



INTERNATIONAL COUNCIL  
FOR CAPITAL FORMATION

---

---

## **Kyoto Protocol and Beyond: The Economic Cost to Spain**

**2005**

---

**Park Leopold, Rue Wiertz 50/28  
B-1050 Brussels, Belgium  
[www.iccfglobal.org](http://www.iccfglobal.org)  
Phone +32.2.401.68.44  
Fax: +32.2.401.68.68**

# **FOREWORD**

---

*Scope*

This study assesses the economic cost of reducing carbon dioxide emissions through the mechanisms of the current emissions trading system for the industrial sector as well as economy wide taxes or fees on energy use including the household and transportation sectors. While the Kyoto Protocol established limits for participating countries' emissions from six greenhouse gases, for this analysis it is assumed that the other gases meet the target reductions each year, but provide no offset to the reductions required from the energy sector. Additionally, the costs of reducing the other gases are not included here.

*Sponsor*

This study was prepared for the International Council for Capital Formation although the views expressed are strictly those of the authors.

*Contributors*

This study was prepared under the direction of Mary H. Novak, Managing Director, Energy Services. Junya Tanizaki, Senior Economist, and Raj Badiani, Senior Economist, were principal contributors.

## **TABLE OF CONTENTS**

---

<b>EXECUTIVE SUMMARY.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>4</b>
STUDY GOALS AND DESIGN.....	4
<b>IMPLICATIONS OF THE PROPOSED LIMITS ON SPAIN'S GREENHOUSE GAS EMISSIONS .....</b>	<b>5</b>
<b>STUDY RESULTS.....</b>	<b>9</b>
MECHANISMS FOR ACHIEVING THE REQUIRED CARBON EMISSION REDUCTIONS.....	9
THE ALLOWANCE PRICES THAT ACHIEVE THE REDUCTION .....	9
IMPACT ON DELIVERED PRICES TO HOUSEHOLDS AND INDUSTRY .....	12
IMPACT ON ENERGY CONSUMPTION .....	12
ECONOMIC IMPACTS .....	14
<b>APPENDIX A: SUMMARY OF THE KYOTO PROTOCOL .....</b>	<b>17</b>
<b>APPENDIX B: GLOBAL INSIGHT'S OUTLOOK FOR SPAIN .....</b>	<b>19</b>

## **Executive Summary**

---

The Kyoto Protocol entered into force as an international treaty for those countries that had ratified it on February 16, 2005. Of the Annex B countries that ratified the Kyoto Protocol, only a few have begun implementing measures necessary to limit their greenhouse gas emissions to their Annex B obligations. As a result, most of the Annex B economies are experiencing rising greenhouse gas emissions. To the extent that initial measures and incentives have been implemented, they have been relatively ineffective and it is highly likely that in the absence of significantly more onerous measures the Annex B countries will exceed their emission targets.

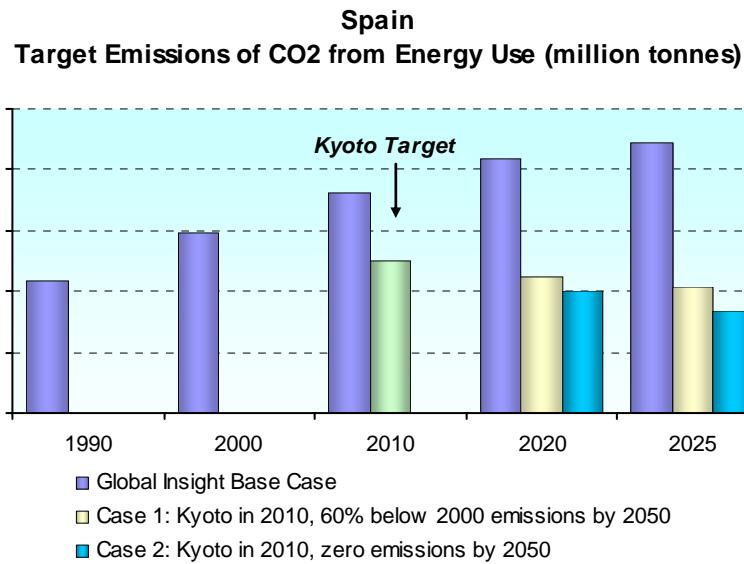
While the prospects for meeting the emission limits established for the first budget period appear doubtful, discussion of tightened emission limits for subsequent periods has begun. Recent proposals under consideration and analyzed here are:

**Case 1:** Current commitment under the Kyoto Protocol through the first period (2008-2012) and a target level of 60% below year 2000 levels of CO<sub>2</sub> emissions by 2050, achieved via a continuous annual reduction per year beyond the first Kyoto commitment period. (For Spain, this results in a target emission rate of 95% of 1990 levels in 2025--or 5% below 1990 levels.)

**Case 2:** Current commitment under the Kyoto Protocol through the first period (2008-2012) and a target level of zero CO<sub>2</sub> emissions by 2050 achieved via a continuous annual reduction beyond the first Kyoto commitment period. (For Spain, this results in a target emission rate of 78% of 1990 levels in 2025--or 22% below 1990 levels.)

### **Exhibit 1.**

---



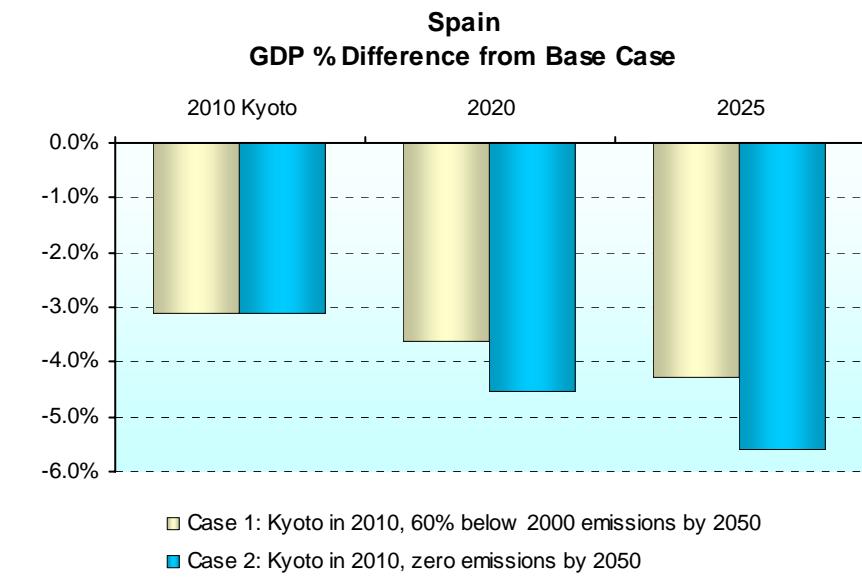
Implementing limits on carbon dioxide emissions would dramatically increase delivered prices of energy to consumers and businesses, even with the availability of international credits. In 2010, international credits account for about 80% of Spain's emission reduction requirement, and:

