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Climate Change International COP 6 [Conference of the Parties]: Sinks

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S	61	7	11	3

TO: ROGER BALLENTINE
DEBBIE REED
JOHN GIBSON

FROM: DAVID GARDINER

RE: ASSISTANT SECRETARY MEETING ON SINKS

June 22, 2000

The Assistant Secretaries group met yesterday to discuss options for Article 3.4 and a "walkback" from the full carbon accounting that we have been advocating. These talks were designed to provide input for negotiators who are attending a forum on this topic in Warsaw in mid-July and for the US submission on sinks due on August 1.

Discussion centered on the attached options paper. Three major concerns from other countries about our positions dominated the discussion. They oppose:

- giving us credit for business as usual activities.
- Giving us credit for the "missing sink" which may be located in North America.
- Allowing us to undermine our commitment through excessive use of sinks.

There seemed to be a general preference for options 3 and 4, with a minority view for option 6. There was also an extensive discussion about whether we favored a threshold or floor that a country would have to exceed before it could start crediting sinks, and it would function like an additionality test. The purpose of this would be to respond to the general uncertainty of measuring, monitoring and verifying sinks, and to avoid getting credit for business as usual activities. There seemed to be general support for this. A minority view was also expressed that the US should also favor a cap on how much credit could be taken for sinks activity generally.

State will be drafting an intervention for the Warsaw meeting for review. It will focus on broaching the walkback option and specifically the threshold issue. Further work will be done to explore the feasibility of options 3,4, and 6.

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Article 3.4

Background

The U.S. has supported including broad land management activities under Article 3.4. One key advantage of including these broad activities, coupled with a land-based accounting system that counts changes in all the relevant carbon stocks on the land across the period, is that it would create the greatest incentive to maximize sequestration and minimize emissions. A broad approach would provide the most environmentally sound approach for the long run because all human contributions to emissions would be accounted for. It would also allow GHG reductions in the sectors where they are most cost effective.

Despite the long term advantages, we are unlikely to achieve full carbon accounting in the first commitment period, and pushing for full carbon accounting and only full carbon accounting could damage our chances for getting anything at the Hague. Our August 1 submission is an opportunity to advance a framework that might be accepted there. Thus, we need to consider our priorities – and bottom lines – for COP6 in this area and what to advance in our August 1 submission in that context.

Possible Broad Article 3.4 Activities

Forest management:

- Would include large areas and important stakeholders for U.S.
- Could provide significant BAU credits (approximately 200 MMTCE per year)
- Likely to be supported by Japan, Canada, Finland, Sweden, and France

Cropland management (agricultural soils):

- Would provide relatively few credits
- Could be politically important
- Likely to be supported strongly by Canada

Grazing land management (soils and vegetation on pasture, rangeland, etc.)

- Would provide relatively few credits
- Probably not politically important
- Not likely to be supported strongly by other Parties
- Large land area

Revegetation and/or Restoration of Degraded Lands

- Includes establishment of vegetation that would not qualify as forest
- Likely to be proposed by Australia, New Zealand, and Iceland
- Likely to provide significant BAU tons for other Parties, but not the U.S. (i.e., not really a

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broad activity for the U.S.)

General approaches to limiting first commitment period sinks

Limiting sink credits in the first commitment period without moving towards narrow activities is known as a "walkback" from full carbon accounting. Different walkback approaches may be desirable for different sink activities, and some activities may require no walkback at all.

1. Exclude some of the broad land management activities in the first period.

For example, Parties could include comprehensive accounting for forest management, but not grazing land management.

Pros:

- Relatively straightforward to calculate.
- Clear relationship between activity (i.e. land management category) and carbon accounts.

Cons:

- We would be unlikely to get forest management included, given its large contribution to our assigned amount (approximately 200 MMTCE for BAU activities, or more than 10% of our assigned amount). The broad categories more likely to be accepted, such as cropland management, would give us relatively few credits in the first commitment period.
- Since different activities are important to different Parties, it may be difficult to negotiate a single set of first period activities.
- Wouldn't encourage cost-effective additional sequestration (above BAU) from activities excluded in the first period.
- Wouldn't encourage development of monitoring and verifying capacity for excluded activities, unless there were a clear signal that these activities would be counted later.
- Could distort incentives across different land uses, depending on domestic implementation
- Domestic political problem of excluding certain sectors from possible credits.
- Especially hard to evaluate our deal relative to others'.
- Could leave important atmosphere exchanges unaccounted for.

2. Limit the number of sink tons to a fixed percent of the total sequestration.

Pros:

- Relatively straightforward to negotiate the discount level and to calculate credits.
- Would arguably affect all Parties proportionately the same.
- Provides incentives for across-the-board additional sequestration, but not at full value.

Cons:

- Raises the issue of whether land-related emissions should also be discounted, or whether only

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sequestration would be discounted. If the latter, a Party could potentially get a net debit even if its full account from sink activities was positive.

- Raises the issue of what discount factor to use, and whether the discount factor would any scientific basis.

3. Limit the number of sink tons to the share of the full carbon account that is arguably due to human-induced land management changes.

For example, factor out x% or X tons for BAU, y% or Y tons for indirect human-induced effects such as CO₂ fertilization and/or z% for natural variation (e.g., the El Niño cycle).

Pros:

- Although negotiating x, y and/or z may be difficult in practice, the conceptual approach is relatively straightforward, and, once these numbers were agreed, they could be applied relatively easily to calculate credits.
- Tons that would be accounted would arguably be related to human effect on GHG concentrations.
- Provides incentives for across-the-board additional sequestration, but possibly not at full value, depending on how the accounting system is set up.

Cons:

- If it turns out the missing sink is due to human factors such as improved fire suppression as some scientists believe, then this could result in large credits.
- Indirect human factors and natural variability are uncertain. Thus, it may be difficult to get agreement on particular numbers if confidence intervals are large.
- May not provide many tons.

4. Limit credits to the reported stock change above some predetermined threshold level.

Pros:

- Would provide broad incentives for additional sequestration unless the threshold level is too high to achieve.
- Once thresholds are set, carbon accounts would be relatively easy to calculate.
- Could combine with a discount factor for indirect human effects or natural variability (see option 3 above).

Cons:

- May provide few tons, depending on threshold.
- Raises the issue of how to set the threshold levels. For example, the number should vary by Party. Thus it would have to be a function of Party-level data such as:
 - a) a BAU projection or extrapolation of stock changes in the commitment period

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- b) stock changes during a historical base period, e.g. 1990 to 1995
 - c) x% above or below BAU or historical stock changes,
 - d) estimate of Party's possible share of "missing sink"
 - e) some other number as negotiated
 - Challenging to negotiate different threshold levels for each Party.
 - Doesn't put an upper bound on credit, which would leave some Parties fearful we could get credit for the "missing sink."
 - Raises the issue of how to count LULUCF activities if total sinks turn out to be below the threshold. One option would be to provide for one-way accounting, under which Parties would receive credit for additional sequestration above the threshold, but would not be debited if they fell short of their threshold.
 - Could introduce disputes over how to do projections or construct other uncertain measures that would factor into the threshold.
 - Especially hard to evaluate our deal relative to the deals other Parties get.
- 5. Calculate sink credits based on a measure of progress in energy investments or some other indicator**

Pros:

- May get support from some environmental NGOs, if total credits are sufficiently limited.
- Sink credits would be available for Parties that demonstrate progress on the gross emissions side, or who can show energy-related improvements. The credits could be seen as "matching funds," which encourage domestic abatement.

