

countries with energy intensive sectors. These Annex B nations will witness an increase in their terms of trade [price of their exports over their imports] and Annex A nations will witness escalating costs and decreased consumer welfare.

A perplexity in analyzing Kyoto is the exclusion of the Third World from emission targets, which in aggregate emits about the same level of CO<sub>2</sub> as the USA. Yet under Kyoto large polluters such as India or China do not have to reduce their CO<sub>2</sub> emissions. These two nations alone produce one half of US emissions per citizen, and by 2005 they will emit more in aggregate than the USA.<sup>753</sup> With lower GDP per capita than the US the developing countries and especially large polluters such as India and China will then suffer from high emissions and industrial inefficiency. Kyoto then from the standpoint of emissions reduction is fatally flawed. Such an omission can only lead one to believe that the entire project is centered around a redistribution of wealth from the North to the South and the slow but sure policy of infringing national sovereignty through UNO accords.

To help overcome such criticisms and minimize energy rich and developed countries' costs, and stabilize trade flows, the Kyoto protocol allows for CDM [Clean Development Mechanism], emissions trading and the use of carbon sink credits. The CDM basically allows nations to target projects which use renewable energy sources and the replace of oil and coal burning plants and investments. CDM projects would allow countries to claim these as credits against their renewable resource emissions of CO<sub>2</sub> and Methane and thereby reduce costs. It might also foster government procurement programs to militate against non-CDM based technologies and investments [thereby violating the subsidies agreement under the WTO]. Kyoto is unclear about how to implement CDM in practice or account for its investments against CO<sub>2</sub> emissions.<sup>754</sup> Furthermore while CDM theory might sound enticing in the world of models and credits most analysts feel that such a program will be burdened by taxes and administration costs imposing a net burden on hosting countries. Such projects will not be cost effective nor produce the energy needed for their populations. As well the CDM does not create a level playing

field because it does not increase the cost of energy in non Annex B countries and only in Annex B countries.

Kyoto also allows rich and energy intensive countries to buy emissions credits from countries in surplus to reduce their deficits. They can also buy emission reduction units by financing or directly transferring money to surplus nations [like paying a fine]. The emissions credit system is entirely new in international policy.<sup>755</sup> Most likely this scheme would fall under the General Agreement on Trade in Services [GATS]. In this case, the crucial question is related to the types of activities that are related to emissions trade services to which the GATS would apply. There could be many. In essence all services related to emissions trading would fall under GATS such as; brokerage services, derivative services, consultancy, accounting and any services connected to trading credits. Kyoto is unclear how emissions credits would be determined, accounted, monitored, and how disputes would be resolved.<sup>756</sup>

A serious problem with both the CDM and emissions plans is that measuring CO<sub>2</sub> is largely guesswork. Kyoto does not stipulate a rigorous accounting mechanism of counting CO<sub>2</sub> and Methane emissions. The uncertainty in accounting standards for CO<sub>2</sub> emissions is vital to resolve to determine whether countries violate their emissions level. According to the OECD, the guidelines for national communications and accounting of GHGs are too vague. Nor is there any agreement on how to account for emissions trading, sinks and CDM projects against Kyoto targets. For example under Kyoto, countries can factor in the creation of carbon sinks such as forests into their emissions estimates.<sup>757</sup> Yet there is no agreement about how to calculate such sinks. Such vague ideals will ensure that the costs of auditing will be high and the chances to catch violators low. It also ensures that nation states will 'fudge' the numbers to appear to make Kyoto emission targets as they fabricate elaborate accounting schemes to prove their compliance.

As Kyoto is implemented a lot of work needs to be done to reconcile the WTO and Kyoto documents, which requires involving economic and trade ministers as well as their environmental counterparts. The former individuals tend to possess an awareness