



Kyoto Mechanisms Discussion Bulletin

A Summary Report of the High-Level Discussion on the Kyoto Mechanisms

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HIGH-LEVEL DISCUSSION ON THE KYOTO MECHANISMS: THURSDAY, 9 OCTOBER 2008

A high-level discussion on the role of the Kyoto Protocol's flexible mechanisms was held at Columbia University in New York, US, on Thursday, 9 October 2008. The event took as its theme, "The Kyoto Mechanisms: Key to Combating Climate Change?"

Much of the two-hour event involved a discussion between Yvo de Boer, Executive Secretary of the UN Framework Convention on Climate Change (UNFCCC), and Jeffrey Sachs, Director of the Earth Institute at Columbia University. These two key speakers and other experts debated the merits of the Kyoto mechanisms and carbon taxes in reducing greenhouse gas emissions.

The aim of the discussion was to help focus attention on market-based mechanisms, carbon taxes and other policies and measures being considered by policy makers and negotiators working to establish a framework to address climate change. The deadline for a new international agreement has been set for December 2009, when delegates will gather for a major UN conference in Copenhagen, Denmark.

The event at Columbia University was organized by the Earth Institute and the International Institute for Sustainable Development (IISD). Nearly one hundred and fifty people were in attendance, and others viewed and participated in the event via live webcast, with the speakers fielding questions from web participants in Canada, Kenya and Rwanda. The webcast is available online at: <http://www.earth.columbia.edu/articles/view/1775>

REPORT OF THE MEETING

OPENING OF THE MEETING

The event was opened by John Drexhage, Director of the Climate and Energy Program at the International Institute for Sustainable Development (IISD). He welcomed the speakers and introduced the issue, stating that the real contribution of the Kyoto Protocol will be that it was the first international agreement to send a price signal on carbon. Looking forward, he asked if future action on climate change requires radical rethinking, or simply "getting out the wrinkles" of the existing system.

KEYNOTE SPEAKERS

Yvo de Boer spoke first, arguing that it was futile to debate carbon markets versus carbon taxes, because both are necessary. Laying out some of the arguments for market approaches, he noted that: private sector buy-in is essential and the private sector prefers market approaches; market approaches allow



Jeffrey Sachs argued that simple approaches, such as carbon taxes, should replace attempts to design complex financial instruments

for dynamic efficiency, letting prices change as circumstances change, while carbon taxes are stagnant; and markets promote awareness and involvement.

Turning to the performance of the Kyoto mechanisms to date, Yvo de Boer stated that the Clean Development Mechanism (CDM) has met the goals for which it was designed, including stimulating private sector involvement and identifying cost-effective mitigation options. He acknowledged the challenges posed by balancing strict additionality and market efficiency, ensuring that CDM projects contribute to sustainable development in their host countries, and improving geographic distribution of CDM projects. However, he argued that these problems were not insurmountable and detailed ongoing efforts to further address them.

He then identified market mechanisms (including cap-and-trade systems) and governmental and intergovernmental cooperation on taxes, standards and subsidies, as two broad sets of tools to mobilize both public and private funds. Emphasizing the magnitude of the task at hand, he stated that rejecting some of these tools will not seem credible to those responsible for making the tough choices that lie ahead.

Jeffrey Sachs then spoke, arguing that the current architecture is not achieving very much. Asserting his skepticism about taking a "Wall Street approach" to carbon, he argued that simple approaches should replace attempts to design complex financial instruments. He characterized the CDM as a small tool that will not bring about the large-scale changes necessary in energy production and the development and distribution of technology.

Jeffrey Sachs then identified four large architectural issues that require addressing. First, while acknowledging the importance of common but differentiated responsibilities, he argued that the distinction between Annex I and non-Annex I countries needs to change, and that all countries need to take on some form of commitments. Secondly, he stressed the need to mobilize tens of billions of dollars in global financing for, *inter*

alia, adaptation, technology transfer, and implementation. Noting that the 2% CDM levy does not mobilize financing on this scale, he suggested that carbon taxation may be able to do so. Thirdly, he argued that the issue is bigger than simply pricing carbon, and said regulatory options and technology policies – such as grid design and acceptability of nuclear power – should come first, followed by specific financial policies. Finally, he argued that a global system of linked trading markets is neither feasible nor desirable. Noting that economically there is little difference between a tax and a tradable permit scheme with auctioning, he suggested that a tax is simpler than “obtuse” tradable permit systems, and it also allows one to set the price and increase it as needed.

Sachs closed by stressing the urgency of development needs and the importance of technological change. Noting the need to generate funds for this, he suggested a short-term strategy of taxing carbon to subsidize carbon capture and storage (CCS) and avoided deforestation.

DISCUSSANTS AND RESPONSES

Klaus Lackner, Professor of Geophysics at the Earth Institute, and Henry Derwent, President and CEO of the International Emissions Trading Association (IETA), were invited to comment.

In his comments, Klaus Lackner stressed a central role for CCS and suggested that a focus on carbon would drive pricing all the way upstream to the well or point of import. He argued that CCS could then set the price and allow for trading carbon coming out of the ground with carbon going back in.