Cons:

- Could provide sink credits in inverse proportion to how much they are needed to achieve targets.
- Hard to measure progress objectively, and raises the issue of whether to count "anyway progress."

- 6. Limit credits to the reported stock change on a reasonably defined subset of the land within an activity.**

For example, we could count only the most intensively-managed lands in the first period. This would likely include lands on which most of the stock changes are occurring, and exclude lands that are not managed for commercial purposes. The meaning of "intensively managed" is not obvious, however, so we would have to find better modifiers to express exactly what subset of land of each type (forest, cropland, etc.) would count. It may be hard to find modifiers that work throughout Annex I.

Pros:

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- Provides fully-valued additional incentives, but only for the included lands.
- Could allow selective exclusion of the most controversial land, such as old growth forest and wilderness.
- Arguably related to human-induced factors.

Cons:

- Could leave important atmosphere exchanges unaccounted for.
- Many indirect and natural effects could be on heavily managed land, so critics might argue that this approach would not exclude the possibility of receiving credit for the missing sink.

Background Paper: COP-6 Sinks Issues

1. Background

In general, the Kyoto Protocol addresses emissions of greenhouse gases, rather than removals by sinks. Except as provided in Articles 3.3, 3.4 and 3.7, sink activities are included neither in calculating a country's target (for the U.S., a 7% reduction from 1990 emission levels), nor in calculating its emissions during the 2008-2012 commitment period.

Sinks activities are addressed in Articles 3.3 and 3.4 of the Protocol as follows:

- Article 3.3 requires that Parties, in meeting their targets, count emissions and removals from three specified land-use change and forestry activities: afforestation, reforestation and deforestation (ARD) since 1990.
- In addition, Article 3.4 allows the COP/MOP to include additional sink activities – for example, conservation tillage or forest management – for the second and subsequent commitment periods. Parties may choose to apply any such decision to the first commitment period, for activities taking place since 1990.

At COP-6, Parties will make decisions regarding:

- definitions and accounting rules for ARD activities under Article 3.3;
- definitions of which additional sink activities to include under Article 3.4, as well as accounting rules for these activities.

The COP-6 package of COP-6 decisions could also include:

- limits on the degree to which Parties may count Article 3.4 activities in the first period
- a process for adding additional sink activities under Article 3.4 after COP-6.

By August 1, 2000, Parties must submit their views and proposals concerning these Article 3.4 and 3.4 issues, including proposed definitions and accounting systems, along with national data and assessments of those proposals.

2. ARD Definitions under Article 3.3

The COP-6 decision package will likely include definitions of ARD activities, perhaps providing Parties the option of choosing among a set of possible definitions or accounting approaches.

(A) Afforestation and Deforestation: The definitions of “afforestation” and “deforestation” are relatively uncontroversial from a political standpoint, but there are important technical considerations that will need to be considered in formulating the U.S. positions on these definitions.

- *Afforestation* is generally defined as a change in land use from non-forest to forest, or a change in vegetative land cover from less dense to more dense.
- *Deforestation* is generally defined as a change in land use from non-forest to forest, or a change in vegetative land cover from more dense to less dense.

A key technical issue in defining afforestation and deforestation involves the definition of a forest, since most definitions of afforestation and deforestation involve a change in land use from non-forest to forest, or vice versa.

(B) Reforestation: Reforestation is the most controversial aspect of Article 3.3. Different definitions (and accounting rules) would have markedly different implications for the United States.

Attention has focused on two possible definitions of reforestation: the IPCC and FAO definitions. The *IPCC definition* defines reforestation as a land-use change from non-forest to forest. Under this definition, reforestation is essentially the same as afforestation; the only difference between the two is that, in the case of afforestation, the land in question is out of forest use for a longer period of time. In contrast, the *FAO definition* defines reforestation as replanting after harvest. Under some accounting rules, the FAO definition would allow countries to count the sequestrations resulting from replanting, but not the emissions due to harvest. (The IPCC definition would avoid the issue of counting carbon sequestered on lands replanted after harvest, since replanting after harvest would not represent a land-use change and hence would not count as “reforestation.”)

Under the IPCC definition, the U.S. would have virtually no net credits from ARD under Article 3.3, assuming business as usual conditions. In contrast, the U.S. would gain a credit of approximately 100 MMTCE (about 7% of our 1990 emissions) under the FAO definition.

The negotiating history of the Kyoto Protocol lends some support to the FAO definition of “reforestation.” However, critics argue that the FAO definition:

- involves “asymmetrical accounting”, since it credits regrowth without debiting the first harvest
- could convert the Kyoto Protocol into an instrument that would damage the environment by giving Parties (and possibly private landowners) an incentive to replace old growth forests with tree farms.

Although there are responses to these criticisms, particularly the latter, environmental groups are mobilized in opposing the FAO definition of reforestation and are already waging a postcard campaign against it.

Thus far, we have not chosen between the IPCC and FAO definitions of reforestation. On the one hand, adopting the IPCC definition could be seen as a significant tightening of our target (a difference of approximately 100 MMTCE). On the other hand, we have never endorsed the asymmetrical accounting reflected in the FAO definition.

3. Negotiating a “package deal” for Articles 3.3 and 3.4

Both during the Kyoto Protocol negotiations and subsequently, the U.S. has supported including sinks in a comprehensive fashion, so as to give Parties the maximum incentive to reduce emissions and enhance sequestration from sink activities. Rather than choose between the IPCC and FAO definitions of reforestation (both of which account for only some of the relevant changes in carbon stocks), we have argued for addressing forestry (and other sink activities) in a more rational, comprehensive manner, through Article 3.4 decisions.

(A) Definitions and accounting for additional activities under Article 3.4

To provide for full carbon accounting, the sink activities included under Article 3.4 would need to be broad activities, and the system would need to count all carbon stock changes on the land during the commitment period. Possible activities include:

1. Forest management
2. Cropland management (agricultural soils)
3. Grazing land management
4. Land degradation and land restoration (possibly a package of activities to be selected together)

With full carbon accounting on managed forests, cropland, and grazing lands, carbon stock changes during the first commitment period are projected to be in excess of 200 MMTCE per year, assuming business as usual. A large majority of those carbon stock increases will be in forests. Although agricultural soils would provide relatively few credits, they may be important to include politically.

(B) Possible “Walkback” for the first commitment period

Most other Parties have opposed full carbon accounting, arguing that:

- carbon stock changes cannot be adequately monitoring and verified
- the comprehensive approach would allow countries to take credit for BAU sequestrations, possibly including the large “missing sink” (an unaccounted carbon sink that some scientists believe could be located in North America)

- broad inclusion of sink activities would undermine the emission reduction objectives of the Kyoto Protocol or create ancillary environmental problems (such as replacement of native habitats with tree plantations).

