Using LULUCF (forestry and agriculture) credits in the EU ETS

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EU ETS Working Group 4

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Agenda

1. **What?** Opening the EU ETS to forestry and agriculture based CDM/JI credits
2. **Why?** No reason for excluding LULUCF credits persists
3. **How?** Simple amendment of the EU ETS

Opening the EU ETS to Forestry and Agricultural CDM/JI Credits

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

Environmental benefits

- Relevance of forestry, agricultural and land-used based emissions for global climate change. The sector holds both an enormous potential for mitigation as well as for adaptation.
- Link to other environmental goals: protection of biodiversity and avoidance of land degradation
- To achieve the +2C target of the EU reducing emissions from land-use changes is key: + 2°C target: 15%-30% of GHG reductions in LULUCF sector
- Helps to accept 'tougher' commitments

Further Benefits from Including LULUCF Credits into the EU ETS

Social benefits

- Opening the CDM market to projects from Africa and other least developed countries
- Supporting CDM/JI projects with particular sustainable development benefits

Economic Benefits

- Creating additional flexibility under the EU ETS. Allows to partly overcome the problem of the short allocation periods (5 years)
- Marginal cost of carbon sequestration slightly lower than emissions reduction in energy or industry sectors
- Temporary credits give companies breathing space to optimise productive investment to make real reductions in emissions by means of technological step changes

Political Benefits

- Strong policy signal towards the international negotiators
- Establishing a body of experience needed for post-Kyoto negotiations

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Issues that Led to an Exclusion of LULUCF Credits from the EU ETS

The initial reasons for exclusion have disappeared:

- Methodological insecurities
- Integrating temporary credits (tCERs and lCERs) into the compliance system of the EU ETS

Design of A/R Projects

- Methodologies insecurities have been reduced dramatically since the adoption of the EU ETS
  - Adoption of COP-9 (2003) decision on A/R CDM projects
  - A/R CDM Baseline and monitoring methodologies are now available (7)
  - Experience in project design and implementation

- But only very few forestry based projects have entered the CDM/JI process
  - Of 836 registered CDM projects (10/6) one forestry based project (Facilitating Reforestation for Guanxi Watershed Management in Pearl River Basin)
  - No forestry based JI project determined, one project with (pre-)validation (Romania Afforestation of Degraded Agricultural Land Project)

Temporary Credits under the CDM

- A/R CDM credits contain risks not found in abatement credits
  - Permanence risk
  - Replacement obligation
- Permanence risk is dealt with in the credits accounting procedure
  - Expire and re-issued every 5 years after verification (tCERs)
  - Re-verified every 5 years (lCERs)
- JI forestry credits do not contain these risks and are treated like abatement credits under Kyoto

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Integrating Temporary Credits into the EU ETS

- Simple amendment to the EU ETS Directive

- Ban on JI forestry and agriculture credits can be removed without further changes to the EU ETS: JI forestry credits are not temporary and do not expire

- Opening of EU ETS to CDM credits requires adaptation to the temporary nature of credits
  - Operator would be liable for replacement of credits
  - Amendment should be limited to tCERs. The inclusion of lCERs would further complicate the system. In addition, there is little demand for lCERs.
  - In case company gets out of business the replacement obligation becomes part of the outstanding liabilities of the company.

Transferring Liability to Operator

How it works:

- Amendment limited to tCERs (which are anyway used by most projects)
- Operator uses tCER to meet EU ETS obligation
- Member State uses tCER to meet Kyoto commitments
- EB notifies Member State a tCER needs to be replaced
  - Member State has 1 month to replace the credit
- Member State notifies operator
  - Operator has 15 days to replace the credit
- Failure to replace the credit results in emission excess penalty
  - Member State still has 15 days to replace the tCER
  - In case company gets out of business the replacement obligation becomes part of the outstanding liabilities of the company.

