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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

Sixteenth session

Bonn, 5–14 June 2002

Agenda item 10 (b)

PROPOSAL ON CLEANER OR LESS GREENHOUSE GAS-EMITTING ENERGY

Submissions from Parties

Note by the secretariat

Addendum

Submission from a Party

1. At its fifteenth session, the Subsidiary Body for Scientific and Technological Advice (SBSTA) requested the secretariat to organize a workshop under the guidance of its Chairman on the topic of cleaner or less greenhouse gas-emitting energy, if possible prior to its sixteenth session, and to prepare a report on the workshop. The SBSTA invited Parties to submit views on the structure and scope of the workshop by 15 February 2002, for compilation by the secretariat into a miscellaneous document (FCCC/SBSTA/2001/8). Nine such submissions were received by the secretariat (FCCC/SBSTA/2002/MISC.3).
2. At the sixteenth session of the SBSTA, the secretariat received one additional submission from Canada (FCCC/SBSTA/2002/MISC.3/Add.1).
3. The secretariat has also received a submission from Venezuela on behalf of the Group of 77 and China.* In accordance with the procedure for miscellaneous documents, this submission is reproduced in the language in which it was received and without formal editing.

* In order to make this submission available on electronic systems, including the World Wide Web, it has been electronically imported. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

SUBMISSION FROM VENEZUELA (ON BEHALF OF THE GROUP OF 77 AND CHINA)

The G77/C Position on the Canadian Proposal for Environmental Credits to its Energy Export to the US (Annex-B country non Party to the Protocol) and its impact.

The Canadian proposal is outlined in FCCC/SBSTA/2002/MISC.3/ADD.1 document.

The Group of G77/C has strong reservation on the Canadian proposal. In the workshop on cleaner or less greenhouse gas emitting energy, May 7-8, 2002 Whistler Canada, the Canadian government indicated that it will submit a proposal in the June Subsidiary Body meeting to be granted a 70 Mt CO₂-equivalent per year as an environmental credit for its energy export (electricity and natural gas) to the US. They argued that such an action would result in a “global environmental benefit” because it replaces US coal. The Canadian view had very little support by the workshop participants.

There are several reasons why many countries did not support the Canadian proposal for additional reduction (about 30% of their reduction commitment) in their agreed 1990 assigned amounts by granting the so-called “environmental credit”. Some of these are:

- It will not result in any real reduction in GHG emission in neither Canada nor the US. Giving Canada environmental credit for its energy export to the US will negatively impact the Clean Development Mechanism (CDM) and Joint Implementation projects and will not result in global environmental benefit. CDM projects result in real emission reductions and transfer of technology. The negative impact on CDM projects as a result of giving environmental credit to Annex-I electricity and natural gas export must be fully assessed before any action on the Canadian request. There are many methodical concerns, which will take several years for a body such as the Intergovernmental Panel for Climate Change (IPCC) to address. The literature does not have detailed scientific research to evaluate the merit of this new approach.
- The proposed environmental credit will distort the critical balance achieved in the Kyoto Protocol under articles 3.14 and 2.3 where mitigation actions and response measures taken by Annex-I Parties, including Canada, shall be done in a way to minimize their impact on developing countries included in article 4.8 and 4.9 of the Convention.
- There is no legal basis to the Canadian request. Revisions to the Kyoto Protocol requires full consensus of the Parties after entry into force. The Kyoto Protocol counts emission based on assigned amount baseline for each Annex-B country where it is produced and not to the consuming country. All Parties agreed to this concept in 1997 when they adopted the Kyoto Protocol. Also emission credit based on energy trade is not addressed in the Kyoto protocol. Any change will require an amendment to the Protocol after its entry into force. This may open the door for many additional amendments from other Parties, and will result in further dilution of the already weakened Kyoto Protocol. The environmental integrity of the process is in jeopardy. We are cognizant that the Bonn Agreement and the Marrakech Accord have already severely weakened the Protocol.
- The value of carbon in emission trading will be further diminished if Canada and other Annex-B countries are allowed to have environmental credit for their energy export to the US (Annex-B country non Party to the Protocol) This will also reduce incentives for domestic mitigation throughout Annex-I countries. The US pullout of the Kyoto Protocol and the Bonn Agreement on sinks had greatly reduced the carbon trading value. Any additional environmental credit will severely affect the future of CDM and international emission trading. In effect, giving

environmental emission credit to Canada and other Annex-I countries may result in greater environmental harm.

- Canada is expanding its energy export to the US to gain economic benefit. Some countries may see the “Global Environmental Benefit” concept as a sugar coating to maintain export market share and gain competitive advantage in large energy markets such as the USA. The Canadian proposal, in effect, is asking the Parties to guarantee their natural gas market-share in the US. This is not part of Climate Change Convention objectives and granting environmental credit may be considered as subsidies under the WTO rules.
- The argument that Canadian energy export to the US results in GHG emission avoidance from US coal power plants is not valid when Canada continues to use its coal and plans to expand coal power production. Annual GHG emissions from Canadian coal are around 95 Mt CO₂ equivalent which is much higher than 70 Mt CO₂ equivalent claimed for energy export to the USA. In addition, the Canadian natural gas export to the US replaces mostly cleaner and less GHG gas emitting energy not coal. The Canadian submission at the Cleaner Energy Workshop at Whistler, indicates that Canadian gas replaces only 30% of higher coal consumption while the rest is distributed amongst US natural gas (26%), LNG (6%), oil(30%) and higher energy efficiency (8%). However the report of Cheminfo (survey of energy experts) indicated that Canadian gas exports replaces only 9% of coal, 35% alternate natural gas supply, 33% oil, and 23% lower demand or non-fossil fuels.
- Canada should use its gas and hydro energy production to reduce its CO₂ emissions associated with the Canadian use of coal and production of unconventional oil.
- Expanding the energy production, including its export, will discourage conservation measures in Canada and the US. And thus reduces global environmental benefit.
- It is more environmentally beneficial to collect flared gas in developing countries for use in Annex-I, including USA. This will not only greatly serve the same purpose stated by Canada as “Global Environmental Benefit”, but it will also contribute to the sustainable development of oil and gas producers in developing countries. It can also be considered as part of implementing Marrakech decision 9/CP.7 on article 3.14. It also can be considered as part of minimizing the impact of Annex-I response measures and Article 2.3 of Kyoto “minimize the impact on international trade”.
- Environmental additionally: The proposal refers to present and future exports to the US in the framework of pre-existing agreements (commercial). Therefore, this amounts to obtaining credit for business-as-usual scenario.
- The proposal modifies the concept of baseline for Annex-I countries from the current reference year, 1990, to a reference scenario that is difficult to control and measure.
- The Canadian proposal is circumventing the Protocol system based on GHG mitigation relative to assigned amounts. The “assigned amount” is with reference to emissions. The commitments of Annex-I Party in the Protocol are prescribed in terms of its emissions and limitation and reduction of emissions. The Protocol seeks the requisite mitigation by a Party either on its own or together with other Annex-I Parties which have accepted commitments under the Protocol. The Canadian proposal does not subscribe to this.

In the event of a country seeking to achieve its target together with other Annex-I Parties through mechanisms in Articles 6, 12, and 17, the principles and rules have been settled. These subscribe to a definition of “assigned amounts” based on emissions. Under this, the requisite transactions of assigned amounts and credits can take place only under the systems derived under Articles 6, 12 and 17 of the Protocol, which contribute to real and measurable reduction. The Protocol system does not recognize the Canadian Proposal.