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**Climate Change: Emissions Trading
Proceeding on Two Tracks**

Governments still are trying to forge a consensus on the modalities for a trading system, while firms in the private sector have established pilot projects and begun to trade for early credit. Germany—speaking for the EU and supported by Austria, Denmark, France, and the UK—continues to press members states to accept a formula that ties emissions traded to domestic emissions cuts ton for ton.

— The UK position, however, is soft because Chancellor of the Exchequer Brown, in his budget last month, recognized emissions trading as a cost-effective way for energy-intensive firms in the UK to reduce emissions and earn credit for the “climate change levy” imposed by the budget, according to press reports.

— Finland, the Netherlands, and Sweden are balking at the German proposal because they need emissions trading to reach their national emissions targets,

Chinese and Indian diplomats continue to display antimarket biases in the climate debate, arguing in favor of government-to-government aid and technology transfers.

Private Sector Takes the Lead..

BP/AMOCO has been trading emissions allowances for seven months among its worldwide business units.

...But Looks for Assurance

As informal markets for emissions trading open ahead of a formal diplomatic accord, trading firms are looking for a signal from governments that they are on the right path. In addition to those from the UK, the strongest signals so far have come from the Norwegian legislature, which has encouraged Statoil to engage in emissions trading as an effective way to reach the national emissions target; British Columbia, which has created a pilot emissions trading program to reduce emissions; and New South Wales, which has expressed support for such trading.

— Australian and New Zealand

governments favor early trading by the private sector to encourage formation of a broad market with multiple firms supplying liquidity

Tokyo Struggling To Meet Emissions Reduction Targets

Japan's environmental policymakers have mapped out ambitious plans for meeting Japan's emissions reduction target in the year and a half since the Kyoto conference, but Tokyo is running into difficulties reducing industrial and business-related emissions, which make up 51.2 percent of the country's greenhouse gas emissions,

Leading Japanese business organizations are resisting Environmental Agency efforts to impose sector-specific targets that they say may hurt corporate competitiveness, according to press reports.

- Key politicians—including Obuchi.— have shown little interest in forcing businesses to take such steps at a time when the economy is still wobbly.

Most of the 37 international joint implementation projects the Trade Ministry drew up last year also appear to have run into problems. Moscow's financial difficulties have stalled 20 projects in Russia and an additional nine in China have yielded mixed results

Rethinking Nuclear Power

These setbacks are forcing environmental policymakers to rethink their approach and support new nuclear power plant construction—a move the Trade Ministry and business leaders argue would enable Japan to meet its domestic emissions targets without hurting industry. The Obuchi administration earlier this month approved a set of policies to promote emissions reduction that emphasize the need to win public support for nuclear energy.

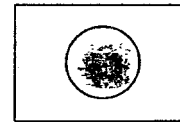
- The fiscal budget for this year includes \$52 million in incentives—including housing development and job creation measures—for localities where new nuclear plants would be constructed, according to press reports.

Tokyo nonetheless faces an uphill battle winning support for the new plants. Public resistance to nuclear plants has been rising in recent years in the wake of leaks at existing facilities.

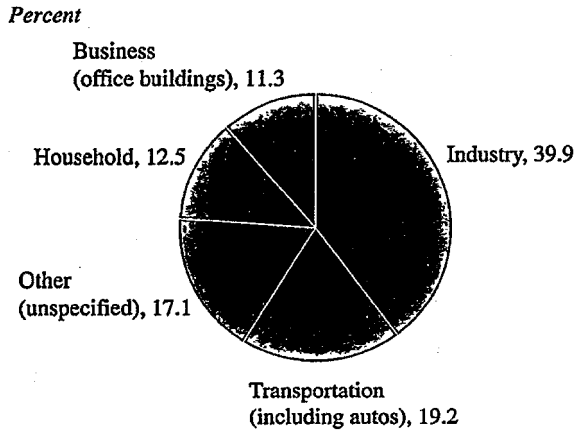
- A Japanese expert estimates such opposition will force Tokyo to drop plans for half of the 20 plants it wants to build in the next decade.

With unpromising prospects for domestic cuts and for Japan's initial joint implementation projects, Tokyo has few remaining options except emissions trading. As a result, Tokyo may be inclined to step up lobbying European governments to drop their resistance to US calls for unlimited emissions trading.

