

an interim placeholder. Candel should revisit our position prior to the resumption of negotiations in October.

8. On banking and borrowing, there was general support of the notion of banking except the G77 which opposed both concepts. The question of banking of pre-2000 emissions reductions emerged as an issue which remains to be resolved. N.Z. supported borrowing in terms of a compliance mechanism, while Australia and Norway said borrowing warranted consideration. The US continued to support borrowing more broadly, arguing that it should not be limited to Parties who were in a non-compliance position. They view borrowing as a standard commercial mechanism. The EU and AOSIS were blunt in their opposition to borrowing .

9. The QELROS Chairman's text broadly reflects all the options presented on the nature of target and baseline. Options will be negotiated at the October session. Intersessional activities is expected to concentrate on the "non-target" issues, which are key to defining the flexibility Parties will have to meet their commitments.

10. Differentiated Targets: The divisive issue of flat rate vs. differentiated targets and timetables remains as intractable as ever. The Chair of the AGBM reflected the view that the issue would only be resolved in political negotiations outside of the formal AGBM process. As expected, Australia, Japan, Norway and Iceland continued to press the hardest for differentiated commitments amongst Parties, although questions remain about how these would be "negotiated". USA is firmly opposed, adhering to the view that all Parties should undertake the same commitments using different tools as required, but backed up by a compliance regime. (This is consistent with the position it takes against the "EU bubble"). Proponents expressed concern that the QELRO Chair's text summarizing different options for approaching QELROS was presented in a format which favoured a uniform target approach and was biased against differentiation. To alleviate these concerns, an introductory paragraph was added to the beginning of the QELROs text, which indicates that the total document would require revision if a differentiated approach were adopted by the Parties (likely at least to accommodate an Annex listing the different commitments). This satisfied all countries as a way of keeping two opposing approaches on the table. Given the sharply polarized discussion, the chair of the AGBM opined that this issue would only be resolved in political negotiations outside the formal AGBM process.

11. GHG Trading: There continues to exist a wide divergence of views on the appropriateness of including ghg trading and joint implementation in the Kyoto agreement. The EU made a strong intervention arguing that they will not be able to indicate their final position on trading until other Annex 1 Parties first indicate what targets and timetables they could support.