

New Zealand submission to SBSTA
Initial views on Issues related to more comprehensive LULUCF accounting

April 2013

Context

1. CMP 7 requested SBSTA to consider more comprehensive accounting for anthropogenic emissions and sources from the LULUCF sector (Decision 2/CMP.7, paragraph 5). SBSTA 36 (May 2012) initiated its consideration of the issues, and invited Parties and admitted observer organizations to submit their views on these issues, for consideration by SBSTA 37 in November 2012. SBSTA 37 encouraged Parties to continue submitting their views in 2013, for compilation into a miscellaneous document for consideration at SBSTA 38 in June 2013.

Introduction

2. New Zealand welcomes this opportunity to provide its initial views on the issues related to more comprehensive accounting of anthropogenic emissions and removals from LULUCF (the 'land sector') including through a more inclusive activity-based or land-based approach.¹

3. The original interest in exploring more comprehensive LULUCF accounting derived from concerns, predating the current agreement on the second commitment period accounting rules, that the approach to LULUCF under the first Kyoto commitment period provided an insufficiently comprehensive coverage of emissions to ensure an effective mitigation response.

4. The SBSTA's discussions on this topic now provide Parties with an opportunity to consider the principles and objectives which could potentially inform the post-2020 architecture for the forestry and broader land sector, as well as the potential for integration of the different treatments of lands under the Convention and Kyoto Protocol and the resolution of issues related to the current accounting approaches.

5. These discussions will be important for the design of the new agreement to be negotiated under the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), and it will be important that SBSTA's discussions are reflected in the ADP process to avoid duplication of effort.

6. For these reasons, the initial views of New Zealand presented in this submission are intended to contribute to a wider conversation about how the transition might be made towards a more effective yet comprehensive approach to land sector accounting after 2020.

More comprehensive LULUCF accounting

7. Under the Kyoto Protocol, Annex 1 Parties use the net changes in greenhouse gas emissions from direct human-induced land use change and forestry activities as a contribution towards meeting their commitments. For the first and second commitment periods, these activities are limited to those identified in Article 3.3 and 3.4 of the Kyoto Protocol², noting that some activities are mandatory and others are elective.

¹ To clarify the use of terms in this submission, New Zealand understands the terms 'activity based' and 'land based' as they are explained in the IPCC Special Report *Land Use, Land-Use Change and Forestry*, 2000, at <http://www.ipcc.ch/pdf/special-reports/spm/srl-en.pdf>.

² The current activities under the Kyoto Protocol are, under Article 3.3, afforestation, reforestation and deforestation, and under Article 3.4, forest management, cropland management, grazing land management, revegetation, and wetland drainage and rewetting.

8. Concerns have been expressed that the approach to land sector accounting under the Kyoto Protocol provides insufficient coverage of land-based emissions to ensure an effective mitigation response or the environmental integrity of accounting. These concerns include the following issues:

- During the second commitment period of the Kyoto Protocol, accounting of Article 3.3 activities (afforestation/reforestation and deforestation) and the Article 3.4 activity, forest management, is mandatory, while the remaining Article 3.4 activities (cropland management, grazing land management, revegetation, and wetland drainage and rewetting) are elective, unless these were elected in the first commitment period.
- Activity-based accounting commences from the onset of the activity or the start of the commitment period, whichever comes later³, which means that some minor carbon stock changes on some areas of land may not be accounted for until the commencement of an Article 3.3 or 3.4 activity (e.g. the onset of a reforestation activity), potentially excluding carbon stock changes on that land prior to the onset of the activity.

9. Parties now have an opportunity to consider what could be a more comprehensive approach to LULUCF accounting in future.

What should drive our future consideration?

10. At the global scale, the land sector is responsible for approximately one third of all anthropogenic greenhouse gas emissions. The land sector can therefore make a very significant contribution to an effective, low-cost global mitigation response, provided the future agreement addresses land-based emissions on a global scale.

11. The future agreement will also need to reflect that Parties' dominant economic activities do not always align along traditional developed-developing country lines. While some developed and developing countries have emissions profiles dominated by land sector emissions, other developed and developing countries have a high proportion of industrial emissions. The agreement should therefore be able to accommodate diverse economic and biophysical national circumstances.

12. For the same reason, there may also be a need to consider whether the future approach should treat each type of land use in a consistent manner, irrespective of its country of location. A first step might be to explore whether there are synergies and overlaps between how forests are treated under the different approaches.

13. In designing a new approach, New Zealand sees value in learning from our experiences to date in developing and implementing the current systems, including by considering some of the challenges it has created. These challenges include the high level of complexity created by the numerous special accounting provisions and 'fixes' needed to remove arbitrary effects and address different national circumstances, and the difficulties inherent in designing accounting to deliver effective, efficient and sustainable mitigation incentives, that work with broader land management practices.

