Submission to the AD HOC WORKING GROUP ON FURTHER COMMITMENTS FOR ANNEX I PARTIES UNDER THE KYOTO PROTOCOL

Agenda item 5 (a) Other issues arising from the implementation of the work programme of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol
April 24, 2009

Emissions trading and the project-based mechanisms

Greenpeace welcomes the opportunity to submit the following in response to the request for submissions in the draft conclusions proposed by the Chair on emissions trading and the project-based mechanisms at the seventh session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (FCCC/KP/AWG/2009/L.2). In particular, Greenpeace wishes to address options and proposals on the inclusion of LULUCF and REDD+ activities in the project-based mechanisms.

Introduction[1]

Industrialised countries must make significant contributions to the global mitigation efforts by both committing to deep *domestic* emission reductions and supporting mitigation actions in developing countries by providing measurable, reportable and verifiable financing, capacity building and technology transfer as agreed to in the Bali Action Plan. Consequently, any change in the design of the flexible mechanisms under the Kyoto Protocol must ensure that credited action in developing countries does not replace ambitious *domestic* emission reductions in industrialised countries.

Filtering out business-as-usual emission reductions (i.e. "non-additional" emission reductions) poses a significant challenge to any crediting system and has the potential to seriously undermine the environmental integrity of the regime. Therefore, any post-2012 instrument that generates offsets from emission reductions in developing countries, must involve profoundly more robust provisions to filtering out business-as-usual reductions.

Greenpeace has often voiced opposition to the inclusion of CCS, nuclear power and REDD in the CDM and has advised against the expansion of eligible LULUCF project types beyond the current afforestation/reforestation. Thus, Greenpeace notes with deep concern the increase in provisions for expanding offset-generating crediting of LULUCF and REDD activities under the discussion about flexibility mechanisms for the second commitment period in the relevant draft conclusions.[2] Any extension of the flexible mechanisms must be firmly grounded on an analysis of the lessons learned so far. Greenpeace therefore calls on parties:

- Not to support any expansion of the forestry project types eligible for project-based CDM;[3]
- Not to change the rules for accounting of AR projects in the CDM;

[1] For earlier submissions on the possible improvements to the flexible mechanisms, see document http://unfccc.int/resource/docs/2008/smsn/ngo/043.pdf by Greenpeace International and document http://unfccc.int/resource/docs/2009/smsn/ngo/119.pdf by Climate Action Network International.
2 Annex I of the draft conclusions of the 7th session of the AWG-KP (FCCC/KP/AWG/2009/L.2).
3 Option B in section I.A of Annex I to the draft conclusions FCCC/KP/AWG/2009/L.2

- Reject any inclusion of LULUCF or REDD in possible future sectoral crediting or trading mechanisms[4] or crediting of Nationally Appropriate Mitigation Actions (NAMAs);[5] and
- Not to change the rules for carry-over provisions

Provisions must allow for the exclusion of sinks in the second commitment period:
If it turns out that the issues of additionality, leakage, non-permanence, uncertainties, socio-economic and environmental (biodiversity) impacts cannot be satisfactorily resolved, there must not be any new sink projects in the CDM for the second commitment period.

Greenpeace is particularly worried that the provisions in sections I.D, I.E and III.A of Annex I to the draft conclusion FCCC/KP/AWG/2009/L.2 would create a market-based REDD regime "through the back door," thus setting directions that could predetermine the outcome of the discussions on REDD in the AWG-LCA, which is in our view the more appropriate forum to discuss this issue.

