

## International Climate Change Agreements and Negotiations

The debate on potential U.S. climate change legislation is occurring against the backdrop of ongoing international climate change agreements and negotiations. Those steeped in these issues often refer to “Kyoto,” “Bali” and “Copenhagen” as shorthand for the international process, while those less familiar might find these terms, and related terms like “CDM,” “Annex I countries,” “IPCC,” and “EU ETS,” mystifying at best. Below are the key points to understand about the international arena.

### UNFCCC (aka “UNF triple C”) and the Kyoto Protocol

The United National Framework Convention on Climate Change (the UNFCCC) was negotiated and ratified by the U.S. in 1992, and over 150 countries are parties or observers. The UNFCCC set greenhouse gas (GHG) reduction goals, but not binding obligations. It quickly became clear that non-binding targets would not provide the hoped-for GHG reductions, and, in 1995, the parties began to negotiate binding targets.

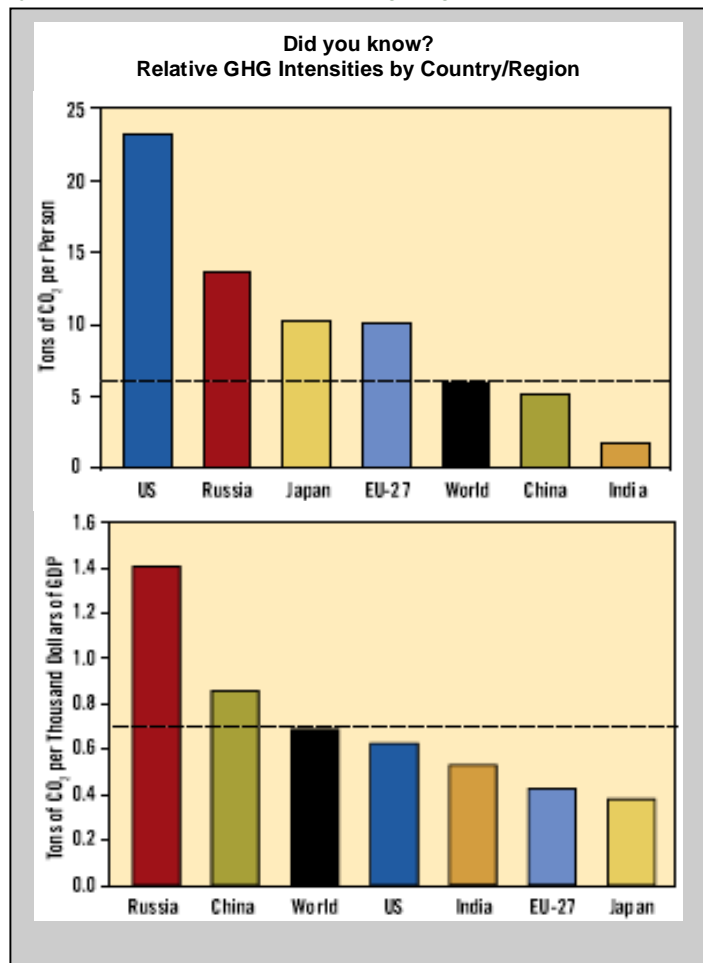
In 1997, these negotiations resulted in the Kyoto Protocol, which became effective in February 2005. After a 1997 Senate resolution passed by a vote of 95-0 stating that the U.S. should not be a signatory to any agreement that did not include binding obligations for developing nations or that “would result in serious harm” to the U.S. economy, President Clinton elected not to present the Protocol for formal Senate ratification.

### Kyoto’s Emissions Limits

The Kyoto Protocol calls for developed countries, also known as “Annex I” countries, to reduce GHG emissions in the aggregate to 5.2% below 1990 levels by the end of 2012. Each country, though, has an individually negotiated reduction requirement. Thus, E.U. countries are subject to an 8% reduction, whereas Iceland could increase by up to 10%. These differences were designed to account for differing per capita and per unit of GDP GHG emission intensities among participating countries.

### Kyoto Cap and Trade and Offsets

The Kyoto Protocol contains three features designed to help developed countries satisfy their commitments. First, countries emitting more than they are permitted may acquire other countries’ unused rights to emit; that is, the countries may trade in emission rights. Second, Joint Implementation (JI) allows one Annex I country to effectively get credit for an emissions reducing project in another Annex I country. Third, the Clean Development Mechanism (CDM) allows Annex I countries to obtain offset credits (called Certified Emissions Reductions, or CERs) generated by qualifying projects that reduce or avoid GHG emissions in developing countries.



## Clean Development Mechanism

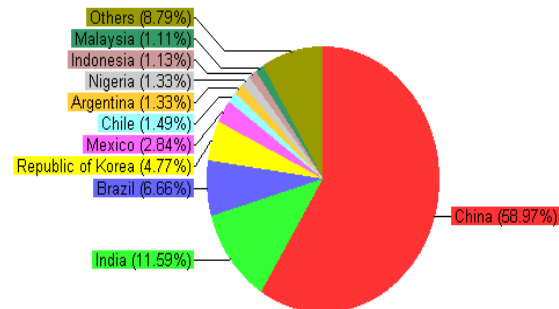
Of the Kyoto mechanisms, the CDM has generated the most economic attention from those seeking an attractive return on investment from projects. Numerous projects have generated CERs at a substantially lower cost than the market value of those CERs on public exchanges. The theory behind the CDM is that it will simultaneously incentivize cleaner development and investment in the developing world while creating a cost-effective avenue for regulated parties to obtain their needed credits. Understanding the workings of the CDM thus provides a sense of the potential operation of the "offsets" programs contemplated in Waxman-Markey.

To generate CERs, a project must fit within (or obtain) a "methodology" approved by the CDM Executive Board. Additionally, at the individual project level, the project sponsor must gain approval of a "project design document." Among the core features essential to gain approval for any project is establishing "additionality" – in essence, that the project will result in GHG reductions or avoidance that would not have occurred otherwise. Unsurprisingly, a set of standards and a bureaucracy have been developed on additionality demonstrations.

### CDM Facts and Figures

- U.N. estimates 1.2 billion CERs issued by 2012.
- 4200+ projects approved or in pipeline.
- At least 175 approved methodologies, ranging from HFC destruction, to landfill gas mitigation, to energy switching.
- CER values have ranged from 8 to 19 Euros over the past 12 months.
- Technically, no one knows if a CER will have any value after 2012.

### Expected CERs Generated By Country



Source: UNFCCC

## Bali, Poznan, and Copenhagen

The Kyoto Protocol expires in 2012. Annual negotiation sessions on a post-Kyoto climate system were held in Bali in 2007, Poznan in 2008, and a final agreement was supposed to be reached in Copenhagen in December 2009. The Obama Administration has stated that its efforts to pass climate bills in one or both houses in 2009 relate to the U.S. negotiating position for Copenhagen, as do its announcements to proceed with GHG regulation under the Clean Air Act.

To a great extent, the success of Copenhagen will turn on the willingness of the U.S. to commit itself to binding reductions and on the treatment of major emerging economic powers, particularly. Recent meetings between the U.S. and India, and between the U.S. and China make clear that major disagreements remain. China, for example, asserts that the U.S. should commit to reducing GHG emissions to 60 percent of 1990 levels by 2020, a target far in excess of the levels contained in any bills under any serious consideration in Congress.

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