UNFCCC submission on modalities and procedures for possible additional LULUCF activities under the CDM, and alternative approaches to addressing the risk of non-permanence under the CDM

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We welcome this opportunity to make a submission on issues relating to 'Land use, land-use change and forestry (LULUCF) under Article 3, paragraphs 3 and 4, of the Kyoto Protocol and under the CDM,' under SBSTA agenda item 12(b).

In this submission we focus on the two items which Parties decided were the immediate priorities for this workgroup:

1. to consider modalities and procedures for possible additional LULUCF activities under the CDM;
2. to consider modalities and procedures for alternative approaches to addressing the risk of non-permanence under the CDM (with a view to forwarding a draft decision on the last two items to CMP 9).

We would like to make a point, on the other two elements on the SBSTA agenda item (comprehensive accounting and additionality), that ***given the relatively narrow participation and technical focus of LULUCF negotiations, discussions pertaining to the land sector in a post 2020 agreement are outside the mandate of this agenda item, and should wait until the appropriate framework to guide such discussions is established.*** These items should therefore be discussed in the context of the KP second commitment period under this agenda item. Given that Parties agreed in Warsaw that there any decisions taken on these items ***would not*** apply to the KP second commitment period, we therefore recommend closing these agenda items, in order to re-introduce them into the appropriate place in the ADP negotiations when such a point is reached.

Hence we do not comment on these two issues in this submission, but would be happy to do so in the context of the ADP when an appropriate framework is in place to guide sectoral level negotiations.

1. Additional LULUCF activities under the CDM

The proposal for additional activities under the CDM has arisen due to the limited uptake of LULUCF projects in the CDM. This has resulted in a lack of CDM finance flows to the poorest and most vulnerable countries, who are largely dependent on agriculture and forestry, with limited energy and industrial sectors. In our view there are two important reasons to maintain a limit on LULUCF activities in the CDM:

- The first relates to demand - the more credits on the market, the lower the price of the

credit. CDM credits are already practically worthless, with CERs currently trading at 50 cents a ton. Opening the CDM to credits from carbon in soils and vegetation will flood the market, meaning prices drop even further, undermining any potential generation of climate finance.

- The second reason is the lack of environmental integrity in land sector CDM activities. There are strict, environmentally determined limits on the maximum amount of carbon that can be restored to land carbon stocks, which is determined by the amount of carbon that was depleted from previous land use change (releasing carbon to the atmosphere).[1] Inclusion of additional land use activities does not increase the overall mitigation potential of the land sector, which is minimal compared to emissions from fossil fuel use. The primary mitigation potential in the land sector does not lie in its function as carbon sinks (sequestering carbon from the atmosphere), but in conserving the carbon stocks, and keeping these emissions out of the atmosphere. Activities such as reforesting, improved cropping or revegetation therefore, have lower mitigation potential than avoiding new emissions.

While LDCs may believe additional LULUCF activities will increase their access to the CDM, the reality is that carbon markets remain a poor way to transfer climate finance, with asymmetrical resource distribution and low carbon prices seen in the CDM likely to continue. Changes to the EU ETS Directive mean that from 2013, only CDM credits from LDCs are eligible in the EU ETS,[2] a revision that will have far greater impact on distribution than inclusion of additional land use activities. **Given the limited mitigation value of land-based carbon sequestration, the inclusions of additional land sector activities, and development of new methodologies for these should be viewed as unnecessary; any expansion of the land use sector in offset trading schemes should be rejected.**

2. Alternative approaches to addressing the risk of non-permanence under the CDM

The current approach for addressing the risk of non-permanence in LULUCF CDM projects is by issuing temporary credits (tCERs and lCERs), which have a limited lifespan and must be renewed, incurring additional transaction costs. Market demand for these credits has been limited, as they are not fully equivalent to ('fungible' or tradable with) credits from other types of CDM projects, resulting in very few forestry projects in the CDM. Many countries want changes to non-permanence rules in order to fully integrate the land sector into carbon

[1] Mackey et al (2013) Untangling the confusion around land carbon science and climate mitigation policy. *Nature Climate Change* **3** 552-557

[2] Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community Text with EEA relevance, article 11a. http://eur- lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:140:0063:01:EN:HTML

markets; to improve the market function of LULUCF CDM credits and to generate fully fungible CERs.[3]

The use of buffer pools and discounting credits has been proposed as a means of addressing leakage or risk of reversals by holding a portion of credits in reserve (a buffer pool) or under-estimating credits (discounting). Below are some concerns we have round the various proposals for alternative approaches to addressing non-permanence:

- ***Approaches to non-permanence involving host country guaranteed buffers significantly increases the liability of host Parties.*** Such a buffer could decrease the income generated by CDM credits in much the same way current arrangements for non-permanence does (lCERs and tCERS), while the proposal for host country responsibility for permanence may prove impossible to execute given the risk that a warming climate may change current carbon sinks into sources of CO_2.[4]

- Non-permanence remains a barrier to fungibility between land use and energy credits. ***The idea that emissions reductions from these two sectors are fungible and can be offset against each other is scientifically flawed.***[5] The reality is that for all practical purposes, fossil fuel CO_2 emissions are irreversible, while land-based carbon sequestration is temporary.[6] It is generally believed that CO_2 has a life-span in the atmosphere of 100 years, yet only about 60% of CO_2 is removed from the atmosphere on this time-scale - as much as 20–35% of the CO_2 emitted will still be in the atmosphere after 2–20 millennia,[7] meaning that 'if carbon is to be usefully stored on land…, it must remain stored not just for 100 years, but for more than 10,000 years.'[8]

The concept of 'permanence' as addressed in the CDM should therefore recognise the long time-scales involved and the inability to offset fossil emissions with land carbon sequestration, **and the current LULUCF rules on non-permanence should not be further weakened to facilitate trading of land-based carbon credits.**

[3] See LULUCF submission from Australia (14 September 2012): http://unfccc.int/files/methods/lulucf/application/pdf/australia_-_submission_on_alternative_approaches_to_addressing_non-permanence_under_the_cdm.pdf

[4] Friedlingstein P et al (2010) Update on CO2 Emissions. *Nature Geoscience* **3**

[5] Carbon storage on land as a means to 'offset' CO2 emissions from burning fossil fuels (an idea with wide currency) is scientifically flawed. The capacity of terrestrial ecosystems to store carbon is finite and the current sequestration potential primarily reflects depletion due to past land use. Avoiding emissions from land carbon stocks and refilling depleted stocks reduces atmospheric CO2 concentration, but the maximum amount of this reduction is equivalent to only a small fraction of potential fossil fuel emissions. From Mackey et al (2013) Untangling the confusion around land carbon science and climate mitigation policy. *Nature Climate Change* **3** 552-557

[6] Ibid

[7] Archer, D. et al. Atmospheric lifetime of fossil fuel carbon dioxide. *Annu. Rev. Earth Planet. Sci.* 37, 117–34 (2009)

[8] Mackey et al (2013) Untangling the confusion around land carbon science and climate mitigation policy. *Nature Climate Change* **3** 552-557

Conclusion

The inclusion of LULUCF in the KP and the CDM was controversial from the beginning, with the risk that accounting for sequestration in the land sector will undermine efforts to reduce emissions from fossil fuel sources.[9] The capacity of the land sector to remove and store CO_2 from the atmosphere is limited – the total potential for carbon storage in the land sector is small compared with the stock of fossil fuels that could yet be burnt.[10] Decisions on accounting rules for the land sector should therefore not take place under the erroneous assumption that fossil fuel emissions "can be offset in the long term by the uptake of CO_2 in land systems".[11]

The CDM has failed to financially benefit developing countries, whilst also failing to address climate change. Many view the challenges faced by the CDM as indication that it is facing collapse. The further weakening of rules around non-permanence and the inclusions of additional LULUCF activities in the CDM will undermine rather than strengthen mitigation, hence there must be no weakening of current rules regarding permanence in the discussions around LULUCF, CDM, or in any new regime.

In conclusion, we would like to re-iterate our key concerns:

- **Discussions pertaining to the land sector in a post-2020 agreement are outside the mandate of this agenda item, and should wait until the appropriate framework to guide such discussions is established.**
- **Given the limited mitigation value of land-based carbon sequestration, and the danger posed by reversals, expanding LULUCF activities under the CDM is unnecessary**
- **The concept of 'permanence' as addressed in the CDM should recognise the long time-scales involved and the inability to offset fossil emissions with land carbon sequestration.**
- **The current LULUCF rules on non-permanence should not be further weakened to facilitate trading of land-based carbon credits.**
- **Ultimately, the role of the land sector in carbon sequestration is limited, and reliance on land carbon sinks should be minimised in the context of ambitious climate mitigation.**

[9] Using the land sector as an offset in accounting under the KP lessened the incentive to reduce fossil fuel emissions, from the stated 5% target to an effective 2%. See Höhne N et al (2007) The rules for land use, land-use change and forestry under the Kyoto Protocol — lessons learned for the future climate negotiations. *Environmental Science and Policy* **10** 353–369

[10] Mackey et al (2013) Untangling the confusion around land carbon science and climate mitigation policy. *Nature Climate Change* **3** 552-557

[11] Ibid