

**Speech by Jan Pronk, Minister of Housing, Spatial Planning and the Environment, to the Conference *Innovative Policy Solutions to Global Climate Change*, Washington, April 25, 2000**

Madam Chair, ladies and gentlemen,

Only a few years ago the climate change debate centered on a single, major question. Are human activities changing the global climate? In recent years scientists have confirmed that humans are causing the enhanced greenhouse effect. Of course we want to prevent dangerous human interference with the climate system. We want to safeguard ecosystems, food production and sustainable economic development for the future. Therefore climate change must be kept within an acceptable range. According to the IPCC, the international scientists on climate change, a 60 to 80% reduction of global greenhouse gas emissions is necessary to prevent dangerous climate changes. I understand that the forthcoming new IPCC report will reconfirm all this.

So the focus of debate has shifted. In 1992, during the Rio de Janeiro Conference on Environment and Development, we agreed to deal with climate change with the help of a World Climate Convention. Skepticism diminished and was replaced by the wisdom of precaution. The question we are now asking is *whether and how* we can control climatic changes. The Kyoto Protocol, adopted in 1997, is a turning point in our efforts to protect our climate. For the first time, industrialized countries have

committed themselves to quantitative targets for limitation of greenhouse gas emissions. This is an important step forward.

Is it a substantive step? Yes and No. Yes, because it is the first time that a concrete overall reduction figure has been agreed: somewhat more than minus five percent in greenhouse gas emissions in around 2012 as compared with the 1990 level for the same group of industrialized countries.

No, because this five percent has to be compared with the overall reduction considered necessary by climate experts of, say, 70%. But still yes, because in a business as usual scenario on the basis of economic growth since 1990, this reduction of five percent below the 1990 level would in reality imply a cut of about 25% below the levels otherwise foreseen. And that is quite substantial.

Now, whether we are able to meet this target depends on our capacity to successfully conclude negotiations. The Kyoto Protocol has quite a few details that still have to be finalized. Key articles of the Protocol must be refined and clarified for it to become a workable legal instrument, in particular dealing with the specific domestic as well as international policy measures. Besides, actions will also need to be taken under the Climate Convention: on adaptation to the adverse effects of climate change, capacity-building and technology transfer. These are conditions that need to be fulfilled to broaden participation of developing countries in climate change policy, so that soon these countries would also be able to take

upon them concrete targets with regard to greenhouse gas emission limitations.

This is the task ahead for the 6th Conference of Parties, to be held in November this year, in The Hague. I wish that Conference to be the last meeting where we negotiate the remaining issues. In The Hague we should finalize negotiations so that we can ratify the Protocol and start action towards its implementation. And I also would like The Hague to be a breakthrough on the road towards a second budgetary period. One budget period is not enough. Our commitments should be extended: greater reductions thereafter and a broader participation of countries in that endeavor.

How can we best accomplish this task? We should stick firmly to the targets set and reconfirm the commitments made. Re-negotiating Kyoto is out of the question. However, for the first commitment period, there should be a certain degree of flexibility as to which instruments countries wish to use. Important areas of flexibility could be emissions trading, sinks and domestic action versus actions abroad. This will facilitate all countries in meeting their commitments. In the end it is in our common interest to meet the Kyoto targets globally. We can be more strict on the choice of instruments in future commitment periods.

Credibility

In my view CoP-6 in The Hague has three key objectives: *credibility, fairness, and efficiency.*

The primary aim is to take decisions at CoP-6 that are credible from the viewpoint of the environment. Environmental considerations were the reason to start the climate change negotiations in the first place. I will focus on two areas regarding environmental integrity: *domestic action versus actions abroad and sinks activities.*

Countries with targets can deliver on their commitments by domestic action and by using the Kyoto mechanisms. A major issue in the negotiations is whether we must define how much of the target should be achieved at home or elsewhere. Developing countries and the European Union point to the fact that the Protocol specifies that domestic action must be the main means for meeting commitments. Measures abroad should be supplemental to this. The EU has proposed a quantified cap on what can be bought and sold. The EU feels that Kyoto targets should be met through real and measurable efforts at home, rather than through the purchase of credits abroad. Their reasoning is that only a quantified cap will lead to a downward trend in emissions in industrialized countries, which is needed to prevent dangerous human interference with the climate system. Other Industrialized countries are opposed, arguing that any ceiling would negatively influence the cost of implementation.

