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METHODOLOGICAL ISSUES

GOOD PRACTICE GUIDANCE AND OTHER INFORMATION ON LAND USE, LAND-USE CHANGE AND FORESTRY

Implications of harvested wood products accounting

Submissions from Parties

Addendum

1. In addition to the 10 submissions included in document FCCC/SBSTA/2003/MISC.1, one further submission has been received.
2. In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.

* This submission has been electronically imported in order to make it available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

FCCC/SBSTA/2003/MISC.1/Add.1

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PAPER SUBMITTED BY NEW ZEALAND

HARVESTED WOOD PRODUCTS

This submission follows on from New Zealand's interim submission on harvested wood products (HWP) dated 15 January 2003. New Zealand appreciates the invitation by SBSTA [refer FCCC/SBSTA/2001/8 paragraph 29 (k)] to comment on the issue of HWP accounting.

As noted in our interim submission, HWP accounting is a complex issue. New Zealand considers that it is important to further develop and finalise the policy relating to the issue, which has been outstanding since the mid-1990's.

PROCESS FOR ADDRESSING HWP ACCOUNTING

Wood products retain carbon even after trees have been harvested. In some cases there will be a significant extension of the time before the carbon is released back to the atmosphere. This is not clearly addressed under the current climate accounting rules. The default assumption in the *Revised 1996 IPCC Guidelines for National Greenhouse Gas Inventories* (1996 Guidelines) is that all the carbon contained in trees is released at harvest. This is based on the assumption that global stocks of carbon in wood products are not increasing. The 1996 Guidelines state that this assumption "is clearly not strictly accurate in the case of some forest products, but is considered a legitimate, conservative assumption for initial calculations"¹.

New Zealand notes that the treatment of harvested forests is inconsistent with the treatment of oil. Emissions from forest harvesting occur in the country of harvest whereas emissions from oil occur in the country of use.

New Zealand considers that the Kyoto Protocol or the Marrakech Accord rules do not provide the basis for a definitive treatment for handling the emissions from harvested wood products, including during the first commitment period (CP1). We have been unable to find a decision by the SBSTA or the COP consciously agreeing to or adopting the commonly accepted default assumption that all carbon is released at harvest, regardless of the use, particularly given that the IPCC 1996 Guidelines provide one approach that countries could use if they chose to do so².

New Zealand's understanding of the process to date is:

- In February 1996 an IPCC LUCF expert group meeting in Brazil agreed that the IPCC default harvest assumption could miss significant HWP for some countries. This meeting developed a "flow" method for HWP accounting. An alternative stock-based approach was also proposed but was considered to be impractical.
- In May 1996 at its 12th Plenary in Mexico the IPCC adopted the 1996 Guidelines but there was debate about the HWP module because of policy concerns raised and the IPCC agreed to hold a further workshop and seek policy guidance from SBSTA.
- SBSTA at its 4th session accepted the 1996 Guidelines aware that the IPCC had deferred a decision on the HWP module and had requested that SBSTA be consulted on the matter because of the broader policy implications. The SBSTA also welcomed the convening by the IPCC of an

¹ 1996 IPCC Guidelines Reference Manual, page 5.17

² 1996 IPCC Guidelines Reference Manual, page 5.17

expert group meeting on the technical aspects of methodologies for assessing emissions from forest harvesting and wood products and, inter alia, agreed to consider the issue further at its 6th session.

- The SBSTA however did not consider this issue at its 6th session.
- In May 1998 the IPCC held an experts workshop on emissions from harvesting and harvested wood products in Dakar. In the report of this workshop three different options for how to address these emissions were outlined. Because of the significant policy implications of these options the IPCC passed the responsibility for any ongoing methodological discussion by countries back to the SBSTA.
- The SBSTA has yet to consider this matter at any substantive level.

Therefore, New Zealand is not aware of any formal elaboration on the current recommended default assumption for harvested wood products, apparently because the process to date has been inadequate and unable to address the issue of how to account for HWP.