One means of addressing these concerns would be to propose full carbon accounting for all managed lands in the second and subsequent commitment periods, but claim only a share of the total carbon credits during the first commitment period. This is known as the “walkback option.”

The walkback could be structured several different ways:

- Countries might be allowed to count only sequestrations above a defined threshold (approximating the BAU sequestrations)
- Countries might be allowed to count only a certain percentage of net sequestrations, to factor out sequestrations due to natural effects such as carbon fertilization

Potentially, the walkback could be the same for all Parties and sink activities, or could apply differently to different Parties or activities.

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COP-6 Sinks Decisions: General Approach

1. Introduction

Land use, land-use change and forestry activities (LULUCF) are addressed in Articles 3.3, 3.4 and 3.7 of the Kyoto Protocol.

- Article 3.3 requires that Parties, in meeting their targets, count emissions and removals from three specified land-use change and forestry activities: afforestation, reforestation and deforestation (ARD) since 1990.
- In addition, Article 3.4 allows the COP/MOP to include additional LULUCF activities – for example, conservation tillage – for the second and subsequent commitment periods. Parties may choose to apply any such decision to the first commitment period, for activities taking place since 1990.
- Finally, Article 3.7 provides that for states whose land-use change and forestry activities in 1990 were a net emission, the net land-use change emissions shall be included in the country's 1990 emissions baseline.

At COP-6, Parties will make a set of decisions regarding Articles 3.3 and 3.4. These decisions will likely include:

- definitions and accounting rules for ARD activities under Article 3.3;
- definitions of which additional LULUCF activities to include under Article 3.4, as well as accounting rules for these activities.

The package of COP-6 decisions could also include:

- limits on the degree to which Parties may count Article 3.4 activities in the first period
- a process for including additional LULUCF activities under Article 3.4 after COP-6
- elaboration of the land-use change elements of Article 3.7.

By August 1, 2000, Parties must submit their views and proposals concerning these Article 3.3 and 3.4 issues, including proposed definitions and accounting systems, along with national data and assessments of those proposals.

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2. Definitions and accounting for afforestation, reforestation, and deforestation (ARD) activities under Article 3.3

The COP-6 decision package will likely include definitions of ARD activities, perhaps providing Parties the option of choosing among a set of possible definitions or accounting approaches. The definitions of "afforestation" and "deforestation" are relatively uncontroversial from a political standpoint, but involve important technical considerations.

Reforestation is the most controversial aspect of Article 3.3. Different definitions (and accounting rules) would have markedly different implications for the United States (see Table 1 below).

International and internal U.S. discussions have focused on two possible definitions of reforestation: the FAO and the IPCC definitions. The *FAO definition* defines reforestation as replanting after harvest. Under some accounting rules, the FAO definition would allow countries to count the sequestration resulting from replanting, but not the emissions due to the harvest that brings the land into the system. In contrast, the *IPCC definition* defines reforestation as a land-use change from non-forest to forest. Under this definition, reforestation is essentially the same as afforestation; the only difference between the two is that, in the case of afforestation, the land is out of forest use for a longer period of time. The IPCC definition would avoid the issue of counting carbon sequestered on lands replanted after harvest, since replanting after harvest would not represent a land-use change and hence would not count as "reforestation."

Table 1 sets forth the implications for the U.S. of the IPCC vs. FAO definitions, assuming business-as-usual. Under the IPCC definition, the U.S. would gain virtually no net credits from ARD under Article 3.3. In contrast, the U.S. would gain a credit of approximately 100 MMTCE (about 7% of our 1990 emissions) under the FAO definition, in combination with an accounting rule that includes carbon sequestered during the regrowth of forests regenerated since 1990, but excludes the emissions from the initial harvest after 1990.¹

¹ Note that during the first few years after harvest, land usually produces positive net carbon emissions because the slash left over from harvest is emitting at a rate greater than the sequestration from the new growth. This approach would count emissions from slash. Emissions from all harvests that occur after the first regrowth would count, but harvested carbon that goes into long-lived forest products would not be debited instantly.

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4. Approach and future steps

In the next one to two months, we will need to decide the following key issues:

- (a) What is our bottom line on sinks for COP-6?
- (b) What positions on sinks should U.S. propose sinks in its August 1 submission?

We propose the following general approach, as we proceed to address these two core issues:

- Continue to advocate full carbon accounting as the most environmentally sound approach for the long run.
- Do not take a position on the definition of reforestation under Article 3.3.

Instead of supporting either the FAO or the IPCC definition, we will continue to argue for addressing forestry (and other sink activities) in a more rational, comprehensive manner, through Article 3.4 decisions.

- Explore how to make up credits through Article 3.4, if we compromise by accepting the IPCC definition of reforestation under Article 3.3.

Potentially, Article 3.3 and 3.4 could be treated as a package, in which we would accept the IPCC definition of reforestation (or something similar) in return for a satisfactory decision regarding additional sink activities under Article 3.4. Such a package might provide credit for some BAU activities (as Article 3.3 already does), as well as provide incentives to take *additional* action that could help Parties meet their targets in a cost-effective way.

- Explore departures from full carbon accounting that could be applied in the first commitment period.

“Walkbacks” for the first commitment period could take the form of more narrowly defined activities under Article 3.4, or formulas that limit the applicability of full carbon accounts. We will outline various walkback options in a separate paper.

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and Sweden may as well. Since Kyoto, we have been reluctant to take a position on the definitions of ARD under Article 3.3. On the one hand, adopting the IPCC vs. the FAO definition of reforestation would represent a significant tightening of our target. On the other hand, we have been reluctant to endorse the FAO definition, given the controversy surrounding it. In our August 1 submission, we could propose either the IPCC or FAO definition, one of the other alternatives elaborated by the IPCC in its recent Special Report, some other definition, or we could propose options as part of a package with Article 3.4 activities.

3. Definitions and accounting for additional activities under Article 3.4

(a) Full carbon accounting through broad activities

During the Kyoto Protocol negotiations, we supported including sinks in a comprehensive fashion, so as to give Parties the maximum incentive to reduce emissions and enhance sequestration from LULUCF activities. Since Kyoto, we have continued to advocate the comprehensive approach pursuant to Article 3.4

To provide for full carbon accounting, the LULUCF activities included under Article 3.4 would need to be broad activities, and the system would need to count all carbon stock changes on the land during the commitment period. Possible activities include:

1. Forest management
2. Cropland management
3. Grazing land management
4. Land degradation and land restoration (possibly a package of activities to be selected together)

With full carbon accounting on managed forests, cropland, and grazing lands, carbon stock changes during the first commitment period are projected to be in excess of 200 MMTCE per year, assuming business as usual.

(b) Possible "Walkback" for the first commitment period

Most Parties have opposed the comprehensive approach. Some believe that carbon stock changes cannot be adequately monitoring and verified, although to some degree the recent IPCC Special Report allays that concern. Some are worried that the U.S. might try to take credit for large BAU sequestrations, possibly including the large "missing sink" (an unaccounted carbon sink that some scientists believe could be located in North America). Some also fear that LULUCF activities would undermine the emission reduction objectives of the Kyoto Protocol or create ancillary environmental problems.

