CSPR Briefing

Land use and forest issues at COP13 on Bali Dec 2007

REPORT

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‘Land use, land-use change and forestry in an extended context’
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1. Sink CDM related issues

Afforestation and reforestation (A/R) projects have not been taken off under Clean Development Mechanism (CDM). Of the almost 900 projects that have been registered (8 Jan 2008) only one is an A/R project. On the other hand are A/R projects booming on the voluntary arena. During Forest Day, organized by CIFOR on 8 December during COP13, one of the side events by EcoSecurites discussed why forestry projects are slow under the Kyoto Protocol.

The barriers for the development were described as:
- complex UNFCCC regulations (for example, project developers are not experienced with the system and its process)
- A/R exclusion from the EU ETS
- confusing temporary credits (tCER system)
- lack of methodologies (in the infancy of Kyoto, today there are 10 approved methodologies)
- high risk for investors
- competing voluntary market with higher price (US$6-14 compared to US$3-4 for tCERs)

There are explaining factors to this development and it is associated with concerns regarding
- avoiding perverse incentives
- insure integrity of the environment
- avoiding market flooding
- leakage (still a big issue!!)
- consistency (5 yrs for credits)
- 8 tC cap to prevent loopholes (see limit decision at COP13 in section 3.1)
- tCERs to ensure permanence for carbon removal

The attractiveness of A/R CDMs is still environmental co-benefits (discussed more in section 1.2 and 1.4) and the sustainable development co-benefits. Even though there is only one registered project there is a number (at least 13 for down in the process) of projects in pipeline and expected tCERs in the future if pipeline projects are starting. If projected tCERs are divided by continent the figures are 26 percent for Africa, 56 percent for Latin America and 7 percent for Asia.

There has also been several initiatives to financially kick-start A/R projects such as the World Bank’s 1) Bio Carbon Fund US$53.8 million 2) Forest Carbon Partner Facility US$250 million and Australia Global Forest Fund US$160 million. Hence, the financial willingness is present, but as discussed at this side event, there is still a lot of capacity building to be done.

As a consequence to the A/R development, our project, Land use, land-use change and forestry in an extended context, and hence this report will enhance the view of A/R CDM, were synergies and actual add-on effects to the mechanism are being part of the discussion at COP13 as well as more lesson-learned for possible new mechanisms, such as reduced emission from avoided deforestation in developing countries (REDD).
1.1 Biofuels Policy

The issue of biofuels was not an agenda item at COP13 directly but is of relevance in terms of the Adaptation Fund and the technology transfer (see section 3).

1.2 Biofuels Science

The issue of biofuels or agrofuels was widely discussed both in the side events and in the CIFOR organised Forest Day. The issue is controversial with on one hand the pro biofuels, mostly private sector and governments and the con side with NGOs in a leading position.

The arguments are:

Pro: Biofuels are presented as one of the solutions to the problem of energy supply in a world not depending on fossil fuel. The pros argue that the production of bio-ethanol and bio-diesel are regulated and to a large amount under control. They also express that the plantation of biofuels on marginal lands could be beneficial both for the energy supply and also for the rehabilitation of degraded areas. According to the Brazilian Government the risk of encroachment in the Amazons due to the expansion of biofuels, either direct or indirect, is very limited.

Con: On the other hand there are several organisations that can not think of anything worse than large scale biofuels. These groups are presenting their ideas on several side events with different witnesses from indigenous people making their testimony regarding agro-fuels. They present examples where the production of agro-fuels have forced communities to migrate, changing the traditional way of living by introducing large scale monocultures where the communities practiced traditional forest management. One group especially claim that there are no such thing as marginal lands, that all land is used one way or another, and that the so called marginal land are crucial for the rural poor. One other concern regarding large scale monocultures are the large amounts of pesticides and herbicides that would be needed to protect the plantation, many of these pesticides and herbicides are very poisonous and cause serious illness with the people employed at the plantations.