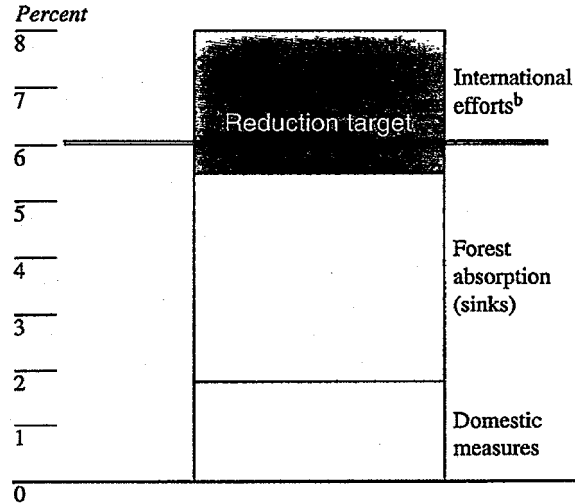
Japan: An Uphill Battle To Reduce Emissions



Sources of Emissions



Planned Sources of Emissions Reductions^a



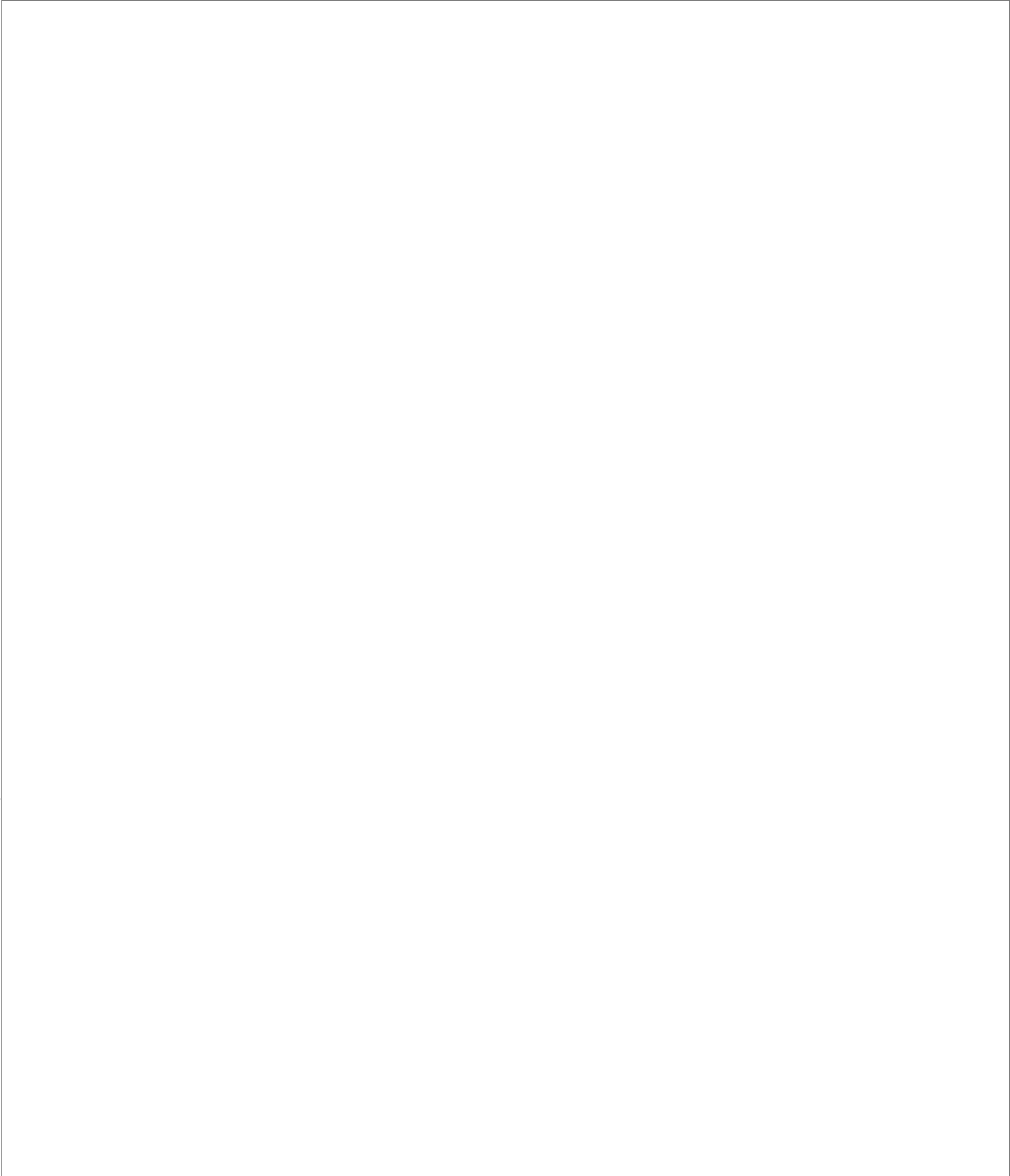
A number of obstacles are threatening Tokyo's carefully balanced strategy for meeting its emissions reduction target:

- Some commentators argue that industry has done so much to increase energy efficiency in the wake of successive energy crises that few additional gains can be made in this area. Moreover, when the Japanese economy recovers, transport and household emissions are projected to rise.
- Forested area has been shrinking by an average of 7 percent per year for the past decade, yet the Environment Agency anticipates that achieving even a 0.3-percent cut will require substantial additional reforestation—up to 47,400 acres per year.
- Japanese businesses have been reluctant to pursue clean development mechanism projects because of the disappointing results thus far for the initial joint implementation projects [redacted]

^aTokyo claims it will have to cut emissions an additional 2 percent over its 6-percent target to meet the cuts in three additional synthetic gases added to the Kyoto agreement.