- the price of home heating oil would rise by more than 32%.
- gasoline and diesel prices would be 11% and 14% higher, respectively, than the baseline estimates.
- industry would pay nearly 42% more for its natural gas, and electricity prices would be nearly 24% above the baseline estimate.

By 2025, if one of the more stringent targets were implemented, consumers and businesses will be subjected to even higher energy prices.

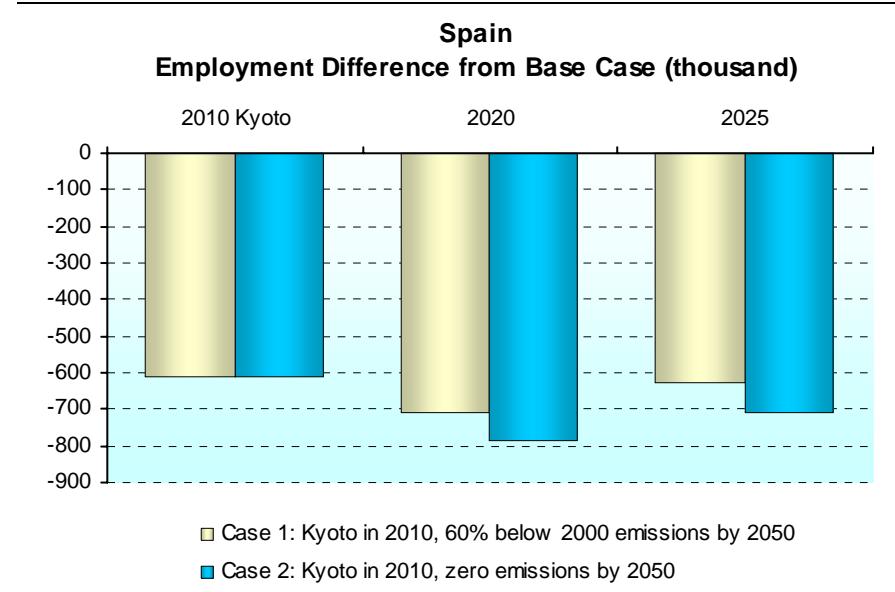
The economy will suffer from a loss of output as real GDP shrinks 3.1% (26 billion Euros) below base case levels during the 2008-12 budget period. In 2025, real GDP would be 4.3-5.6% (48 to 63 billion Euros) below the baseline level depending on whether Case 1 or Case 2 has to be achieved.

#### *Exhibit 2.*



Annual job losses are projected to be 611,000 in 2010. By 2025, job losses will be 626,000 under the proposal for Case 1 or 708,000 if the Case 2 proposal were implemented.

*Exhibit 3.*



# **Introduction**

---

The Kyoto Protocol entered into force as an international treaty for those countries that had ratified it on February 16, 2005. Of the Annex B countries that ratified the Kyoto Protocol, only a few have begun implementing measures necessary to limit their greenhouse gas emissions to their Annex B obligations. As a result, most of the Annex B economies are experiencing rising greenhouse gas emissions. To the extent that initial measures and incentives have been implemented, they have been relatively ineffective and it is highly likely that in the absence of significantly more onerous measures the Annex B countries will exceed their emission targets.

While the prospects for meeting the emission limits established for the first budget period appear doubtful, discussion of tightened emission limits for subsequent periods has begun. Recent proposals under consideration and analyzed here are:

**Case 1:** Current commitment under the Kyoto Protocol through the first period (2008-2012) and a target level of 60% below year 2000 levels of CO<sub>2</sub> emissions by 2050, achieved via a continuous annual reduction per year beyond the first Kyoto commitment period. (For Spain, this results in a target emission rate of 95% of 1990 levels in 2025--or 5% below 1990 levels.)

**Case 2:** Current commitment under the Kyoto Protocol through the first period (2008-2012) and a target level of zero CO<sub>2</sub> emissions by 2050 achieved via a continuous annual reduction beyond the first Kyoto commitment period. (For Spain, this results in a target emission rate of 78% of 1990 levels in 2025--or 22% below 1990 levels.)

## **Study Goals and Design**

**Targets and Timetable:** The goal of this study is to assess the economic cost of meeting carbon emissions limits established for Spain under the Kyoto Protocol and under two proposals for reducing carbon emissions after 2012. While the Kyoto Protocol established limits for participating countries' emissions from six greenhouse gases, for this analysis it is assumed that non-CO<sub>2</sub> emissions meet the target reductions each year, but provide no offset to the reductions required from the energy sector. The costs of meeting the non-CO<sub>2</sub> emission caps are not included in this analysis.

*For this analysis, the US and Japan are assumed not to participate. Non-Annex B countries do not participate.*

*International trading has been included in this analysis.*

**Participation:** Only the Annex B countries that have announced their intention to meet the targets and timetables of the Kyoto Protocol are assumed to participate. The U.S. has announced that it would not participate, and Japan has announced its intention to rely on voluntary measures to meet its commitment.

