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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on the Environment
Subject:	Non-ETS (LULUCF): follow-up to WPE 27 March - Presentations by the Commission

Delegations will find attached presentations made by the Commission at the WPE meeting (LULUCF) on 27 March as well as two clarifications below from the Commission.

Response to the question from Ireland: "How would the separation of Harvested Wood Products affect the accounting of Harvested Wood Products that originate not from managed forest land but from afforested land?"

The non-paper analysis presented in section 5 (Changes to the accounting rules for Harvested Wood Products) considers, in conformity with the Commission's proposal, that the origin of the biomass determines the accounting principle applied.

In the Commission's proposal, HWP derived from Afforested Land accounting category would be accounted on a gross-net basis (Art. 6), whereas HWP from Managed Forest Land accounting category would use the FRL (Art. 8) as the accounting principle. In the separate HWP accounting approach, these two elements would be aggregated.

Response to the question from Spain: "Could the Commission clarify columns 4, 5 and 6 in Table 1 of non-paper WK 3353/2017 INIT?"

Columns 4-6 of Table 1 of the non-paper approximate the impact of reducing harvest relative to the Forest Reference Level (FRL) for the period 2021-2030. These values were estimated through a sensitivity analysis performed by the JRC with the Carbon Budget Model (CBM).

In essence, the JRC simulated the impact of a harvest of 90% relative to the harvest level in the IIASA Reference Scenario 2016, used as a surrogate for that of the (as yet not defined) FRL. This approximation is appropriate for this analysis; taking a moderately different number would not significantly change the results of the sensitivity analysis, which is not absolute in scope.

For example, the modelling was run as follows:

Where a level of harvest of 20 Mm3 was presumed to be included in the FRL, the model (CBM) was instead run simulating the impact of a harvest equal to 90% (i.e. 18 Mm3).
The impact of changed sink was assessed for Managed Forest Land forest pool (living biomass, dead organic matter, mineral soils) and for the Harvested Wood Products pool.

It was assumed that the composition of HWP (paper, etc...) will not change relative to the historical period (as documented in each country's FAO statistics).

A lower harvest relative to the FRL presumed harvest leads to:

Column 4: a higher sink relative to the FRL in the forest pools (so a negative value in column 4) and;

Column 5: a smaller, lower sink relative to the FRL in the HWP pools (so a positive value in column 5)

These values do not balance out because the relationship between change in harvest and HWP sink is not linear. Column 6 simply sums columns 4 and 5.

European Commission

Overview of Commission non-paper WK 3353 2017 INIT

WPE 27/3/2017

Non-paper structure: five sections

1. *Use of credits from managed forests within LULUCF: alternatives to the 3.5% cap (Article 8(2).*
2. *Inclusion of future policy impacts in the forest reference level (Article 8 (3)).*
3. *Accounting rules for managed forests: impact on future forest harvest levels (Article 8(3)).*
4. *Governance of FRL and involvement of the Member States (Articles 8(5) and 8(6)).*
5. *Changes to the accounting rules for Harvested Wood Product (Article 9).*