^bFor example, emissions trading.

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China's Environmental Report Card

China fell short of its ambitious environmental objectives of last year. Beijing increased its environmental expenditures to 1 percent of GDP, but failed to meet the 1996-2000 Five-Year Plan target of 1.3 percent a year. China claims many infrastructure projects were delayed because of floods last summer, according to official Chinese press reports.

- Beijing claims to have approved 330 environment-related projects last year requiring a total investment of 107.6 billion yuan.

The most notable development of last year was Zhu's edict restricting logging—following last summer's floods—which has led forest rangers to handle more than 26,000 criminal cases last year, according to official Chinese press reports. An official Chinese press report claims that lumber prices have risen in northeast and central China suggesting some success.

- The State Forestry Administration projects domestic lumber production will decline 25 percent this year, with imports expected to make up for the shortfall.

Clean Air and Water

Official Chinese press reports indicate progress has been made to Beijing's air quality in advance of the 1 October celebration of the PRC's 50th anniversary. In addition, progress has been made cleaning up the Dian (Yunnan Province) and Tai (Jiangsu Province) Lakes and Huai River (Anhui and Jiangsu Provinces).

Chinese officials, however, admit that broader efforts to meet nationwide clean air and water standards are insufficient to meet year 2000 objectives, according to official Chinese press reports. Recently released data covering nine provinces indicate that, of all enterprises surveyed, only 46 percent met clean water and 53 percent met clean air emissions standards.

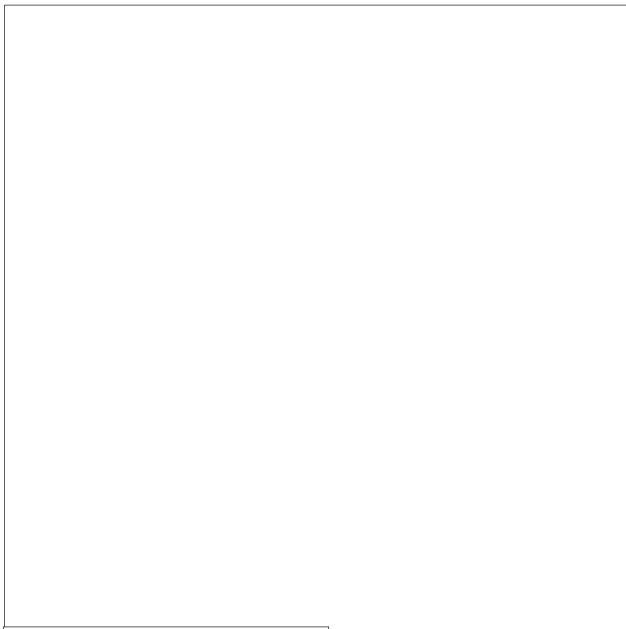
- Of the cities surveyed, less than one-fifth met water quality and less than one-third met clean air standards.
- Chinese officials admit little progress has been made controlling erosion and desertification.

Official Chinese press reports were generally upbeat about the 9 April US-China Environment and Development Forum. China's official news service quoted Vice President Gore as noting the US and China's "common interests" in the environment and urging the two sides to "exert themselves in this area." The news service also cited Zhu's statement that, since the first Forum in 1997, the two countries have enjoyed "positive and fruitful" cooperation.

Montreal Protocol Violations Continue

Recent seizures of illicit chlorofluorocarbons (CFCs) in Europe and the US indicate smugglers continue to profit by marketing ozone-depleting substances banned under the Montreal Protocol, which allows developing countries to produce CFCs until 2010 but bars them from exporting these substances to developed countries.

10,000 to 20,000 metric tons of CFCs enter the US each year.



smugglers can earn as much as \$600 million annually from buyers in Europe and the US. US Customs CFC enforcement activities since 1994 have resulted in more than 50 criminal convictions for violations under the Clear Air Act. Black-market CFCs cost the US Treasury more than \$50 million annually in lost excise tax revenue.

Stepping Up CFC Enforcement

EU member states—where many front companies trade in illegal CFCs—have increased joint enforcement efforts in response to pressure from chemical industries and law enforcement officials. Brussels early this year announced it will accelerate the phaseout of methyl bromide and HCFCs—two other ozone depleting substances—and has instituted a licensing and permit system to improve controls of legal recycled CFCs imported for onward shipping,



Canada in January announced new enforcement measures. It banned HCFCs for use where alternatives exist, instituted a new permit system to control exports of products containing CFCs, and banned the import of recycled CFCs.

Other New Initiatives

The Montreal Protocol's Multilateral Fund executive committee last month announced a \$150 million project to phase out CFC production at some 36 facilities in China during the next 11 years. The World Bank will be the implementing agency, and, if successful, the plan will ensure significant annual CFC reductions in China.

