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SUBSIDIARY BODY FOR SCIENTIFIC AND TECHNOLOGICAL ADVICE

Eighth session

Bonn, 2 - 12 June 1998

Item 6 (b) and (c) and 8 (b) to (d) of the provisional agenda

SUBSIDIARY BODY FOR IMPLEMENTATION

Eighth session

Bonn, 2 - 12 June 1998

Item 8 (b) to (d) of the provisional agenda

**PREPARATORY WORK NEEDED FOR THE FOURTH SESSION OF THE
CONFERENCE OF THE PARTIES ON THE ITEMS LISTED IN
DECISION 1/CP.3, PARAGRAPH 5**

Submission by a Party

Addendum

1. In addition to the submissions already received and contained in documents FCCC/SB/1998/MISC.1 and Add.1, a further submission has been received from a Party.
2. In accordance with the procedure for miscellaneous documents, this submission is reproduced in the language in which it was received and without formal editing.

FCCC/SB/1998/MISC.1/Add.2

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PAPER NO. 1 ICELAND

Background

Problems associated with the impact of single projects on emissions in small economies were acknowledged by the third Conference of the Parties in paragraph 5 of Decision 1/CP.3 on the adoption of the Kyoto Protocol, where it requested the Chairmen of the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI) to "give guidance to the secretariat on preparatory work needed for the consideration by the fourth session of the Conference of the Parties of the following matters, and to allocate work on these matters to the respective subsidiary bodies as appropriate:"

(d) Consideration of and, as appropriate, action on suitable methodologies to address the situation of Parties listed in Annex B of the Protocol for whom single projects would have a significant proportional impact on emissions in the commitment period."

Parties were invited to submit their views on the preparatory work needed for COP 4 on this and other issues in paragraph 5 prior to 21 March 1998. The submissions by Parties are to be found in document FCCC/SB/1998/MISC.1.

The problem

The Kyoto Protocol is based on the approach of setting quantified emission limitations for individual Parties in Annex B taking into account, to some degree, their specific national circumstances. Although this approach may work well in many cases, special difficulties can arise for Parties with small economies where the proportional impact of single projects initiated after 1990 on total emissions can be too large for the Party in question to absorb through reductions in other sectors or through available flexibility mechanisms.

These difficulties are especially relevant for Parties where clean and renewable energy is already used extensively. Such a party would not be able to make room for a new project through reductions in other sectors. Problems associated with significant proportional impact of single projects make it exceedingly difficult for small economies to compete for energy intensive industry due to their limited ability to absorb increases in emissions through reductions in other sectors. Special provisions to address this problem could potentially correct this competitive disadvantage.

There are two operational terms in paragraph 5 (d) of Decision 1/CP.3 that need to be specified, namely "significant proportional impact" and "single project". These are both addressed below.

When does proportional impact become "significant"?

A special provision to address the problem of significant proportional impact of single projects should include a threshold value to determine when the proportional impact of a single project becomes so significant that it causes serious difficulties for the Party involved

in meeting the commitments under the Protocol. It is suggested that a threshold of 5 % of a Party's total carbon dioxide emissions in 1990 would meet the need to limit the provision to these special cases where the problem arising from these circumstances can be critical. Only a few projects would reach this threshold and as such it would not create a loophole which would go against the objectives of the Protocol.

Why should projects with significant proportional impact be treated separately?

In general, the increase in emissions from a new operation is carried by the respective Party. The ability of that Party to carry such an increase will depend on the capacity of other sectors to absorb the increase. This capacity is determined by the increase in emissions resulting from the new operation and by the possibilities to undertake reductions in other sectors. The availability of flexibility mechanisms may ease the adjustment but can not solve problems of the relative scale in question here.

If the realisation of new projects after 1990, which result in significant proportional impact on the total emissions of a Party, leads at the same time to a limitation of global emissions through the production of goods and services with significantly lower emissions through the use of clean and renewable energy, it is then in the interest of meeting the objective of the Convention to treat the process emissions from such projects in such a way that they are not calculated against the assigned amount of the Party in question.

How should "single projects" be defined?

Paragraph 5 (d) refers to "single projects". This should be interpreted narrowly to prevent the misuse of this provision. It is suggested that a single project be defined as a project at a single site operating in accordance with a single operating licence, in effect "a single point source", to avoid the danger of several point sources being lumped together and defined as a single project. This should be limited to projects initiated after 1990.

If the project replaces another source of emissions from the Party in question, the emissions savings resulting from closing that operation should be subtracted from the emissions of the new project prior to determining whether the proportional impact is significant.

Should all single projects with significant proportional impact be treated in the same way?

The rationale for special treatment of single projects with significant proportional impact in small economies is that these projects can contribute to the objective of the Convention of reducing global emissions. This global benefit should be made an explicit requirement. This could be done by requiring that the energy is supplied by clean and renewable sources. The use of clean and renewable energy will generally result in significant emissions savings.

It is important to emphasise that only the process emissions should be reported separately. These are the emissions resulting directly from the chemical processes and not from the energy production. It should be a further requirement that the process emissions are kept at

minimum through the use of Best Environmental Practice. This has been defined for some processes such as the Best Available Technique (BAT) for the aluminium industry.

Suggested solution

The third Conference of the Parties has in paragraph 5 (d) decided to consider arrangements for single projects with significant proportional impact. Paragraph 5 (d) refers to suitable "methodologies" to address the situation of Parties as a result of such single projects. This suggests that the Parties have accepted that the problems connected with single projects with significant proportional impact on emissions are a methodological issue.

It is suggested that the fourth Conference of the Parties adopts a threshold value for "significant proportional impact" as well as additional criteria for single projects which would ensure that these projects would support the objectives of the Convention and the Kyoto Protocol. The definition of "single projects" would also need to be clarified as suggested above. The process emissions from projects which meet these criteria would then be reported separately but not included in national totals for the first commitment period or calculated against the respective Party's commitment as set out in Annex B to the Protocol.

This provision is limited to the first commitment period as the approach used for setting quantified emissions limitations for the second and subsequent commitment periods may be quite different from the approach taken for the first period and might take more notice of the different circumstances of the Parties. Such approaches might not suffer from the problems identified here for the first commitment period.

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