One direction we are exploring for our August 1 submission is to propose full carbon accounting for all managed lands in the second and subsequent commitment periods, but claim only a share of the total carbon credits during the first commitment period. This is known as full carbon accounting with a "walkback" in the first commitment period.

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Table 1:
U.S. Emissions and Removals from Afforestation, Reforestation, and Deforestation

U.S. Sink/Source	Annual MMTCE Carbon Sequestration (+) or Emissions (-) during the budget period (BAU Case) for the U.S.		
	2008-2012	2013-2017	2018-2022
IPCC definition of reforestation			
Afforestation/reforestation	10	9	8
Deforestation	-8	-7	-7
Total of ARD	2	2	1
FAO definition of reforestation (include carbon on forest lands replanted after harvest; exclude carbon emitted at the time of the first harvest after 1990)			
Reforestation under FAO definition	102	99	116
Reference: Comprehensive accounting of carbon stock changes in US Forests	217	200	184

Note: Estimates are derived from data and analysis based on 1992 US Forest Statistics. The forthcoming 1997 US Forest Statistics could change the magnitude and trends reported here.

The negotiating history of the Kyoto Protocol contains some support for the FAO definition of "reforestation." Moreover, to the extent that the U.S. assumed the FAO approach in taking its target, adopting an approach such as the IPCC definition would represent a significant tightening of our target (a difference of approximately 100 MMTCE).

However, several arguments have been advanced by Parties and NGOs against the FAO definition. First, it credits regrowth without debiting the first harvest (this is one form of "asymmetrical" accounting). Thus it selectively brings land into the system as it is about to start accumulating carbon, without counting the substantial emissions occurring earlier in the commitment period resulting from harvests. Second, some are concerned that the FAO definition could encourage harvesting old growth forests and replacing them with tree farms, so as to count the sequestration from replanting but not the emissions from harvesting. Finally, some Parties argue that the definitional issue is already decided by Article 5.2 of the Kyoto Protocol, which mandates the application of the 1996 Revised IPCC Guidelines. We do not accept that legal interpretation of the effect of Article 5.2.

Many Parties, including a number of Umbrella Group countries, support the IPCC definition. Canada has been one of the few countries to publicly support the FAO definition. Finland

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USE OF OFFICIAL DEVELOPMENT ASSISTANCE AND THE CLEAN DEVELOPMENT MECHANISM

Issues:

1. Can government funds used to support projects under the Clean Development Mechanism in a manner which generates CERs that accrue to the financing government be counted as Official Development Assistance.
2. Would ODA used for CDM, especially ODA that result in CERs accruing to the donor, have to be new and additional?
3. Would the use of ODA to acquire CERs promote "good development"?

BACKGROUND:

Japan has proposed that government financing from ODA accounts be used to directly support CDM projects, and that donor governments be allowed to accrue CERs as a result of such support. Japan has made it clear that they do not believe that they can meet their Kyoto target for the first budget period without acquiring CERs from other countries. They feel that they would be heavily criticized domestically for funding projects that produced CERs that would not automatically accrue to them.

The Japanese proposal raises a number of issues. Resolution of many of these issues will require engagement of agencies and individuals not normally a part of the Sandalow group.

Most donors agree that ODA can and should be used in support of the CDM. Capacity building, policy and legal reform, development of CDM institutions, creating market infrastructure, and other expenditures generally in support of a developing country's ability to participate in the Mechanism are likely components of post-ratification ODA regimes. With the exception of project feasibility studies, however, direct project finance has not been seen as a likely target for ODA, for three fundamental reasons:

1. The large cost of projects would be a very large proportion of ODA budgets,
2. The use of ODA in this manner would potentially distort markets, and
3. For most donors it would require a diversion of funding from other ODA purposes.

Official Development Assistance is defined as grants and loans to developing countries on the DAC Part I list of aid recipients which:

- are undertaken by the government,
- promote economic development and social welfare as the primary objective,
- are concessional (grant component of at least 25%)

The Development Assistance Committee of the OECD determines levels of ODA *ex post facto* based on national submissions. A key consideration for DAC reporting and ODA qualification

is that CERs either are or will be recognized as economic assets that have value and are tradable. Under the United Nations System of National Accounts (SNA), the value of economic assets must be recorded as production flows in the economic accounts of the nation where they are created. International transactions in economic assets (sales or transfers) must be recorded in a nation's international accounts under the conventions of the IMF Balance of Payments Manual. The value of a sale or transfer of assets may be deducted from a donor's ODA flows.

ISSUE 1: Can government funds used to support projects under the Clean Development Mechanism in a manner which generates CERs that accrue to the financing government be counted as Official Development Assistance.

Two questions must be answered:

1. Does the donor expenditure meet the criteria for ODA? The most difficult test will be whether economic and social development of the recipient remains the primary purpose, particularly if donors expenditures shift substantially in a relatively short period of time?
2. Does the donor receive economic assets in return for its investment? The most difficult to analyze complication is caused by the intent to accrue CERs to the donor. The possibility of including CERs in DAC reporting has not been raised to date at either the DAC High Level Meeting or the DAC Statistical Working Party. It is unlikely, therefore, that the issue will be authoritatively addressed by COP6. If CERs are generated by ODA-funded projects, the value of the sale or transfer of the CERs to the donor may constitute a reduction in ODA. In addition, the methods of calculating "concessionality" may have to be adjusted to allow for the value of the CERs to the donor country.

ISSUE 2: Does ODA used for CDM, especially ODA that result in CERs accruing to the donor, have to be new and additional?

Raising the issue of the use of ODA to support CDM, with a focus on project support that generates CERs that accrue to the donor, insures that the question of "additionality" will be raised by developing countries and by NGOs. Developing countries are likely to insist on stipulating that ODA investments intended to produce CERs must be "new and additional" because CER generating activities could potentially divert ODA away from other objectives.

Donors may be constrained to argue that such investments are "additional" expenditures in order to meet the environmental additionality criteria. In addition, a direct financial interest on the part of major donors in the debate surrounding environmental additionality may affect the direction and dynamic of the emissions baselines debate. All of this is complicated by the lack of a baseline for determining ODA additionality.

With reductions in overall ODA levels, the political implications of OECD countries seeking

direct financial benefit from the ODA expenditures could have a negative effect on other aspects of the COP6 negotiations, especially those involving transfer of resources.

ISSUE 3: Does the use of ODA to acquire CERs promote "good development"?

Japan has argued that ODA use is justified because it promotes economic development and social welfare, and because it is necessary to support projects that are "not profitable on a commercial basis", and to promote the "equitable" distribution of CDM projects.

While the argument can be made that GHG reduction and sequestration projects support economic development and social welfare, and that such projects are already part of donors' portfolios, Japan's proposal to directly acquire CERs as a result of ODA investment calls into question whether these goals are the primary purpose.

