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MINISTÈRE
DE L'AGRICULTURE
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Tuczno, Poland

7th of June 2007

IT IS IN THE INTERESTS OF MEMBER STATES TO INCLUDE FOREST SINK CREDITS IN THE EU ETS

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SUMMARY

NB: Non-paper sent to PRs of MSs on March, 23rd 2007

- EU ETS & forest sink credits
- JI/CDM projects in LULUCF sector
- Benefits of inclusion
- Permanence and price issues
- Proposals for inclusion

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EU ETS & Forest sink credits

- Directive 2003/87 to create the EU ETS
- EU ETS covers all energy and certain industry sectors
- Directive 2004/101 to link EU ETS and JI/CDM
- Art. 11 bis of Directive 2004/101: No forest sink credits
- 3 main fears:
  - ➔ Biological sequestration = non permanence?
  - ➔ Low marginal cost = less voluntary efforts?
  - ➔ Influx of sink credits = fall in the market value?

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JI/CDM in LULUCF sector

- JI = A/R + FM ; CDM = A/R only

- CDM A/R as of June 1, 2007 (UNEP Risoe CDM/JI pipeline)
  - ➔ 34 CDM A/R (26 projects) methodologies submitted
  - ➔ 7 approved (Moldavia, China-2, Brazil, Albania, Honduras, Ecuador)
  - ➔ 1 project started (August 2006) in China
  - ➔ …26 kteCO2/year = 174 kteCO2 by 2012

- JI A/R + FM as of June 1, 2007
  - ➔ 1 JI methodology A/R submitted (Romania)

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Environnemental benefits of inclusion

NB: European Council (March 2007): "*To consider […] a possible extension of its scope to LULUCF*"

- Climate first! But co-benefits for water, soil, biodiversity…
- Financial incentives for A1 parties to promote forestry
- By including CDM/JI LULUCF credits as a 1st step…
  ➔ Open the floor to a 2nd step = "tougher" commitments for A1parties to be met with avoided deforestation credits
  ➔ A fund-based system is not likely to generate enough resources to tackle this problem (25% of GHG emissions)
- Inclusion of sink credits might distract States from their 'true responsibilities' (i.e. fossil emissions): false problem
  ➔ + 2°C target: 15%-30% of reductions in LULUCF sector

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Economic benefits of inclusion

- **Reductions must be sought where they will cost least …"Low hanging fruits" to be picked first**
- **Marginal cost of carbon sequestration slightly lower than emissions reduction in energy or industry sectors**
- **Greater flexibility with tCERs for companies subject to NAP constraints: technological steps changes rather than one-off adjustments**
- **Great potential for "avoided deforestation credits" (USD 1 to 5 per teCO2 according to the Stern review)…**

Political benefits of inclusion

- Uneven geographic distribution of CDM projects :
  2012 ➔ 2/3 of credits for India + Brazil + Mexico
  ➔ … 6% of credits for Africa
- LDCs derive little advantage from CDM projects in industrial, energy and transport sectors
- CDM A/R projects adapted to suit rural contexts in LDCs
- Social co-benefits of A/R projects (labour intensive)
- Signal to NA1 affected by deforestation/degradation:
  ➔ 1st step - Inclusion of sink credits from CDM/JI projects
  ➔ 2nd step – Inclusion of "avoided deforestation credits"?

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Permanence issue

JI: A/R or FM projects

- Both host country & third country have GHG inventories
- Loss of C stock (if no permanence) to be reported
- Environmental integrity preserved

CDM: A/R projects

- Host country without GHG inventory: Risk
- tCERs (valid for commitment period) or lCERs (valid for crediting period)
- Replacement of lCERs raises problem of traceability and transfer of liability if a private owner is to disappear

Price issue

JI: A/R or FM projects

- A/R ➔ Alder tree (400 t/ha) = 14,2 €/teCO_2, Cedar tree (1000 t/ha) = 18,5 €/teCO_2 (Reverchon, 2006)
- FM ➔ Regeneration beech trees by Douglas pines = 11 €/teCO_2 (ONF, 2007)

CDM: A/R projects

- Price of tCER = 14% price of CER in 5 years, with interest rate = 3% and discount rate = 0 (Höhne 2006)
- Use of sink credits limited to 1% of the AA
- 1 CDM A/R being implemented = 174 kteCO_2 by 2012 = 1/10 000th of AA for the EU27!

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Proposals to amend directive 2003/87

From Climate Focus, 2006:

1. The following should be added to Article 3: "(o) *temporary certified emission reduction" or 'tCER' means a unit issued from A or R project activities and will expire at the end of the commitment period following the one during which was issued pursuant to Article 12 of the KP and the decisions adopted pursuant to the UNFCCC or the KP*";

2. In Article 11a(3)(b), introduced by directive 2004/101/EC into directive 2003/87/EC, the following should be deleted: "*[…] except for CERs and ERUs from land use, land use change and forestry activities*";

3. The following should be added to Article 11a: "*(4) An operator that has used a tCER shall surrender a CER, tCER, ERU or allowances at least 30 days before the tCER expires to cover the emissions which had been covered by the expired tCER. If the operator has not replaced any tCERs it has used to cover its emissions by the time they expire, the operator shall be held liable for the payment of the excess emissions penalty in accordance with article 16*".