1. Alternatives to the "3.5% cap" (Article 8(2))

Assesses impact of three cap options

- **a 3.5%, 7%, and cap based on forest area**

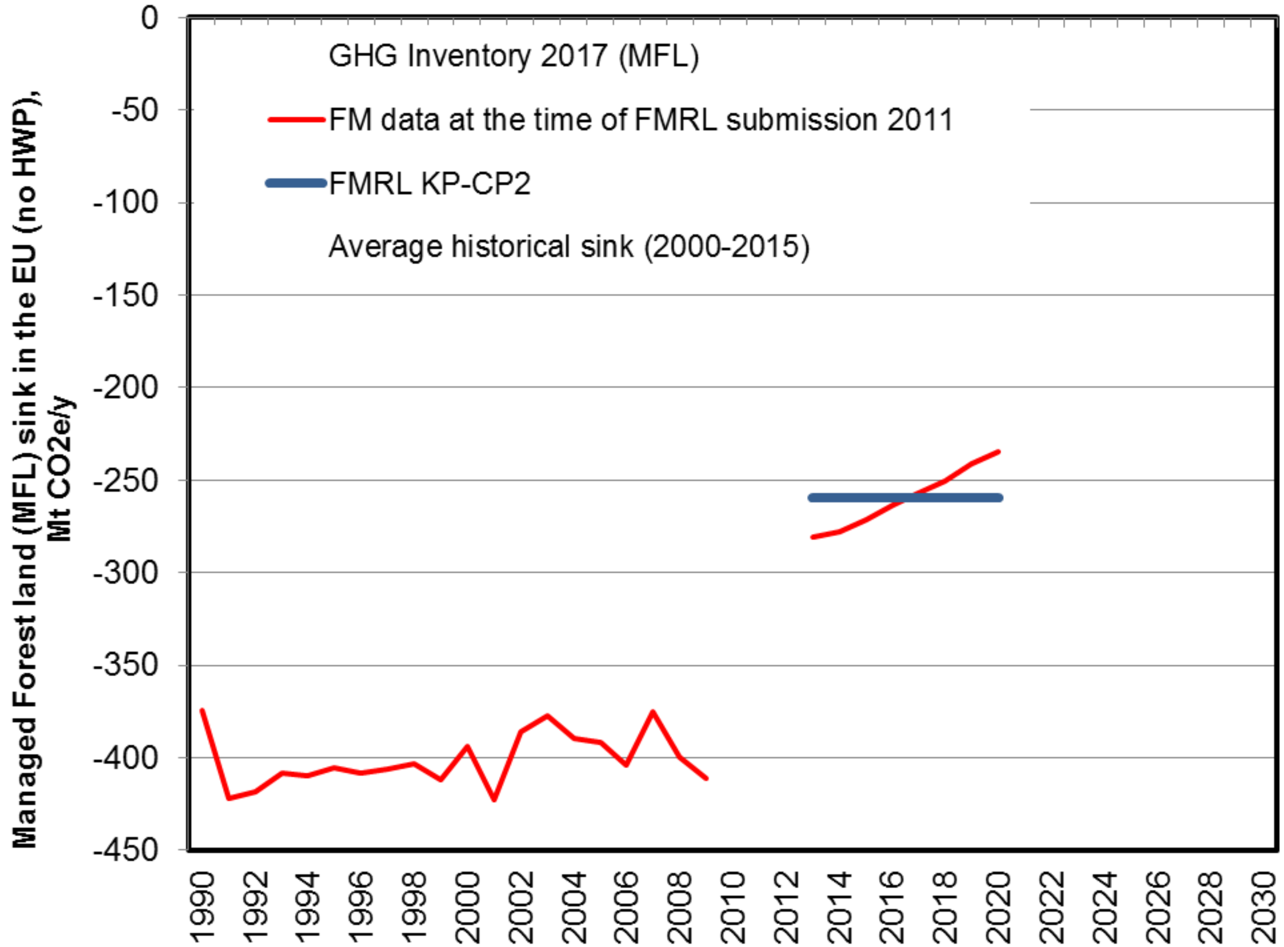
Simulates lower (90%) harvest levels (and therefore higher sinks) relative to those assumed for the estimation of the Forest Reference Level

- **Lower harvests would generate a LULUCF managed forest land accounting benefit**
- **A cap may place a limit on the possible accounting benefit if this harvest decrease is very significant.**

1. Alternatives to the "3.5% cap" (Article 8(2)) cont.

- **3.5% cap: would likely only limit AT, FI, LV and SE;**
- **7% cap: likely that only FI and SE would still be limited,**
  - total potential credits from Managed Forest Land would double (396Mt/year at EU28 level).
  - the actual accounting benefit would largely be limited to FI and SE
- **Cap distributed pro-rata on the reported area of forest land (198Mt/yr) to the 3.5% option:**
  - would probably not limit any Member State
  - would greatly increase the potential use of credits FI and SE (x10)
  - decrease this accounting benefit considerably for various other Member States (NL, DE, CZ, DK, PL, and others)