1.3 Synergies Policy

This issue is not a COP13 agenda item. This issue is not subject to negotiations at this stage. However, the issue is still under technical and practical development. A Joint Liaison Group of the Rio Conventions, with the aim of enhancing coordination between the three conventions, is organising workshops and collaborates with other international organizations and NGOs with substantial programmes on forest.
1.4 Synergies Science

Synergies between the Rio Conventions are only briefly discusses at COP13. One side event target the question whilst other only touch upon the issue. The main link identified between the conventions is land use and land use change where rehabilitation of degraded lands was recognized as one possible action. These lands are not only most vulnerable to climate change but also crucial for rural development. The discussion about synergies is in a trial phase and is not regulated by any financial mechanisms or quality standards, although both CDM and Payment for Environmental Services (PES) are potential system that can trigger the development.

Activities suitable for synergy work, for example:
- Carbon sequestration in biomass and woody plants
- Carbon conservation
- Carbon substitution as in fuelswitch, for example non-renewable biomass to renewable biomass¹ or energy efficient cooking stoves (use less energy)

Questions raised:
- How can mitigation and adaptation measures contribute to increase investments in sustainable land management for rural development?
- How can the rural poor and rural communities capitalize on climate change mitigation and adaptation measures?
- How can climate change mitigation and adaptation measures contribute to rural development, sustainable land management and rural energy needs?
- How to better integrate better climate change, land degradation and alleviation of rural poverty?
- Carbon finance as an incentive for rural development and sustainable land management.
- Which opportunities in the agricultural, rural, forestry and land use sector can be better exploited now and beyond 2012?

¹ Biomass is renewable when:
- The land area remains a forest; and
- Sustainable management practices are undertaken on these land areas to ensure, in particular, that the level of carbon stocks on these land areas does not systematically decrease over time (carbon stocks may temporarily decrease due to harvesting); and
- Any national or regional forestry and nature conservation regulations are complied with.
2. Avoided deforestation

Avoided deforestation or Reducing Emissions from Deforestation in Developing countries and/or Degradation (REDD) – the idea that governments and forest owners are paid to prevent deforestation that would otherwise occur has become a key policy issue in the climate change negotiations and was one of the hottest topics at this year’s COP.

Forest conservation projects were excluded from the Clean Development Mechanism in the Marrakesh Accords in 2001. However, at the 11th Conference of the Parties several calls were expressed for inclusion of forests under Kyoto’s trading instruments. The proposal led to a two-year process seeking to develop an international framework for REDD and SBSTA presented its recommendations at the COP13 in Bali. Ever since the issue was decided the parties of the Convention have been engaged in intensive discussions about an instrument for avoided deforestation in a second commitment period post 2012 and parties and accredited observers were invited at two occasions to submit their views on this issue.

2.1 REDD Policy

Agenda item 5, Reducing emissions from deforestation: approaches to stimulate action were first addressed in the SBSTA plenary on 4 December. Over 20 statements were put forward on this issue. Papua New Guinea stated, “Climate change is real and upon us” and “world consciousness has awoken to this issue.” The time to act is now, and the time to reign in tropical deforestation under the auspices of Kyoto and its future offspring is upon us.

The usual squabble between Brazil and the Coalition of the Rainforest Nations continued. Brazil stated that “bringing in market mechanisms now is premature. We are trying to find a roadmap until 2012 and beyond.” Brazil also noted that many Annex I countries have seen rising carbon emissions in the last 15 years, and argued that reducing emissions from fossil fuel combustion must be addressed before forests are considered. Papua New Guinea, on the other hand advocated for national carbon accounting for market activities, as well as sub-national accounting. Indonesia pointed out that any REDD agreement must be developed “according to national standards and policies.” Australia strongly advocated for a market mechanism and also highlighted the need for Annex I countries to provide support for developing countries. The United States stated that it is a “priority to further improve the understanding of methodological issues” related to REDD solutions.

