

for 2005, investment in energy efficiency and renewable energy simply will not occur. Governments will have failed to send the clear market signal that is required to release pent up emissions reduction potential

2. Differentiation: Parties like Australia, Norway and Japan (with Canada's tacit support) argue that different starting points, and economic structures requires that different targets be negotiated for the various Annex I Parties. Australia and Norway also argue that the European Union agreement to share the burden of reaching its 15 per cent reduction among its members so that some increase emissions (the Cohesion states; Portugal, Spain, Greece) while others decrease more than the 15 per cent (the UK, Germany, Austria, Denmark) proves that a better target can be achieved using differentiation. The U.S., on the other hand, supports the same target for all Parties (flat rate), but with emissions trading: to compensate for differences in the marginal cost of abatement. The environmental community believes that there is enough potential to reduce emissions in each country that near-term reduction commitments should be flat rate and that joint implementation be restricted to Annex I countries (joint implementation would allow for reduction investments to occur anywhere within Annex I with reductions deducted from the investing country's inventory or shared between the two Parties).

Chairman Estrada has said that he will pursue an agreement on differentiation between now and AGBM 8 and that any final deal will be based on political negotiations, rather than mathematical formulas. There are two possible outcomes from such a process, and neither are acceptable from an environmental point of view.

One; The gap in perspective between high per capita emitters like Australia that believes it should reduce less, and low per capita emitters like Norway that believes countries like Australia should reduce more, cannot be bridged. Negotiations break down with no agreement on flat rate targets.

Two: Differentiated targets are agreed but in contrast with the Polluter Pays Principle, high per capita emitters like Canada (21 tonnes of carbon dioxide equivalent per capita) negotiate lower commitments, while low per capita emitters like the Europeans (half Canada's rate) are left to decide what to do with their political commitments to a 15 per cent reduction by 2010. The likely outcome: the European Union abandons its commitment to a 7.5 per cent reduction by 2005 and 15 per cent by 2010. The result: a lower overall commitment to reduce emissions and more climate change. Differentiation, if it could be negotiated (and that is not at all clear) should put additional pressure on high per capita emitters to reduce emissions both because there is more potential and because of equity considerations.

3, Budgets: Current proposals would allow for commitments to be made to two budget periods of up to ten years each. This would allow Parties to accumulate annual emissions into a ten-year budget allowing for flexibility year to year. Budgets could over Parties flexibility but must not be so long that the Convention cannot be responsive to emerging science or climate surprises. Budgets should not exceed three years. The U.S. has also proposed that banking be allowed for any reductions in excess of targets and that borrowing be allowed for Parties that fail to meet current targets. That is, Parties could "borrow" emissions from a second budget period at a penalty. Chairman Estrada has indicated the concept of borrowing is unacceptable and it is.

4. Legally binding policies and measures: Environmentalists believe that most policies and measures are domestic in nature and do not require international co-ordination. Marine and