The Bonn Agreement – The World agrees to leave the US on the sideline

Meeting report* by Christiaan Vrolijk
Discussion meeting, 8 August 2001, Chatham House, London

On Monday 23 July the world finally struck a compromise on the 1997 Kyoto Protocol. Nearly 180 countries agreed the deal, with the US alone looking on.

The Royal Institute of International Affairs (RIIA) organised a meeting reflecting on the agreement reached last month on global climate change. Two climate policy specialists analysed the agreement thoroughly: Henry Derwent, Head of the Environment, Risk and Atmosphere Directorate, the Department for Environment, Food & Rural Affairs (DEFRA), and Michael Grubb, Professor at Imperial College, London, and Head of Climate Strategies.

Last year’s international talks in The Hague, the Netherlands, was scheduled to be the venue for agreeing the details of the Kyoto Protocol on climate change. The 1997 Treaty sets out emission reduction targets for the industrialised countries, but emission trends of some countries were far off the target. Consequently, the meeting in The Hague (COP-6, the Sixth Conference of Parties) collapsed over flexibilities that would make the targets easier. Then in March, President Bush of the United States announced his withdrawal from the Kyoto Protocol, declaring the Treaty dead. However, much of the rest of the world reacted in disbelief over this action.

Political will

The political importance of climate change policy, and the Kyoto Protocol in particular, received a substantial boost, with the highest level political involvement. In Bonn, where COP-6 resumed, the mood had changed: the EU was willing to make concessions; the G77, the main developing country negotiating group, moderated some of their demands; and NGOs demanded any agreement rather than a strong agreement. Although, unwilling to accept any compromise in Bonn, the US refrained from blocking agreement. As opposed to the meeting in The Hague, strong chairmanship guided the meeting towards agreement with perfect timing. Most importantly, according to Henry Derwent, there was political will to make the deal, putting the pressure on those that disagreed.

It would be wrong to say that President Bush saved Kyoto but his unilateral withdrawal from the Protocol did strengthen the determination of the rest of the world, making Bonn possible. The closing statements of the Bonn meeting were more about the triumph of multilateralism over unilateralism than about climate change.

* This is a personal account of the meeting and is not attributable to the speakers.
The original Kyoto Protocol

The Kyoto Protocol as agreed in Bonn is a small first step in international climate protection, but once the Kyoto Protocol is ratified the ‘polluter pays’ principle will help the world fight climate change and it’s multi-billion dollar impacts.

The Bonn Agreement does not represent a big weakening of the original Protocol as often portrayed, according to Michael Grubb in his presentation. Emissions trading, the clean development mechanisms, sinks and other ‘flexibilities’ have always been part of Kyoto. It has only now become clear to most people just how flexible the Kyoto Protocol really is. For example, emissions trading was always projected to reduce costs by 50–90%.

Market

According to some estimates, the Kyoto market could be rather thin, with very low market prices and a large share of sinks. The US withdrawal has left this market with a potential over-supply. Even relatively high business as usual emission projections for Annex B countries would leave the market below the Kyoto target if the US is out.

This situation is undesirable for the environmental integrity of the Kyoto Protocol, as well as for the EU and the Economies in Transition (EITs, Eastern Europe and Russia) with emissions for sale. The new agreement on the use of sinks (land use change and forestry) in the industrialised countries, as well as the inclusion in the clean development mechanisms (CDM), has further reduced demand for emission reduction credits. Even though the total amount of additional sinks (Appendix Z) is small compared with the potential amount of trade – up to about 50MtCe – the additional allowances make the targets for certain countries, such as Japan, substantially easier.

The US withdrawal, the over-supply on the market from the EITs and additional allowances for sinks have greatly reduced the incentives to invest in CDM projects that benefit developing countries and, therefore, reduces the funds available for adaptation. However, some investments are still expected to take place despite the market outlook.

