

Greenhouse Sinks and the Kyoto Protocol

Submission to the Australian Greenhouse Office - April 2000

The Business Council of Australia is a signatory to the cross-industry AIGN submission to the Australian Greenhouse Office - Greenhouse Sinks and the Kyoto Protocol

Summary

The Australian Industry Greenhouse Network (AIGN) believes sinks are a critical part of a comprehensive approach to the greenhouse issue and considers effective implementation of the sinks provisions in the Kyoto Protocol to be an essential outcome of the continuing negotiations. Although there are many complex issues to be resolved, AIGN believes that this will be assisted if all Parties share the objective to work towards the most comprehensive approach possible.

In this submission, AIGN has focussed on the following key issues:

- Article 3.3 was the result of difficult negotiations and the compromises that were necessary to reach agreement have introduced some barriers to achieving comprehensive recognition of sinks, e.g. in commercial forestry and related industries.

- Article 3.4 has the potential to overcome these barriers and although there are still some constraints, they are limited to the first commitment period. As such, Article 3.4 was a critical part of the finely balanced agreement reached in Kyoto and political opposition must not be allowed to frustrate its full implementation.

□ The resolution of the outstanding issues must not become a basis for effectively renegotiating the differentiated commitments agreed in Kyoto. In addition, to ensure Articles 3.3, 3.4 and 3.7 are effective, the implementation definitions and rules in the first commitment period have to be consistent with the Revised 1996 IPCC Inventory Guidelines.

□ The risk that some Parties may attempt to effectively renegotiate what was agreed in Kyoto is a major concern for Australia with respect to Article 3.7. The compromises that were necessary to reach agreement on Article 3.3 were recognised as significantly disadvantaging countries such as Australia that have relatively high levels of land clearing emissions. This disadvantage was addressed by the inclusion of the second sentence in Article 3.7 and efforts to redefine its intent must be vigorously resisted.

□ Some of the suggested additional activities under Article 3.4 appear to be unnecessary because they will be fully accounted for under the general provisions of the Protocol. This particularly applies to changes in emissions from agricultural soils that are included in Annex A of the Protocol.

□ The inclusion of additional activities under Article 3.4 as identified in the Issues paper should be on the basis of increasing the comprehensiveness of the coverage of all sources and sinks under the Protocol. In light of this, more work is required to assess the likely net outcome of the activities in the first and subsequent commitment periods. The Issues paper mainly focuses on increases in sequestration without much consideration of emissions and the possibility of future reversal of some sequestration. The estimates of future sequestration potential also appear to be based on some optimistic assumptions about the rate of implementation of the actions.

□ In view of the limitations of Article 3.3, there is a strong case to develop a full package of activities associated with commercial forestry and to have them recognised

under Article 3.4 rather than under Article 3.3.

1. General comments

The AIGN supports Australia's negotiating approach on Land Use, Land-Use Change and Forestry, which aims to achieve the most comprehensive approach possible (on the basis of sound science) under the provisions in the Kyoto Protocol. Although many Parties have reservations and want to see sinks restricted to an absolute minimum, the AIGN believes that the Government's comprehensive approach is consistent with the requirements of the Framework Convention on Climate Change and the Kyoto Protocol.

Maximising the scope for measurable and verifiable sinks will result in a number of win-win outcomes, including reduced cost of meeting the commitments in the Kyoto Protocol, amelioration of land degradation, and improved viability of commercial forestry at a time when access to native forests for wood products is being increasingly constrained. However, the complexity of the issues and the opposition of many Parties to recognise sinks means that the international negotiations will continue to be very difficult and under some circumstances could result in implementation rules that would result in contingent liability for commercial forestry. A two stage approach may be necessary to manage this potential problem, with the first stage being to establish rules for Article 3.3 to eliminate the contingent liability, and a second stage to provide an overall package for commercial forestry under Article 3.4. These ideas will be elaborated in the later sections of this submission.

AIGN also supports the need for the approach to measurement and verification to be consistent with that used for other aspects of the Protocol. We believe that there are no prima-facie reasons to single out sinks for special treatment in terms of discounting and/or to move away from the Revised 1996 IPCC Guidelines. We also do not support the suggestion made by some Parties to adopt a 'conservative' bias to deal with

uncertainty. Stocks and inventories should be the best estimates, with a commitment to continually improve the precision and accuracy over time.

