Technicalities of carbon forestry

Katoomba meeting,

Zurich, Oct 03
Issues and technicalities

Issues proposed for discussion in SBSTA 18 (June 2003):

- Base year for baseline
- Forest definitions
- Crediting period
- Carbon accounting methods and (non)permanence
- New methods, small scale, etc.
1) Base year

Forestry projects can only be implemented in areas that were not forested in 31\textsuperscript{st} Dec 1989 (1990)

This is to avoid ‘perverse incentives’

New proposals include:

- 31\textsuperscript{st} Dec 1999 (2000)
- At least 10 years prior to the project activity
1) Base year

- Shifting the year forward would increase the amount of land and project possibilities under Kyoto. It would make it a ‘nearer’ past, creating more data availability to characterise the baseline
- Disadvantage – would open a precedent for further re-negotiations
2) Forest definitions

- A minimum tree cover value between 10 and 30 %
- A minimum area between 0.05 and 1 ha
- A minimum tree height between 2 and 5 m

- These values will be fixed until end of 1st Comm. Period
2) Forest definitions - implications

<table>
<thead>
<tr>
<th>Project description</th>
<th>Initial crown cover</th>
<th>Crown cover when activities have been implemented</th>
</tr>
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<tbody>
<tr>
<td>A - Enrichment planting (regeneration of heavily disturbed natural forest)</td>
<td>20%</td>
<td>100%</td>
</tr>
<tr>
<td>B - Planting trees on smallholder agricultural cropland plots</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>C - Shade cover planting for coffee or cocoa</td>
<td>0%</td>
<td>50-80%</td>
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</tbody>
</table>
2) Forest definitions - implications

<table>
<thead>
<tr>
<th>Activities that would be eligible</th>
<th>Upper and lower values for the threshold between forest and non-forest</th>
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<tbody>
<tr>
<td></td>
<td><strong>Crown density</strong> 10%</td>
</tr>
<tr>
<td>B and C – both start with non-forest (&lt;10%) and convert to forest (&gt;10%).</td>
<td></td>
</tr>
<tr>
<td>A and C – both start with non-forest and convert to forest (&gt;30%)</td>
<td></td>
</tr>
<tr>
<td>Activities that would not be eligible</td>
<td><strong>Crown density</strong> 30%</td>
</tr>
<tr>
<td>A – initial crown cover is above the threshold (&gt;10%), therefore is already forest and no LUC will result.</td>
<td></td>
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<tr>
<td>B – following project implementation the area is still non-forest (&lt;20%) therefore no LUC has occurred.</td>
<td></td>
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3) Crediting period

Emission reduction projects can choose between 10 years or $3 \times 7$ years with baseline revisions every 7 years.

Clearly inappropriate for forestry projects and for the objective of long term benefits.
3) Crediting period

Proposals for land use project include:

- a one-off crediting period of 5 (or X) years
- a Z period of time, renewed Y times, with baseline re-evaluations
- baseline re-evaluations at end of 1st commitment period

- ??!!!!

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4) Carbon accounting: emission reduction projects

Use of credits in another commitment period ("banking") is allowed

Credits issued after verification

Credits used are "cancelled" and the emissions considered fully compensated for

Emissions

Emission reductions

5 10 15 20
4) Carbon accounting: Stock change method

Emissions compensated while stocks maintained

Carbon stocks need to be maintained in perpetuity. A re-emission would require a replacement of credits.
4) Carbon accounting: Average storage method

Project only receives the average amount of credits in the long run. Replacement is only required if the planting/harvesting cycle is discontinued.
4) Carbon accounting: ton year method

Since credits only issued after playing their full compensating role, any re-emissions would not require credit replacement

Credits created as storage effectively ‘counters’ atmospheric effect of GHG emissions
4) Carbon accounting: rCERs (1)

- Use of credits in another commitment period ("banking") not allowed
- Credits issued after verification
- Credits used are "retired"
4) Carbon accounting: rCERs (2)

Credits “expire” after 5 or 20 years. At this point, they need to be replaced.
4) Carbon accounting: tRMUs

- Use of credits in another commitment period ("banking") not allowed.

- Credits “expire” after 5 years or the end of the following commitment period. At this point, they need to be replaced. Replacement only allowed 7 times: 35 years!
Still unclear whether replacement credits can be issued if the carbon stock remains the same, or whether credits are only issued to removals (possible !!!)
4) Carbon accounting: i-CERs

Credits issued after verification

Credits used are “retired”

If there is a re-emission, an insurance company would need to replace the credits issued.
4) Carbon accounting: i-CERs

Similar to the ‘Colombian proposal’

The problem is that the proposal does not define what accounting method to use (carbon storage, average storage, ?)
4) Carbon accounting: Implications

- Complications
- Reduction of value of carbon revenues
- This does not create sufficient incentives for projects to become commercially feasible
- Makes financial additionality impossible
- Consequently, only commercial projects can go forward, with a ‘carbon sweetener’
- Insurance – questions about what, how, and costs
5) Implications

To regulators, the options proposed still do not provide the answer with relation to allocation of credits and ensuring permanence. Further delays are expected.

To sellers, the methods proposed remove the attractiveness of developing projects based on carbon finance.

To buyers, the methods reduce the relative attractiveness of acquiring forestry credits, as compared to Emission Reduction credits.
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