Henry Derwent acknowledged many of the benefits of taxes, but stressed their political unpopularity. Pointing to the large investments needed, he argued that economic instruments are necessary to engage private industry, and that a whole range of policy options are important to find the lowest-cost opportunities.

Yvo de Boer then spoke for a second time. He agreed with Jeffrey Sachs on the need to move beyond the commitments versus no-commitments framework. He said that upstream taxes were politically difficult because oil producing countries were unlikely to be supportive. He argued that national taxes may be possible but that a global tax would not be feasible.

Jeffrey Sachs responded that a global tax would not be aimed at sending a price signal, but at generating the needed financing. He noted that the US may become more amenable to taxes as it comes to grips with its sizable financial deficit and suggested that an implicit target of between fifty and seventy-five dollars per ton would drive technological change. He argued that discussions on financial transfers to developing countries must be explicit rather than implied in hidden, decentralized mechanisms, and suggested involving developing countries by setting targets that reflect currently-available technology, with adjustments as technologies improve.

QUESTION-AND-ANSWER SESSION

The moderator, John Drexhage, chaired the question-and-answer session, taking questions from participants at the venue and from those following the discussion through the live webcast.

One online participant in Rwanda asked whether the CDM may only apply in the future to least developed countries, with the possibility of other mechanisms being made available to other developing countries. In response, Yvo de Boer pointed to the need for different approaches for different countries, based on their incomes and other economic differences.

On a question about reducing transaction costs in the CDM by taking programmatic approaches and thereby encouraging more small-scale projects in east Africa, Yvo de Boer pointed

to ongoing discussions on this issue under the UNFCCC, while Jeffrey Sachs stated that climate mitigation in that region should be secondary to economic development and building a power system. Sachs argued that money to drive this should not be through the CDM but through large-scale development funds. Similarly, while Yvo de Boer responded to a question on gender issues in the CDM by urging attention on this issue wherever possible, Jeffrey Sachs suggested that gender inequality is an important development issue, but that it is “not the purview of the Board of the CDM.”

The speakers also commented on the effect that the financial crisis may have on climate change action. Henry Derwent noted that global carbon prices are holding up, but that governments may be less ambitious with their commitments as a result of the crisis. Jeffrey Sachs pointed out that it may bring food security and other issues to the fore. Yvo de Boer agreed that governments may be less ambitious, but expressed hope that the financial situation may be better by the time of the Copenhagen meeting in December 2009. John Drexhage closed the meeting by thanking the speakers, planners and all who had submitted questions.

UPCOMING MEETINGS

FORTY-THIRD MEETING OF THE CDM EXECUTIVE

BOARD: The Executive Board of the Kyoto Protocol’s Clean Development Mechanism (CDM) will meet from 22-24 October 2008, in Santiago, Chile. For more information, contact: the UNFCCC Secretariat; tel: +49-228-815-1000; fax: +49-228-815-1999; e-mail: secretariat@unfccc.int; internet: <http://unfccc.int>

20TH MEETING OF THE PARTIES TO THE

MONTREAL PROTOCOL: This meeting is scheduled to take place from 16-20 November 2008, in Doha, Qatar, in conjunction with the 8th Conference of the Parties to the Vienna Convention. For more information, contact: Ozone Secretariat; tel: +254-20-762-3850/1; fax: +254-20-762-4691; e-mail: ozoneinfo@unep.org; internet: <http://www.unep.org/ozone/>

FORTY-FOURTH MEETING OF THE CDM

EXECUTIVE BOARD: The meeting of the CDM Executive Board will take place from 26-28 November 2008, in Poznan, Poland. For more information, contact the UNFCCC Secretariat; tel: +49-228-815-1000; fax: +49-228-815-1999; e-mail: secretariat@unfccc.int; internet: http://unfccc.int/meetings/unfccc_calendar/items/2655.php?year=2008

THIRTEENTH MEETING OF THE JOINT IMPLEMENTATION SUPERVISORY COMMITTEE:

The Supervisory Committee for the Kyoto Protocol’s Joint Implementation (JI) mechanism will meet from 26-28 November 2008, in Poznan, Poland. For more information, contact the UNFCCC Secretariat; tel: +49-228-815-1000; fax: +49-228-815-1999; e-mail: secretariat@unfccc.int; internet: http://unfccc.int/meetings/unfccc_calendar/items/2655.php?year=2008

FOURTEENTH CONFERENCE OF THE PARTIES TO THE UNFCCC (COP 14) AND FOURTH MEETING OF THE PARTIES TO THE KYOTO PROTOCOL (COP/MOP 4):

UNFCCC COP 14 and Kyoto Protocol COP/MOP 4 are scheduled to take place from 1-12 December 2008 in Poznan, Poland. These meetings will coincide with the 29th meetings of the UNFCCC’s subsidiary bodies and the fourth meeting of the *Ad Hoc* Working Group on Long-Term Cooperative Action (AWG-LCA) and the resumed sixth session of the AWG on Further Commitments for Annex I Parties under the Protocol (AWG-KP). For more information, contact: UNFCCC Secretariat; tel: +49-228-815-1000; fax: +49-228-815-1999; e-mail: secretariat@unfccc.int; internet: <http://unfccc.int>