

The International Carbon Market: Post-2012 International Negotiations

By Florence Dagicour*

1. Introduction

The *Kyoto Protocol to the United Nations Framework Convention on Climate Change* (“**Kyoto Protocol**”) expires on December 31, 2012.¹ Without a post-2012 globally binding agreement on greenhouse gas (“**GHG**”) emissions, uncertainty shrouds the Kyoto Protocol-based carbon market. As long as a binding cap exists on GHG emissions, tradable emissions allowances hold real value. Various tradable emissions units enable companies to emit GHGs into the environment and, without them, companies that emit are subject to penalties. As such, there exists demand for the tradable instruments and a limited supply.

The European Union’s Emissions Trading Scheme (“**EU ETS**”) has incorporated elements of the Kyoto Protocol. For instance, Certified Emissions Reductions (“**CERs**”) – resulting from Clean Development Mechanism (“**CDM**”) projects under the Kyoto Protocol – are eligible under the EU ETS for compliance purposes under certain conditions. As a result, CERs will still hold value post-2012. However, global demand for these CERs and their value will likely drop without a globally-binding agreement.

Discussions for a post-2012 GHG emissions reduction agreement are currently taking place under two main separate contexts. The first scenario foresees a continuation, with modifications to the Kyoto Protocol. The second scenario looks to establish a new form of an agreement in the broader context of the *United Nations Framework Convention on Climate Change* (“**UNFCCC**”).

We will present a brief background on the carbon market before discussing the main issues of the post-2012 international negotiations.

¹ *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, December 11, 1997, Article 3.

* Florence Dagicour is an associate at Fasken Martineau DuMoulin LLP and is based in Montreal (Québec). The author gratefully acknowledges the precious research assistance provided by Stewart Litvack of this article. Please note that the views expressed in this article are those of the author and not those of Fasken Martineau DuMoulin LLP.

2. **Brief Background**

The current goal of the carbon market and treaty negotiations is to limit any increase in global temperatures to below two degrees Celsius, as stated in the Copenhagen Accord of December 18, 2009.²

However, the constant reaffirmation that economic concerns remain the global priority highlights the difficulty of putting environmental apprehensions at the forefront of developing and developed countries' policy-making. While developing nations remain below a certain economic threshold, help from developed states is an essential element in coordinating efforts to both stimulate growth and limit GHG emissions in developing states. The use of a carbon market currently assumes that developed countries will be more willing to provide this help to developing countries where there is financial incentive.

Despite difficult and lengthy negotiations, two main cap-and-trade regimes are currently operating in the world: the international regime resulting from the Kyoto Protocol and the EU ETS.

(a) **Carbon Trading under the Kyoto Protocol**

Article 12 of the Kyoto Protocol defines the clean development mechanism that encourage Annex I countries of the Kyoto Protocol (“**Developed countries**”) to develop projects in non-Annex I countries (“**Developing countries**”) that reduce GHG emissions. Reductions in GHG emissions achieved through a CDM project can be used to “assist in achieving compliance” in the home country from which the funding for the CDM project came.

CER are the basic instruments in the trading of carbon in the context of a CDM project. Other tradable instruments include Emissions Reduction Units (“**ERUs**”), representing reductions

² *Copenhagen Accord*, December 18, 2009, para. 1

created through Joint Implementation (“**JI**”) projects.³ The purpose of international emissions trading is defined at Article 17 of the Kyoto Protocol, whereby it is asserted that “trading shall be supplemental to domestic actions for the purpose of meeting quantified emission limitation and reduction commitments”.