2. Inclusion of future policy impacts in the forest reference level (Art. 8 (3))



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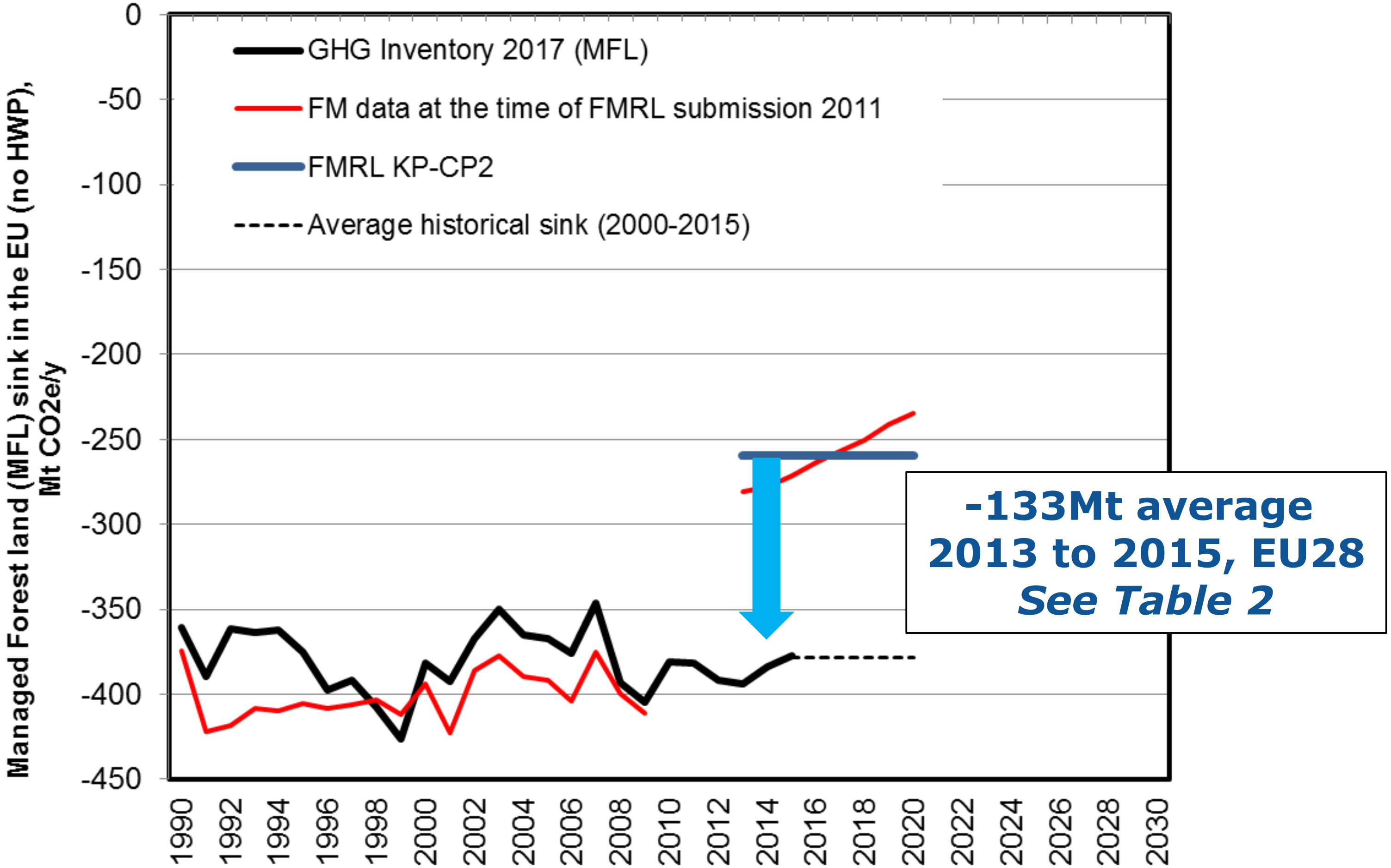