— The World Bank has a similar project under way in Russia

Jordanian Water Crisis Enduring [redacted]

Jordan's water crisis will worsen in the next two decades even as Amman moves to reform wasteful practices and develop new sources. Despite having the lowest per person consumption rate in the Middle East—100 liters per day—Jordan uses at least 882 million cubic meters (mcm) per year, some 230 mcm more than the renewable supply.

- The present crisis stems from dismal rainfall this year—60 percent below average—exacerbating the normal shortage by 100 mcm.
- Even with new projects and more efficient procedures, [redacted] foresee large shortfalls through 2020 [redacted]

To deal with the crisis this summer, Amman is counting on Israel to deliver 55 mcm under the terms of the 1994 peace agreement. In addition, [redacted] aid agencies are spending \$200 million to rebuild Amman's water network, which loses 50 percent of its water load through leakage and theft.

- Additional pumping from overexploited aquifers to meet minimum demand requirements will increase the chance that these resources will be permanently damaged by salt infiltration and rendered unusable [redacted]

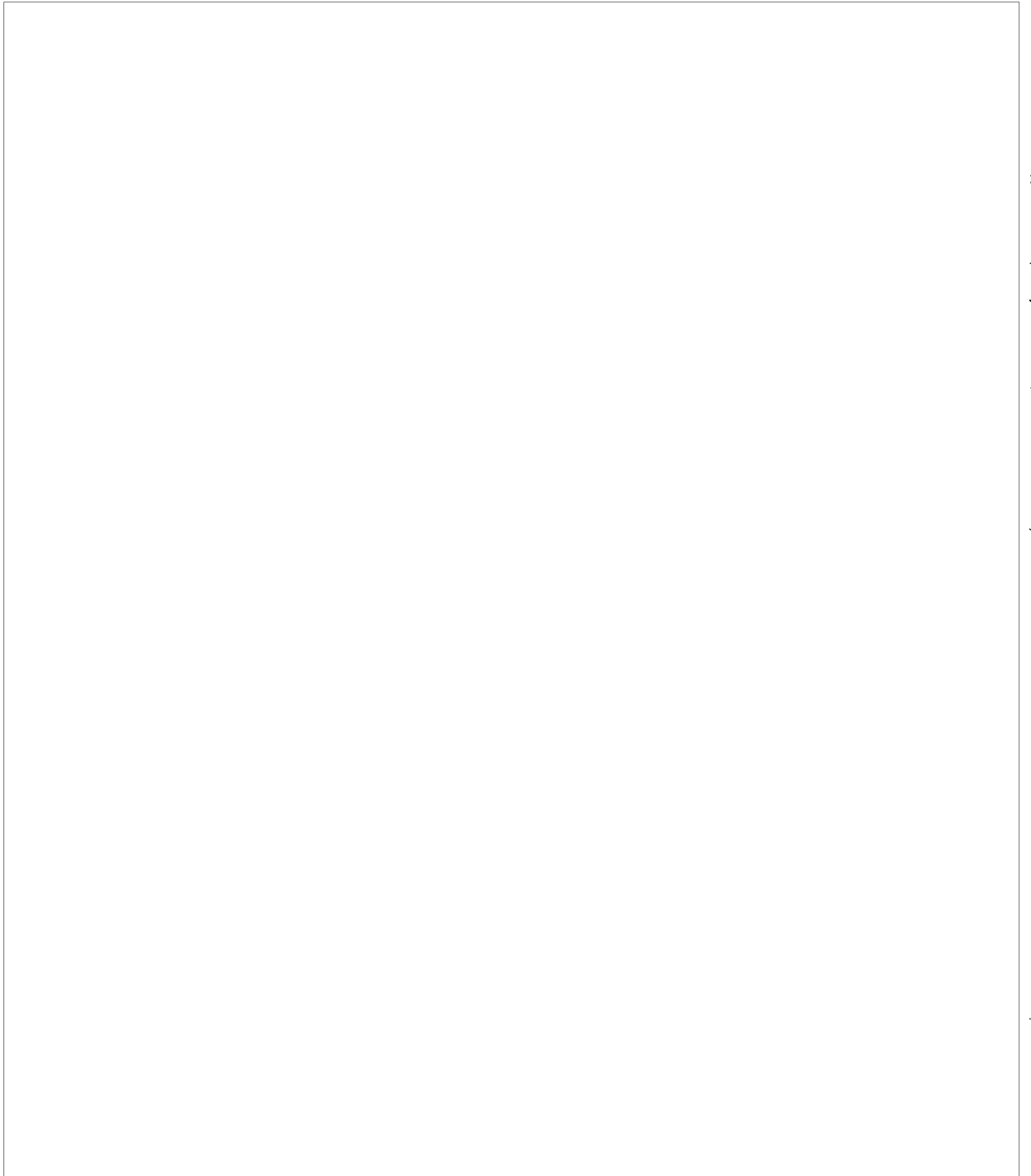
Jordanian and Israeli officials provided different interpretations of talks this month on Israel's commitment to provide Jordan with water. Amman maintains that Israel agreed to provide 43 mcm in the next several months while Israel insists that it only agreed to deliver 40 mcm. Israeli officials flatly reject the Jordanian assertion that Israel should make up the additional 12- to 15-mcm shortfall, as called for by the 1994 agreement. [redacted]

Short on Solutions [redacted]

Jordan's water shortfall will increase if it continues to devote the majority of its resources to agriculture, but if Jordan strictly limits agricultural allocations, improves its infrastructure, and develops new sources, supply shortages may stabilize at about 300 mcm per year in the long term. Such policy moves, however, would cause political and economic strain.