Talks continued in several contact groups and informal meetings. Parties considered the draft text forwarded by SBSTA 26. India and China proposed inclusion of conservation and enhancement of forest carbon stocks but this was opposed by Brazil and the EU. Some parties, like Brazil, preferred not to include degradation in REDD, while others like the Coalition for Rainforest Nations highlighted the importance to include degradation as well as deforestation. The United States worried about the inclusion of “land-use” in addition to deforestation and degradation under this mandate by bracketing two entire paragraphs that were key to the support of India on forest management issues. Since no time was left for SBSTA to take decision on this issue the text was put forward to COP for a final decision.
COP decision on REDD

The COP adopted a decision encouraging tropical forest countries to undertake demonstration activities and providing “indicative guidance” for such projects in order for understanding the challenges ahead. The primary focus of the demonstration activities is the development of national emission baselines, based on historic emissions, against which reductions can be measured. The decision leaves open whether incentives to reduce deforestation would take the form of carbon credits or direct financial assistance, as the question of “policy approaches and positive incentives” for reducing REDD emissions is to be taken up by the new Ad Hoc Working Group that will consider post-2012 action under the Convention. The proposal by United States to include “land-use” was considered and other countries insisted on an explicit reference to REDD, particularly tropical countries and its mandate and subsequently the brackets were left out in the final text.

More specifically, the COP decision highlighted for example:

- the urgent need to take further meaningful action to reduce emissions from deforestation and forest degradation in developing countries

- the need of local and indigenous communities should be addressed when action is taken to reduce emissions from deforestation and forest degradation in developing countries

- to encourage parties to explore a range of actions and undertake efforts, including demonstration activities, to address the drivers of deforestation, “with a view to reducing emissions from deforestation and forest degradation and thus enhancing forest carbon stocks due to sustainable management of forests”;

- that COP requests the SBSTA to undertake a programme of work on methodological issues related to a range of policy approaches and positive incentives, including through submissions (21 March 2008) and the organization of a workshop, and to report to COP 14 on the outcomes of this work

- the further consideration, under the Bali roadmap, of “policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries.”

However, REDD still faces many challenges, especially in implementation. Issues range from permanence to baseline and data establishment (how does one measure historic deforestation to establish a baseline for calculating reduction?). Further questions over land rights as well as how local communities and indigenous people will benefit (which turned out to be a hotly discussed issue at this COP). How REDD should be funded (market-based or fund-based or a combination of the both?) is also an issue which has to be discussed further.
Other issues related to REDD implementation activities - World Bank’s Forest Carbon Partnership Facility

On 11 December, the World Bank officially unveiled its US$300 million Forest Carbon Partnership Facility, a scheme that will offer tropical countries carbon offset credits to preserve forests.

The bank said that nine industrialized countries have pledged US$155 million to kick-start the 10-year initiative, including Germany (US$59 million), the United Kingdom (US$30 million), the Netherlands (US$22 million), Australia and Japan (US$10 million each), France and Switzerland (US$7 million each), and Denmark and Finland (US$5 million each). The United States has contributed US$0. Some 30 tropical countries in Africa, Latin America and the Asia-Pacific could benefit from what the World Bank calls "the first financial mechanism to pay countries for saving their tropical forests."

The Facility would finance capacity building to increase developing countries’ capacity to harness a future system of payments, and pilot performance-based carbon purchases for avoided emissions in a small number of countries. The facility consists of two components: A US$100 million Readiness Fund will provide grants to help countries set up systems and processes to monitor and credibly govern their forests. Several countries will also be able to sell emission reductions to a special US$200 million Carbon Fund supported by wealthy countries, as well as the private sector and organizations.

Support from Norway to combat deforestation

Norway’s strategy for combating deforestation in developing countries was presented at COP13. Norway is ready to increase its part in fighting deforestation in developing countries by supporting 375 million euros, (US$548 million) a year," Norway’s prime minister Stoltenberg said in a statement.

"This could yield significant and rapid reductions in carbon dioxide emissions at a low cost", adding that deforestation in developing countries was responsible for about 20 percent of the world's carbon dioxide emissions.