When a CDM project is carried out, emissions reductions are evaluated by UN certified operational entities. Where it is established that a CDM project has effectively reduced GHG emissions in a developing country, the UNFCCC will emit CERs to the project developer, who can use under certain circumstances the corresponding CERs to offset GHG emissions at home for the purpose of complying with its country’s own GHG emissions regulations.⁴

In order to issue CERs, it must be established that a CDM project would not have been carried out without carbon finance. Recently, there have been UN designated operational entities that have had their certification suspended by the UNFCCC due to the validation of certain CDM projects or the issuance of CERs for projects that were not necessarily a direct result of the CDM mechanism. The suspension of these designated operational entities has resulted in increased delays for approval of CDM projects, which already consists of a two-to-three year process.⁵

(b) **EU ETS**

Since the adoption of the Kyoto Protocol in 1997, the EU ETS foresees a GHG emissions reduction target for a sequential period. Each period is referred to as a “phase”. Currently, the EU ETS is in its second phase, which started on January 1st, 2008 and will expire in December 2012.⁶

³ *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, Article 6.

⁴ *Ibid.*, Article 12.

⁵ Susanna Twidale, “Checking Up” *Trading Carbon* vol. 4, issue 4, p.24 (May 2010).

⁶ Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the community and amending council directive 96/61/EC (JO L 275/32 of October 25, 2003).

In the EU ETS, which is based on a cap-and-trade system, countries issue European Union allowances (“EUAs”) to plant operators for the duration of a phase. EUAs are traded on the market, and are the basic instrument in the EU ETS. In addition to EUAs, CERs issued under the CDM mechanism of the Kyoto Protocol can also be used for compliance purposes by the entities targeted by the EU ETS.

In 2009, the price of EUAs fell substantially due to the worldwide economic crisis. In slowing down the rate of business, the recession also slowed down GHG emissions in the European Union (“EU”) due to a reduction in overall economic activity. Many EU companies found themselves with a surplus of EUAs, which increased the supply of the instruments on the open market.⁷ The possibility of a surplus of EUAs highlights the importance of accurate emissions predictions because when the emissions cap is too high, CERs, for the sake of the Kyoto Protocol, and EUAs become less valuable for compliance purposes. Volatility in the carbon market affects investor confidence as well as incentive to develop new and viable CDM projects.

(c) **Latest Cornerstones in the International Negotiations**

(i) 2007 Bali Action Plan

The Bali Action Plan⁸ was agreed upon in December 2007 at the Conference of the Parties to the United Nations Framework Convention on Climate Change (“COP 13”) during its thirteenth session and the 3rd Meeting of the Parties to the Kyoto Protocol (“MOP 3”) taking place in Bali (Indonesia). Its goal was to set up a two-year process by which a binding international agreement could eventually be adopted at the Copenhagen Summit in December 2009.

⁷ “State and Trends of the Carbon Market 2010” *Carbon Finance at the World Bank*, Washington, D.C. (May 2010) www.carbonfinance.org.

⁸ Decision 1/CP.13 of the COP-13.

Under the Bali Action Plan the Ad Hoc Working Group on Long-Term Cooperative Action (“**AWC-LCA**”) was established with the objective of helping to put together a “Long-Term Cooperative” agreement.

The main concepts highlighted in the Bali Action Plan are:

- Mitigation of GHG emissions;
- Adaptation to climate change;
- Technology transfers;
- Financing of projects in developing states.

The Bali Action Plan also foresees the possibility of sectoral approaches to reducing GHG emissions, as well as “various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries”.⁹

(ii) Copenhagen Accord

The Copenhagen Accord was reached at the Conference of the Parties held in Copenhagen from December 7th to December 18th, 2009 (“**COP 15**”) during its fifteenth session. The industry expectations were to reach a post-Kyoto Protocol binding international agreement, which was certainly encouraged by President Obama’s return to the UN discussion table. While a binding agreement was not reached, certain specific elements were agreed upon that help pave the way for a future agreement.

⁹ *The Bali Action Plan*, Decision-/CP.13, Article 1.

