focus on funding capacity development projects which aim to remove barriers to the adoption of cleaner technologies. One of the major barriers is the lack of technology assessment capabilities.
- The Climate Technology Initiative (CTI) is an independent body that has been set up by OECD and IEA Members with the aim to facilitate international collaboration for the enhancement of technologies, practices and processes addressing climate change concerns. The initiative brings together government, private sector and other interested stakeholders from both developed and developing countries.

The discussion on these various initiatives reiterated that technology co-operation should be consistent with the development priorities of developing countries. It should build on local knowledge and expertise and capacity-building should be as important as the actual technology transfer. Collaboration should include all stakeholders in the areas of energy, environment and industry.

An important conclusion was that collaboration would not only avoid duplication and overlap, but also foster institution building and increase capacity in the developing country. Participatory approaches could ensure that such initiatives are demand-driven, respond to local needs and are led by local actors and stakeholders. Initiatives should thus build on the basis of national strategies for sustainable development, including their economic, social and environmental dimensions.

The private sector plays a leading role and has to receive appropriate incentives -- both in investing and host countries. Because of their leading role, private businesses should be included in collaborative processes at an early stage. The creation of appropriate incentives should involve both the establishment of regulatory conditions conducive to private investment and capacity-building efforts for private actors in the host country. Incentives might also be created by the investor's home country for the greening of private sector investment abroad.

Discussions underscored that technology co-operation is key in implementing the Kyoto Protocol and the UNFCCC. They also highlighted the need to clarify the role of the clean development mechanism and, in particular, how it will affect on-going initiatives for technology co-operation. Pointing to the vulnerability of many developing countries to the effects of climate change, participants highlighted the importance of mitigation efforts and the need to examine possible adaptation measures.

Participants felt that the international community should build upon the momentum and fruitful dialogue from COP-3 in Kyoto to help identify practical activities to facilitate collaboration between developing and developed countries. In view of the urgency of addressing climate change concerns, collaboration in the area of technology co-operation should be stimulated in any case, without awaiting complete implementation of the Kyoto arrangements.

Development finance

One session in the Forum aimed to stimulate discussion of how the main sources of finance, domestic and external, private and public, could be best used to achieve long-term greenhouse gas emission reduction and to promote private sector investment for climate-friendly technologies. The main focus was the role of the multilateral financial institutions and bilateral donors in leveraging funding to stimulate such investment in developing countries.

Many developing countries lack the necessary policy frameworks, and the human, institutional and technical capacities necessary to enable them to take full advantage of more energy-efficient production methods and to attract private sector investment. The latter is the major source of technological innovation and cleaner technology diffusion. By comparison, official development assistance (ODA) is not the leading source of finance for investment in cleaner technologies. Rather, development co-operation is intended to play a catalytic role. It concentrates on assisting developing countries to address the fundamental determinants of development. This includes support for a sound policy framework, strong investment in human capital, well functioning institutions and governance systems and environmental sustainability. In the absence of a conducive policy environment, directing major resources towards investment in cleaner production would have limited results both in terms of magnitude and durability of impact. Development co-operation in these critical areas is highly complementary to development financing patterns which move from aid dependence to domestic resource mobilisation and access to foreign direct investment.

The World Bank Group (WBG) has a comprehensive strategy for dealing with environmental issues related to energy consumption in developing countries and has launched important initiatives in the area of climate change. As part of the Global Carbon Initiative, the Carbon Investment Fund is one proposed vehicle for directing investments in emission reduction projects in developing countries leading to carbon offsets. Under certain conditions these offsets could be used by investors to comply with national and international obligations. The Fund is a proposal for a market-based, cost-efficient structure that could provide a possible mechanism to facilitate trading under the clean development mechanism. This vehicle could accumulate data and experience for establishing and verifying baselines and in this way could contribute to drastically reduce transaction costs. The Renewable Energy and Energy Efficiency Fund is another WBG initiative. This fund is envisioned to invest in private sector projects and companies, and carefully estimate and monitor reductions in greenhouse gas emissions brought about by its investments. The Fund will focus on projects in a range which is often considered too small, too complex or too risky by institutional investors. Moreover, the WBG will seek to identify climate-friendly options in the portfolio through rigorous greenhouse gas accounting at the investment level.

The European Bank for Reconstruction and Development (EBRD) has accumulated experience with market-based energy conservation investments. A key area of investment is in the development of Energy Service Companies (ESCOs). The role of ESCO's, which are private sector service companies, is to provide technical advice to enterprises or institutions in the area of energy efficiency. ESCOs may contract with such enterprises and institutions to guarantee energy savings and financial return. A major constraint faced by ESCO's is the lack of loans for the realisation of promising investments. This experience has led the EBRD to focus on identifying suitable partners and playing a catalytic role in the development of financial arrangements to facilitate investments in energy efficiency.

Experience in Germany's development co-operation programme demonstrates the importance of focusing on the private sector as a source of finance for investment in energy efficient technology. Of central importance is the identification of "win-win" investment opportunities for the private sector to respond to local development needs whilst reducing greenhouse gas emissions. With respect to promoting climate-friendlier production in developing countries, German experience underscores the importance of organisational and managerial changes. These and other "house-keeping" measures, such as improving management systems at company level, can often provide important financial and environmental benefits without requiring major investments.