The remainder of this submission follows the structure of the Issues paper, beginning with Chapter 2, Sinks and the Kyoto Protocol.

2. Sinks and the Kyoto Protocol

The Draft IPCC Special Report on Land Use, Land-Use Change and Forestry provides a wide range of options on the key definitions. AIGN supports some tailoring of definitions to suit the particular circumstances of each Party, provided the resulting national definitions are consistent with the Revised 1996 IPCC Inventory Guidelines and are well documented.

We believe that consistency with the Revised 1996 IPCC Inventory Guidelines is a fundamental requirement for Articles 3.3 and 3.7 in the first commitment period to ensure that definitions are not used to ‘reverse engineer’ the differentiated commitments negotiated in Kyoto. This is a special concern for Australia because of various attempts to redefine the effect of the second sentence in Article 3.7 in a way that would disadvantage Australia.

Although Chapter 3 of the Draft IPCC Special Report provides some explanation of the need for the Article 3.7 provision, the Report’s discussion of the issues and options for its implementation is not consistent with our understanding of what was agreed at Kyoto. The Report correctly notes that Article 3.3 creates two ‘anomalies’; one related to allowing credits in the commitment period that are not accounted for in the 1990 baseline and the second related to debits in the commitment period that are not accounted for in the 1990 baseline. The Report then states:

“Article 3.7 rectifies these ‘anomalies’ for some countries ...”

Our understanding is that Article 3.7 was only intended to rectify the second of the ‘anomalies’ and that the Parties confirmed at COP4 that the first of the ‘anomalies’ was intended but limited by the requirement for Article 3.3 to only apply to “direct human induced” changes “since 1990”. Hence, we do not agree with the implication in Chapter 3 of the Draft IPCC Special Report, that Article 3.7 establishes a full ‘net-net’ approach for Australia.

The Draft IPCC Special Report’s Summary for Policymakers provides no useful advice on the Article 3.7 issue and decisions on implementation of the Protocol will have to take account of what was intended and understood by the Parties to the negotiations. The outline of the negotiations in the Issues paper in Section 2.1.1, is consistent with our observations of the negotiations with respect to Articles 3.3, 3.4 and 3.7 that preceded and were concluded in Kyoto. AIGN believes that the understanding set out in Section 2.1.1 should continue to be the basis of Australia’s position in the continuing negotiations.

AIGN agrees that as a result of the compromise agreement reached in Kyoto, Article 3.3 provides for only a limited range of sink activities and therefore these must be supplemented through procedures under Article 3.4 in order to increase the comprehensiveness of the Protocol. However, AIGN believes that in addition to only covering a limited range of sink activities, Article 3.3 doesn’t provide a very good basis for dealing with commercial forestry. AIGN recommends that the Government and the forestry industry should investigate a two step strategy to improve the recognition of commercial forestry’s positive contribution to abatement of greenhouse emissions. We suggest the first step would be to ensure that commercial forestry is not disadvantaged under Article 3.3 and to make provision for countries to elect to take commercial forestry out of Article 3.3 and cover it under Article 3.4. Further details on this recommendation are set out under the Article 3.3 and 3.4 headings.

3. Article 3.3

Definitions

As already stated, AIGN supports some flexibility of definitions to suit the particular circumstances of the Party, provided the national definitions are consistent with the Revised 1996 IPCC Inventory Guidelines and are well documented. AIGN believes that the main flexibility required will be with respect to the definition of forest, for example, in Australia's case to include woodlands and forest-forming mallees. Once a definition of forest has been established, the IPCC definitions for afforestation, reforestation and deforestation only require some clarification to make them workable.

AIGN supports the approach suggested in the Draft IPCC Special Report to combine afforestation and reforestation. This approach means that eligibility can be simplified to demonstrating that the land previously did not meet the definition of a forest and therefore was not used for forestry. AIGN also supports the view that deforestation is typically but not always associated with a change in land use. In this case eligibility would arise from action that resulted in land that previously met the definition of forest no longer meeting that definition, even though some aspects of the land use may continue (eg cattle grazing).

Issues

AIGN believes that the main issues that need to be addressed with respect to Article 3.3 are those of concern to the commercial forest sector. These include the possibility of a carbon stock debit in the first commitment period even though the carbon stock is not reduced below the level that existed in 1990, and the related issue of accounting for carbon stored in wood products. The possibility of an unjustified debit in the commitment period is not only an issue for commercial forestry, it is also a concern for any afforestation/reforestation that is intended to be permanent but is destroyed by fire or removed for any reason in the commitment period.