The Copenhagen Accord set the target for a maximum of a 2 degree Celsius limit on temperature increases.¹⁰

For the first time in an international agreement, the Copenhagen Accord contains an “explicit acknowledgement to act on reducing emissions from deforestation and forest degradation (“**REDD**”), including establishment of a REDD-plus mechanism.”¹¹ Also, the concept of Nationally Appropriate Mitigation Actions (“**NAMAs**”) was formally inscribed in a global accord whereby developed countries would inscribe emissions targets for 2020, and developing countries would inscribe NAMAs.¹²

Finally, the Copenhagen Accord foresaw major funding from developed countries to developing countries for the sake of adaptation to climate change, whereby the process would be “supported by financing commitment of 30 billion dollars by 2010 (from 2010-2012) and 100 billion dollars by 2020 for developing countries”.¹³

(iii) Bonn Climate Talks

On June 2010, the first round of negotiations after the disappointing COP 15 took place in Bonn in preparation for the next Conference of the Parties which will take place in Cancun from November 29 to December 10, 2010 (“**COP 16**”).

On June 11th, 2010, the Bonn Climate Talks ended with the drafting of a text by the AW-LCA. Key elements included:

- *global emissions*, which must begin to decline after 2020;

¹⁰ *The Copenhagen Accord*, Decision-/CP.15, Article 1.

¹¹ *Ibid.*, Decision-/CP.15, Article 6.

¹² *Ibid.*, Decision-/CP.15, Article 5.

¹³ *Ibid.*, Decision-/CP.15, Article 8.

- *global emissions reductions targets*, which were set at 50-85% by 2050 from 1990 levels, and 80-95% from 1990 levels, specifically for developed countries;
- *technology transfers*; and
- *financial obligation mechanisms* agreed to in the Copenhagen Accord.¹⁴

The second set of negotiations is taking place in Bonn during the first week of August 2010. This five-day meeting is aimed at continuing preparing a draft binding text to be finalized during the COP 16 in Cancun.

While not much progress has been made since the COP 15, in Copenhagen, this second week of negotiations started with a new executive secretary of the UNFCCC, Ms Christina Figueres, replacing Yvo De Boer.

Finally, a third set of negotiations is expected to take place in China in the Fall of 2010 in preparation of the Cancun COP 16. Such meeting remains to be confirmed.

3. **State of Climate International Negotiations**

The international negotiations are divided on the issue of how to regulate post-2012 GHG emissions reduction at the international level.

Two main scenarios are arising: the first scenario foresees continuity, with modifications to the Kyoto Protocol, while the second looks to establish a new form of agreement in the broader context of the UNFCCC.

This divided approach illustrates the main division between Developing countries and Developed countries, the first arguing for GHG emissions targets for Developing countries and some of the

¹⁴ Eva Berton, "Bonn Climate Talks End with Positive Tone, but Little Progress" *The Delphi Group* (2010).

Developed countries – in particular the BASIC countries - while the BASIC countries argue that they should not be subject to such emissions reduction targets.

Along with the EU, the United States and Japan, a new group of emerging economies consisting of Brazil, South Africa, India and China (“**BASIC countries**”), have joined together in order to become a major force in the negotiation of a climate change agreement. They are non-Annex I countries to the Kyoto Protocol and thus do not have binding emissions reductions targets under the agreement.

The issue is that they have become major GHG emitters. In fact, China has recently surpassed the United States as the largest emitter of GHG in the world. Major developed countries, especially the United States, will want to see them take on concrete targets. In addition, being under the umbrella of Developing countries, these countries are allowed to have internal measuring, reporting and verification (“**MRV**”) mechanisms where projects are financed internally. As such, while these countries have major populations suffering from extreme poverty, they also have substantial capital and a very high capacity to invest in GHG-reducing NAMAs that, as such, will not be subject to international MRV.¹⁵

The BASIC countries have grouped together to achieve a specific agenda that emanates from the common situation in which these countries find themselves. That situation is one both of power and insecurity, given that they are large countries, with large economies and populations, without current internationally binding emissions reduction targets. On the other hand, in recent times, as previously mentioned, these countries have become amongst the world’s largest GHG emitters and there is strong international pressure for the eventual adoption of binding targets.