A new proposal by Russia, the Green Investment Scheme, has the potential to solve some of the problems in the Kyoto market. Under this proposal, Russia would set aside its emission allowances it doesn’t need (the ‘hot air’), and sell this with the promise to re-invest the revenues in energy efficiency or emission reduction projects. The aim would be to achieve emission reductions matching the quantity of allowances sold. This scheme could stimulate badly-needed (foreign) investment in cleaning up the Russian energy sector.

---

1 See for example *The Kyoto Protocol: A Guide and Assessment*, M. Grubb et al. for details.
• This scheme could mitigate the European and NGO demand for environmental integrity of emissions trading, because all trading leads to emission reductions.
• The re-investment criteria would justify a minimum price on the allowances, reducing the risk of a ‘race to the bottom’.
• The scheme would also naturally limit the amount of surplus quota on the market, because the capacity to absorb and re-invest funds is limited by the emission reduction projects that can be identified and developed.
• Corporate level trading and joint implementation may receive a boost from the scheme.
• It could also simplify investment procedures for those who find the Russian investment climate too risky.
• And finally, the investment scheme would be a transparent highly-accessible system, which addresses worries from Japan.

An open door

Although the pro-Kyoto sentiment was very strong after President Bush’s unilateral withdrawal, most Parties were hesitant about agreeing something that would permanently exclude the largest emitter, the US. Indeed the Bonn Agreement does leave the door wide open for the US to get back to Kyoto. The deal is more flexible than that which the US was willing to accept in The Hague, and has all the flexibilities required for the US to be able to meet it’s commitments, including emissions trading options and large sinks.

The domestic reaction to the Administration’s stance on Kyoto was as remarkable as the international one. The public, congress and business agree that pulling out was the wrong geopolitical decision, that the world is serious about climate change, and that the US should lead rather than be isolated from the rest of the world. The costs of being out of the Kyoto Protocol might be larger than those of being in; US business, technology, and experience with emissions trading could play a crucial role – but only if the US ratifies Kyoto.

It is unlikely that the US would make a U-turn before the important Rio+10 World Summit on Sustainable Development in Johannesburg next year. However, accommodating a few of the key US concerns about the Protocol could see the US re-join Kyoto before the first commitment period, albeit most likely not with the current Administration. Another window of opportunity opens when negotiations on the second commitment period start, when at least some developing countries will also take on targets.

A US proposal for action on climate change is expected, but the timing is highly uncertain. Contradictory announcements say a proposal should be on the table at COP-7 or the review would not be bound by the international negotiations on Kyoto. With Senators calling for stronger action, including re-joining the negotiations on Kyoto, a proposal is more likely sooner rather than later. Anything similar to Kyoto is unlikely to be proposed by the US, and anything very different from Kyoto would require long preparations by the Administration
and years of renegotiations among all the Parties. However, any counter proposal could be dangerous for the fragile Bonn Agreement; US participation would be a big bonus.

Further steps

Even though the agreement could yet unravel over issues such as the sinks, adverse effects or indeed a US counter proposal, the Bonn Agreement has fulfilled the Buenos Aires Plan of Action and paved the way for ratification of Kyoto and the beginning of emission reductions. It is expected that European countries will start the process of ratification soon, aiming at entry into force of the Kyoto Protocol by the Rio+10 meeting as their goal.

This first small step could lead to a second round including the developing countries and the US. It could even lead to a more rational approach to meeting the Framework Convention’s longer-term aims over concentrations and deep emission cuts. The UK’s Royal Commission on Environmental Pollution has already proposed a target of 60% emission reductions by the middle of the century – and that target is being taken seriously by government.

Christiaan Vrolijk is Research Fellow on climate change policy issues at the Energy and Environment Programme of the Royal Institute of International Affairs, London. He has been following the climate change negotiations ever since Kyoto, and was co-author of The Kyoto Protocol: A Guide and Assessment. He is currently working on his book Climate Change and Power: Economic Instruments for European Electricity, forthcoming late 2001.