Perhaps a solution might be found to accommodate all parties. One option could be to introduce a floor for domestic policy. The floor implies that countries must take action at home, before acting abroad. A floor is a clear sign to developing countries that industrialized countries are making an effort at home. I prefer a floor to a ceiling. A ceiling may create a negative impression: you are not allowed to do more than a certain amount. This would put a hold on international action. A floor, however, is a positive concept. It is a challenge, not a brake, a stepping stone: you are allowed to continue with international action provided that you first have reached an agreed minimum of CO<sub>2</sub> reduction by taking action at home. This would be politically credible both vis à vis our neighbor countries, and vis à vis our own citizens, who will have to understand that structural improvement of the global environment starts at home.

Environmental integrity also requires that our policies do indeed result in concrete CO<sub>2</sub> emission reductions. I am very much in favor of emission trading or – better - international trade in emission reductions. To reduce CO<sub>2</sub> emissions abroad may be cheaper than at home, when the other country has a different production structure. With the same amount of investment money a greater reduction can be accomplished. However, the reduction should be real, not illusionary. If the partner country, due to new circumstances, would not have been able to produce, grow and emit as originally foreseen, a reduction sold would be only nominal. It would be a legitimate contract, but it would add little to the overall modification of emissions. This will be an issue to be solved in The Hague. I realize that

there are many different views and that parties are rather outspoken. My plea to all partners would be: be fair to the Protocol (emission trading is allowed), be credible to the target (there should be real restrictions) and be creative in seeking a compromise. Maybe establishing a link between trade in emission reductions, the resulting credit earnings and investments in energy saving projects could provide a basis for such a compromise. I mean investment in countries which due to their present level of economic development do not yet use much energy, but which are not yet energy efficient and thus, without such investment would emit large amounts of CO<sub>2</sub> when they grow.

Environmental integrity also plays a major part in relation to *sequestration activities or sinks* in both the North and the South. A number of countries are worried about the environmental credibility of sinks. What exactly is at stake regarding sinks?

The sequestration of carbon through sinks stands on an equal footing with emission reduction activities in both the Climate Convention and the Kyoto Protocol. Aforestation, reforestation and deforestation already have a place in the Protocol, which also opens the door to additional activities, to meet both present and future commitments.

Many Parties agree that we should be liberal in allowing such activities since this lowers the cost of achieving the objectives. Sinks activities are

cheaper than emission reductions, However some caution is appropriate, for three reasons:

- firstly, because sequestration through sinks is less permanent than emission reductions. While carbon can be captured in trees and other sinks, the amount that can be captured stabilizes and there is a risk that carbon captured will be released at some future date.
- secondly, scientific uncertainty still surrounds a number of sinks activities, making their real environmental benefit difficult to calculate.
- thirdly, the long-term objective of the Climate Convention can only be achieved through the reduction of emissions. Sinks projects can cost effectively delay the moment in time at which emission reductions must be undertaken, but they do not represent a sustainable alternative from a climate change perspective.

I would like to advocate a combination of flexibility and caution. Accept the potential sinks have for a number of countries to fulfill their commitments. However, be cautious in determining the rate at which new sinks related activities are allowed as against the commitments. Carry on with research, recognizing that we still have many budget periods to go.

### Fairness

When I use the word fair, what I mean is that those countries that have produced the most CO<sub>2</sub> emissions must act first. The industrialized

countries must take the lead. They bear the historical responsibility for greenhouse gas emissions and are still the largest emitters.