The BASIC countries released a statement on January 25th, 2010, stating their position on certain areas of the global negotiation. At that point, which came before any of the BASIC countries

¹⁵ Peter Lee and Eric Johnston, “The Copenhagen Challenge: China, India, Brazil and South Africa at the Barricades” *The Asia-Pacific Journal*, 8-4-10, February 22, 2010.

had given their voluntary emissions reduction targets in virtue of the Copenhagen Accord, BASIC countries have already considered themselves to be taking on a leadership position in climate change negotiations. The joint statement of the BASIC ministers reads in part as follows:

*The Ministers called for the early flow of the pledged \$10 billion in 2010 with focus on the least developed countries, small island developing states and countries of Africa, as proof of their commitment to urgently address the global challenge of climate change.*¹⁶

The \$10 billion pledge mentioned in the statement refers to funds that have been pledged by Developed countries. The proof of leadership that is referred to is the fact that amongst Developing countries, it is the BASIC countries applying pressure on Developed countries to meet their obligations. The position of leadership is nevertheless relatively rhetorical at this stage.

The MRV of GHG emissions reductions is a particularly sensitive issue and is one of the main forces driving the separation between the U.S. and China, and more generally the BASIC countries, in international carbon trading negotiations. MRV is an issue that infringes upon the delicate subject matters of state sovereignty and trust between nations.¹⁷

Currently, there are possibilities for implementing both domestic and international MRV mechanisms that are in place in order to determine GHG emissions reductions from eventual NAMAs taken by Developing countries. The standards used in the MRV process are important because they will determine the amount of carbon credits that will eventually be issued as a result of these projects.

¹⁶ *Statement by the BASIC ministers*, January 25, 2010, taken from the Financial Times website <<http://blogs.ft.com/energy-source/2010/01/25/statement-by-the-basic-ministers/>>.

¹⁷ Peter Lee and Eric Johnston, “The Copenhagen Challenge: China, India, Brazil and South Africa at the Barricades” *The Asia-Pacific Journal*, 8-4-10, February 22, 2010.

The criteria used to determine whether the MRV procedure will use domestic or international standards depends on whether projects are domestically or internationally financed. China has implemented many environmentally mitigating projects as a result of its Eleventh Five-Year Plan. These projects are domestically funded and thus subject to domestically controlled MRV in the future scenario of the issuance of carbon credits as incentive for these projects.¹⁸

4. **Potentially New Mechanisms of a future post-2012 international agreement**

(a) **REDD**

“The Intergovernmental Panel on Climate Change (“IPCC”) estimates that the cutting down of forests is now contributing close to 20 per cent of the overall greenhouse gases entering the atmosphere.”¹⁹ It is estimated that thirty-two million acres of tropical forests are lost every year.²⁰

The concept of reducing emissions from deforestation and degradation in developing countries (“REDD”) was not an issue addressed in the Kyoto Protocol. As such, a REDD project is not eligible as a CDM project under the Kyoto Protocol. However, since Kyoto, it has become one of the more talked about environmental issues.

REDD was first introduced at the Conference of the Parties in Montreal in December 2005.

“The challenge was to establish a functioning international REDD finance mechanism that can be included in an agreed post-2012 global climate change framework.”²¹

¹⁸ Andrew Barnett and Bidisha Banerjee, “China in Copenhagen, Day 9: The Big elephant in the Room – MRV” *Climate Progress*, 2009 www.climateprogress.org.

¹⁹ “UN-REDD Programme Fund – Overview” *UNDP* <<http://www.undp.org/mdtf/un-redd/overview.shtml>>.

²⁰ “Forests - Forests and Climate Change” *World Wildlife Federation*, consulted on July 25th, 2010, <www.worldwildlife.org/what/globalmarkets/forests/item3577.html>.

²¹ “Climate Change” *UNDP* <<http://ccmap.undp.org/content/global-project-un-redd-international-support>>.

Since then, it has gained international traction and will likely be integrated somehow on a global scale. It was featured in discussions in Bali²², Copenhagen, and in the final address of Yvo De Boer at the Bonn Climate Talks.