Desalination—a widely touted solution for the region's water woes—costs up to four times more than surface water, making it prohibitive for large agricultural uses. Academic experts estimate that if Jordan had a storage facility on the Yarmouk river—another option under consideration—it would have access to at least an additional 75 mcm of water.

- Many water experts point to regional water management projects as a better means of increasing supply. [redacted]



GMO Flap Rages On [redacted]

The international debate over trade in genetically modified organisms has become increasingly acrimonious since February, when negotiators failed to reach consensus on a biosafety protocol. "Designer genes" that enhance disease or chemical resistance are controversial because consumer and environmental groups in some countries fear that unregulated releases of GMOs could harm human health or the environment.

European Consumers Lead Protest [redacted]

The EU, which imports significant quantities of US corn and soybean, favors a cautious approach to GMO use in processed foods. Pressure from consumers is growing for strict labeling laws-

- The Commission's resignation in March will delay approval of a firm labeling policy, creating further uncertainty for US and European food processors.

Anti-GMO fever continues to turn violent in some countries, with protesters destroying test crops or vandalizing biotech firms. Seven Irish protesters this month were found guilty of damaging a crop of GMO sugar beets that a US firm owned.

EU Firms Explore Biotech Markets [redacted]

European biotech firms such as Germany's AgrEvo are investing heavily in the \$15 billion global GMO and hybrid seed sector, according to media reports, to avoid losing global market share in agricultural products—increasingly derived from transgenic seeds. A Swedish firm in 1994 supplied 70 percent of the rapeseed sold in the Canadian farm market now has only 20 percent of that market because new—mostly US—GMO varieties have become available.

- Swedish farmers have joined with German chemical giant BASF in a biotech venture, [redacted] and Sweden's leading breeder of grains and oil seeds planted several trial fields with GMO rapeseed and potatoes last year.
- A German firm is awaiting EU approval for its herbicide-resistant Liberty-Link corn being field-tested in Brazil, according to press reports.

Some non-EU countries are implementing their own GMO rules to address consumer concerns in the absence of an international biosafety protocol.

[redacted] Brazil, India, Malaysia, and South Africa are among those that have or plan to adopt rules to restrict GMOs.

The biosafety issue will not be resolved until at least May of next year when the Conference of Parties to the Convention on Biodiversity convenes. GMO restrictions also will be discussed in the WTO as unacceptable nontariff trade barriers [redacted]

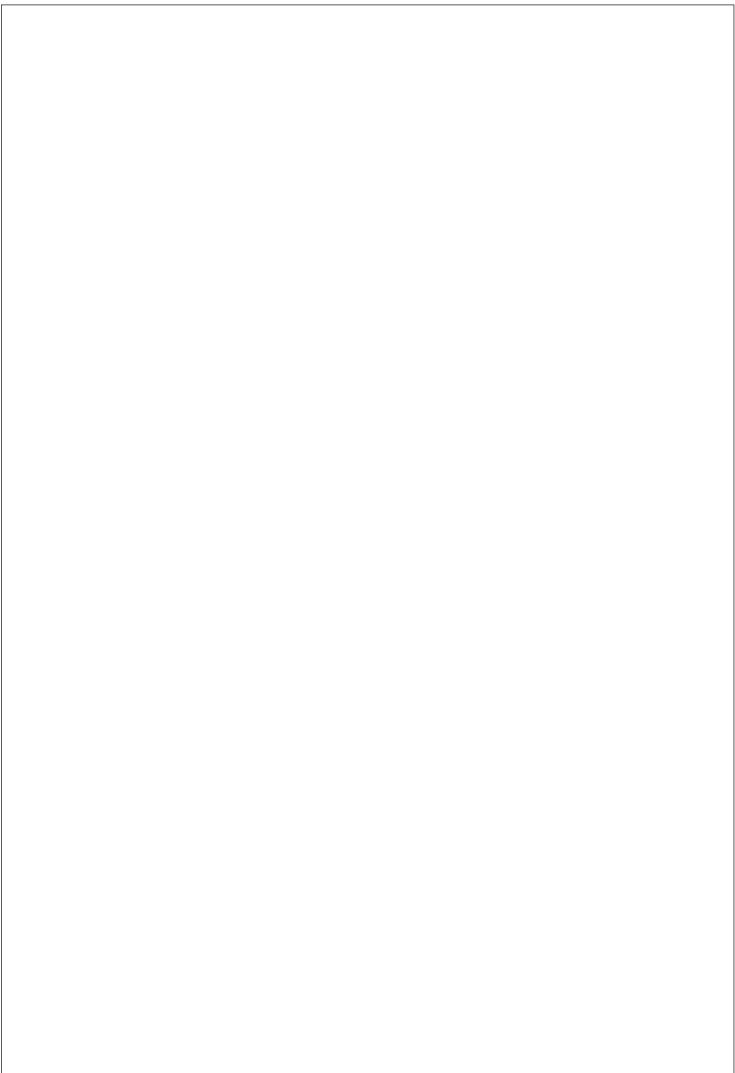
Amazon Deforestation Severely Underestimated [redacted]