Greenpeace believes that purely market-based mechanisms are the wrong approach to support emission reductions from land use and forestry in developing countries. The inclusion of LULUCF and REDD activities in mechanisms generating offset credits (like vastly expanded LULUCF eligibility under the project-based CDM) and even more so under sectoral crediting or trading regimes and NAMA crediting, has the potential to:

- Flood the carbon market with cheap credits, which in turn have the potential to significantly lower the global price of carbon and thus undermine ambitious emission reduction targets for industrialised countries by reducing the incentive to invest in low carbon infrastructure[6].
- Cause countries – both north and south – to "lock in" dirty technologies, such as coal-fired power stations, in the next decade. Such a scenario could significantly increase the overall costs of long-term mitigation and impede the ability to stay well below 2°C.
- Result in a delay in drastic emission reductions, which could ultimately destroy forests due to the impacts of failed mitigation of climate change.
- Introduce perverse incentives to increase the level of emissions from these sectors prior to the implementation of such a crediting regime for countries with historically low levels of emissions.

We therefore submit that additional forestry and land use change projects must not be included in the CDM or any other flexible mechanisms in the second and subsequent commitment periods of the Kyoto Protocol.

Forest projects in flexible mechanisms

Avoiding deforestation was not accepted as an eligible CDM activity in the Marrakech Accords because it was thought that the leakage from projects that avoided deforestation could be very significant and difficult to estimate and monitor. The possibility that the scale of carbon credits could be quite large also played a role in the decision to exclude avoided deforestation from CDM projects.

4 Language on "removals by sinks", "changes in carbon stocks", and "LULUCF activities" in paragraphs 12, 14, 15, and 18 of option B in section I.D as well as language on "removals by sinks" in paragraph 60 of option B in section III.A of Annex I to the draft conclusions FCCC/KP/AWG/2009/L.2

5 Language on "changes in carbon stocks" and "removals by sinks" in paragraphs 24, 25, and 27 of option B in section I.E of Annex I to the draft conclusions FCCC/KP/AWG/2009/L.2

6 For an economic analysis of the impact of the inclusion of REDD credits in a global carbon trading regime, see the recent Greenpeace report "The Economics of 2°C and REDD in Carbon Markets", available at http://www.greenpeace.org/raw/content/usa/press-center/reports4/the-economics-of-2-c-and-redd.pdf

The main problems with avoided deforestation projects in the CDM related to:

- Overall efficacy in achieving biodiversity objectives when activities could and (did) simply move outside the project boundaries.
- Avoided deforestation projects are intrinsically subject to leakage (deforestation activities move elsewhere) and baseline uncertainties (what would deforestation have been in the absence of the projects), with the former potentially undermining "net" gains in biodiversity protection, and both together reducing the potential for emission credits obtained to reflect real overall emission reductions.
- Undermining of efforts to reduce fossil fuel emissions created by the scale of credits available at low cost. The low costs of the credits would have had the effect of reducing investments in reducing emissions in industrial sectors, without a corresponding unambiguous benefit to overall greenhouse gas reductions. This latter problem was argued to be quite substantial with respect to the joint emission reductions from fossil fuels and industrial sources and from deforestation required to limit warming to levels approaching the European Union's 1996 target of 2°C.

If a LULUCF project is not permanent or there is leakage (e.g. the activity that caused LULUCF emissions is moved somewhere else) or the project is not truly additional then the atmosphere will be worse off in the long run. This is difficult to determine at the project level.

The inherent problems with LULUCF projects include:

- The lack of permanence;
- Leakage;
- Lack of additionality;
- Measurement uncertainties; and
- Negative impacts on biodiversity and local communities.

Permanence

Non-permanence refers to the reversibility of carbon sequestration by the biosphere and is one of the unique characteristics of the LULUCF sector. The issue of permanence is related to the possibility that carbon in reservoirs can be emitted at any time. With regards to offset credits generated from sinks, enhancements and emission reductions from LULUCF activities, considerations about permanence are crucially important.

There continues to be an unquantifiable risk that these forests could be destroyed and thus that these sinks could turn to carbon sources at some point during or after their project-lifetime. Carbon stored in trees is not permanently removed from the atmosphere as there is a high probability that carbon counted as stored will find its way back into the atmosphere eventually. The result of this is that the burden of reducing emissions is simply shifted to future generations.

Coping with such phenomena will not only necessitate reliable monitoring over long, potentially infinite periods, but is also likely to pose problems associated with liability for continuing sequestration in project based activities.