Principles for an effective, comprehensive land sector accounting approach

14. Before designing a future accounting approach for the land sector, it is important to consider what principles could support a more effective yet comprehensive mitigation approach. This is critical for maximising overall mitigation, and achieving the most cost-effective abatement. Any

³ As per paragraph 23, Annex to decision 2/CMP.7.

approach that is ineffective in some countries may reduce ambition in all countries by increasing the cost of action in those countries which do take part.

15. New Zealand considers that an effective future approach to the land sector is likely to be one that is straightforward, flexible, and works for all types of economies. It will also need to avoid creating arbitrary winners and losers – recognising that the land sector has different implications for different Parties at different points in time (i.e. a net source of greenhouse gases at one point in time and a net sink of greenhouse gases at another).

16. The future approach will also need to create mitigation incentives that support Parties' sustainable development goals. This requires recognising the land sector's contribution to delivering social, economic, environmental and cultural outcomes – for example through increased production of food, renewable sources of fibre and fuels, biodiversity protection and the sustainable use of water, soil and other natural resources, as well as by providing livelihoods for many hundreds of millions of people. These incentives will need to support the different mitigation ambitions of Parties, taking into account national priorities, capacities and capabilities.

17. To meet the diverse requirements for a more effective yet comprehensive global approach to the land sector, New Zealand believes the future approach will need to:

- Ensure the **environmental integrity** of accounting for emissions and removals, by transparently addressing all significant global sources of anthropogenic emissions from the land sector, without double counting of emissions reductions, and recognizing progressive improvement of measurement, reporting and verification (MRV) over time.
- Take into account **national circumstances** in order to create a level playing field for mitigation effort, for example, fast or slow growing forests, or high levels of natural disturbance.
- Provide sufficient **bounded flexibility** for domestic policy design, for example by allowing prioritisation according to key source/sink activities, or domestic land management practices, such as rotational land uses.
- Be able to be **readily applied by all** countries and all types of economies, for example, by exploring common approaches which could be sufficiently simple and flexible to be able to be applied consistently to all forests or all lands, in countries at all stages of development.
- Avoid creating **arbitrary winners and losers** – for example, due to historical or legacy effects, recognising that the land sector has different implications for different Parties, often due to factors outside a Party's control.
- Recognise the **sustainable development needs** of Parties and take into account their development priorities in the land sector, eg, production of food and fibre for a growing world population, protection of biodiversity, and provision of livelihoods for many millions of the world's poorest people.
- Create **effective incentives for mitigation**, by targeting emission reductions that are material, technically possible, environmentally and economically sustainable, and consistent with broader land management objectives.

- Be enduring, by enabling **ambition to be scaled up over time** without having to re-negotiate complex accounting rules.

Designing accounting to deliver effective incentives for mitigation

18. Realising the full mitigation potential of the land sector on a global scale will require appropriate policies and incentives. In many regions, however, the IPCC has found the absence of both has been a barrier to implementation of land based mitigation activities.⁴

19. New Zealand believes the purpose of any future land sector accounting should be to create mitigation incentives that facilitate ambition. By contrast, a system establishing punitive consequences is unlikely to result in broad participation.

20. The creation of such incentives is important when making the distinction between reporting emissions and removals, and accounting. Whereas national greenhouse gas inventory reporting is a technical exercise intended to record all anthropogenic emissions and removals with progressive accuracy and completeness, the LULUCF accounting approach under the Kyoto Protocol has been designed to target primarily the major emission and removal activities i.e. those associated with significant carbon stock changes.

21. In this respect, the design of an accounting system is particularly critical for the land sector, as it helps to ensure that incentives focused on greenhouse gas mitigation do not conflict with other policy goals for the sector, or lead to perverse outcomes. Questions might legitimately be asked as to whether the current accounting incentives are able to deliver optimal and sustainable land management outcomes, in what are very complex biological and biophysical systems. Such questions could include whether the current approach:

- Incentivises mitigation of emissions which are directly human-caused within the accounting period and is amenable to material influence by changes in policy or behaviour; or conversely, imposes a blanket cost on Parties for emissions outside their ability to control.
- Effectively targets accounting to incentivise mitigation actions that are economically and environmentally sustainable, efficient and consistent with broader land management objectives⁵, or can lead to sub-optimal land management decisions, perverse environmental outcomes or diminished mitigation incentives.
- Distinguishes adequately between different types of activities and trigger points consistent with holistic land management decisions.

22. New Zealand considers there may be value in further exploring the function of accounting in delivering incentives in the land sector, and the qualities and principles of accounting that could create more targeted and efficient incentives within countries, consistent with Parties' broader sustainable land management objectives.

Options for more comprehensive accounting

23. In New Zealand's view, a number of different approaches could be used to introduce more comprehensive land sector accounting, which could be either activity or land based (or a combination) and which could contribute to increased environmental integrity and a more effective

⁴ See: <http://www.ipcc.ch/pdf/assessment-report/ar4/wg3/ar4-wg3-chapter9.pdf>, page 543.