More than twice as much forest in Brazil's Amazon is being destroyed each year than was previously estimated, according to scientists from Woods Hole Research Center. The new estimate accounts for isolated logging and forest fires, activity that previous studies have generally excluded.

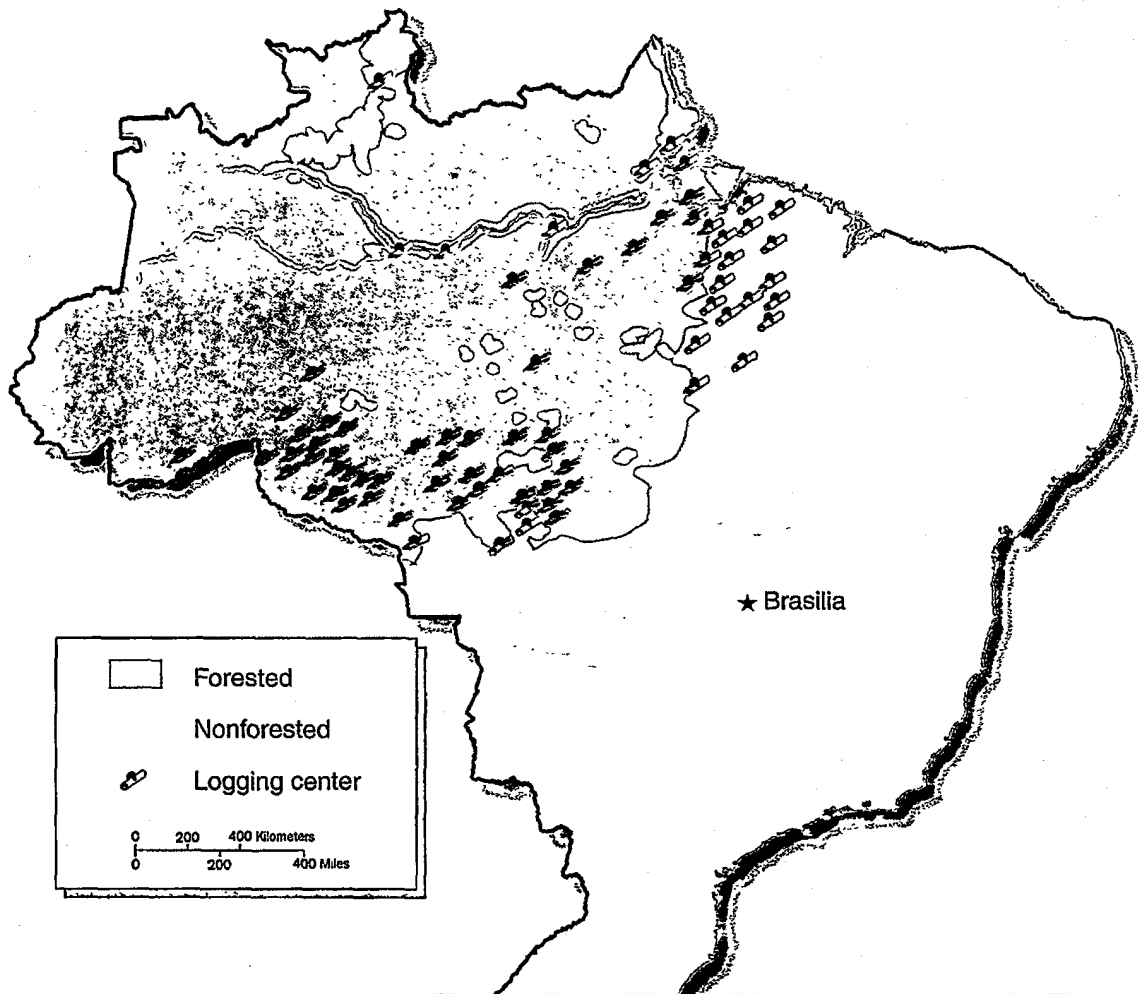
- Over the past three decades, logging by itself has been responsible for the loss of an area greater than the size of France.