The 1996 Guidelines contemplate some form of “reporting” by Parties on their carbon stocks in HWP, but no methods for doing so are provided. As already noted, nor do the Marrakesh Accords provide useful elaboration. However, the COP may still wish to address the treatment of HWP “reporting” in CP1. Decision 11/CP.7 paragraph 4, which records the decision that *any changes to the treatment of harvested wood products shall be in accordance with future decisions of the Conference of the Parties* suggests that Parties wanted to resolve outstanding issues on LULUCF prior to making decisions on the policy issues relating to HWP. Paragraph 4 does not specify that these decisions would only relate to future commitment periods. It is arguable therefore that there is still an opportunity for future decisions of COP to address the treatment of HWP “reporting” in CP1 under the UNFCCC.

Also, the Marrakesh Accords do not make provision for accounting of HWP in respect to carbon credits and liabilities under the Kyoto Protocol in CP1, as a result of the policy issues on HWP not being addressed at the SBSTA. For example, paragraph 21 of the Annex to Draft decision-/CMP.1 (*Land Use, Land Use Change and Forestry*)³ describes the carbon pools within which changes shall be accounted for by Parties, but wood products are not identified as a pool. New Zealand’s recollection of the negotiations on the Marrakesh Accord is that it proposed that the door be left open to wood products being included as a pool subject to further consideration of the issue by the COP, but that a number of other Parties objected to the proposal. The text reflects the agreement reached. Therefore it appears that HWP accounting is not contemplated during CP1 under the current rules unless the Marrakesh Accord is re-litigated (which New Zealand does not support).

Although HWP accounting is considered not to be an issue for CP1, it needs to be clarified for commitment period two (CP2) and, if it is to be undertaken the methodology needs to be agreed. A decision on whether to undertake HWP accounting may depend on how the negotiations proceed and what is included in future agreements.

New Zealand is of the view that we need to start work on HWP accounting issues and methods now to feed into the CP2 negotiation process. Otherwise the current situation will prevail into CP2, with insufficient development of alternatives and implications and no formal decisions being taken. The SBSTA will need to put in a serious effort to address the policy issues and implications of HWP accounting.

³ FCCC/CP/2001/13/Add.1

New Zealand notes that there has been increasing interest and support from a number of countries in HWP accounting in recent times.

New Zealand is of the view that the policy issues need to be addressed formally by the SBSTA and the COP, rather than via Good Practice Guidance (GPG). As the issue of harvested wood products is still to be decided upon by the SBSTA, it is not good process to include it in the LULUCF GPG when only some of the possible approaches are identified that Parties to the UNFCCC might agree upon. The material provided in the GPG is a useful contribution to the up-coming consideration of the issue by the SBSTA, and to the up-coming review of the 1996 Guidelines, but should be deleted from the GPG and instead be dealt with through the SBSTA process.

New Zealand notes that the process from here is:

- for submissions from the current round to be compiled into an addendum to the miscellaneous document FCCC/SBSTA/2001/MISC.1 for consideration by the SBSTA at its eighteenth session;
- that the Secretariat is to prepare a technical paper on HWP accounting based on the submissions contained in the miscellaneous document and taking into account socio-economic and environmental impacts, including impacts on developing countries, for consideration by the SBSTA at its nineteenth and, if necessary, subsequent sessions; and
- that the SBSTA will further consider HWP accounting and reporting at its twentieth and twenty-first sessions, with a view to recommending any relevant decisions to the COP and COP/MOP.

HWP CHALLENGES TO BE ADDRESSED

HWP accounting will require a range of policy and technical challenges to be addressed. Some of the key challenges are outlined below.

Complexity versus Simplicity

A disincentive to some countries signing up to the Kyoto Protocol appears to be the complexity of reporting and accounting requirements they are required to meet. Addressing emissions from harvesting and HWP could add to this problem. It could also be made so technically complex as to potentially render it unlikely that Parties can ever agree on a way forward. The complexity problem needs to be considered when addressing the various issues and methodologies involved with HWP accounting. It is necessary to seek a simple yet robust methodology.

Data

The three accounting approaches (stock change, atmospheric flow and production) developed in Dakar all require data, and will tend to require models to estimate atmospheric impact.

Readily available and verifiable data are required on carbon coming into the products pool (e.g., harvest volumes, residue flows, imports); on the products themselves (e.g., density, carbon content, lifetime); and on carbon leaving the products pool by various means (e.g., bioenergy, landfill, recycling). While the inflows tend to be reliable, product aggregation into larger 'general' pools (e.g., sawn timber, pulp, paper, board) may reduce the accuracy of the product stocks.