Management changes can increase the carbon stocks on a given area of land, but these increases can be reversed either by natural causes (fires started by lightning, disease, etc.) or through land-use decisions. There is no real parallel to this potential reversibility in emissions from fossil-fuel use.

Non-permanence is a specific issue in the context of the CDM AR activities. Any re-negotiation of the issues around permanence and the choosing of a menu of options of modalities and procedures for addressing the potential non-permenance of LULUCF activities will undermine the environmental integrity of the Kyoto Protocol. As developing countries do not currently have emission limitation commitments, they are not required to account for any re-emission of carbon to the atmosphere, even if, as the rules permit, an increase in carbon stocks in their country has been used by an Annex B Party to meet its commitment.

Greenpeace is very concerned to note that permanence considerations are currently not addressed in the discussion, particularly on sections I.D, I.E and III.A.

Leakage

In the A/R CDM, leakage has been defined as the increase in GHG emissions by sources that occur outside the boundary of a given area (in A/R CDM in the project area) which is measurable and attributable to the particular activities envisaged (Decision 5/CMP.1).

There are no simple solutions to leakage. Crediting LULUCF activities could only provide reasonable safeguards against carbon leakage when done at national levels. The inherent risks associated with project-based mechanisms is that leakage at both the national and international levels may occur and that governments may expend billions of dollars in subsidies or other forms of incentives, with little or no net gain in carbon, forests or secondary benefits.

The current language in the section I.E of Annex I (crediting of NAMAs) does not guarantee that the "NAMA boundary" would correspond to the national level; thus NAMA crediting of land use and forestry emission reductions could create an increased danger of carbon leakage.

Additionality

A key challenge to LULUCF project implementation under the CDM is verifying whether carbon sequestration resulting from project activities is truly *additional* to the baseline. This baseline must represent what would have happened anyway, without the project, i.e. "the world without the project."

It is important to recognise that under the Kyoto Protocol accounting framework each credit generated enables a corresponding increase in fossil fuel CO2 emissions by industrialized countries. Credits generated from flexible mechanisms add to the overall allowed emissions under the Protocol and place a lot of pressure on the need to ensure that flexible mechanism projects are additional to what would otherwise have occurred.[7]

For example, using AR for timber production under the CDM does not equate to any climate benefit, especially as these credits are used to offset permanent fossil fuel emissions.

Furthermore, the CDM was established for the purpose of reducing emissions and not for removing emissions from the atmosphere. Yet afforestation and reforestation activities that sequester carbon can be counted towards meeting emission reduction obligations under the Protocol and at the same time permit additional fossil fuel CO2 to enter the atmosphere.

[7] Begg, K. G. (2002). "Implementing the Kyoto protocol on climate change: environmental integrity, sinks and mechanisms." Global Environmental Change **12**(4): 331-336.

The inclusion of LULUCF activities in mechanisms generating offsets raises the possibility of crediting CO2 removals that are not truly direct and anthropogenic.[8]
In particular, with sectoral no-lose crediting of land use related emission reductions, there is the concern that due to the potentially large natural variability within these sectors, emission reductions beyond a no-lose target that are simply due to natural variability (e.g. re-growth after forest fire, pests and disease) and the age class legacy of past actions will be credited.

The IPCC found that "the scientific community cannot currently provide a practicable methodology that would factor out direct human-induced effects from indirect human-induced and natural effects for any broad range of LULUCF activities and circumstances"[9]. While some experts now feel that factoring out natural disturbances can be accomplished if undertaken at a national scale with very good data availability or that a pragmatic approach can be taken that would yield adequate results in developed countries, data availability would preclude such assessments in most developing countries.

Uncertainties

Greenpeace believes that the inclusion of LULUCF activities in flexible mechanisms will risk emission trajectories being inconsistent with limiting warming to well below 2°C.

The volatility and vulnerability of terrestrial carbon stocks as a consequence of both natural variability and of climate change and its effects, including increased wildfire, heat waves, pest outbreaks and increases in climate variability, is particularly an issue in the accounting of LULUCF activities within a flexible mechanism.

