

## **ANNEX**

### **KEY POST-KYOTO PRIORITIES**

**MECHANISMS FOR COOPERATIVE IMPLEMENTATION:** Formal plenary discussions regarding mechanisms for cooperative implementation were brief and mechanisms discussion quickly became mired in a contact group tasked with elaborating a framework work programme. In the end, Parties approved a conclusion which took note of the tabled submissions, and also approved, but did not negotiate, suggested skeletal elements for a work programme on the mechanisms. Inconclusive discussion revealed a limited constituency for bringing many issues to fruition by the Buenos Aires conference in November, beyond basic methodological and technical issues.

**INTERNATIONAL EMISSIONS TRADING:** Candel emphasized, early in the session, preference for agreement by CoP4 on a framework for reporting, verification and accountability. Shortly thereafter, Canada tabled a non-paper on international emissions trading (FCC/SB/1998/MISC.1/Add.1) on behalf of the so-called Umbrella Group. The paper outlined the Umbrella Group's views on most of the necessary elements for a market-based trading system and prompted a response by the EU which articulated their common view on the issue. Significantly, taken together these two papers demonstrated that there is Annex I wide agreement on such issues as monitoring and verification, the recording and reporting of trades, options for market mechanisms for exchange and the right of legal entities to trade - signalling areas where progress could be made at CoP 4. However, other areas of differences with the EU remain, and compared to the other flexibility instruments, developing countries most strongly oppose emissions trading. Their demonstrated willingness to engage in discussion on the issues is viewed, however, as a mild success under the circumstances.

**CLEAN DEVELOPMENT MECHANISM (CDM):** Thinking of most Parties is still embryonic and there was little formal discussion of the CDM in an open forum. Nevertheless, this early stage of discussion revealed a general willingness to work through the elaboration of the CDM constructively and few areas of potential conflict emerged with the exception of the need for a quantified cap, and differences of view on whether carbon sequestration (sinks) projects should be fully covered. JUSCANZ countries tended to favour a looser, facilitative mechanism that would largely facilitate private sector projects, backed up by strong auditing and verification provisions. Canada and other like-minded stressed that the timely definition of the CDM is critical to provide incentives for early private and public sector identification and participation in projects. Nevertheless, prospects for elaborating the mechanisms at the 1998 conference seem remote. Exchanges of view on the G-77 questions, and upcoming workshops, including a possible ministerial to be hosted by Canada provide the short-term vehicles to further develop critical mass of ideas.