**Implementation:** For this study, Global Insight has assumed an international carbon dioxide trading mechanism is established. Such a system, which has not yet been developed, would be much broader and inclusive than the current emission trading system operating in the European Union. The study assumes that companies may purchase emission credits in the international market for the portion of carbon reduction not met through domestic actions. Credits from sinks, JI, or CDM are implicitly included, but not explicitly modeled, in this analysis which uses an international CO<sub>2</sub> permit price for EU countries consistent with that in the International Energy Outlook 2005 "Kyoto Case" analysis by the U.S. Energy Information Administration.

## ***Implications of the Proposed Limits on Spain's Greenhouse Gas Emissions***

---

The ratification and implementation of the Kyoto Protocol would have a significant impact on the economic performance of Spain. The carbon dioxide emission reductions for the first period (2008-2012) are significant, and the reductions required to meet either of the proposed emission caps for the second period (2013-2017) and beyond are daunting.

The targets established under the Kyoto Protocol as well as even more stringent restrictions will be difficult to achieve as economic output grows. Growing population, at least through 2020, will also add to the difficulty of reducing emissions.

***Exhibit 4: Outlook for Spain***

	1990	2000	2010	2020	2025
Population (million persons)	39.3	40.8	42.2	42.6	42.8
% change from 2000			3.5%	4.6%	5.1%
Real GDP (billions of 2000 €)	483	630	832	1,023	1,128
% change from 2000			32.1%	62.4%	79.0%
Energy Consumption (million toe)	94.5	129.7	161.1	186.5	200.1
% change from 2000			24.2%	43.8%	54.3%
CO <sub>2</sub> Emissions * (million tonnes)	218	296	361	417	444
% change from 2000			21.9%	40.8%	49.8%
CO <sub>2</sub> /Energy (tonnes/toe)	2.31	2.28	2.24	2.24	2.22
% change from 2000			-1.9%	-2.1%	-3.0%
CO <sub>2</sub> /Real GDP (tonnes/thousand €)	0.45	0.47	0.43	0.41	0.39
% change from 2000			-7.7%	-13.3%	-16.3%

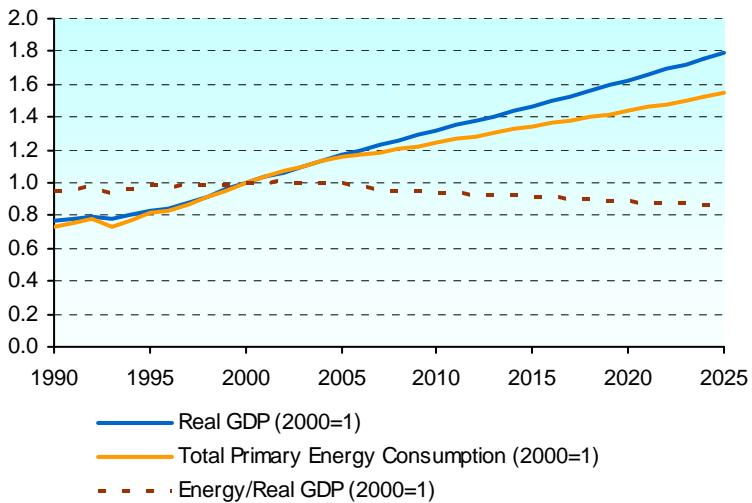
\* from energy use

The outlook for Spain's energy use and CO<sub>2</sub> emissions is driven by the outlook for economic growth. Compared to 2000, real GDP in Spain is expected to increase 32% by 2010 and 79% by 2025 compared to 2000. The base case projection assumes continued energy efficiency efforts and structural change in the Spanish economy, which leads to smaller increases in energy consumption. However, energy use is still projected to increase 24% in 2010 and 54% in 2025 above 2000 levels in the baseline forecast. Due to continuing substitution away from coal and an increased reliance on renewable sources of energy, carbon dioxide emissions are projected to grow at a slower pace than energy use. Spain's carbon intensity (carbon emissions per euro of real GDP) is projected to improve 16% by 2025, after strong growth in electricity consumption leads to a higher intensity this decade.

### **Exhibit 5.**

Rising population and economic performance will offset the improvement in energy consumption per real GDP – leading to more fossil fuel use.

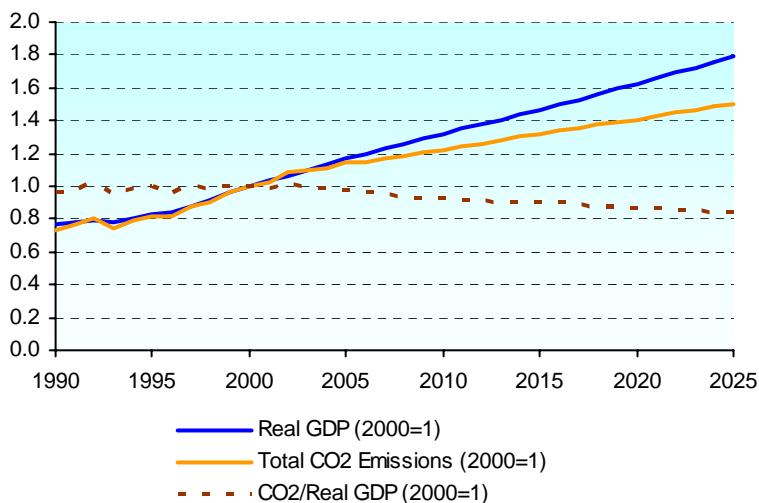
**Spain**  
**GDP, Energy Consumption, and Intensity**



### **Exhibit 6.**

Falling CO<sub>2</sub> intensity (CO<sub>2</sub>/Real GDP) is offset by rising population and economic growth – leading to increased CO<sub>2</sub> emissions.

**Spain**  
**GDP, CO<sub>2</sub> Emissions, and Intensity**



In this study, we examined the economic and energy sector impacts of the Kyoto Protocol target and two proposals for further reductions during the post-2012 period. The table below shows the target emission levels for carbon dioxide emissions from the energy sector relative to 1990 emissions.