Crediting emission reductions or sequestration from land use and forestry sectors requires high resolution of data on forest carbon stocks and fluxes and a high certainty about the accuracy and interpretation of that data. This level data quality and interpretation will not be available in many developing countries in the near future.

Biodiversity and Socioeconomic Issues

As with Article 3.3 & 3.4, Article 12 of the Protocol leaves broad discretion over evaluating biodiversity and socioeconomic issues to the host country national government. There are some provisions on information to be provided in the Project Description Document (PDD), and LULUCF projects are also bound by the general public participation provisions of the CDM. Decision 19/CP.9 (FCCC/CP/2003/6/Add.2)[10] contains the following requirements:

- Paragraph 12(b) requires that "comments by local stakeholders have been invited, a summary of the comments received has been provided, and a report to the DOE on how due account was taken of any comments has been received." However, there are no criteria for how such comments should be handled.
- Paragraph 12(c) requires "documentation on the analysis of the socioeconomic and environmental impacts" of the project, including those outside the project boundary.

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8 This led to the inclusion of principle 1(h) in the principles 3 that govern the treatment of LULUCF within the Kyoto Protocol which states that: "accounting excludes removals resulting from: i. elevated carbon dioxide concentrations above their pre-industrial level; ii. indirect nitrogen deposition; and iii. the dynamic effects of age structure resulting from activities and practice before the reference year".

9 Schimel, D., and M. Manning. 2003, Expert Meeting Report IPCC Meeting on Current Scientific Understanding of the Processes Affecting Terrestrial Carbon Stocks and Human Influences upon Them:34. IPCC Working Group I Technical Support Unit, National Oceanic & Atmospheric Administration (NOAA). http://ipccwg1. ucar.edu/wg1/wg1_home.html

10 http://unfccc.int/resource/docs/cop9/06a02.pdf#page=13

However, the project and the host country evaluate whether "significant" negative impacts have occurred and what further analysis or actions are required.
- Paragraph 15(a) requires voluntary approval by the host country national government, including "confirmation" that the project assists sustainable development.
- Appendix B elaborates the information required in the PDD. This includes: present environmental conditions; presence of rare or endangered species and their habitats; land title, rights to carbon sequestered, and current land tenure and land use; elements that should be in the documentation; and description of any remedial measures.
- In addition, Decision 19/CP.9 includes in its preamble the recognition that host countries will evaluate "in accordance with their national laws" any risks from invasive alien species or genetically modified organisms.

Overall, despite significant efforts by some Parties, none of these provisions impose any evaluation criteria on LULUCF CDM projects for biodiversity and socioeconomic issues beyond that provided for already under the host country's national laws.

Key criteria for future REDD mechanism

Key criteria for the acceptability and sustainability of the future REDD mechanism will be:

- The ability to ensure biodiversity protection and the recognition of the rights of indigenous peoples.
- That it does not allow loopholes for increased industrial emissions; and
- That it finances national level reductions to achieve zero deforestation in developing countries by 2020.

In order for a mechanism to be successful, its design and operation will need to take account of and resolve a number complex scientific, technological, and methodological and equity issues. These issues include:

- The potential scale affects of deforestation on the carbon market.
- The need for a substantial volume of reliable finance.
- The need to reduce leakage effects, hence the need for widespread coverage of tropical deforesting countries and for national-level accounting.
- A focus on capacity building for countries to develop a national emissions approach with effective monitoring and verification and institutional support.
- Uncertainty in deforestation emission estimates substantially exceeds uncertainty in measuring industrial greenhouse gases.
- Intrinsic problems with the establishment of baselines and hence in estimating 'real' reductions.
- The need for monitoring and verification of emissions and of changes in deforestation and degradation activities.
- The potential for impermanence of accounted emission reductions from deforestation.
- The need for an emissions accounting approach that provides incentives to reduce emissions and protect biodiversity.
- The need to protect the rights of indigenous and forest peoples and to ensure that these peoples receive an equitable and fair share of the incentives and rewards for reducing deforestation.
- The need to avoid perverse incentives.