In addition to the concept of REDD, a more expanded idea known as REDD-plus has gained steam. REDD-plus expands upon the concept of REDD to include “conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries”.²³

Nevertheless, there are arguments in favour of both the inclusion and the exclusion of a REDD mechanism in a wider-context trading scheme. Some argue that credits from REDD projects should be traded as entirely separate instruments on an international market.²⁴ It is however interesting to note that entities that lobbied against the inclusion of REDD in the Kyoto emissions trading scheme, now lobby for a future agreement on emissions trading to include a REDD mechanism. Such is the case of the World Wildlife Federation.²⁵

(i) **Measuring, Reporting and Verifying REDD projects**

As with any other potential strategy to reduce GHG emissions in order to sell the credits on the carbon market, MRV techniques must be established in order to assess the real effects of REDD projects on the environment and how these reductions can be translated into credits on the carbon market.

²² While the Bali Action Plan did not specifically mention that REDD will be a part of a future global emissions trading scheme, it was certainly a topic of focus to be integrated into some sort of global legislation. For instance, the UN-REDD Programme has as one of its stated goals, “supporting the development of normative solutions and standardized approaches based on sound science for a REDD instrument linked with the UNFCCC”.

²³ “REDD-plus - Scope and options for the role of forests in climate change mitigation strategies” International Union for Conservation of Nature (November 2009).

²⁴ This is an argument made by Greenpeace.

²⁵ “Forests - Forests and Climate Change” *World Wildlife Federation*, consulted on July 25th, 2010, <www.worldwildlife.org/what/globalmarkets/forests/item3577.html>.

The UN-REDD Programme, in place at the UNFCCC, developed in response to decisions made at the 13th Conference of the Parties in Bali, is working on improving support to developing countries to be able to implement REDD strategies, thus making possible the eventual entry of projects that can create carbon credits.²⁶ It is also developing ways to deal with assessment of reductions in this area.

(ii) **Approaches to implementing REDD projects**

An issue that is subject to debate in the implementation of REDD is whether or not GHG emissions reductions from REDD projects should be evaluated on a project-by-project or a nationwide basis.

A project-by-project approach implies that carbon credits would be issued based on the GHG emissions reductions created by a given project. A nationwide approach would mean that the nationwide level of GHG emissions reductions are evaluated, perhaps in a certain sector, and that carbon credits could be issued on the nationwide reduction. After the nationwide amount of GHG emissions reductions is established, carbon credits would be allotted to projects based on the proportion of their specific contribution to the reduction in emissions.²⁷

Once again, arguments persist on both sides of the debate.

Those in favour of a project-by-project approach could argue that private companies who are engaging in projects to reduce GHG emissions are able to directly benefit from reductions that they create. Those companies will have a large incentive to invest in projects given that their efforts will translate directly into profitable carbon credits that can be assessed with relative ease compared to a nationwide approach.

²⁶ “UN REDD Programme – Overview” *UNDP* <<http://mdtf.undp.org/factsheet/fund/CCF00>>.

²⁷ Bryan Walsh, “On the Copenhagen Agenda, Saving Forests May Still Work” *Time*, (November 15, 2009) <<http://www.time.com>>.

In addition, a nationwide approach carries much more difficulty in measuring carbon credits. This is particularly true for REDD projects in countries with large forested regions and lacking in necessary tracking infrastructure. It would be a very difficult process to be aware of all activity taking place.

Those in favour of a nationwide approach argue that a project-by-project approach carries with it too large of a risk for leakage. Leakage refers to the idea that while project may be reducing GHG emissions in a certain area, other areas may have high emitting projects without consequence. Private investors can gain from their GHG emissions reducing projects and their gains will not be offset by the more polluting endeavours. Such an analysis can also be seen on a macroeconomic level.²⁸

(b) **Sectoral approach**

Whereas the Kyoto Protocol addressed carbon emissions reductions to countrywide targets, and established the CDM mechanism to allow for trading amongst private entities, a new sectoral style approach outside of a global UN agreement may be incorporated into future multilateral agreements.²⁹

The EU, which has clearly been shown to be the boldest region in the world in its attempt to limit GHG emissions, favours a sectoral approach for a post-2012 agreement. Three arguments are raised as to the inefficiency of future CDM projects in the current Kyoto Protocol context.