4. Governance of FRL and involvement of the Member States, Articles 8(5) and 8(6)

Queries regarding the governance of forest reference levels [Articles 8(5) and 8(6)] :

- *change the empowerment for a delegated act to an implementing act;*
- *ensure the Member States are properly involved in:*
  - **the review procedure [Article 8(5)];**
  - **the preparation of the delegated act [Article 8(6)].**

5. Harvested Wood Products (Art. 9): *separate accounting*

At the level of an individual Member State, the accounting impact of separating HWP may be significant (IA analysis for KP2):

1. **Where the cap is not reached, no specific effect (e.g. DE, HU, IT, etc.);**
2. **Where the cap limits the accounting benefit and <u>HWP generates more sink</u>: an increase in accounting benefit (e.g. FI, LT) would occur;**
3. **Where the cap limits the accounting benefit of managed forest land, and <u>HWP creates more source</u>: an accounting disadvantage (e.g. AT, EE, PT, SE) would occur**
    - as the emission would be revealed in the accounts.

5. Harvested Wood Products (Art. 9): *separate accounting*

The "visibility" of a separate HWP accounting category provides a stronger incentive for mitigation action and policy focus related to this category

Note: If the Managed Forest Land cap is re-configured/deleted

- **Separate HWP accounting category likely to add little new benefit to highlight mitigation action**
- **Therefore, cap adjustment is also a route to further incentivise HWP action**

5. Harvested Wood Products (Art. 9): *changing the accounting rules*

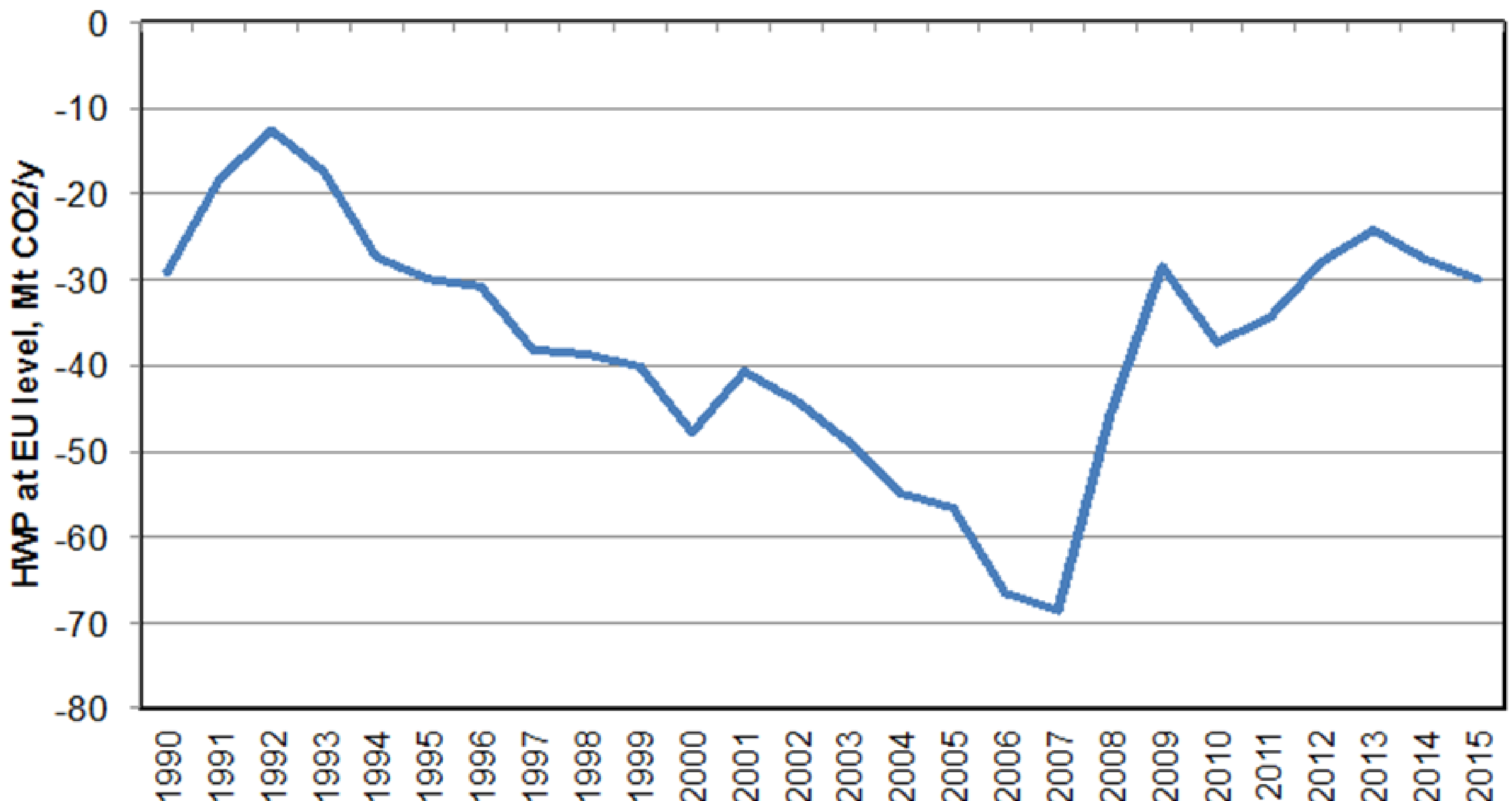
*If **accounting rules** are changed to include **the full amount of emissions plus removals**:*