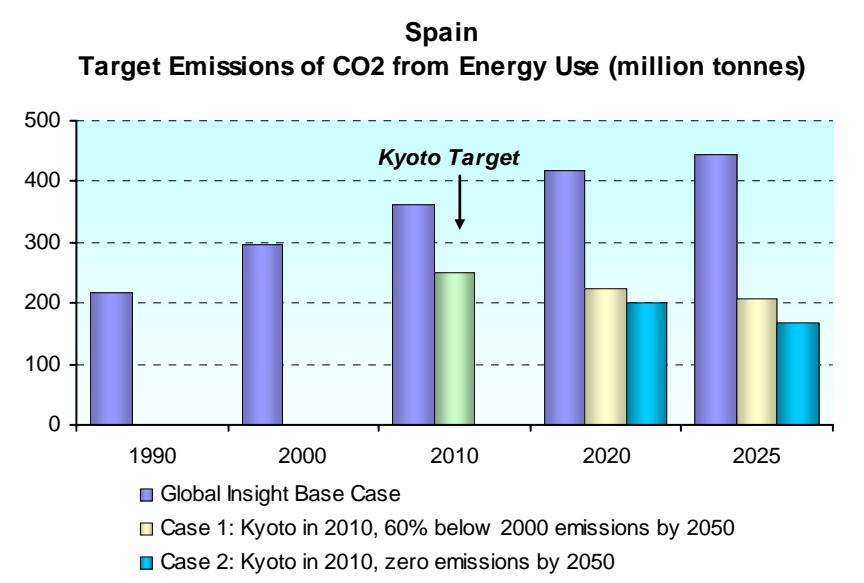
***Exhibit 7.***  
***Target Emissions of Carbon Dioxide from the Energy Sector  
relative to 1990 emission levels***

Spain	2010	2020	2025
Case 1: Kyoto Protocol plus achieve 60% below 2000 emissions in 2050	1.15 * 1990	1.029 * 1990	0.953 * 1990
Case 2: Kyoto Protocol plus achieve zero emissions in 2050	1.15 * 1990	0.920 * 1990	0.776 * 1990

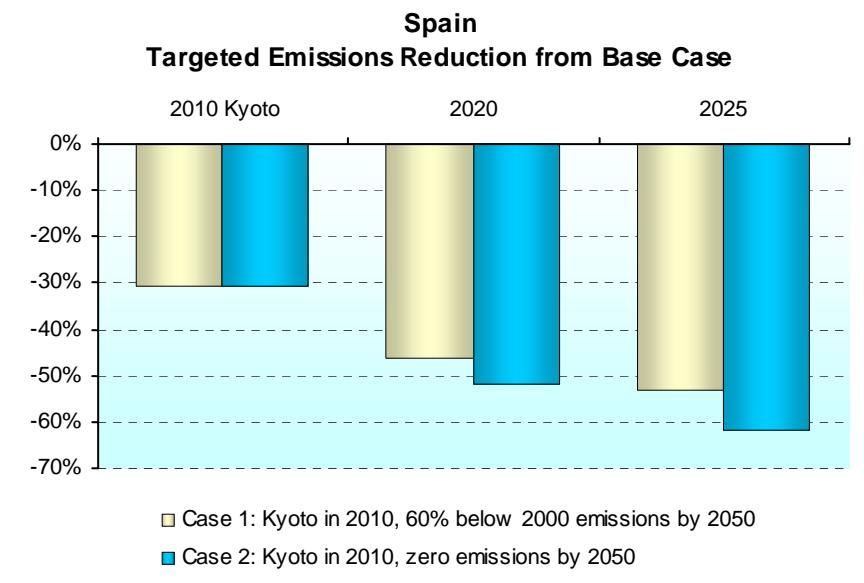
Carbon dioxide emissions from the Spain's energy sector under the Kyoto Protocol commitment are required to be 31% below Global Insight's baseline assessment. If tighter emission levels are implemented after 2012, Spain's target carbon dioxide emissions would be 53%-62% lower than the baseline projection.

<b><i>Exhibit 8.</i></b> <b><i>CO<sub>2</sub> Emissions for Spain (million tonnes)</i></b>					
	1990	2000	2010	2020	2025
<b>Baseline Emissions</b>	218	296	361	417	444
<b>Target Emissions</b>					
Case 1: Kyoto + Post-2012 (60% below 2000 in 2050)	251	224	208		
Case 2: Kyoto + Post-2012 (zero in 2050)	251	201	169		
<b>Difference from Baseline</b>					
Case 1: Kyoto + Post-2012 (60% below 2000 in 2050)	-110	-193	-236		
Case 2: Kyoto + Post-2012 (zero in 2050)	-110	-216	-274		
<b>Percent Difference from Baseline</b>					
Case 1: Kyoto + Post-2012 (60% below 2000 in 2050)	-31%	-46%	-53%		
Case 2: Kyoto + Post-2012 (zero in 2050)	-31%	-52%	-62%		

**Exhibit 9.**



**Exhibit 10.**



## **Study Results**

---

### **Mechanisms for Achieving the Required Carbon Emission Reductions**

For Spain to achieve its targeted reductions in carbon emissions would require a dramatic reduction from currently projected levels of energy consumption. As there is no cost-effective technology currently available to capture CO<sub>2</sub> emissions, domestic actions to achieve a reduction in carbon emissions from the energy sector over the next few decades fall into three broad categories:

- **substituting non-carbon-emitting fuels for fossil fuel use:** Some emission reductions could be achieved through the increased use of nuclear or renewable energy in the generation of electricity. For this analysis, no changes were made to the nuclear assumptions included in the baseline analysis. Under a carbon emission limits policy, other renewable energy technologies would be steadily more economically attractive. However, significant investment in renewables is underway and incorporated in the Global Insight base case. The next tranche of renewables would likely be developed after 2020.
- **substituting lower emitting fuels for higher emitting fuels:** Switching from fossil fuels with higher carbon emission rates (i.e., coal and petroleum) to those with lower emission rates (i.e., natural gas) can provide some of the reductions needed to reach a target. However, the potential is limited over the next ten to twenty years due to the increasing reliance on lower carbon fuels that is already included in the baseline analysis. Further, the prospect of steady reductions in carbon emissions assumed under for the post-2012 period reduces the incentive for large infrastructure developments needed to expand gas use dramatically.
- **using less energy:** Achieving a carbon emission target through reductions in energy use would require cutting energy use by nearly the same amount as the desired change in carbon emissions from the baseline. To the extent that some of the reductions would be obtained with the two previous options, the necessary reduction in energy use would be less. As these options are not expected to provide substantial relief from the target reductions under the Kyoto Protocol, to achieve this reduction, some form of intervention in the market (such as a fee or tradable permit) would be required. Once in place, energy use would be curtailed through four mechanisms:
  1. investment in energy efficient capital
  2. investment in process change
  3. reduction in purchases of energy and electricity by businesses and consumers
  4. leakage of industry to other countries.