Firstly, with the expiration of the Kyoto Protocol in 2012, there is a fear of far fewer CDM projects in the future. If a new global agreement cannot be reached by the end of 2012, CDM projects could become very risky investments, as credits for those projects would be temporarily worthless.

²⁸ Bryan Walsh, "On the Copenhagen Agenda, Saving Forests May Still Work" *Time*, (November 15, 2009) <<http://www.time.com>>.

²⁹ "EU could look beyond UN on sectoral credits" *CDM & JI Monitor*, vol 7, issue 8, (April 28 2010), p.4

Secondly, CDM project approval is a long process as it stands. A CDM project approval takes approximately two to three years. Resulting carbon credits, which are not tangible for years remove incentive for investment.

Thirdly, the EU has pointed out its intention to improve the overall quality of CDM projects, meaning that certain types of projects included in the CDM/Kyoto Protocol will not be eligible under the EU ETS.³⁰ An important aspect to a CDM project is that it quantifiably adds to GHG emissions reductions, the evaluation of which is an important step in monitoring the quality of CDM projects.³¹ As mentioned above, the CDM project approval mechanism is seen by some as inefficient, and an effort to increase project quality would add to the already inefficient manner in which CDM projects are finalized.

Under a sectoral approach, instead of Developed countries investing in CDM projects, they would transfer technology to Developing countries in order to help them reduce emissions in various heavily emitting industries. The reductions made in those sectors would then be sold off to as carbon credits.³²

Instead of setting nationwide targets for GHG emissions reductions, a sectoral approach would set reduction targets for specific sectors in Developing countries. Developing countries would set targets for sectors in exchange for technological incentives from Developed countries. A sectoral approach would enable a more focused effort in technological advancement in industries where opportunity is foreseen.

There is opposition to this approach among Developing countries, namely China and India. Firstly, they argue that a move away from the UN CDM would reduce foreign investment.

³⁰ "EU could look beyond UN on sectoral credits" *CDM & JI Monitor*, vol 7, issue 8, (April 28 2010), p.4

³¹ Lambert Schneider, "Is the CDM fulfilling its environmental and sustainable development objectives? An evaluation of the CDM and options for improvement" *Institute for Applied Ecology*, a report prepared for WWF, Berlin (November 5th, 2007), p. 60.

³² "Analysis: the sectoral approach to post-2012 Climate policy" *EurActiv* (October 13, 2006), <<http://euractiv.com>>.

Secondly, industries in these Developing countries would lose their competitive advantage due to lower environmental regulation.³³

(c) **Sectoral no-lose targets**

Another approach to a sectorally based trading regime calls for sectoral no-lose targets.

This system would engender caps on GHG emissions per unit of output in a specific industry. For example, the amount of GHG emission per KW of electricity would be established. If projects of this nature can be shown to reduce overall GHG emissions, carbon credits would be issued.³⁴

(d) **NAMAs**

NAMAs are another response to the changing ways of looking at reducing carbon emissions in Developing countries in a process outside of the CDM approach of the Kyoto Protocol.

The 2009 Copenhagen Accord requests Developing countries to submit NAMAs to the UNFCCC with sufficient information for proper MRV.

The opportunity that comes with NAMAs is that Developing countries are able to tailor GHG emissions-reducing projects to the needs of the specific state and based on state priorities and policies. Countries inherently understand their landscape and their populations. As such, they are often better equipped to know where investment should and can be made in order to maximize usefulness to their people. As a result, NAMAs can be policies, programs or projects implemented at national, regional, or municipal levels.

³³ “EU could look beyond UN on sectoral credits” *CDM & JI Monitor*, vol 7, issue 8, (April 28 2010), p.4

³⁴ Wathanyu Amatayakul and Göran Berndes, “Electricity Sector No-lose Targets in Developing Countries for post-2012: Assessment of Emissions Reduction and Reduction Credits” *CD4CDM Working Paper Series*, Working paper no. 6 (December 2008).

With this locally-grown knowledge, combined with internationally supported technology transfer and expertise, NAMAs can lead to increased GHG emissions reductions, as well as more useful projects for local populations, in exchange of carbon credits.

