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EU CLIMATE & ENERGY PACKAGE
Update on deliberations on linking forest based
mitigation to the EU ETS

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Forest based mitigation is being discussed within 3 elements of the Package

1. EU Effort Sharing (non ETS sectors):

- Accounting for LULUCF in the EU (although international rules for LULUCF accounting will not be agreed before, at very best, end 2009)?
- MS may use JI/CDM credits from LULUCF for governmental compliance, but EP wants to limit it (1% non ETS emissions/year, instead of 3%)

2. Renewable energy:

- Sustainability criteria for biofuels, in particular for imported biomass

3. EU ETS

- Earmarking of auction revenues to finance REDD(+)
- Linking to JI/CDM credits generated by LULUCF activities
- Linking to possible future international REDD(+) market based mechanism

EU ETS: The position of the Commission

- **In 2004, Council and Parliament adopted the “Linking” Directive which does not allow the use of JI/CDM credits from LULUCF activities in the EU ETS, because:**
 - ETS: “technological” driver for “permanent” reductions in the EU
 - Temporary and reversible nature of LULUCF: liability risks

- **In 2008, the Commission proposal maintains the exclusion of credits from LULUCF, mainly because of the liability risks**
 - But suggests (MS “should”) earmarking of a portion of auction revenues to tackle deforestation (20% for all climate related activities)
 - Nothing on linking REDD(+) credits: “international negotiations to come”

- **Commission Communication (2008) 645/3 suggests a two track/step approach:**
 - Short term: Establishment of Global Forest Carbon Mechanism (FGCM)
 - Long term: “testing” inclusion of REDD(+) credits in carbon markets for government compliance, inclusion in EU ETS to be assessed post 2020

EU ETS: the position of the EP

- **Doyle Report adopted by ENVI Committee (7 October 2008):**
 - **Calls for a Coalition of the Willing of Member States to transfer to a Community Fund one quarter of 50% of auction revenues to take action to avoid deforestation and increase A/R in "Parties" to the future climate agreement (could amount to 2,5 billion€/year)**

 - **Allows, "upon ratification of a future international agreement on climate change", EU ETS operators to use credits up to 5% of ETS installations' emissions from:**
 - ✓ sustainable, verifiable, permanent forestry activities in DCs with which an agreement has been concluded (clause art. 11.5), and
 - ✓ any sustainable, verifiable and permanent forestry projects in DCs in compliance with the international agreement (art.28: 20 to 30% clause, use of other credit types up to half of additional reduction effort).
 - ✓ ...provided credits are generated by projects meeting high quality criteria, to be adopted by the Commission (= mandate).

EU ETS: the position of the Council

- **A majority of MS are against linking forest based mitigation to the EU ETS at this point of time, whether for A/R or REDD(+)**
- **As a matter of principle, a number of MS oppose “mandatory” earmarking of auction revenues:**
 - Council Conclusions of 21 October 2008: “It is for the MS to determine how the revenues generated by the auctioning of 15 % of the EU ETS allowances **for aviation** are to be used, (...) inter alia, for financing measures to avoid deforestation”
- **But same Conclusions insist on the importance of an ambitious deal in the Copenhagen agreement on REDD(+) in developing countries, and also on the role of conservation, sustainable management of forests and enhancement of forest carbon stock**
- **Willingness to consider “under appropriate conditions”, in the context of an agreement in Copenhagen, how to harness public financing and carbon markets with respect to REDD(+)**

Conclusions and next steps

- **Linking forestry credits from offsets still raises liability concerns, except if EUAs are issued to domestic forestry offsets**
- **Action must be taken to tackle deforestation. Using REDD(+) in the EU ETS is one option to be further explored, and the door should be left open (review clause?)**
- **Early action for readiness and development of sustainable forestry policies and measures can be financed through the use of auction revenues now**
- **Starting of informal Trilogue negotiations: to what extent the EP will fight for keeping strong provisions on using auction revenues to promote REDD(+)**
- **In the present political context, it will be a challenge to reach an agreement on the whole Package in December this year**