

Implication was that the more moderate the target, the less likely the EU would be willing to support a trading instrument in the Protocol. EU also expressed concerns that instrument would allow for Parties to delay in taking actions domestically. G-77 opposition was based on concerns that trading would be permitted between Annex 1 and non-Annex 1 Parties. A number of other Parties, especially Australia, made an equitable initial allocation of trade permits a condition for support. Japan has changed its position on trading and along with other JUSCANZ Parties, expressed support for the instrument. Canada attempted to address concerns by clarifying that: a) ghg emissions trading should only take place within Annex 1; b) trading will not be the only mechanism to address our commitments (countries will want to ensure that investments in international trading are not so great that they would see a net investment flow out of the investing country); and, c) that allocation would be addressed in negotiations on targets and timetables. For the subsequent negotiations, Candel will need to be clear as to what additional elements would be required in a Protocol on ghg emissions trading.

12. Joint Implementation (JI)/ Activities Implemented Jointly (AIJ): Little progress was registered in further elaborating positions. The EU supports, for Kyoto, JI only among countries with commitments and continuation of the AIJ pilot phase for projects between countries with commitments and those without (developing countries). The JUSCANZ members, particularly U.S. Canada, Norway, Australia, N.Z. would like to see decisions taken at Kyoto linking crediting for JI projects with developing countries (those without commitments) to the post-2000 target. We noted the cost-effectiveness of this mechanism as well as the potential technological and capacity building advantages for developing countries. But developing countries remain suspicious and unconvinced about potential advantages -- the G77 accordingly did not want JI included in the Kyoto agreement so as to allow the pilot phase to be taken into account. That said, Costa Rica, which has a softer approach, tabled a new proposal whereby JI credits would be limited so that every 2 units of emissions reduced through JI, credit would only be granted for 1. The other would be "a gift" to the global environment. Switzerland proposes a limit on how much of reductions can be done through JI, while the U.S. opposed any ceiling.

13. Compensation: OPEC Parties continue to press for a compensatory mechanism that would reimburse oil exporting countries in the G-77 for any falling revenues as a result of Annex 1 actions to reduce/limit their ghg emissions. This is being strongly resisted by Annex 1 Parties and even some G-77 Parties - notably Argentina, Small Island States - expressed their opposition to the proposal. A contact group, chaired by the Saudis (in the absence of a Brazilian chair) met once, but could not function due to the inherent biases with the proponent