According to some authors, NAMAs are expected to be the main vehicle for mitigation action in Developing countries under a future climate agreement.³⁵

5. What to expect in Cancun

“The Cancun conference can provide an agreed architecture to deliver on adaptation, mitigation, technology, finance, capacity-building and REDD” (*Farewell statement at the closing plenary by Yvo de Boer*).

“In Cancun, we can get a fully functioning architecture” that includes deforestation, climate aid, greenhouse gas cuts and the transfer between countries of green technologies.³⁶

There is a strong will to reach a binding agreement at the end of 2010 in Cancun. However, different players in the negotiations have different priorities and different objectives to achieve. Those different priorities are likely to make the negotiations very difficult, once again.

(a) The United States

The U.S. clearly places China as a top priority in order for it to agree to a globally binding carbon emissions deal. The U.S. would like to see China and other BASIC countries take on concrete emission reduction targets, as well as international MRV for NAMA projects. At the very least, the U.S. will require substantial transparency in China’s MRV.

³⁵ Holger Dalkmann and Anne Binsted, “Copenhagen Accord NAMA Submissions – Implications for the Transport Sector” *Bridging the Gap – Pathways for Transport in the Post 2012 Process* (February 2010).

³⁶ Alex Morales, *Legally Binding Climate Deal Likely in 2011, UN’s De Boer Says*, online: Bloomberg.com <<http://www.bloomberg.com/apps/news?pid=20670001&sid=aIWI7Yn0cG5o>>.

At the same time, the U.S. may continue to cause delays at Cancun because of homeland difficulty to pass environmental legislation. Regardless of whatever deal may be struck at an international conference, U.S. negotiators may still have to deal with opposition in the U.S. Congress.

In other words, the U.S. is looking for a new deal to be reached outside of the context of the Kyoto Protocol. The U.S. wants a regime that goes beyond the scope of historical blame and deals largely with current large emitters of GHGs.

(b) **European Union**

Given that the EU already had an emissions trading scheme in place, and that most EU countries had a surplus in reaching their reduction targets, the EU is looking to increase reduction targets.

(c) **China**

In the debate over MRV with the U.S., a resounding element of importance to China is its sovereignty. China would like to conduct its MRV internally and to be recognized as a trusted partner like the Developed countries. At the same time, China does not want the responsibility of a legally binding emission reduction target.

China is prepared to reduce GHG emissions per unit of output, but will not reduce GHG emissions on the whole given its intention for economic growth.

(d) **BASIC**

The BASIC countries are prepared to effect GHG emissions reductions on a voluntary basis, as was observed after the Copenhagen Accord. It is essential to them, however, that these reductions remain voluntary and subject to the reductions of Developed countries, especially the U.S.

In addition, the BASIC countries would like to view themselves as leaders amongst Developing countries and as such, they call upon Developing countries to fund mitigation and adaptation in the least developed countries in the world.

(e) **Developing countries**

On the whole, Developing countries benefit most under a continuation of the Kyoto Protocol, as long as targets are reached. In this context, all responsibility lies on Developed countries, and Developing countries benefit from CDM projects funded externally. Developing countries would like to see even stronger targets set for the developed world.

6. **Conclusion**

While an international consensus appears to exist, in principle, on the necessary measures required to reduce GHG emissions to levels that can be considered as sustainable, there are still major issues separating different regions of the globe. Some of these issues include: MRV, binding GHG emissions reduction targets on emerging states and the roles of the U.S. and China in a future agreement.

While a globally binding agreement may be difficult to reach in Cancun, optimism is still worthwhile. Even though countries may disagree between themselves on how to reach an outright agreement, forces within countries are pushing more and more for countries to adopt strong environmental legislation. This can be observed in both China and the U.S. In addition, regional groupings, such as BASIC and the EU, that combine countries with similar interests may become the primary forum for international GHG emissions agreements. A possible solution to the global problem may lie in a mechanism for the conversion of units from one region to another based on comfort levels with MRV procedures.