Even for the Japanese, fully financing projects is relatively rare. Based on available information, it seems that fully financing projects will require a substantial increase in funding, which is likely to come at the expense of other development priorities unless there is a stipulation that such resources be "new and additional". (One Japanese response to this issue is that "all resources are 'new and additional' since the funds must be appropriated each year.")

Aside from difficult issues as to how private sector partners (winners) will be selected, the investment, per se, of donor capital in viable private sector projects will be very controversial with developing countries, and the investments themselves will compete with private sector capital. If the Japanese pick the most viable projects, impacts on markets could be considerable, and the overall flow of resources to developing countries may well be reduced.

In addition, the financing of large projects will require donors to decide whether to invest directly in private sector projects or public sector projects. If ODA is targeted at public sector projects, particularly economically non-viable projects, efforts by the United States and others to promote structural and market reform, including full cost recovery/reductions of subsidies, privatization, and decentralization could suffer.

The Japanese claim (apparently persuasive to some G-77 countries) that they will use ODA to promote the "concept of equity of opportunity for developing countries" seems difficult to substantiate. On one hand, countries with economically viable projects that will generate substantial numbers of CERs will have a ready market. On the other, it is difficult to believe that the Japanese, whose primary motivation is the acquisition of CERs, will really be willing to invest in countries that have few CERs to offer and where the generation of CERs will be more expensive.

Promoting "equity of opportunity" will require a shift away from Japan's traditional strategic targets for ODA, or increases in total ODA. Only one African or island nation is in the top 15 recipients of ODA from Japan, and no African or island nation receives more than one-percent

of Japanese ODA.

A more likely scenario is that the approval of the use of ODA to acquire CERs will result in investments in countries that are strategically and economically important to Japan (China, India, S.E.Asia) with potential long-term advantages to the Japanese private sector.

Moreover, the accrual of CERs to donor countries has implications for the issue of "tied aid". Tied Aid is loans, grants or financial packages that are conditional upon the procurement of goods or services from the financing country (i.e. practices that have direct economic benefit for the donor country). Tied Aid can only support projects that:

- have 35% grant element (50% for least developed countries),
- are financially non-viable, (coal gasification and renewable energy projects usually qualify)
- are in countries with per capita GDP < \$3,030.

At a minimum, the method of calculating the grant element will have to allow for the value of the CERs to the donor country. In addition, the very inclusion of CERs that can only be sold or transferred to the donor may well demand a revised definition of "tied aid" because of the obvious benefits to Japan.

Finally, depending on how the Japanese distribute the benefits domestically, WTO compliance issues may also arise.

OPTIONS:

Option 1: Restrict ODA use to capacity building actions and those that create enabling conditions.

The USG can support the use of ODA to support the CDM generally, and it may well be that such support could focus on specific projects, as long as that support does not result in the direct accrual of CERs. This option would require no revision of DAC guidelines, but would not meet Japanese goals and would have limited added value in negotiations.

If the US (or Japan) wants to acquire the CERs it could acquire them on the market, at fair value, with the proceeds going to the developing country partner. These proceeds could be targeted for development purposes. It could be that we could even argue that the value of the proceeds could be counted as ODA, and credited to the donor's ODA totals for the year in which the proceeds were received. A variant of this approach would be for donors to retain CERs, which would be monetized either at a negotiated amount, or at market price, with the proceeds going to the project host country as development assistance.

Option 2: Support the use of developed country government financing of CDM projects to generate CERs that would accrue to the developed country, with such financing not counting as ODA.

The Protocol is essentially silent on this point, and such investments would seem to be policy decisions of developed countries. If this funding were to divert funds from development assistance, and if new and additional funding were not made available, donor country ODA amounts would be substantially reduced, and potentially redirected geographically and among sectors. The potential for market distortions and policy impact would still have to be carefully considered. This approach is unlikely to be satisfactory to Japan.

Option 3: Support the development of DAC procedures that would allow donors to receive CERs, while subtracting the value of CERs from total ODA.

While Japan would prefer to receive full credit in both accounts, they have discussed the possibility of deducting the value of CERs from their ODA totals. Details as to how the CERs would be valued, and when deductions would be applied are not available. This option would require eventual approval of the DAC, and substantial procedural issues would have to be resolved. All of the concerns identified under Issue 3 would still have to be addressed.

Option 4: Support development of DAC procedures that allow ODA to be used to generate CERs without deduction of value from ODA.

While the Japanese would prefer this option, it would require a major redefinition of DAC ODA criteria and accounting procedures. All of the concerns identified under Issue 3 would still have to be addressed. This approach would be likely to divert ODA from current geographical and sectoral patterns, and would be unlikely to result in increased flow of resources to LDCs.

Discussion:

The USG has several criteria to meet in addressing this issue:

- maintain umbrella group cohesion
- support Japan where possible
- avoid undercutting development assistance commitments and policies
- avoid undercutting trade and investment commitments and policies
- finding creative ways to identify new and additional funds for developing countries

Crafting a substantive position that meets these policy criteria requires analysis by agencies and individuals not routinely participating in the Sandalow group. In addition, the information available from the Japanese does not respond to several potentially serious issues. Despite requests, no written proposal from the Japanese has been forthcoming, nor have they raised the issue with the appropriate OECD-DAC groups. The Japanese, while absolutely clear on the purpose or goal of the use of ODA via CDM to accrue CERs, have been exceptionally vague on the details.

It may be that the US can craft a position that generally supports the use of ODA for CDM support, subject to OECD definitions, and procedural determinations by the executive board of

the CDM, while avoiding the issue of CER accrual until after COP6. The USG could indicate that the appropriate forum for determining this issue is the High Level Meeting of the DAC. Simultaneously, we should formally seek a detailed proposal from Japan for analysis of State EB, USAID/ G, and PPC, Treasury, Commerce, OPIC, EXIM, and others.

ASSISTANT SECRETARIES LIST FOR CLIMATE MEETING
4:00pm - Wednesday, May 17, Room 7835

ALDY, Joe (CEA)	395-1455	395-6870
ANDERSON, Margot	586-5316	586-3047
BALLENTINE, Roger	456-1782	456-1736
BIERBAUM, Rosina	456-6077	456-6025
BOWLES, Ian	456-6540	456-9240
CUMBY, Bob	622-0572	622-2633
DELGADO, Linda	720-6158	720-5437
DONIGER, David	564-7401	501-0986
ENGLISH, Kate	586-5316	586-0861
GARDINER, David	395-2343	395-2311
HALES, David	712-1750	216-3174
LAWRENCE, Robert	395-5046	395-6958
STERN, Todd	622-0654	622-0073

COP-6 Sinks Decisions: General Approach

1. Introduction

Land use, land-use change and forestry activities (LULUCF) are addressed in Articles 3.3, 3.4 and 3.7 of the Kyoto Protocol.

- Article 3.3 requires that Parties, in meeting their targets, count emissions and removals from three specified land-use change and forestry activities: afforestation, reforestation and deforestation (ARD) since 1990.
- In addition, Article 3.4 allows the COP/MOP to include additional LULUCF activities – for example, conservation tillage – for the second and subsequent commitment periods. Parties may choose to apply any such decision to the first commitment period, for activities taking place since 1990.
- Finally, Article 3.7 provides that for states whose land-use change and forestry activities in 1990 were a net emission, the net land-use change emissions shall be included in the country's 1990 emissions baseline.