Credits (or debits) would be equal to the reported data, e.g.:

- **30Mt per year reported by EU28 at present to UNFCCC**

5. Harvested Wood Products (Art. 9): *changing the accounting rules*

Figure 3: Reported total of removals by HWP in the EU, based on 2017 GHG inventories



5. Harvested Wood Products (Art. 9): *changing the accounting rules*

Over the period 2021-2030:

- **This would create additional flexibility of about 300Mt for the entire period 2021-2030**
- ***Greater* than the proposed total cap on flexibility towards ESR (i.e. 280Mt).**

Such gross-net accounting of HWP would:

- **Create an imbalance in the accounting principles of harvested wood between managed forest land and HWP; *open to international criticism***
- **Seem "unfair" for Member States that have begun to saturate their HWP accounting pool**
- **Sooner or later yield debits rather than credits**

Art 8.3. Robust and credible accounting rules for forests

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WPE, Bruxelles, 27 March 2017

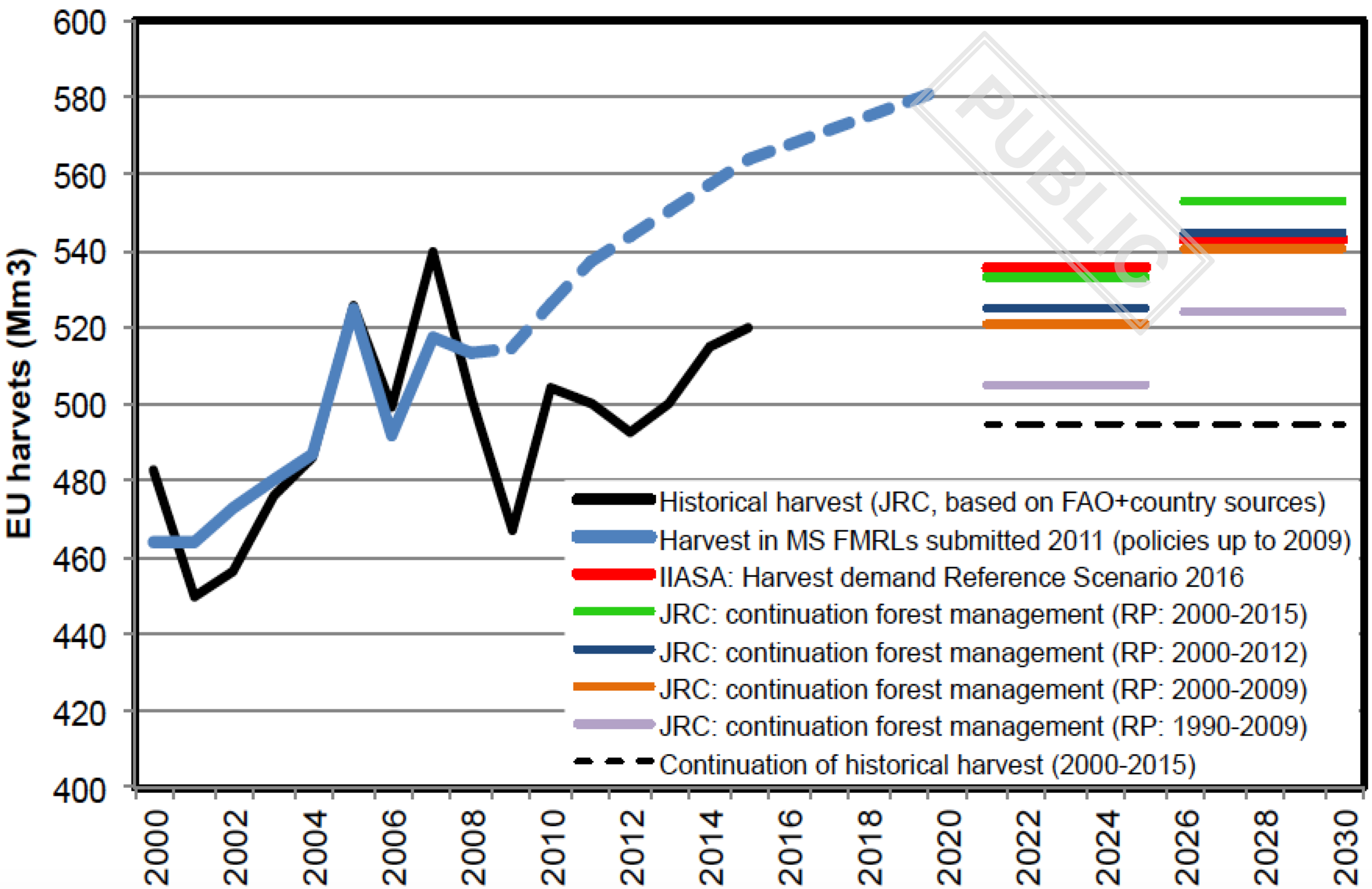
The proposed FRL is based on the **continuation of forest management practice and intensity**, as documented in the historical Reference Period.

It takes fully into account the future impact of forest aging → when a forest is getting older, the extra harvest (and associated emissions) needed to continue the current management would not be accounted as a debit.

It does not project the assumed *future* impact of policies/markets

As a result, the **future accounting will reflect emissions and removals resulting from *changes in management practices and intensity*** (similarly to other sectors), but exclude emissions and removals originating from the natural forestry cycle.