Lifetimes of products are much more difficult to ascertain and they may change dramatically and rapidly according to a range of factors (e.g., economic prosperity, building codes, fashion) and determining the fate of products once they have served a useful life is also challenging. Hence, while the inflows are

relatively well known, the accuracy of the stocks and flows of carbon thereafter is more uncertain. Where higher levels of uncertainty occur, this can be compensated for by use of discount factors. However, reliable data is available on trade between countries. Hence it can be a simple exercise to verify for example that carbon harvested in the producing country will not be released there, but in the consuming country. Use of certification processes is increasing and it is necessary to have robust and verifiable chain of custody procedures in place, which help ensure accuracy of data.

Which Products to Account For

The SBSTA would need to make policy decisions on which products to account for (e.g., long-lived products like timber, short-lived products like tissue paper, all products produced or only those since 1990, wood products in landfills, etc.). The decisions on which products to account for will affect the complexity of and ease of implementing the accounting requirements. Another issue is how to deal with recycled products in an accounting methodology.

Producer versus Consumer

Complications occur for HWP accounting where products are exported/imported. The different possible HWP accounting approaches pose differing trade related issues and may lead to different outcomes. Some possible approaches require the producing country to account for carbon emissions from HWP that have ended their useful life. Other approaches would require the consuming country to account for the emissions. The different approaches will lead to differing incentives for countries to reduce consumption or extend the life of products, thereby achieving different environmental outcomes. HWP accounting has the ability to influence the behaviour of the forest industry, world forestry trade and consumers alike in relation to the release of carbon.

Trade Related Challenges

Wood is of low energy intensity and, with appropriate management, an environmentally sustainable product. A trade issue to be considered relating to HWP accounting is the potential for wood products to be disadvantaged compared to non-wood alternatives that are more energy intensive to produce, are made of non-renewable materials and are not subject to an emissions regime. This is particularly the case where those materials have been produced in countries not subject to emissions obligations. The result could be price signals to move away from wood to less environmentally desirable products. Consideration of HWP should therefore be done alongside consideration of other competing products. Policies affecting land use and energy will also have an impact.

A Way Forward

A potential way forward could be to establish a framework of principles to guide the work on HWP accounting and subsequent negotiations. The framework may include principles stating that the HWP accounting approach should:

- focus on readily obtainable, verifiable data that is accurate and scientifically credible;
- be easy to understand and as simple as possible to implement while still achieving the desired outcomes;
- lead to changes in behaviours to encourage outcomes consistent with the UNFCCC and Kyoto Protocol;
- provide no disincentive to the trade in forest products from sustainably managed forests;

- provide incentives for the use of wood from sustainably managed forests as compared with non-sustainable alternatives, to help achieve the climate change objectives;
- promote a reduction in CO₂ emissions to the atmosphere and does not give rise to an allowed increase of overall emissions to the atmosphere;
- provide for a viable approach that is workable in practice, as well as being logical in methodology;
- have environmental integrity; and
- be cost effective to implement.

There may be additional topic areas that require principles.

There is also a need for market pragmatism, realising that principles that may hold in the situation where all countries are covered by the rules may not be feasible in practice when they are not. Unless care is taken the principles may lead to adverse environmental outcomes and unacceptable dislocations of the international market in forest products.

Next Steps

New Zealand is of the view that further work is required:

- by Parties to develop a framework of principles to guide the development and assessment of options for HWP accounting, at a workshop to follow SBSTA 18;
- by Parties to identify a range of potential options for HWP accounting, including but not limited to the four options currently on the table (default assumption, stock change, atmospheric flow and production approaches), particularly with a view to identifying simplified options;
- by the Secretariat to prepare a technical paper on HWP accounting based on the submissions contained in the miscellaneous document (FCCC/SBSTA/2001/MISC.1) and taking into account socio-economic and environmental impacts, including impacts on developing countries, for consideration by the SBSTA at its nineteenth and, if necessary, subsequent sessions; and
- by the SBSTA to further consider (informed by the work in the first three bullet points) HWP accounting and reporting at its twentieth and twenty-first sessions, with a view to recommending any relevant decisions to the COP and COP/MOP, for application in CP2.