At COP-6, Parties will make a set of decisions regarding Articles 3.3 and 3.4. These decisions will likely include:

- definitions and accounting rules for ARD activities under Article 3.3;
- definitions of which additional LULUCF activities to include under Article 3.4, as well as accounting rules for these activities.

The package of COP-6 decisions could also include:

- limits on the degree to which Parties may count Article 3.4 activities in the first period
- a process for including additional LULUCF activities under Article 3.4 after COP-6
- elaboration of the land-use change elements of Article 3.7.

By August 1, 2000, Parties must submit their views and proposals concerning these Article 3.3 and 3.4 issues, including proposed definitions and accounting systems, along with national data and assessments of those proposals.

2. Definitions and accounting for afforestation, reforestation, and deforestation (ARD) activities under Article 3.3

The COP-6 decision package will likely include definitions of ARD activities, perhaps providing Parties the option of choosing among a set of possible definitions or accounting approaches. The definitions of “afforestation” and “deforestation” are relatively uncontroversial from a political standpoint, but involve important technical considerations.

Reforestation is the most controversial aspect of Article 3.3. Different definitions (and accounting rules) would have markedly different implications for the United States (see Table 1 below).

International and internal U.S. discussions have focused on two possible definitions of reforestation: the FAO and the IPCC definitions. The *FAO definition* defines reforestation as replanting after harvest. Under some accounting rules, the FAO definition would allow countries to count the sequestration resulting from replanting, but not the emissions due to the harvest that brings the land into the system. In contrast, the *IPCC definition* defines reforestation as a land-use change from non-forest to forest. Under this definition, reforestation is essentially the same as afforestation; the only difference between the two is that, in the case of afforestation, the land is out of forest use for a longer period of time. The IPCC definition would avoid the issue of counting carbon sequestered on lands replanted after harvest, since replanting after harvest would not represent a land-use change and hence would not count as “reforestation.”

Table 1 sets forth the implications for the U.S. of the IPCC vs. FAO definitions, assuming business-as-usual. Under the IPCC definition, the U.S. would gain virtually no net credits from ARD under Article 3.3. In contrast, the U.S. would gain a credit of approximately 100 MMTCE (about 7% of our 1990 emissions) under the FAO definition, in combination with an accounting rule that includes carbon sequestered during the regrowth of forests regenerated since 1990, but excludes the emissions from the initial harvest after 1990.¹

¹ Note that during the first few years after harvest, land usually produces positive net carbon emissions because the slash left over from harvest is emitting at a rate greater than the sequestration from the new growth. This approach would count emissions from slash. Emissions from all harvests that occur after the first regrowth would count, but harvested carbon that goes into long-lived forest products would not be debited instantly.

Table 1:
U.S. Emissions and Removals from Afforestation, Reforestation, and Deforestation

U.S. Sink/Source	Annual MMTCE Carbon Sequestration (+) or Emissions (-) during the budget period (BAU Case) for the U.S.		
	2008-2012	2013-2017	2018-2022
IPCC definition of reforestation			
Afforestation/reforestation	10	9	8
Deforestation	-8	-7	-7
Total of ARD	2	2	1
FAO definition of reforestation (include carbon on forest lands replanted after harvest; exclude carbon emitted at the time of the first harvest after 1990)			
Reforestation under FAO definition	102	99	116
Reference: Comprehensive accounting of carbon stock changes in US Forests	217	200	184

Note: Estimates are derived from data and analysis based on 1992 US Forest Statistics. The forthcoming 1997 US Forest Statistics could change the magnitude and trends reported here.

The negotiating history of the Kyoto Protocol contains some support for the FAO definition of "reforestation." Moreover, to the extent that the U.S. assumed the FAO approach in taking its target, adopting an approach such as the IPCC definition would represent a significant tightening of our target (a difference of approximately 100 MMTCE).

However, several arguments have been advanced by Parties and NGOs against the FAO definition. First, it credits regrowth without debiting the first harvest (this is one form of "asymmetrical" accounting). Thus it selectively brings land into the system as it is about to start accumulating carbon, without counting the substantial emissions occurring earlier in the commitment period resulting from harvests. Second, some are concerned that the FAO definition could encourage harvesting old growth forests and replacing them with tree farms, so as to count the sequestration from replanting but not the emissions from harvesting. Finally, some Parties argue that the definitional issue is already decided by Article 5.2 of the Kyoto Protocol, which mandates the application of the 1996 Revised IPCC Guidelines. We do not accept that legal interpretation of the effect of Article 5.2.

Many Parties, including a number of Umbrella Group countries, support the IPCC definition. Canada has been one of the few countries to publicly support the FAO definition. Finland

and Sweden may as well. Since Kyoto, we have been reluctant to take a position on the definitions of ARD under Article 3.3. On the one hand, adopting the IPCC vs. the FAO definition of reforestation would represent a significant tightening of our target. On the other hand, we have been reluctant to endorse the FAO definition, given the controversy surrounding it. In our August 1 submission, we could propose either the IPCC or FAO definition, one of the other alternatives elaborated by the IPCC in its recent Special Report, some other definition, or we could propose options as part of a package with Article 3.4 activities.

3. Definitions and accounting for additional activities under Article 3.4

(a) Full carbon accounting through broad activities

During the Kyoto Protocol negotiations, we supported including sinks in a comprehensive fashion, so as to give Parties the maximum incentive to reduce emissions and enhance sequestration from LULUCF activities. Since Kyoto, we have continued to advocate the comprehensive approach pursuant to Article 3.4

To provide for full carbon accounting, the LULUCF activities included under Article 3.4 would need to be broad activities, and the system would need to count all carbon stock changes on the land during the commitment period. Possible activities include:

1. Forest management
2. Cropland management
3. Grazing land management
4. Land degradation and land restoration (possibly a package of activities to be selected together)

With full carbon accounting on managed forests, cropland, and grazing lands, carbon stock changes during the first commitment period are projected to be in excess of 200 MMTCE per year, assuming business as usual.

(b) Possible "Walkback" for the first commitment period

Most Parties have opposed the comprehensive approach. Some believe that carbon stock changes cannot be adequately monitoring and verified, although to some degree the recent IPCC Special Report allays that concern. Some are worried that the U.S. might try to take credit for large BAU sequestrations, possibly including the large "missing sink" (an unaccounted carbon sink that some scientists believe could be located in North America). Some also fear that LULUCF activities would undermine the emission reduction objectives of the Kyoto Protocol or create ancillary environmental problems.

One direction we are exploring for our August 1 submission is to propose full carbon accounting for all managed lands in the second and subsequent commitment periods, but claim only a share of the total carbon credits during the first commitment period. This is known as full carbon accounting with a "walkback" in the first commitment period.

4. Approach and future steps

In the next one to two months, we will need to decide the following key issues:

- (a) What is our bottom line on sinks for COP-6?
- (b) What positions on sinks should U.S. propose sinks in its August 1 submission?