In our comments above, on Chapter 2 of the Issues paper, AIGN suggested a two step approach to securing a better result for commercial forestry. In the first step, the carbon accounting rules under Article 3.3 need to include a provision to ensure that

carbon stock debits on afforested/reforested lands in any commitment period cannot exceed any previous carbon stock credits for those lands. This rule would address the commercial forestry's contingent liability concern and also address the concern about the loss of any afforestation/reforestation that is intended to be permanent. Removing the contingent liability is essential but falls very short of recognising the positive contribution of commercial forestry to sequestering carbon. Hence, the first step should also include seeking international agreement for the development of a comprehensive package of commercial forestry activities under Article 3.4 that would allow Parties to elect to remove these activities from Article 3.3 and have them covered under Article 3.4. The development and approval of this package under Article 3.4 would be the second step.

4. Article 3.4

General comments

AIGN believes that the inclusion of Article 3.4 in the Protocol was an essential part of the finely balanced agreement reached in Kyoto and therefore any attempt to prevent or to arbitrarily limit its implementation threatens support of the Protocol. AIGN also wishes to highlight the fact that Article 3.4 is the only provision in the Protocol that expands the coverage of the Protocol to make it more comprehensive in terms of the FCCC's requirement to address all anthropogenic emissions by sources and removals by sinks.

As a result of the role of Article 3.4 to expand the coverage of the Protocol, there is no requirement or reason to try and introduce a 'business as usual scenario'. In addition, and contrary to assertions about the additional activities being 'loopholes', it is very important for everyone to recognise that once an additional activity has been included, the adjustment to the Party's assigned amount can be either positive or negative. Although the Parties have some choice about applying a decision to include particular activities in the first commitment period, AIGN believes that all Parties will be required to include all activities in the future commitment periods.

For consistency with AIGN's view that Article 3.4's prime role is to extend the coverage of the Protocol and make it more comprehensive, there is no need to include activities that are already adequately addressed in the other provisions of the Protocol. In particular, many of the agricultural activities that are listed as possible Article 3.4 activities appear to be already covered under the provision in Annex A of the Protocol. AIGN believes that this should be further investigated and if some of the proposed activities are already covered, they should be removed from the list of potential Article 3.4 activities.

Issues

AIGN considers that the Issues paper doesn't adequately address the possibility that some of the additional activities that may be included under Article 3.4 could result in significant negative adjustments to Australia's assigned amount, particularly in the second and later commitment periods. In addition to not addressing the losses, the estimates of potential gains (increases in assigned amount) from possible additional activities appear to be very optimistic. The AIGN recommends that these estimates should be further developed to ensure that they don't:

- include activities already covered elsewhere;
- underestimate the time, expense and effort that will be necessary for the potential to be achieved; or,
- ignore any immediate or future potential for the activities to become or include sources.

As discussed in the previous section, Article 3.3 doesn't provide a very satisfactory basis for recognising the full contribution of sustainable commercial forestry to the removal of greenhouse emissions by sinks. In that section, AIGN briefly set out the first step of a two step approach. The recommended second step involves the development of a comprehensive set of forestry activities for agreement under Article 3.4. This package needs to be developed in consultation with the forestry industry and will need to take account of the constraints that exist for the first commitment period

but at the same time establish the basis of the system to apply for all subsequent periods. The two main constraints in the first commitment period are:

- the requirement for all definitions and inventory rules to be consistent with the Revised 1996 IPCC Inventory Guidelines; and,
- the activities that can be included in the first commitment period must have taken place since 1990.

Given the strong expectation that the IPCC Inventory Guidelines will be updated for later commitment periods, these requirements should not be constraints with respect to later commitment periods.

AIGN recommends that the package should cover all forms of commercial forestry, all of the management practices, and take account of the carbon in the products produced. In terms of the constraints in the first commitment period, two issues will need careful consideration:

- accounting for carbon in forestry products will need to be designed to correspond to the actual impact on the atmosphere, but have a provision for recognising the export/import limitations in the first commitment period; and,
- the rules to add to or subtract from assigned amounts will need to recognise that the arbitrary “since 1990” constraint in the first commitment period may require a special provision to avoid any contingent liability.

AIGN believes that, beyond the first commitment period, a comprehensive approach under Article 3.4 can ensure that the productivity of commercial forestry is fully recognised.