### **The Allowance Prices that Achieve the Reduction**

As the opportunity for meeting the Kyoto Protocol target emission reductions of CO<sub>2</sub> from energy use through substitution of non-carbon energy sources or low-carbon energy sources is limited, reducing energy consumption would require

large changes in energy prices and/or purchases of international credits. For this analysis, we have assumed that the price of international credits would, in 2010, start at \$48 per metric ton of carbon dioxide (in 2004 dollars), and rise to \$64 per metric ton (in 2004 dollars) by 2025. This assumption is based on the assessment of the international credit price under the Kyoto Protocol published in the International Energy Outlook 2005 "Kyoto Case" analysis by the U.S. Energy Information Administration.

As a result of this assumption, participating companies would take actions to reduce emissions that are economic up to the price of the international credit price. If they required further allowances, they would purchase them in the international credit market.

For Spain, the allowance price that would be necessary to fully meet their Kyoto target in 2010 through domestic actions would exceed the assumed price for international credits. Thus, Spanish companies would meet 20% of their commitment through domestic actions and purchase international credits for the remaining 80%.

The total market value of CO<sub>2</sub> emission allowances in Spain would be more than 13 billion Euros (2004 €) in 2010, rising to more than 21 billion Euros in 2025 under Cases 1 and 2. In 2010, the market value of CO<sub>2</sub> emission credits purchased on the international market would be 3.4 billion Euros (2004 €), rising to between 9.9 billion and 12.0 billion Euros in 2025 under Cases 1 and 2.

***Exhibit 11:***  
***Impact on Spain of Meeting the Kyoto Commitment in 2008-2012***  
***and Meeting Alternative Targets for the post-2012 period***

---

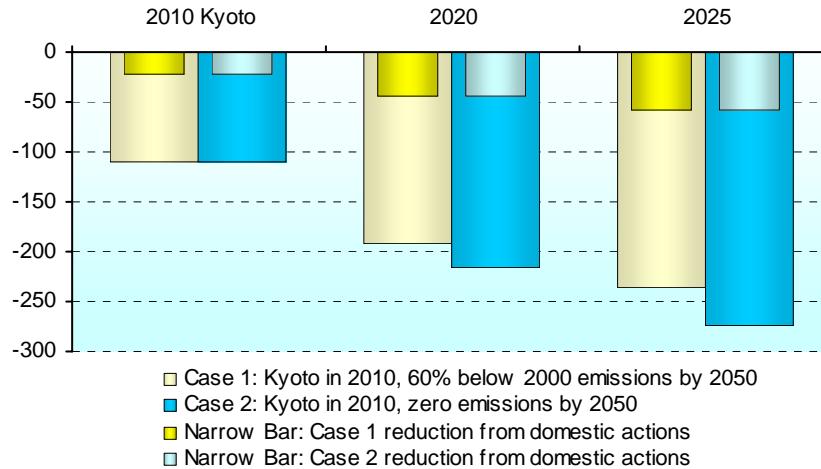
	<b>2010</b>	<b>2020</b>		<b>2025</b>	
	Kyoto: 15% above 1990 emissions	Case 1: 60% below 2000 emissions	Case 2: Zero emissions by 2050	Case 1: 60% below 2000 emissions	Case 2: Zero emissions by 2050
	<b>1.15 * 1990</b>	<b>1.03 * 1990</b>	<b>.92 * 1990</b>	<b>.95 * 1990</b>	<b>.78 * 1990</b>
<b><i>Int'l Credits Price (2004 €/tonne of CO<sub>2</sub>)</i></b>	€39	€50	€50	€55	€55
<b><i>Int'l Credits Price (2004 US\$/tonne of CO<sub>2</sub>)</i></b>	\$48	\$59	\$59	\$64	\$64
<b><i>Target Reduction from Base Case (%)</i></b>	30.5%	46.2%	51.9%	53.2%	61.8%
<b><i>Target Reduction of Emissions *</i></b>	110.3	192.8	216.5	235.9	274.4
<b><i>Reduction from Domestic Actions *</i></b>	21.7	44.8	44.8	57.9	57.9
<b><i>Purchased International Credits *</i></b>	88.5	147.9	171.6	178.0	216.5
<b><i>% Reduction from Domestic Actions</i></b>	20%	23%	21%	25%	21%
<b><i>Value of Purchased Intl. Credit (million 2004 €)</i></b>	3,411	7,329	8,503	9,865	11,999
<b><i>Impact on Delivered Prices (% increase)</i></b>					
Motor Gasoline, pump price	10.7%	13.4%	13.4%	14.7%	14.7%
Diesel, pump price	14.1%	17.6%	17.6%	19.3%	19.3%
Home Heating Oil	32.3%	40.6%	40.6%	44.3%	44.3%
Natural Gas, Industry Sector	41.9%	51.0%	51.0%	55.9%	55.9%
Electricity, Industry Sector	23.4%	26.5%	26.5%	26.2%	26.2%
<b><i>Impact on Economic Performance</i></b>					
Real GDP (% decline)	-3.1%	-3.6%	-4.5%	-4.3%	-5.6%
Real GDP (billions of real €)	-25.8	-37.1	-46.5	-48.4	-63.3
Employment (level decline, thousands)	-611	-710	-785	-626	-708

\* unit: million tonnes of CO<sub>2</sub>

---

### **Exhibit 12.**

#### **Spain** **Targeted Reduction and Reduction from Domestic Actions** **(million tonnes of CO<sub>2</sub>)**



### ***Impact on Delivered Prices to Households and Industry***

Meeting the Kyoto Protocol target in 2008-2012 through a combination of domestic actions plus purchases of international credits would increase the price of home heating oil by more than 32%. Consumers would also pay more for gasoline and diesel.