⁵ For example, sustainable timber production, food production, conservation, erosion control, etc.

global mitigation response. Options could include:

- More comprehensive **activity-based accounting**, by identifying new land-use activities or making more of the currently elective activities mandatory.
- More comprehensive **land-based accounting**, by applying land-based accounting to the current Kyoto activities, so that carbon stock changes on the relevant lands are accounted for from the start of the commitment period, rather than the onset of the activity.
- A comprehensive, **land-use category approach**, as used for Convention reporting, applying to the total managed land area of a country using the land use categories used for national GHG Inventories.⁶
- A more comprehensive, **integrated approach**, combining the land-use categories of Convention inventory reporting with the activity-based approach and special accounting provisions of the Kyoto Protocol for a subset of priority activities, emissions or removals.
- A more comprehensive, **inclusive approach**, using either activity or land-based categories, but made simpler and more flexible to enable more Parties to take part in land sector accounting.

24. New Zealand considers all options are likely to have some advantages and disadvantages, which would need careful consideration. In discussing these and other options, it will be important to assess them against the overarching objectives and principles discussed above, in order to ensure a more effective global approach to the land sector after 2020.

Building on key reporting and accounting achievements to date

25. In devising the current approach to land sector reporting and accounting, Parties have successfully resolved many complex accounting problems, including how to prioritise emissions coverage, address the arbitrary effects of a fixed base year, and accommodate some national circumstances in the land sector.

26. Parties have developed a number of accounting tools, special provisions and ‘fixes’ under both Convention reporting and Kyoto Protocol accounting which indicate useful functions and principles for any future accounting approach.

Accounting tools under the Convention

27. Under Convention reporting, tools that New Zealand considers useful in addressing more comprehensive accounting of anthropogenic emissions and removals from the land sector include:

- ‘Key category’ analysis, to establish significance, materiality, and allow prioritisation.
- Provision for progressive evolution and improvement, from Tier 1 methods through to Tier 3 methods with country-specific models.
- Progressive movement from IPCC default emission factors to country-specific emission factors, where appropriate and cost-effective.

⁶ ie, Forest Land, Cropland, Grassland, Wetlands, Settlements, and Other Land.

- Progressive conversion of land from the ‘land converted’ to ‘land remaining land’ categories, independent of a base year.

Accounting tools under the Kyoto Protocol

28. Under Kyoto Protocol supplementary reporting and accounting, tools that New Zealand considers useful in addressing more comprehensive accounting of anthropogenic emissions and removals from the land sector include:

- Targeting key source/sink activities e.g. deforestation, afforestation, reforestation, biomass burning, liming.
- Mandatory and elected activities, ensuring key land uses are accounted for.
- Reference levels – allowing arbitrary base-year effects, seasonality and other cyclical factors to be taken into account, and with potential for broader applicability to additional activities or categories e.g. agricultural soils.
- Specific accounting provisions:
 - Addressing natural disturbances – allowing emissions outside a Party’s control to be excluded from accounting, and with potential broader applicability beyond forests e.g. agricultural soils.
 - Flexible land use for planted forests – allowing for optimised use of land for its best productive or environmental use e.g. food, fibre, erosion control.
 - Harvested Wood Products – addressing the role of wood products in mitigation (through both carbon storage and product substitution) and potentially creating incentives for longer-lived products.
 - Afforestation/reforestation debit-credit rule (fast forest fix) – avoiding the perverse outcome of applying harvest liabilities to new sustainable production forests, planted since 1990 but grown to harvest age during the commitment period, by capping their liabilities at the level of credits received for these forests during the commitment period.

29. Despite these achievements, experience shows there is a need to be wary of excessive complexity. The iterative development of the land sector reporting and accounting rules, and mitigation approaches to forests in developing countries, has resulted in a proliferation of different reporting and accounting activities, rules and provisions, with increasing complexity, data collection and analysis requirements.

The challenge ahead

30. The key challenge will be to synthesise all we have learnt to develop an approach that is simple enough to be used effectively by Parties, to maximise future participation in land sector mitigation, while designing the flexibility for Parties to accommodate their national circumstances to enable them to set an appropriate level of ambition, and scale up their completeness, coverage and accuracy over time as their national capabilities permit.

31. We acknowledge that work needs to be done to determine how Parties might best employ the available tools and approaches to support a more globally comprehensive and effective approach to land sector mitigation in the future. Such work must recognise a diverse spectrum of capacity,

economic characteristics and national circumstances, in order to create an even playing field for ambition after 2020.

32. New Zealand looks forward to continuing discussions at the next session of SBSTA, noting that these discussions will also be important for the design of the new agreement to be negotiated under the ADP.