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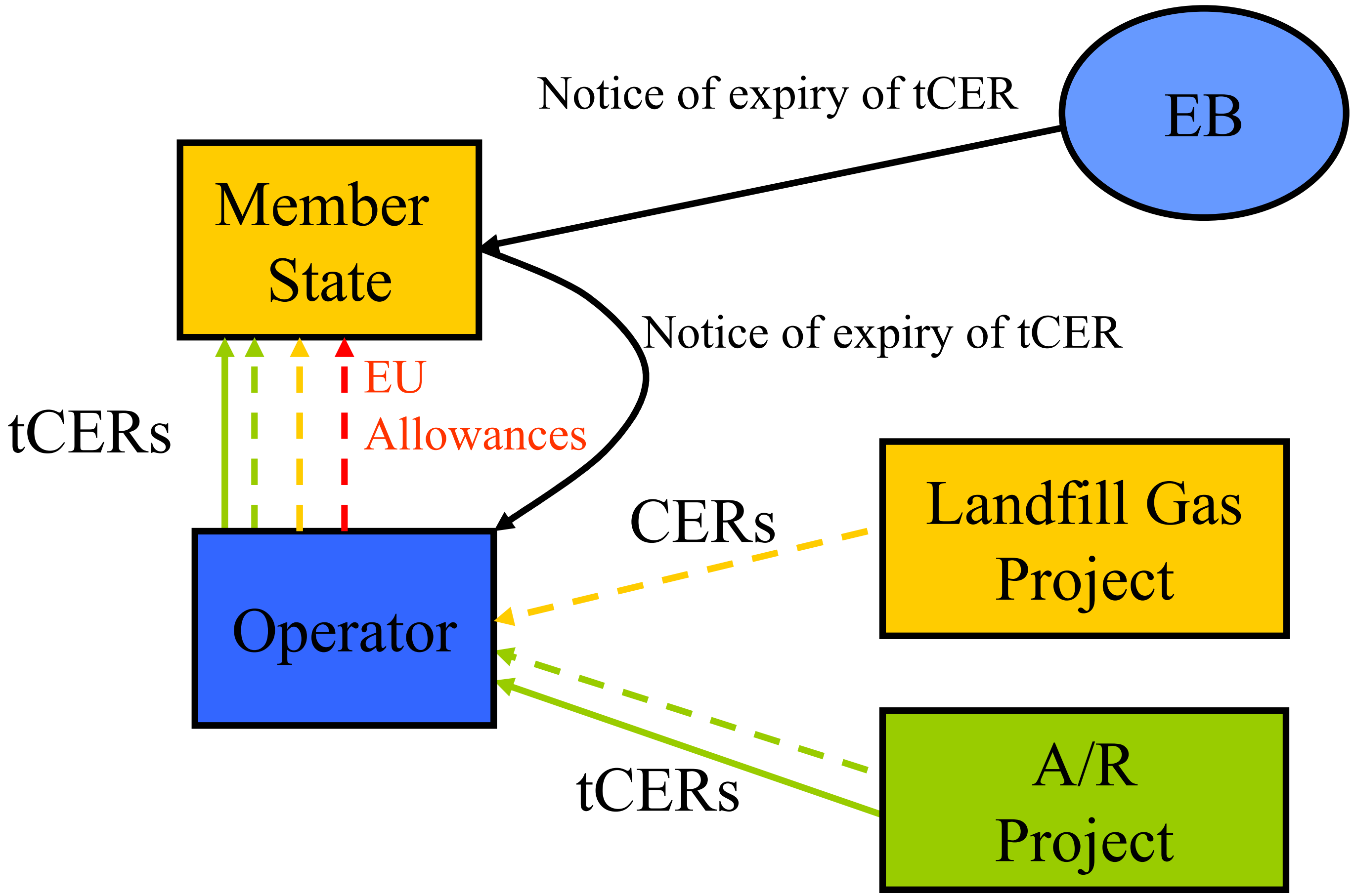
Replacement of Temporary Credits



Amending the EU ETS to Integrate Forestry Based Credits

Essence of the Amendment:

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";

The following should be added to Article 11a:

"An operator that has used a tCER shall surrender a CER, [tCER] ERU, or allowance within 15 days of being notified by the Member State that exchanged the tCER that the tCER needs to be replaced. If the operator has not replaced a tCER it has used within 15 days of being notified by the Member State that exchanged the tCER of the need to replace the tCER, the operator shall be held liable for the payment of the excess emissions penalty in accordance with Article 16."

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Thank you

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