August 25, 2008

CAN discussion Paper on LULUCF Issues and Considerations – Accra

This discussion paper presents options for addressing several of the issues and considerations relevant to the current negotiations in a way that attempts to ensure environmental integrity.

Activities-based versus Land-based Accounting

Although a land-based accounting approach may be the most conceptually sound, it may be more practical and expedient to retain an activities-based approach given the technical and political challenges involved with moving to a land-based approach at this time.

Flexibility for forest management accounting

Accounting for forest management must be mandatory. Retaining the ability of Parties to elect accounting for forest management encourages an asymmetrical system where Parties choose to account for forest management when it delivers credits but not when it delivers debits.

Limiting the magnitude of land use, land-use change and forestry for Annex I compliance

A limitation must be placed on the fraction of the required emission reduction that can be satisfied using LULUCF (cap) in order to ensure that an appropriate amount of mitigation effort and investment is directed at reducing fossil fuel emissions. This cap should apply even if natural effects have been factored out.

Factoring Out

<u>Overall approach</u>

While acknowledging that Parties are interested in a framework that does not reward or penalize them for emissions and removals that are beyond their control, it is important to ensure that forest management credits represent real emission reductions and that the accounting system be as robust as possible.

If LULUCF rules and modalities are modified to allow Parties to factor out natural effects and make them not accountable for emissions/debits from these natural effects in their managed forests, a mechanism should be put in place to ensure that credits from forest management are a real reflection of what the atmosphere sees:

- Parties would only be able to claim forest management credits/emission reductions/removals if the total pool of physical above and below ground carbon stock of the managed forest is increasing, and at all times equals or exceeds the claimed forest credit over time.

This approach would meet the reasonable desire by Parties to not be penalized for emissions beyond their control but would also ensure that forest management would not generate credits offsetting other emission reductions when the atmosphere is actually seeing an increase in emissions from managed forests.

Full emissions should still be reported under the Convention and any increases in natural emissions (e.g. through positive feedback loops) must be integrated into emission reduction ambitions.

<u>Specific methodologies</u>
One option is to continue using gross-net accounting with a cap. Another is to replace the cap with discount factors. It would be interesting to see specific proposals from the Parties for using discount factors as a factoring out methodology under either gross-net or net-net accounting.

Factoring out could also be achieved by moving to net-net accounting and using a base period anchored to 1990 and temporarily removing lands from accounting. According to the Chair's draft matrix presented in Accra, this would partially address the issues of inter-annual variability, age-structure and indirect climate change effects and mostly address natural disturbances.

Anchoring the base period to 1990 reduces the ability of Parties to game the system, deriving the most beneficial baseline for national interests.

While the forward-looking baseline approach may be more effective at factoring out age structure and indirect climate effects, it may also be more open to gaming than other approaches. How the baseline is set, confidence in the baseline, how the baseline is adjusted over time are also issues with this approach.

Net-net accounting
While acknowledging that a move to net-net accounting would help facilitate factoring out and help ensure that Parties are not rewarded and penalized for emissions and removals that are beyond their control, it is imperative that Parties must assume liability for emissions in the base year/base period/baseline. There are a few options for Parties to assume this liability:

a. Adopt an emission reduction target for LULUCF if the sector continues to be treated as a generator of credits/debits, or;
b. Incorporate LULUCF emissions into National totals that will be subject to the emission reduction commitment.
c. Ensure that higher emission reduction targets are taken to integrate a mitigation ambition from the LULUCF sector.

Afforestation/reforestation/deforestation should remain gross-net activities.

Peatlands
Acknowledging that peatlands are an important, long-term carbon store that are already a large source of emissions globally and could become a larger source due to human activity, emissions from peatlands should be accounted for. However, given the large uncertainty regarding processes and measurements of emissions from peatlands, emissions accounting should focus on specific degrading activities that are substantial sources of emissions and can be confidently measured. Emissions should be accounted for using a gross-net accounting similar to afforestation/reforestation/deforestation.

Harvested Wood Products
Accounting for harvest wood products under the LULUCF sector could create an incentive to reduce emissions from this carbon pool, possibly result in a marginal increase in the incentive to substitute wood for more emission-intensive products such as concrete and steel and would improve the calculation of the carbon cost/benefit of burning woody biomass for energy production.

However, the negative consequences of HWP accounting may outweigh the benefits. Parties should take great caution in considering the inclusion of HWPs and pay particular attention to these concerns:

- Accounting for carbon stored in harvested wood products would discourage the maintenance and enhancement of natural forest carbon stocks and encourage a shift from forest carbon pools to wood product pools with associated emissions to the atmosphere. This would result in an incentive for increased harvest activity and could result in increased biodiversity impacts.
- Beginning to account for carbon stored in harvested wood products would generate new LULUCF credits without any change in activity.
- Accounting for carbon stored in harvested wood products would add more complexity to an already-complex accounting system.
- The current LULUCF rules do not require mandatory accounting of forest degradation or even emissions from sustainable forest management. Introducing new credits for harvested wood products without addressing these emissions would create inappropriate accounting asymmetries that would undermine the environmental integrity of the Kyoto Protocol.
- The mitigation potential from carbon storage and substitution effects from harvested wood products is small and delayed compared to the mitigation potential of avoiding deforestation and forest degradation, which also has biodiversity benefits.
- The mitigation potential from energy and material substitution exists and is accounted for in the building, waste and energy sectors without having to account for carbon stored in harvested wood products.
- Current inventories underestimate the amount of carbon stored in natural forests before conversion to managed forests or plantations. The carbon loss from natural forests resulting from transformation to the wood product carbon pool would therefore be underestimated by the current system. This is particularly

relevant for Parties that carry out logging activities in natural forests that have not been subjected to industrial logging.

- Various accounting approaches under consideration each have challenges associated with them:
    - The stock-change approach could allow the generation of credits in Annex-1 countries resulting from activities such as tropical deforestation that actually produce a net emission to the atmosphere
    - The production approach creates a responsibility for Parties to account for emissions occurring in other countries, well beyond their control.
    - The Atmospheric Flow approach creates an immediate sink effect for exporting countries and creates very different outcomes in the scale of credits for different Annex-1 Parties.
    - The "Emissions to Atmosphere" approach is asymmetrical because it would generate credits for new products (relative to the current rules) but not account for debits from the decay of the existing HWP pool.

In order to deal with concerns about the impacts of HWP accounting on natural forests, it should only be considered for products arising from plantations.

Forest Definitions

If the activities-based approach is used, definitions should be developed to distinguish between natural forests and plantations (please see a forthcoming paper on forest definitions).

Leakage

As Parties work to improve the accountability of Annex-1 Parties for emissions and removals from forest management, it is important that Parties also put mechanisms in place that reduce the risk that carbon degrading forest management activities are shifted to non-Annex 1 Parties. An effective REDD mechanism is an important way to avoid this perverse outcome, as is an effective global system for tracking changes in natural carbon stocks.

For more information contact:

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