However, industrialized countries alone will not be able to prevent dangerous impacts on the climate. All countries will have to undertake further commitments. When I say all countries, I also mean developing countries. But we must get things into perspective. It is fortunate that the economies of developing countries are growing. They should be able to continue their growth, which is crucial in the fight against poverty, hunger and despair in many of these countries. However, when it is only fair that industrialized countries act first, it is also fair that the developing countries follow in subsequent periods, thus after 2012. And we have to take varying levels of development into account. We cannot treat the least developed countries in the same way as the tigers. It would be rather strange to compare a country in Africa to newly industrialized economies in Latin America and South East Asia.

If we, before or at CoP-6, are able to assist developing countries with measures such as technology transfer, capacity-building and adaptation to sea level rise, floods, hurricanes and extreme unstable weather conditions, developing countries might be willing to contribute to further negotiations on the second commitment period. This also is a challenge to The Hague. And in my view we can meet that challenge if we show some flexibility in the use of one of the flexible mechanisms: the Clean Development Mechanism. This should not only be seen as a mechanism for



industrialized countries to earn credits, but above all as a mechanism for developing countries to choose a path of energy efficient and sustainable growth, avoiding too high CO<sub>2</sub> emissions that are not at all necessary to improve living standards.

## Efficiency

Economic efficiency is the third aim, next to credibility and fairness. We all want climate policy to be cost efficient. This is why the Kyoto mechanisms or flexibility mechanisms were included in the Kyoto Protocol. These mechanisms are an excellent device to introduce the market in environmental policy: they will make it possible to reduce emissions wherever the costs are lowest.

Indeed, the private sector has a major part to play in meeting the reduction commitments. Recently the oil and automobile industry have taken a more positive stand in the climate negotiations. Large companies are willing to cooperate with the Pew Center and the Business Council for Sustainable Energy. At the World Business Council for Sustainable Development meeting in January, leading industrialists concluded that climate change will be the major challenge for the 21<sup>st</sup> Century and that business should take a lead in climate change mitigation policy. This is promising. It is also a sign of enlightenment. It is in the interest of climate management that private business takes a lead. It is in the interest of private business that government conducts climate policies in such a way that world markets

remain in one level playing fields, transparent, free and non-discriminatory. When all countries participate – EU, Japan, the US, Canada, Australia and others – then private business can rest assured that there will be no undue competitive disadvantage in specific markets. That is why governments have to ensure that the instruments to be developed are suitable for cost efficient private sector participation. If we do not create a private sector friendly atmosphere for energy saving we will not be effective, neither in terms of economic growth, nor in terms of a sustainable environment.

### The Netherlands

This is what we try to do in The Netherlands. We are firmly committed to reducing greenhouse gas emissions by 6%. We are not waiting for ratification of the Kyoto Protocol to put strong domestic policies at the top of the political agenda. We issued the first part of our Climate Policy Implementation Plan almost a year ago, outlining the measures we will take at home. Parliament has since approved the plan and we have taken the implementation firmly to hand. We aim to meet half of our commitment with measures in the Netherlands. And we expect all sectors to contribute to the effort to reduce emissions even though we realize that no-regrets measures have been nearly exhausted. All sectors: industry as well as

agriculture, energy producers, transportation, construction and private households.

What are we doing in the Netherlands? We have increased the tax on small scale energy consumption every year since its introduction in 1996. This tax has raised the gas and electricity prices paid by households and small businesses by about 50%. These increases have improved the market position of renewable energy considerably, since renewables are exempt from the tax. Further raises are planned in 2001. Large, energy consuming companies have entered into an official agreement with the government called the Benchmarking Protocol. They have committed themselves to becoming among the most energy efficient industries in the world by 2012, which will help limit the growth in CO<sub>2</sub> emissions. We also agreed that the benchmark – ‘who are the most efficient industries in the world?’ - will not be defined by industry themselves, nor by the government, but by the two together, assisted by independent experts, according to agreed procedures.