We propose the following general approach, as we proceed to address these two core issues:

- Continue to advocate full carbon accounting as the most environmentally sound approach for the long run.
- Do not take a position on the definition of reforestation under Article 3.3.

Instead of supporting either the FAO or the IPCC definition, we will continue to argue for addressing forestry (and other sink activities) in a more rational, comprehensive manner, through Article 3.4 decisions.

- Explore how to make up credits through Article 3.4, if we compromise by accepting the IPCC definition of reforestation under Article 3.3.

Potentially, Article 3.3 and 3.4 could be treated as a package, in which we would accept the IPCC definition of reforestation (or something similar) in return for a satisfactory decision regarding additional sink activities under Article 3.4. Such a package might provide credit for some BAU activities (as Article 3.3 already does), as well as provide incentives to take *additional* action that could help Parties meet their targets in a cost-effective way.

- Explore departures from full carbon accounting that could be applied in the first commitment period.

“Walkbacks” for the first commitment period could take the form of more narrowly defined activities under Article 3.4, or formulas that limit the applicability of full carbon accounts. We will outline various walkback options in a separate paper.

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Article 3.4

Background

The U.S. has supported including broad land management activities under Article 3.4. One key advantage of including these broad activities, coupled with a land-based accounting system that counts changes in all the relevant carbon stocks on the land across the period, is that it would create the greatest incentive to maximize sequestration and minimize emissions. A broad approach would provide the most environmentally sound approach for the long run because all human contributions to emissions would be accounted for. It would also allow GHG reductions in the sectors where they are most cost effective.

Despite the long term advantages, we are unlikely to achieve full carbon accounting in the first commitment period, and pushing for full carbon accounting and only full carbon accounting could damage our chances for getting anything at the Hague. Our August 1 submission is an opportunity to advance a framework that might be accepted there. Thus, we need to consider our priorities – and bottom lines – for COP6 in this area and what to advance in our August 1 submission in that context.

Possible Broad Article 3.4 Activities

Forest management:

- Would include large areas and important stakeholders for U.S.
- Could provide significant BAU credits (approximately 200 MMTCE per year)
- Likely to be supported by Japan, Canada, Finland, Sweden, and France

Cropland management (agricultural soils):

- Would provide relatively few credits
- Could be politically important
- Likely to be supported strongly by Canada

Grazing land management (soils and vegetation on pasture, rangeland, etc.)

- Would provide relatively few credits
- Probably not politically important
- Not likely to be supported strongly by other Parties
- Large land area

Revegetation and/or Restoration of Degraded Lands

- Includes establishment of vegetation that would not qualify as forest
- Likely to be proposed by Australia, New Zealand, and Iceland
- Likely to provide significant BAU tons for other Parties, but not the U.S. (i.e., not really a

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broad activity for the U.S.)

General approaches to limiting first commitment period sinks

Limiting sink credits in the first commitment period without moving towards narrow activities is known as a "walkback" from full carbon accounting. Different walkback approaches may be desirable for different sink activities, and some activities may require no walkback at all.

1. Exclude some of the broad land management activities in the first period.

For example, Parties could include comprehensive accounting for forest management, but not grazing land management.

Pros:

- Relatively straightforward to calculate.
- Clear relationship between activity (i.e. land management category) and carbon accounts.

Cons:

- We would be unlikely to get forest management included, given its large contribution to our assigned amount (approximately 200 MMTCE for BAU activities, or more than 10% of our assigned amount). The broad categories more likely to be accepted, such as cropland management, would give us relatively few credits in the first commitment period.
- Since different activities are important to different Parties, it may be difficult to negotiate a single set of first period activities.
- Wouldn't encourage cost-effective additional sequestration (above BAU) from activities excluded in the first period.
- Wouldn't encourage development of monitoring and verifying capacity for excluded activities, unless there were a clear signal that these activities would be counted later.
- Could distort incentives across different land uses, depending on domestic implementation
- Domestic political problem of excluding certain sectors from possible credits.
- Especially hard to evaluate our deal relative to others'.
- Could leave important atmosphere exchanges unaccounted for.

2. Limit the number of sink tons to a fixed percent of the total sequestration.

Pros:

- Relatively straightforward to negotiate the discount level and to calculate credits.
- Would arguably affect all Parties proportionately the same.
- Provides incentives for across-the-board additional sequestration, but not at full value.

Cons:

- Raises the issue of whether land-related emissions should also be discounted, or whether only

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sequestration would be discounted. If the latter, a Party could potentially get a net debit even if its full account from sink activities was positive.

- Raises the issue of what discount factor to use, and whether the discount factor would any scientific basis.

3. Limit the number of sink tons to the share of the full carbon account that is arguably due to human-induced land management changes.

For example, factor out x% or X tons for BAU, y% or Y tons for indirect human-induced effects such as CO₂ fertilization and/or z% for natural variation (e.g., the El Niño cycle).

Pros:

- Although negotiating x, y and/or z may be difficult in practice, the conceptual approach is relatively straightforward, and, once these numbers were agreed, they could be applied relatively easily to calculate credits.
- Tons that would be accounted would arguably be related to human effect on GHG concentrations.
- Provides incentives for across-the-board additional sequestration, but possibly not at full value, depending on how the accounting system is set up.

Cons:

- If it turns out the missing sink is due to human factors such as improved fire suppression as some scientists believe, then this could result in large credits.
- Indirect human factors and natural variability are uncertain. Thus, it may be difficult to get agreement on particular numbers if confidence intervals are large.
- May not provide many tons.

4. Limit credits to the reported stock change above some predetermined threshold level.

Pros:

- Would provide broad incentives for additional sequestration unless the threshold level is too high to achieve.
- Once thresholds are set, carbon accounts would be relatively easy to calculate.
- Could combine with a discount factor for indirect human effects or natural variability (see option 3 above).

Cons:

- May provide few tons, depending on threshold.
- Raises the issue of how to set the threshold levels. For example, the number should vary by Party. Thus it would have to be a function of Party-level data such as:
 - a) a BAU projection or extrapolation of stock changes in the commitment period

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- b) stock changes during a historical base period, e.g. 1990 to 1995
 - c) x% above or below BAU or historical stock changes,
 - d) estimate of Party's possible share of "missing sink"
 - e) some other number as negotiated
 - Challenging to negotiate different threshold levels for each Party.
 - Doesn't put an upper bound on credit, which would leave some Parties fearful we could get credit for the "missing sink."
 - Raises the issue of how to count LULUCF activities if total sinks turn out to be below the threshold. One option would be to provide for one-way accounting, under which Parties would receive credit for additional sequestration above the threshold, but would not be debited if they fell short of their threshold.
 - Could introduce disputes over how to do projections or construct other uncertain measures that would factor into the threshold.
 - Especially hard to evaluate our deal relative to the deals other Parties get.
5. **Calculate sink credits based on a measure of progress in energy investments or some other indicator**

Pros:

- May get support from some environmental NGOs, if total credits are sufficiently limited.
- Sink credits would be available for Parties that demonstrate progress on the gross emissions side, or who can show energy-related improvements. The credits could be seen as "matching funds," which encourage domestic abatement.

