

from Business as Usual and is thus comparable in economic hit as the EU proposal for 15% cuts from 1990 levels is on the EU. It also argues that because its proposal covers all gases and sinks, it is more ambitious than both EU and Japanese proposals. EU and G 77 were unmoved however, and typed the US proposal as offering little more than the current Convention commitments.

5. Another proposal was presented by the Russia which proposed an Annex 1 wide bubble. Although unclear, it appears countries would pledge their level of commitment (e.g. USA already pledged stabilization, the EU a 15% cut, the Japanese a 2.6% cut), which would then be applied to the bubble. G 77 also tabled a targets proposal along the lines of the EU proposal, whereby Annex 1 countries would be required to stabilize emissions by 2000, reduce 7.5% from 1990 levels by 2005, and 15% by 2010. The G 77 then propose that Parties assume an additional 20% reduction by 2020. The G-77, against the backdrop of what it perceives as conservative targets, continue to oppose any and all flexibility mechanisms such as budgets, trading and JI, as well as any reference to voluntary commitments for LDCs, let alone any other further action from them.

6. Banking and Borrowing: EU and JUSCANZ supported permitting banking, although the G-77 sought deletion, along with other flexibility elements. Bigger issue was whether Parties should be allowed to credit reductions prior to the initial budget period. This is a particular concern with respect to the "paper tonnes" of Russia and the Economies in Transition (EITs) (i.e., whereby countries could potentially meet their future targets by purchasing credits for reductions that have already taken place in the EITs. This would actually allow global emissions to grow during budget periods). Canada is keen to address concerns by Russia and the EITs that early reductions be recognized (through a banking period before a target or budget period) but is also aware that the issue of paper tonnes needs to be addressed. Informally, Canada is exploring the notion of recognizing discrete activities which show real reductions from a BAU scenario. Canada also supports pre-budget banking of reductions on the provision that the amount credited prior to the first budget period be subtracted from the first budget period.

7. Borrowing remains a highly contentious issue with the EU and G-77 and some JUSCANZ Parties strongly recommending its deletion from the text (although the EU may be more flexible if it is related to compliance). USA and Canada stated that borrowing is a useful tool in helping countries to make necessary adjustments due to unforeseen circumstances. The United States indicated that, in any case, borrowing should include limits on how much could be borrowed from subsequent budget periods and 'interest charges' or penalties, should be applied on any amount borrowed. This is consistent with Canada's position.

8. Differentiation: Canada spoke out strongly in favour of ensuring that mechanisms for differentiated commitments remain in the current negotiation text. Objectives were to: introduce Canada into more focused differentiation discussion noting our own national circumstances and to highlight that a single formula was