Discussion pointed out that often financing mechanisms and institutional assistance are available for developing countries at a more advanced stage of industrialisation. This leads to comparatively limited incentives for industry to invest in the least developed countries.

The session concluded that there are numerous win-win opportunities for greenhouse gas reductions in developing countries. The private sector will have a key role in translating this great potential into actual investments in cleaner and more energy-efficient technology. This would require the creation of appropriate incentives - both in investing and host countries. A conducive policy framework is essential. Such a framework would include, for example, the removal of subsidies and the promotion of resource efficiency. The policy framework should be complemented by well-functioning financial systems to support private sector investment as a whole. With respect to climate-friendly technology, development co-operation agencies will play a catalytic role for private sector investment in clean technology and energy efficiency and an essential role in assisting developing countries develop the necessary capacity in these areas.

Views on the post-Kyoto agenda for IPCC

The IPCC can play a central role in advancing the Convention and implementation of the Kyoto Protocol in coming years. It is planning its Third Assessment Report (TAR) on climate change for completion in 2001. In addition the IPCC is preparing three special reports that will address issues of central concern to climate change policy-makers: technology co-operation; emission scenarios; and aviation.

In its Third Assessment Report, the IPCC will:

- outline clear messages to policy makers;
- provide scientific, technical and economic advice on policy issues;
- stress climate change as a core element of sustainable development, and the need for integration of climate change objectives in other policies.

The IPCC queried whether it should develop specific contributions on a number of selected topics. Participants suggested a number of possible areas for additional IPCC contributions in the post-Kyoto period:

- a fuller assessment of adaptation strategies and of vulnerability to climate change; the IPCC might want to assess evidence from El Niño and resulting regional impacts and adaptation responses as an example of the types of effects that could result from long term shifts in climate patterns;
- analysis of certain scientific, technical and economic questions relating to the new mechanisms for emission trading, joint implementation and for clean development;
- the effects of Annex I action and inaction on non-Annex I countries;
- analysis of the proposal which was tabled by Brazil during the negotiations leading up to Kyoto linking changes in concentrations to emission targets;
- further study of a range of questions related to the monitoring and coverage of land use change and forestry sinks under the Convention and Protocol.

The IPCC is also well-placed to enhance the international community's understanding of how sink activities contribute to global climate change and to provide insights for policy-makers. In particular, the IPCC might also play an important role to advance understanding of possible sound monitoring and inventory practices. Contributions could include:

- clarifying the definition of "anthropogenic" in the context of land use change and forestry activities;

- addressing problems related to the accuracy of measurement; and
- clarifying the definitions of "afforestation, deforestation and reforestation" which are eligible as offsets with respect to Annex I Party emission targets;
- identifying other possible sink activities (for example, agriculture) to include in the Protocol;
- assessing the implications of inclusion or exclusion of possible sink activities in the Protocol.

Contributions from the OECD and the IEA-- a discussion of future work

The OECD is proposing to embark on a new high level and inter-disciplinary effort to address climate change as key component of a wider strategy for further OECD work on sustainable development. Climate change is likely to find a prominent place in those proposals. In an explicit effort to move away from a compartmentalised approach and toward an integrated view, the OECD will co-ordinate various contributions from around the house under the direction of the Secretary General. Relevant Committees will discuss individual pieces of work that will fit into an overall horizontal project. This work would aim to have a final report delivered to the OECD in 2001.

OECD contributions on climate change are likely to develop along three main axes:

- clarification and implementation of the Kyoto Protocol
- effects of achieving the Kyoto targets
- moving beyond Kyoto

Clearly, ratification and implementation of the agreement will be a high priority in the near term for OECD Member countries, as will preparations for COP-4 in Buenos Aires in November 1998. Beyond these nearer term goals, there is a need for analysis of longer term strategic options to address climate change.

The Forum endorsed the integrated OECD work programme on climate change, as part of a broader sustainable development strategy. The OECD programme will involve the various parts of the Organisation. It will include several Directorates (e.g. Economics, Development Co-operation and Environment), the International Energy Agency (IEA), the European Conference of the Ministers of Transport, the Development Centre, and the Nuclear Energy Agency (NEA). The OECD wide work programme spans a range of relevant policy areas. These include: macro-economic analyses of policy strategies; technology assessment; technology collaboration and development co-operation approaches; sectoral policy analyses (e.g. energy, transport, agriculture); assessment of new mechanisms; approaches to monitoring, verification and compliance; monitoring the performance of its own Member countries with respect to obligations under the UNFCCC.

Participants recognised the great convening power of the OECD and the opportunity to use this power to facilitate open exchanges on difficult issues. Closer co-operation among the Committees of the OECD would also be helpful to ensure that coherent policy messages emerge from the work of the Organisation. For example, one possibility might be for the Environment Policy Committee to hold a joint meeting with the Economic Policy Committee which would allow for a fuller exchange of views than would occur otherwise.