In response to the findings, IBAMA—the Brazilian federal government agency in charge of environmental protection—has begun stepping up enforcement of a law that imposes stiff fines and jail sentences for pollution and deforestation. IBAMA inspectors last month identified the owners of 10 ranches where the most extreme deforestation occurred during the period 1997-98.

- None of the owners had applied for permission to clear the land. [redacted]



Brazil: Logging Centers Are Biggest Culprit in Amazon Deforestation



The 75 logging centers shown are responsible for more than 90 percent of Amazonian timber production. Deforestation committed at the centers is largely undetected by satellite imagery because their smaller scale land clearings can leave the protective canopy overhead largely intact. (*Nature* 4/8/99)

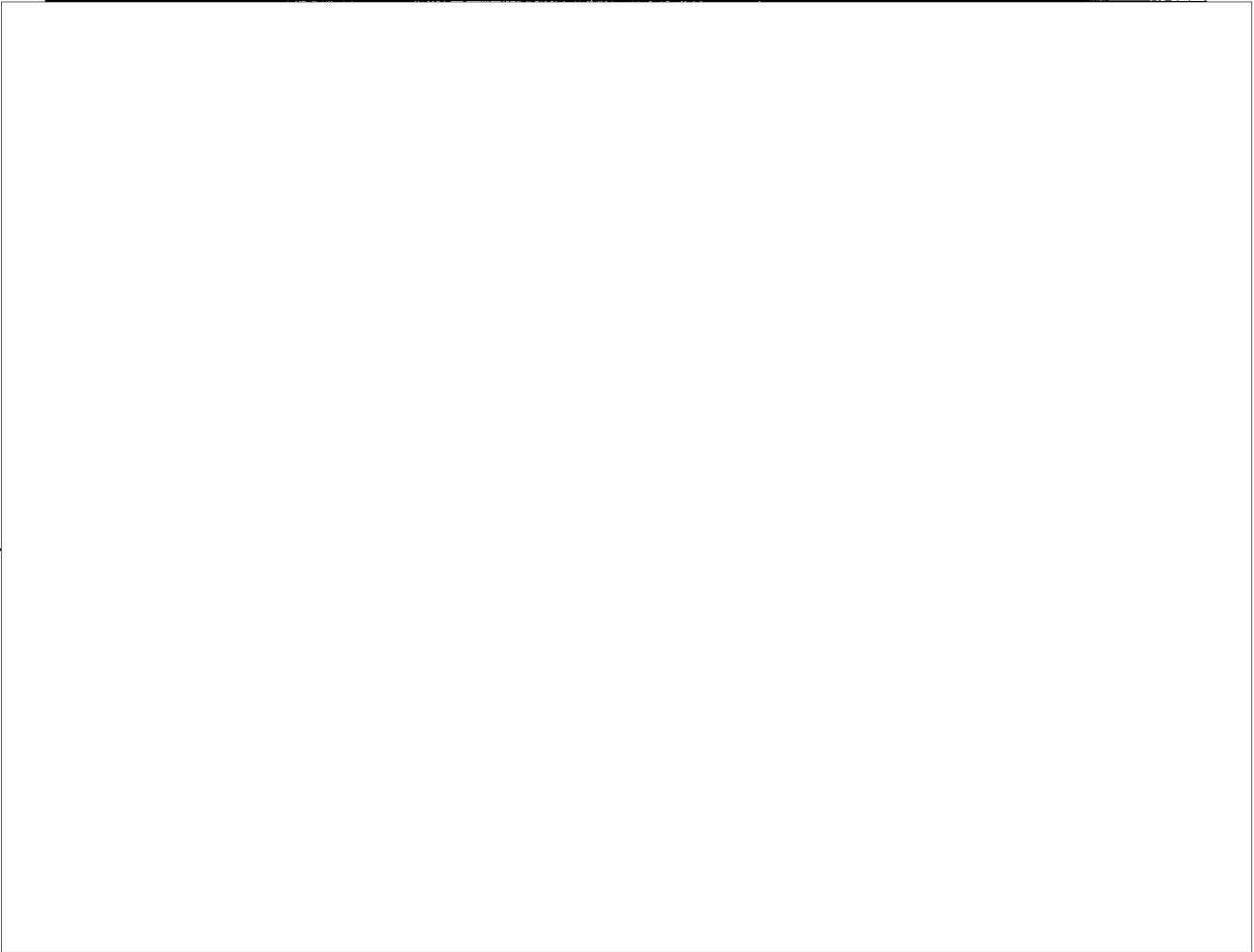
In 1998, Brazil exported 1.1 billion dollar's worth of raw timber to the US.

Source: Data taken from *Nature*, Volume 398, 8 April 1999.