If the Spain participates in the Kyoto Protocol's economy-wide emission reduction program, prices for industry would rise dramatically. Spanish industries would pay more than 42% more for natural gas and 24% more for electricity than under the baseline projection.

Under the assumption that the Kyoto Protocol's emission targets are made even more stringent in the post-2012 period, the impact on household heating oil prices would rise to more than 43% above the baseline estimate by 2025. Gasoline and diesel prices would rise substantially, between 15-19% by 2025.

### ***Impact on Energy Consumption***

In general, the percentage reduction in energy demand would not need to be as large as the required percentage reduction in carbon emissions because not all BTus of energy have the same carbon content. Additionally, purchase of international CO<sub>2</sub> credits means that foreign CO<sub>2</sub> reductions lessen the need for domestic reductions, thereby avoiding some domestic reductions in energy used. However, use of international credits does have consequences, as companies pass the cost of the international credit onto final consumers of energy via higher prices. Implementation of a limit on carbon dioxide emissions via an international carbon dioxide allowance trading system would result in the following impacts.

**Domestic Sector:** The dramatically higher energy prices would force consumers to cut their consumption of energy. Since there is only limited opportunity to substitute more energy efficient appliances and furnaces for the period 2008-2012, consumers would reduce their consumption of energy services. Longer term, consumers would attempt to replace some of these services by replacing their energy consuming equipment.

**Industry Sector:** Industry would respond to the dramatically higher prices through several mechanisms. First, industry would reduce energy consumption through process change. Second, industry would replace energy-consuming capital with more efficient capital. Third, to the extent possible, production of energy intensive goods would move to non-participating countries.

**Power Sector:** The power sector would be hard hit under these scenarios. The imposition of carbon permits would lead to extremely large increases in the delivered price of electricity, particularly to the industrial sector. Imposition of ever decreasing carbon permit levels would set in motion dramatic changes in this sector. Coal use would decline, slowly at first and then rapidly, as the price drove electricity prices up reducing demand and encouraging the substitution of natural gas or renewables. Investment in natural gas fired generating capacity would alleviate some of the pressure on electricity prices, but with the ever increasing stringency of the target, investment in end-use efficiency would need to be as great or greater than improvements in power supply efficiency.

**Transportation Sector:** The impact on the transportation sector would be significant. However, due to the high taxes already in place on transportation fuels, the percentage change in price due to the addition of the carbon permit fees is less than the change in price in other sectors. Longer run, the permit price would have to be high enough to reduce energy use in this sector as the target tightens.

Even assuming an international carbon dioxide emission allowance trading scheme, meeting the Kyoto targets would result in the following:

- Coal, with the highest carbon content of the energy sources, would be the hardest hit.
- Petroleum would experience the smallest percentage decline of the fossil fuels because of strong demand and limited technology substitution options in the transportation sector over the forecast horizon.
- Natural gas demand would initially increase relative to the baseline as it is substituted for coal and petroleum but ultimately would need to decline as the cutbacks in demand outweigh this substitution effect.
- The demand for renewables would increase in all the cases.
- For this analysis, it was assumed that nuclear and hydroelectric energy would not change.

## **Economic Impacts**

Output and employment losses would be expected under the Kyoto Protocol because: energy-using equipment and vehicles would be made prematurely obsolete; consumers would be rattled by rapid increases in living costs; and financial ministers would most likely need to target more slack in the economy to deflate non-energy prices and thus stabilize the overall price environment.

The analysis assumes that the cost of emission allowances would be passed along to consumers in the form of higher energy prices and ultimately high prices for all goods and services. Consumers' purchasing power would be reduced by the higher cost of using energy, reducing real disposable income.

Consumption and residential fixed investment would be the hardest hit components of real GDP because of the direct loss in real disposable income. The short period to phase in the permit prices (2005-2008) would lead to substantial declines in real consumption from Base Case levels in the 2008-12 period. Imports would strengthen relative to Base Case levels, spurred by the competitive price advantage of non-participating Annex B countries, and non-Annex B countries.

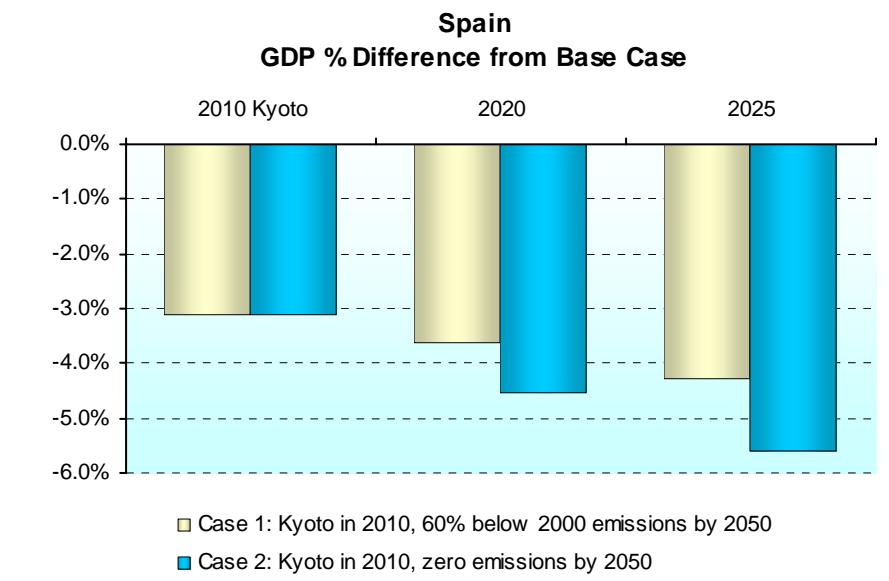
Real GDP would fall 3.1% (26 billion Euros) on average below Base Case levels during the 2008-12 budget period, and 4.3% (48 billion Euros) below in 2025 under Case 1 and 5.6% (63 billion Euros) below under Case 2.