- The need to address the drivers of deforestation and assist developing countries to implement national policies and measures to ensure effective governance for forest protection.

It is unclear from the provisions in the draft conclusions how the proposed market-based mechanisms would address these important issues. Therefore Greenpeace believes that rather than wasting time negotiating these important issues within the flexible mechanisms discussion, these issues should be discussed through the appropriate forum under the AWG-LCA.

Conclusion

Of all CDM projects sent for validation, only 27 are afforestation and reforestation projects, a mere 0.7% of the total. As of 1 October 2008, not a single CER had been issued for a forestry activity. In 2007, forward forestry credits were traded at around 2-3€/tCO2e, which is 65-80% less than other CERs. The ongoing failure of forestry-related projects under the CDM is underscored by the poor reputation of forestry projects in the light of the non-permanence issue and the fact that expiring credits entail liability risks that need to be managed:[11]

The inherent problems with credited sinks projects remain: lack of permanence; leakage, lack of additionality, measurement uncertainties; and negative impacts on biodiversity and local communities. It is unclear from the provisions in the draft conclusions how the proposed market-based mechanisms would address these significant risks to the environmental integrity of the Kyoto Protocol.

For these reasons, Greenpeace continues to consider that forestry and other land use change projects should not be included in the CDM or any other flexible mechanism in the second commitment period of the Kyoto Protocol

Specifically, the following changes should be made to the draft conclusions.

I. Clean development mechanism
A. Include other land use, land-use change and forestry activities

Option A:

1. Status quo: the eligibility of land use, land-use change and forestry (LULUCF) activities under the clean development mechanism (CDM) for the first commitment period shall be maintained thereafter.

Greenpeace supports Option A. The status quo of the eligibility of LULUCF activities in the CDM should be maintained for the second and subsequent commitment periods. There is no need to renegotiate the modalities and procedures for eligibility of LULUCF projects in the CDM. A number of serious issues still remain that militate against any changes.

Option B: delete

Paragraph 3: The status quo should remain – with accounting of AR through temporary and long-term CERs.

[11] UNEP FI Climate Change Working Group & UNEP FI Insurance Working Group (2008) *Making Forests Competitive; Exploring insurance solutions for permanence Concept paper.* http://www.unepfi.org/fileadmin/documents/Exploring_Insurance_Solutions_for_Permanence.pdf

Paragraph 4: Support Option 2; Delete Option 1 and 3.

D. Introduce sectoral crediting of emission reductions below a previously established [no-lose] target

Sectoral crediting should only address emissions rather than removals. The negotiations on a mechanism for REDD and REDD+ are taking place within the LCA and should not be considered as a flexible mechanism.

Paragraph 12: delete references to "or removals within a defined sector to be achieved through national actions."

Delete references to "or enhancements in removals by sinks in the sector above the crediting target"

Paragraph 14: Delete references to "or above the sum of the projected changes in carbon stocks in the carbon pools within the sector boundary"

Paragraph 15: Delete references to: "and removals by sinks of GHGs"

Paragraph 18: Delete paragraph

Paragraph 21 (d): Delete reference to "and removals"

E. Introduce crediting on the basis of nationally appropriate mitigation actions

Crediting NAMAs predetermines the outcome of discussions on REDD in the AWG-LCA and would not ensure that biodiversity protection and the rights of indigenous people and local communities is adequately considered. Therefore remove all references to LULUCF sinks in this section.

Paragraph 24: Delete references to: "or the sum of changes in carbon stocks in the carbon pools"

Paragraph 25: Delete references to: "and removals by sinks"

Paragraph 27: Delete references to: "or removals"

Paragraph 30 (f): Delete references to; "and removals"

IV. Cross-cutting issues

A. Relax or eliminate carry-over (banking) restrictions on Kyoto units

Option A: status quo – keep status quo, Delete Option B and Option C.