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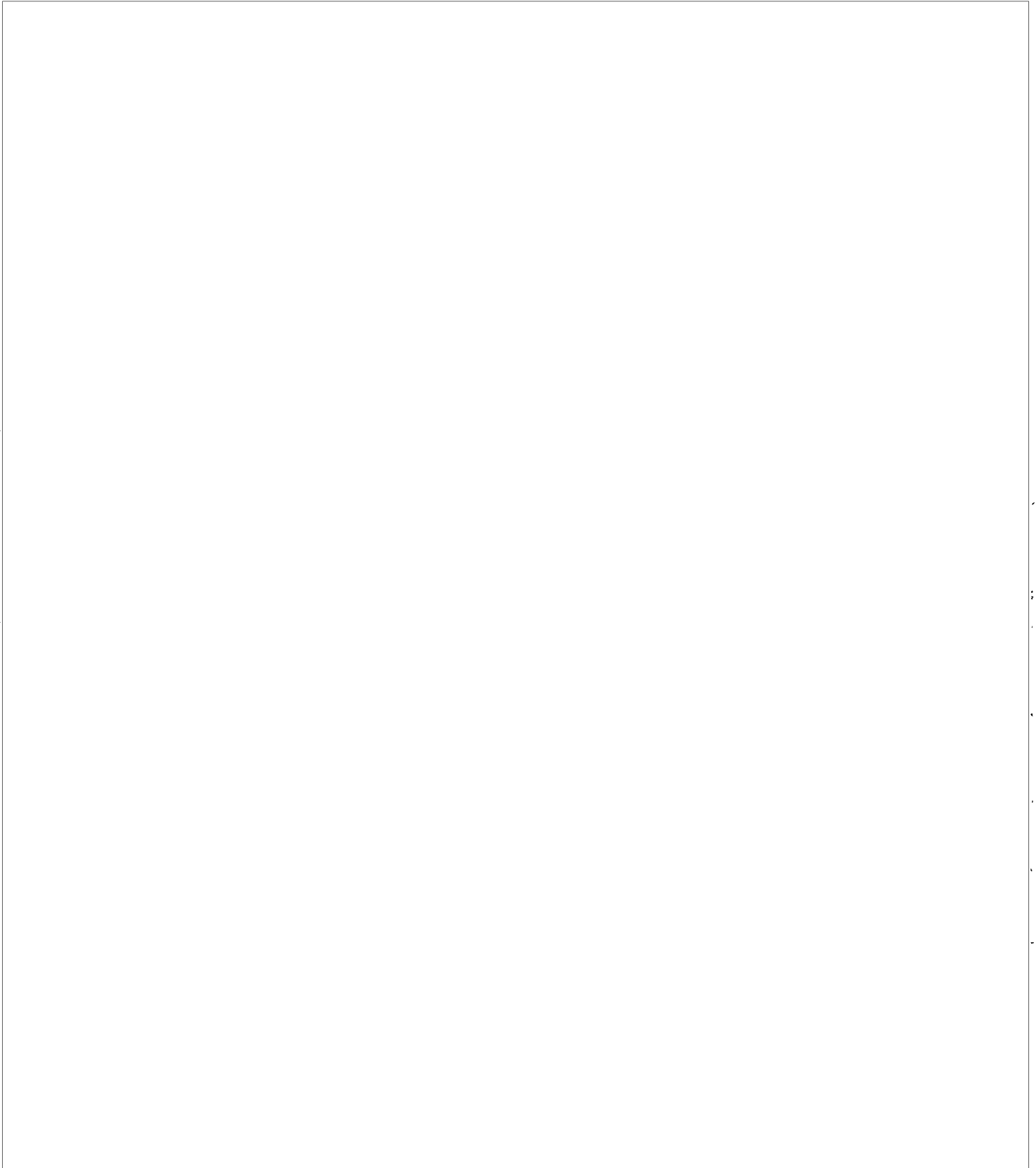
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In Brief



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Selected Environment-Related International Meetings

3-4 May	US-Brazil Common Agenda	Washington
3-14 May	Third Session of the Intergovernmental Forum on Forests	Geneva, Switzerland
10-18 May	Seventh Conference of Parties to the Ramsar Convention (Wetlands)	San Jose, California
24 May - 4 June	Twenty-third Antarctic Treaty Consultative Meeting	Lima, Peru
25-28 May	OSCE Economic Forum on Environmental Aspects of Security	Prague, Czech Republic
31 May - 2 June	ECOSUD 99-Second International Conference on Ecosystems and Sustainable Development	Lemnos, Greece
31 May - 11 June	Climate Change Convention Subsidiary Bodies Meeting	Bonn, Germany
July	Hemispheric Energy Ministerial: Clean Energy Initiatives	Washington
9-13 September	APEC Senior Officials Meeting	Auckland, New Zealand
4-8 October	Biodiversity Convention Expert Panel on Access and Benefit Sharing	TBD
25 October-5 November	Fifth Session of the Conference of Parties to the Climate Change Convention	Bonn, Germany
15-26 November	Third Session of the Conference of Parties to the UN Convention to Combat Desertification	Recife, Brazil
10-16 December	Sixth International Conference on Acid Rain Deposition: Acid Rain 2000	Tsukuba, Japan

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