Presently, we are negotiating with the owners of the seven coal-fired power plants in the Netherlands, trying to reach agreement as to how they can modify their fuel inputs to reduce their CO<sub>2</sub> emissions by about 40%. The chemicals and aluminum industries have taken steps to reduce their emissions of various fluoride compounds. DuPont, for example, has installed an afterburner at one of its Dutch plants that will reduce HFC emissions by something on the order of 5 million tonnes of CO<sub>2</sub>-equivalents. This is significant when you consider that total HFC emissions

in the Netherlands only amounted to about six and a half million tonnes in 1995.

So we are encouraged by the business community's response to the threat of climate change, not only in the Netherlands but also worldwide. There is a growing recognition that development of low-emission technologies makes excellent business sense. Demand for these technologies will inevitably grow in a world trying to protect its climate. Here we have a situation where the "early bird will get the worm", or in this case, the market share.

It's not only a question of developing more efficient processes and technologies. The business community has also started to respond to the challenge of developing climate neutral energy carriers, energy carriers that do not emit CO<sub>2</sub> into the atmosphere. This includes renewables like solar, wind and water power. But also technologies which enable us to capture and store CO<sub>2</sub> released during the burning of fossil fuels. BP Amoco's NGCAS project (Next Generation CO<sub>2</sub> Capture and Geologic Sequestration), the flagship joint industry project to reduce the cost of CO<sub>2</sub> capture and storage in hydrocarbon reservoirs, is an example of the kind of creative thinking we need.

The other half of the CO<sub>2</sub> reduction target will be met with the help of the Kyoto mechanisms. We are reserving substantial and increasing amounts

of money in our budget from next year onwards. As a matter of fact we have already started with one of them: Joint Implementation.

European businesses are very interested in expanding their activities to Central and Eastern Europe. Joint Implementation offers an excellent opportunity for business investments in Central and Eastern European countries. Therefore we have introduced a tender procedure for buying emissions reductions. The Netherlands will buy emission reductions accruing from project activities in Central and Eastern European countries. The projects will be carried out by companies and must be approved by both the investing and the host country governments. The Netherlands government will buy reductions from those companies offering the lowest price per tonne and the highest feasibility. Since the Kyoto Protocol does not allow early crediting for JI, we aim to buy emission reductions that will accrue in the period 2008-2012. The first tendering procedure will start this summer.

We also aim at participating in the Prototype Carbon Fund of the Worldbank, which will support both CDM and JI projects. We have indeed already contributed to the Fund and we will augment this contribution.

### Political credibility

Let me conclude by stressing again the need to be fair, efficient and credible. I have tried to make clear that it is possible to meet all the three

criteria at the same time. Technically, it is possible. Will it also be politically possible? That depends on our willingness to cooperate rather than compete.

There is such a thing as political credibility. We should continue to negotiate, but we should understand that negotiations are not an aim in themselves. We negotiate to reach results. Ten years after Rio, the Kyoto Protocol has to be ratified. If not, industrial countries would not be credible in the eyes of poor countries. If not, we would miss a chance to establish conditions for a sustainable future for next generations: our children and grandchildren. If not, we are not credible towards our electorate and to ourselves. Nor would we be to the private sector. It is high time that we show that it does make sense to negotiate, that we mean business and that we are able to produce results, not stalemates, nor decisions to resume the talks later on, time and again. It is high time that we, governments, create an atmosphere of certainty within which markets can flourish, and establish transparent rules, fair and with staying power, so that investment responses will not meet undue risks resulting from arbitrary or discriminating political governance.

What is called for is a negotiation in which we are willing to give and take, applying flexibility based on a perception of mutual interests. Again: stick to the target, but be flexible and transparent on the policy measures. All countries should be fair and transparent in demonstrating how they are going to comply, in which way they will apply specific policies and

measures to reduce CO<sub>2</sub> emissions at home and abroad. All countries should help each other to do so credibly and effectively. Mutual interest indeed: for it is in my interest if my neighbor reaches the target, and vice versa. This requires confidence building and a willingness to stick together, all countries, including the USA.

Thank you