2.2 REDD Science

The issue of REDD was frequently discussed at several side-events and in the CIFOR organised Forest Day. Topics related to methodological constraints (e.g. monitoring, baseline, leakage) were discussed but also more governance and equity related issues were more in focus at this conference compared to e.g. COP12. Sessions linked to economics and how to implement REDD in the most practical and profitable way were also taking place. Below, a summary of the most interesting and “ground-breaking” side-events around the REDD issue is presented.
The role of ecosystem (natural forests) in carbon storage and the climate change problem – presented by Australian National University

On this side-event a member of the Australian National University presented results indicating that carbon stores in natural forests are greatly underestimated by national inventories in Australia and are much greater than in managed plantations. Forestry and other industrial activities in these ecosystems degrade these important carbon stocks and release the carbon to the atmosphere. The current rules guiding the treatment of land use, land use change and forestry (LULUCF) fail to place an appropriate emphasis on this fact and fail to fully account for human-caused emissions from all land uses. There is a hope that the review and “enhancement” of these rules, planned for 2008 under the Article 9 review and the Ad Hoc Working Group, will remedy these deficiencies and encourage Annex I countries to reduce degradation of carbon stocks in their natural forests and other ecosystems. It is imperative that REDD must be accounted for and achieved in both annex 1 and non-annex countries (equity principle)

Improving estimates of national biomass carbon stocks in tropical forests – presented by Max Planck Institute

Estimates on national REDD potentials are limited by uncertainties in carbon stock estimates

Principal sources of uncertainties:
Inherent variation in data structure and quality
– Diversity of forest types
– Quality of forest inventories
– Availability of allometric equations
– Reliable wood density data

Conclusions
- Strong imperative for increasing efforts in improving biomass estimates
- Experience with several tropical countries proves that such high quality estimates can be achieved
- Only manageable efforts required
- Improved biomass estimates yield higher accuracy and precision in national carbon stocks
- Such estimates benefit the country as error is reduced and thus the most conservative carbon stock value is expected to rise

Towards a sustainable and effective mitigation mechanism – presented by Max Planck Institute

It was stated that REDD is only part of the solution to curb greenhouse gases from deforestation and degradation. A more sustainable mechanism should include also activities to
promote conservation (avoided emission) and sustainable forest management (forest sink capacity). This could be incentives for countries that have experienced deforestation in the past but today have zero or a net gain in forest area (China, India, Costa Rica). But these new activities need to be addressed with different methodological approaches.

For example the Brazilian state of Mato Grosso which is heavily converting its remaining forests could theoretically get larger advantages from a REDD mechanism than Amazonas state which is promoting the conservation and the sustainable management of its forests. A national approach to assess emission reductions does not solve per se the question of an equitable distribution of the positive incentives under the expected REDD mechanism, but gives more chances to governments to proceed in a more incisive and reasonable solutions.

Incentives should be given to:
- promote immediate action
- promote ambitious emission reductions
- establish a stable incentive and control system for
  - maintaining forest carbon stocks
  - towards sustainable forest management

Conclusions
- Incentives based on emission reductions can stimulate early action but do not support the permanence of REDD activities
- Additional mechanisms need to target conservation and sustainable forest management

Forest day - Setting the baseline and estimating the forest carbon: Methodological challenges

The Panellists emphasised that monitoring forest degradation is problematic because key definitions change over time. Forestry is not a high priority sector in most countries and monitoring and assessment would help make forests more visible in policy discussions at the national level. Moreover, setting a baseline is difficult due to widespread confusion over key terms such as “baseline” and “target,” and high inter-annual variation in deforestation. Estimating forest carbon in peatlands it is necessary to account for the nature of land use change, including depth of drainage, duration of drainage and the type of post-clearance land use.

Forest day - Evolving a technical sourcebook for REDD implementation activities

An ad-hoc GOFC-GOLD (Global Observations of Forest Cover and Land Dynamics) working group was set up on the REDD issue at the end of 2005. The result of the working group during this two-year process is the following:

- Satellite monitoring is the only objective approach in developing countries
- Forest changes can be monitored with confidence for assessing and comparing historical and future rates of deforestation

- Countries can start develop a national monitoring system and establish a historical reference

A sourcebook of methods and procedures for monitoring measuring and reporting was presented with consensus perspective from earth observation and carbon measurement and accounting experts. The sourcebook is intended to provide transparent methods that are designed to produce estimates of changes in forest area and carbon stocks from deforestation and degradation, with low uncertainty, in a format that is user-friendly. It is intended to complement the IPCC GPG-LULUCF (2003) and IPCC Guidelines-AFOLU (2006) by providing additional explanation, clarification and enhanced methodologies for obtaining and analyzing key data.