The economy's potential to produce would fall below Base Case levels initially with the cut back in energy usage, since energy is a key factor of production. Stronger investment would be required over the longer-term to build capital as a substitute for this lost factor. The decline in consumption and residential fixed investment relative to Base Case levels, however, would have a depressing impact on business fixed investment in the near-term.

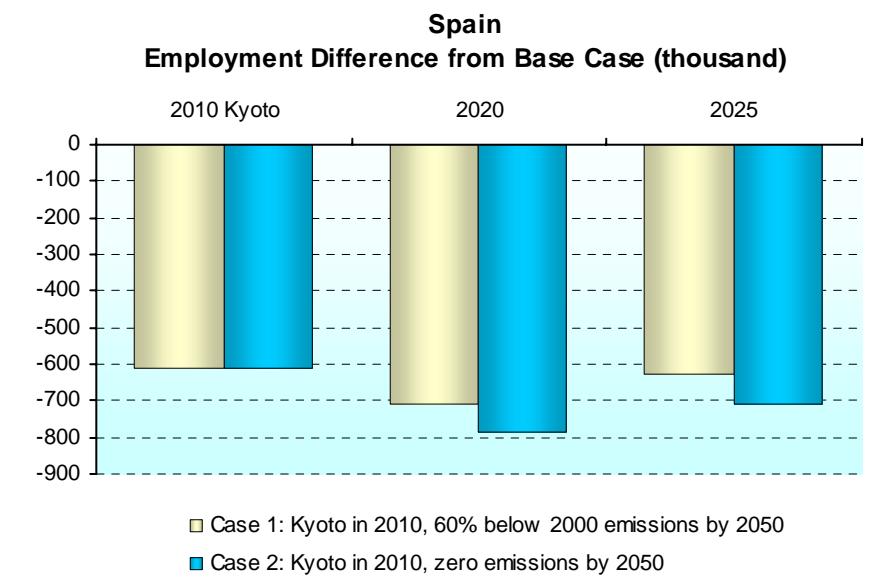
Annual employment losses are projected to be 611,000 jobs in 2010 in the Spain. The percentage reduction in employment relative to Base Case levels would be less than the drop in output. This is due to an increase in the labor-to-output ratio (or a decline in labor productivity) attributed to the permit program. Labor productivity would decline because the other factors of production would be less efficient. Only as investment grows and the capital stock is expanded would productivity begin to improve.

Post 2012, if the target emission level under the Kyoto Protocol is maintained, the impact on economic performance would begin to lessen. The extreme change in the energy prices experienced during the years between 2008 and 2012 would not be repeated. While the percentage change in prices relative to the baseline would increase somewhat, the year-over-year change in prices would be reduced. However, achieving even more aggressive targets would take ever larger carbon fees, and would continue to take a significant toll on economic performance.

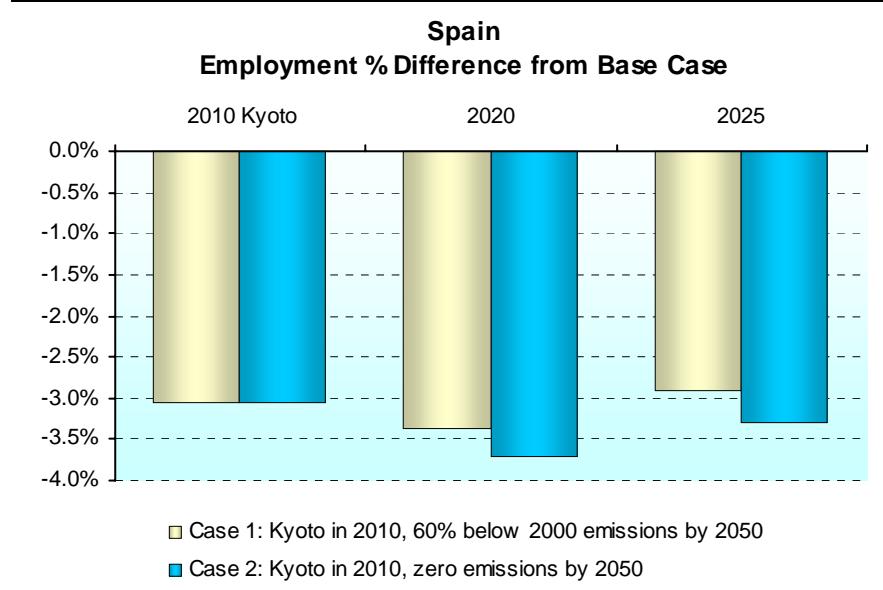
*Exhibit 13.*



*Exhibit 14.*



*Exhibit 15.*



## **Appendix A: Summary of the Kyoto Protocol**

---

**Countries.** The Protocol would bind the Annex B countries to quantified emission limits. The Annex B countries, defined in the Protocol, are: US, Canada, Japan, Australia, New Zealand, European Community countries, the countries of Eastern Europe, Russia and the Ukraine. With the exclusion of Turkey and Belarus and the addition of a few smaller European countries, this is the same group of countries referred to as Annex I of the UN Framework on Climate Change (UNFCCC).

**Greenhouse Gases Emissions and Sinks (Carbon Sequestration).** The Kyoto Protocol set quantified emission limits on the “aggregate anthropogenic carbon dioxide equivalent emissions” of six greenhouse gases: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). To establish the emission target for each country, the first three gases use a 1990 base year and the last three gases may use a 1990 or 1995 base year for the commitment period 2008-2012. The Kyoto Protocol also requires that changes in emissions, relative to 1990 levels, from direct human-induced land use changes and forestry activities which impact this sequestration is counted. These activities have been restricted to afforestation, reforestation, or deforestation. Later, other agricultural soil, land use or forest related sinks might be added.