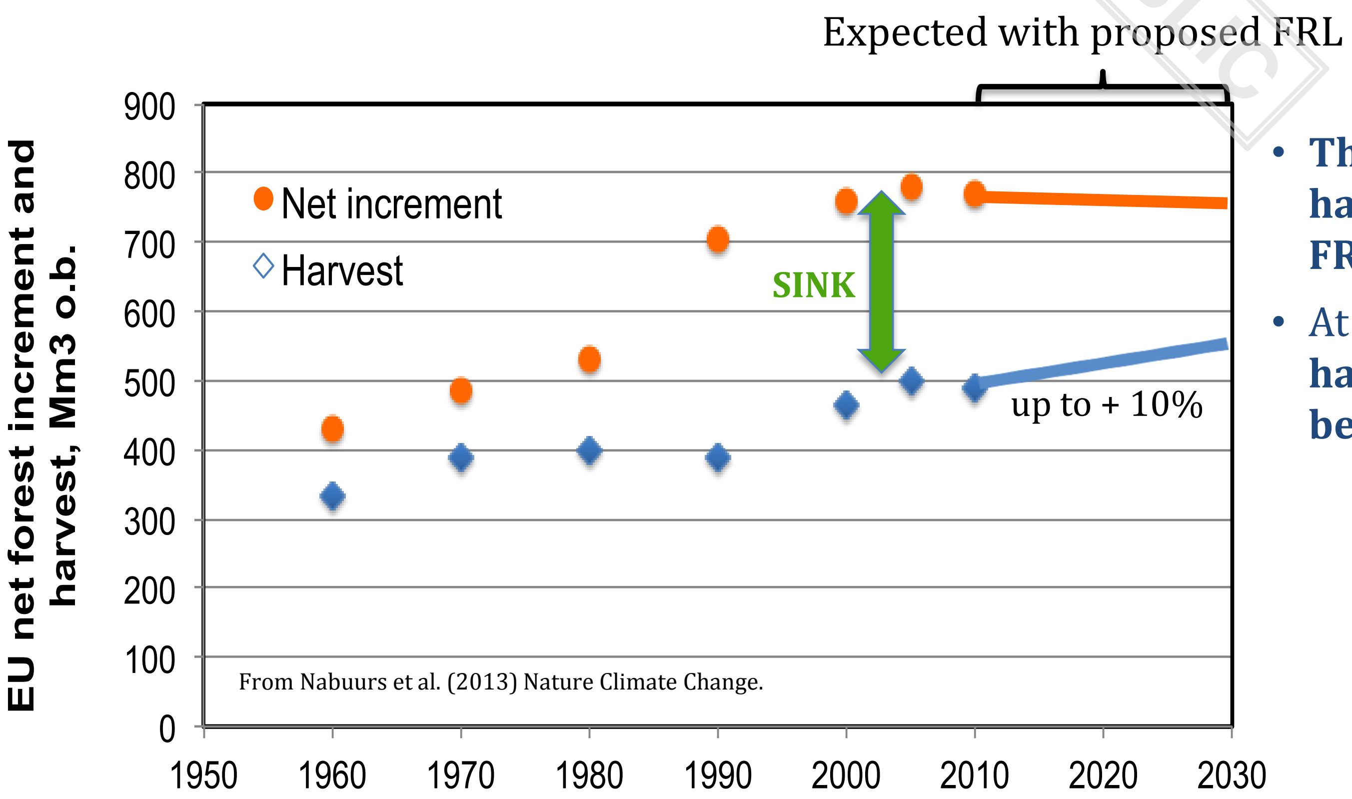
Which is the concrete <u>expected</u> impact of this FRL approach at EU level?



Still comparable: the increase in emissions is <u>age-related</u>

- ➢ Projected harvest for 2013-2020 (with policy assumptions) overestimated reality
- ➢ Harvest for 2021-2030 under the continuation of current management would be:
  - Up to 50 Mm^3 higher than in 2000-2009
  - comparable to Reference Scenario 2016

The expected impact of the proposed FRL is consistent with long-term trends



- **The % of increment that is harvested increases in the FRL**
- At the same time, **more harvest in FRL generates benefits in other sectors**

Conclusions

The FRL incorporates the national forest-aging dynamics, i.e. harvesting as part of the continuation of current management would not be accounted as a debit.

As a result, **future accounting will reflect emissions and removals resulting from *changes in management practices and policy.***

This ensures:

- **Increasing harvest at EU level →** further increase of material and energy substitution, with benefits in other GHG sectors
- **Reviewability** (does not rely on assumptions of future impact of policies)
- **Credibility of accounting**: no risk that credits will be based on assumptions, or that policy-driven increase in emissions will disappear from the account (→ essential for robust accounting of bioenergy)
- **Comparability** with other GHG sectors
- **Consistency with the EU long-term climate objectives** and with Paris Agreement

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Thanks !