The discussion noted that the results of OECD work often are not easily accessible. The OECD should consider establishing a focal point for governments or stakeholders to contact when they have questions about the Organisation's climate change work. Greater use of the Internet might be another solution.

Participants suggested that OECD should continue to provide a broad set of contributions that span a range of topics. The OECD can make a significant contribution to the understanding of the economic dimensions of climate change. New macro-economic analyses (e.g. through the use of the “GREEN” model) of possible post-Kyoto policy strategies will be particularly important. However participants also flagged the continued need for “bottom-up” analysis of concrete policies and measures and practical issues. An example of this kind of analyses is that ongoing in the IEA and through the Annex I Expert Group. The OECD can help countries to consider what kinds of policies and measures are necessary to implement the Kyoto agreement by comparing successes and failures and inviting them to learn from past experience. Such contributions, made available in a timely way to a wide audience, could help Parties to forge stronger climate change response strategies.

Appendix 1

AGENDA

12 March

1. Welcome and review of Forum objectives

Opening remarks by Thorvald Moe, Deputy Secretary General of the OECD
Chair of the Forum: **Cornelia Quennet Thielen**, *Germany*

2. Kyoto Protocol -- key elements and views on next steps

Presentations:

- **Michael Zammit Cutajar**, *Executive Secretary of the UN FCCC*
- **Bob Watson**, *Chairman of the Intergovernmental Panel on Climate Change*
- **Robert Priddle**, *Executive Director of the International Energy Agency*

Keynote Address: Raúl Estrada-Oyuela, Ambassador, Argentina

3. Making new mechanisms work: joint implementation, emission trading and the clean development mechanism [COM/ENV/EPOC/DCD/DAC/IEA(98)1]

Panel Discussants:

- **José Domingos Gonzales Miguez**, Co-ordinator Global Change Research, Ministry of Science and Technology, Brazil
- **Peter Unwin**, Head, Global Atmosphere Division, Department of the Environment, Transport and the Regions, United Kingdom

March 13

4. Collaborative approaches to application of climate-friendly technologies [COM/ENV/EPOC/DCD/DAC/IEA(98)2 and 3]

Chair: **James Michel**, Chair of the OECD Development Assistance Committee

Briefing

- **Rick Bradley**, Senior Advisor for Global Change; US Department of Energy, *Recent developments under the Climate Technology Initiative*

Presentations

- **Erik Arkesteijn**, University of Amsterdam, *Frameworks for effective application of climate-friendly technologies, and opportunities for collaboration*
- **David Wallace**, IEA, and **Alan Heyes**, vice-Chair, IEA Working Party on Fossil Fuel Technologies, *Opportunities for collaboration through the IEA/OECD: The Technology Co-operation Agreement Pilot Activity*
- **Jeff Seabright**, Director, Office of Energy and Environment Technology, USAID, USA and **Edsil Dilla**, Supervising Research Scientist, Philippines National Oil Corporation, *Technology Co-operation Frameworks: towards a national forum for collaboration?*

Panel Discussants

- **KokKee Chow**, Director, Malaysian Meteorological Service; Chair, UNFCCC Subsidiary Body on Scientific and Technological Advice
- **Kazi Jalal**, Chief, Office of Environment & Social Development, Asian Development Bank, Manila, Philippines
- **Alan Miller**, Senior Environmental Specialist - Climate Change, Global Environment Facility

5. Development finance and the response to Kyoto

[COM/ENV/EPOC/DCD/DAC/IEA(98)3]

Presentations:

- **Richard Carey**, Deputy Director of the Development Co-operation Directorate, OECD, *Development co-operation and the response to Kyoto*
- **Ken Newcombe**, Global Manager of New Products and Partnerships, World Bank, *World Bank Group initiatives*
- **Bernard Jamet**, Director of the Energy Efficiency Department, European Bank for Reconstruction and Development, *Experience with energy efficiency investment in the EBRD*

Panel Discussants:

- **Henry Okolo**, Chief Executive and Managing Director, Aluminium Technology Products, Nigeria
- **Hans Peter Schipulle**, Head of Section, Federal Ministry for Economic Co-operation and Development (GTZ), Germany
- **Bakary Kante**, Ministry of Environment and Protection of Nature, Senegal

6. Strengthening the contributions of the OECD and the IEA [Room Document 1]

Chair: **Mr. Akihiko Furuya**, Minister, Japanese Delegation to the OECD

Panel Discussion with representatives from the OECD Secretariat and its affiliates

Presentation:

- **Thorvald Moe**, Deputy Secretary-General, OECD

Panel Discussion with representatives from the OECD Secretariat and its affiliates:

- **Richard Carey**, Deputy Director, Development Co-operation Directorate, OECD
- **Joke Waller Hunter**, Director of the Environment Directorate, OECD
- **Lee Solsbery**, Head of Energy and Environment, IEA
- **Dominique van der Mensbrugghe**, Development Centre, OECD
- **Mary Crass**, European Conference of Ministers of Transport
- **Philippe Savelli**, Deputy Director, Nuclear Energy Agency

7. Closing Remarks

Chair **Cornelia Quennet Thielen**