**Quantified Emissions Limits.** Under the EU “burden sharing agreement” to implement the Kyoto Protocol, Italy has committed to reduce greenhouse gas emissions to 115% of 1990 levels on average over the period 2008-2012. Other industrialized nations have also committed to cap greenhouse gas emissions at various multiples of 1990 emissions for this period. Tightened emission limits for subsequent periods have not yet been specified, but are under discussion.

**Emission Banking.** As a concept, banking emission credits is allowed from the date that the Protocol becomes effective.

**Emission Trading.** Emission trading between Annex B countries is allowed, at least conceptually. However, the details, such as the principles, modalities, rules, guidelines, verification, reporting and accountability are still under discussion.

**Bubbles.** Groups of countries are allowed to treat their aggregate quantified emission limits as a single party (acting under a “bubble”). For example, this provision allows the EU countries to operate under the long-declared EU “bubble” -- individual country emissions can be above or below the 92% of 1990 level target as long as the EU aggregate achieves the targeted level.

**Joint Implementation (JI).** Joint Implementation (JI) among participating Annex B countries is allowed. These are project-specific emission-reduction efforts undertaken by one Party in another Annex B country. JI projects must be approved by the parties, and generally entail a transfer of a stream of emission credits over time from one Annex B Party to another.

**Clean Development Mechanism (CDM).** The CDM would allow project-specific reduction efforts in non-Annex B countries. The resulting emission “credits” could then be used by Annex B countries. Certified emissions reductions achieved starting in the year 2000 in developing countries can count toward compliance in the first budget period. A new UNFCCC body that will certify all CDM and JI projects has been proposed. A share of the proceeds from the CDM projects is to be collected by this body to cover administrative costs and to help developing countries with the costs of adaptation to climate change.

**Compliance.** Remains under discussion.

**Quantified Emission Limits Established in the Kyoto Protocol**  
**Percentage of 1990 (or Base Year) GHG Emissions Allowed**  
**during the Budget Years 2008-2012**

OECD Non-European		Transitional Economies		Europe, Western	
<u>OECD North America</u>		<u>Former Soviet Bloc</u>		<u>European Union**</u>	92%
US	93%	Russian Federation	100%	Austria	(87%)
Canada	94%	Ukraine	100%	Belgium	(92.5%)
				Denmark	(79%)
<u>OECD Pacific</u>		<u>Eastern Europe*</u>	107%	Finland	(100%)
Japan	94%	Bulgaria	92%	France	(100%)
Australia	108%	Croatia	95%	Germany	(79%)
New Zealand	100%	Czech Republic	92%	Greece	(125%)
		Estonia	92%	Ireland	(113%)
		Hungary	92%	Spain	(93.5%)
		Latvia	92%	Luxembourg	(72%)
		Lithuania	92%	Netherlands	(94%)
		Poland	94%	Portugal	(127%)
		Romania	92%	Spain	(115%)
		Slovakia	92%	Sweden	(104%)
		Slovenia	92%	UK	(87.5%)
				<u>Other European Countries</u>	
				Iceland	100%
				Monaco	92%
				Liechtenstein	92%
				Norway	101%
				Switzerland	92%

Notes:

Several countries have joined the OECD since 1992.

Not As Annex B Countries: Mexico (1994), South Korea (1996)

As Annex B Countries: Poland (1996), Hungary (1996), Czech Republic (1996)

Several countries were designated Annex 1 (of the 1992 FCCC) countries, but are not Annex B (of the 1997 Kyoto Protocol) countries: Belarus and Turkey.

\* The Kyoto target for Eastern Europe was recalculated to reflect Article 3.5 of the Protocol, which allows four countries to use base years other than 1990 -- Bulgaria (1989), Romania (1989), Poland (1988), Hungary (average 1985-1987). The result is to allow them a combined multiple of 107% when applied to the 1990 emission level. The country numbers shown are their official multiple of their base year.

[Source: US Department of Energy, Energy Information Administration, *International Energy Outlook 1999*.]

\*\* Agreed European Union internal burden sharing arrangement shown in "( )".

## ***Appendix B: Global Insight's Outlook for Spain***

---

### **Energy Outlook**

	1990	2000	2010	2015	2020	2025
<b>Real Delivered Prices (2003 €/toe)</b>						
Motor Gasoline, pump price	--	1,172	966	951	963	968
Diesel, pump price	--	906	734	721	732	737
Home Heating Oil	--	466	320	308	318	322
Natural Gas, Industry Sector	--	240	183	183	188	189
Electricity, Industry Sector (cents/kWh)	--	5.25	4.94	4.90	4.90	4.97
<b>Energy Consumption (million toe)</b>						
Primary Energy	94.5	129.7	161.1	174.6	186.5	200.1
Petroleum (1)	50.2	70.9	85.5	92.1	97.5	105.4
Natural Gas	5.0	15.2	33.5	40.7	46.6	52.4
Solid Fuels (2)	19.0	19.9	16.4	15.8	15.6	13.7
Nuclear, Hydro, Renewables (3)	16.3	19.6	21.1	20.9	20.7	20.9
Solid Waste & Biomass	4.1	4.1	4.6	5.1	6.1	7.8
Electricity Sales (million toe)	10.8	16.2	22.0	24.2	26.3	28.2
<b>CO<sub>2</sub> Emissions (million tonnes)</b>	218	296	361	392	417	444

(1) Oil consumption includes international marine bunkers.

(2) Solid fuel consumption and imports include net imports of coke.

(3) Hydro includes geothermal. Renewables include solar, wind and tide, wave and ocean energy.

### **Economic Outlook**

	1990	2000	2010	2015	2020	2025
Real GDP (billions of 2000 €)	483	630	832	924	1,023	1,128
Population (million persons)	39.3	40.8	42.2	42.4	42.6	42.8
Employment (million persons)	13.1	15.6	20.0	20.6	21.2	21.5
Consumer Spending (billions of 2000 €)	293	370	496	553	616	681
Employee Compensation (billions of 2000 €)	233	306	389	423	460	499
Consumer Price Index (2000=100)	68.3	100.0	129.9	143.6	158.1	175.0
Industrial Production Index (2000=100)	80.8	100.0	113.6	127.5	141.8	157.2