**Closing statements on Forest day**

Frances Seymour, CIFOR Director General, presented a summary of key points emerging from the event. It was noted that: current methods are “good enough” to proceed with the design and mechanisms for REDD; governance-related challenges pose the greatest obstacles to international investors and local stakeholders but also provide opportunities for governance reform; there is a need for simple mechanisms and multiple instruments, including a combination of market mechanisms; and the success of REDD depends on willingness to address key drivers of deforestation, including those beyond the forestry sector. Among areas for further research work, she noted the need to: better define degradation and monitor carbon stock change, particularly related to degradation and peatlands; identify ways to minimize transaction costs while ensuring relevant safeguards; and develop methods for assessing the adaptive capacity of forests dependent communities.

Yvo de Boer, UNFCCC executive secretary expressed confidence that the discussions at Forest Day would inform the UNFCCC process. He highlighted the need to take into account incentive mechanisms and synergies in the other Rio Conventions and to disaggregate and improve understanding of deforestation and degradation, exploring how best to address the drivers of deforestation.
3. Other key LULUCF issues for COP13

Two of the main issues for the negotiations on Bali were the Adaptations Fund and technology transfer discussions, both of high relevance for developing countries and can indirectly be important for the land use and forest development in these countries.

The **Adaptation Fund** is now decided to go to adaptation projects in developing countries, financed by the Kyoto Protocol’s CDM trough the 2 percent levy that is anticipated to generate large funds as more CDM projects get registered (presently the Fund is worth 37 million euros). The Adaptation Fund would begin under the management of the Global Environment Facility (GEF). This ensures that the Adaptation Fund will become operational in an early stage of the first commitment period. The governments could not agree on additional practical adaptation measures, such as how to integrate adaptation into national policies. Hence, there is more to come.

**Technology transfer** finally landed in an agreement that governments are to scale up the level of investment for the transfer of both mitigation and adaptation technologies that developing countries need. Here concrete demonstration projects and creation of attractive environment for investments are means to provide incentives to the private sector. GEF is again in charge of setting up these programmes in collaboration with others.

### 3.1 Change limits for small scale A/R CDM – a COP13 decision

Not the most well-attended negotiation item, but still one that ended as a final decision was the issue regarding increasing the size of what is called small scale A/R CDM from 8 tCO$_2$/yr to 16 tCO$_2$/yr. The initial text discussed an increased limit of 30 tCO$_2$/yr, which is equal to that of small scale energy projects. The decision means that projects that are expected to remove greenhouse gases by sinks of less than 16 tCO$_2$/yr are able to use less stringent methodology and hence lower the cost of implement and run a project. Our group made a UNFCCC submission on this matter 19 February 2007 giving great support for the increase of limits of A/R CDM since these projects have had a disadvantage compared to other types of CDM projects. The present increase did not fully change that disadvantage since the streamline level with energy project of 30 tCO$_2$/yr decreased to 16 tCO$_2$/yr. Further, our concern in our submission was that the real small scale projects, still under 8 tCO$_2$/yr, would with and increased limit be even less adapted to enter into the CDM if no targeted incentives were to be applied (for the group’s submission see [http://www.gvc2.gu.se/ngeo/lulucf/pdf/Smallscale.pdf](http://www.gvc2.gu.se/ngeo/lulucf/pdf/Smallscale.pdf))

### 3.2 Voluntary market development

The voluntary market was under discussion with regards to the development on the market and the need for quality standards. Representatives from the private sector presented their view on the market and the expected future development. According to them, customers want
high quality projects which are additional and which can show positive side-effects. They are also interested in transparency of the process, information regarding specific projects. The questions raised were:

- What can CDM learn from the voluntary market (regarding the demand)?
- Which standards should apply to the voluntary market?

3.3 CDM – nonrenewable biomass

Increased efficiency in the use of traditional biomass and switching from non-renewable biomass to renewable biomass are not included in the CDM (as for now). There is a strong force among the NGOs to deal with this issue. Their opinion is that not including this issue under the CDM sends the wrong message to local communities. Biomass for energy is still one on the main energy source in many developing countries and in rural areas and an inclusion in the CDM could possibly lead, not only to a positive fuelswitch, but also a more sustainable usage of the natural resources.