Cons:

- Could provide sink credits in inverse proportion to how much they are needed to achieve targets.
- Hard to measure progress objectively, and raises the issue of whether to count "anyway progress."

6. **Limit credits to the reported stock change on a reasonably defined subset of the land within an activity.**

For example, we could count only the most intensively-managed lands in the first period. This would likely include lands on which most of the stock changes are occurring, and exclude lands that are not managed for commercial purposes. The meaning of "intensively managed" is not obvious, however, so we would have to find better modifiers to express exactly what subset of land of each type (forest, cropland, etc.) would count. It may be hard to find modifiers that work throughout Annex I.

Pros:

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- Provides fully-valued additional incentives, but only for the included lands.
- Could allow selective exclusion of the most controversial land, such as old growth forest and wilderness.
- Arguably related to human-induced factors.

Cons:

- Could leave important atmosphere exchanges unaccounted for.
 - Many indirect and natural effects could be on heavily managed land, so critics might argue that this approach would not exclude the possibility of receiving credit for the missing sink.
-



United States Department of State

*Bureau of Oceans and International
Environmental and Scientific Affairs*

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MESSAGE: Discussion Paper for Climate Meeting on Wednesday, June 21
at 4:00pm, Room 7835.

SINKS

April 20, 2000

To: See Attached List

From: USDEL/Perth -- Mark G. Hambley

Subject: The Perth Sinks Ministerial: "Raising the Arte"

The following contains an informal report on the High Level Portion of the April 17-20 forum on sinks in Perth, Australia. While unclassified, it is not intended for dissemination outside the U.S. Government.

Summary:

Australian Environment Minister, Senator Robert Hill, did a commendable job in raising the profile of the issues related to land use and land use change and forestry, or "sinks" during the high level segment of the April 17-20 sinks forum in Perth. However, "the importance" of this issue was one of the few points of consensus that emerged among the representatives of 28 countries ((including the German national representing the UNFCCC (Climate Change) Secretariat)) that participated in the forum. Governments remain very much divided about the question of definitions and about the extent to which additional categories can be addressed at the November meeting of the Conference of the Parties. Some movement was indicated on the question of the inclusion of sinks in the CDM, with the EU suggesting that it will modify its current blanket opposition to this idea at its June Ministerial. However, there was little overt support for our thought-provoking approach linking Article 3.3 definitional issues with consideration of additional categories in Article 3.4.

The co-chair of the sinks working group, Halldor Thoreisson of Iceland, and the UNFCCC representative, Eveline Trines, outlined the timeline for making decisions on sinks. Halldor emphasized the importance of resolving questions relating to principles and formatting for governmental submissions at the June subsidiary body meetings in Bonn. Both Halldor and Eveline stressed the absolute necessity for governments to meet the August 1 deadline for submissions in order to give the chairman of SBSTA (Harold Dovland of Norway) at least a fighting chance to prepare a composite text for negotiation by the September subsidiary body meetings in Lyon. End Summary.

Atmospherics

Indicative of the rather laid back atmosphere of Western Australia, the high level segment of the April 17-20 Sinks Forum was conducted in a relaxed, almost off-hand manner. Senator Hill kept the pace of the meeting going and interrupted only one speaker who had strayed into another agenda topic (much to the chagrin of Australia's umbrella partners and to members of his own delegation, Hill interrupted Costa Rica's Franz Tattenbach who was effectively undermining the various arguments of those who are against including sinks in the CDM; Hill later gave Tattenbach final word on this topic in an amiable effort to make amends).

The meeting included representatives of 28 governments (including the German national representing the UNFCCC Secretariat and the EU Ambassador Canberra, Anourin Hughes). Ministers from 11 countries attended: Australia, Iceland, Indonesia, Malaysia, Papua New Guinea, Poland (COP President, Jan Szyszko), Solomon Islands, South Africa, Thailand, Uganda, and Vanuatu. Deputy or Assistant Ministers attended from four countries, while the remainder were senior officials. The latter included representatives from four EU Parties, Finland, France, the Netherlands, and the UK. Eight of the nine umbrella members were represented (Ukraine was absent), including Dr. Alexander Bedritskiy of the Russian Federation and Canadian Deputy Environment Minister Alan Nymark.

The meetings themselves were quite short and the sessions compressed (Hill even managed to end some 90 minutes ahead of schedule). A long evening reception and dinner by the heads of delegation gave them opportunities for additional exchanges of view on climate change and related environmental issues.

Sinks and the Road to COP-6

The shortness of time between now and the opening of the Sixth Conference of the Parties (COP-6) in The Hague was the backdrop for all presentations made during this opening portion of the High Level Segment. This point, plus the added one that sinks are important issues that must be addressed, were the only points of convergence during this portion of the forum.

Senator Hill began by giving Australia's views. He noted that COP-6 requires decisions on sinks that are useful for all Parties. He said that definitions of afforestation, reforestation, and deforestation ("ARD") that are sufficiently robust are required. He added that in Australia's view, the IPCC definitions fall into this category. He noted the importance of including additional, "credible" activities under Article 3.4. He added that Australia supports sinks in the CDM in order to increase the benefits for all countries.

Malaysia's Science and Technology Minister Law indicated that Annex I Parties should proceed to ratify the Protocol even in the absence of decisions on sinks. He said that at COP-6, he expects Parties to be able to define ARD within the terms of Article 3.3. We might also, he said, be able to identify the methodologies for including additional areas under Article 3.4. However, he said he doubted there was time to amplify this article in any significant fashion.

Other speakers supported Malaysia's standoffish approach in carefully nuanced statements. Thailand remarked that the question of sinks involves a wide range of complicated issues. Different definitions of ARD could change the impact of sinks on various targets dramatically. Minister Arthit Ourairat suggested one must await the IPCC report before making any definitive conclusions. The UK (Henry Derwent) cautioned that the potential numbers from sinks are so huge that caution must be exercised when considering them. He noted that ministerial engagement will be critical in breaking the logjam on this issue. He ended by indicating that we must not bite off more than we can chew."

The Netherlands (De Boer) submitted that the three issues of environmental integrity, environmental efficiency, and equity should be accounted for in coming to decisions on sinks. He agreed with Malaysia that definitions of ARD should be doable at COP-6, but he said that one only needs to design a framework for Article 3.4. There will not be enough time, he

asserted, to determine what additional sink category should be included, and he questioned the wisdom of including all sink categories. He disagreed with Thailand's assertion that we should wait for the results of the IPCC report for guidance, indicating that this report will contain few of the right answers.

Contrary views, closer to Australia's position, were made by most of the umbrella countries present. However, these were also carefully caveated. Iceland indicated the importance of including soils in any COP-6 decision. Canada agreed. Noting that this figure would amount to little in terms of actual numbers, Canada's Alan Nymark said that it is politically important for soils to be incorporated if Canada is to be able to present the agreement for eventual ratification. Russia agreed that it is important to try to get at least some additional activities incorporated into any eventual COP-6 decision. Norway concurred, but said that the importance of environmental integrity might limit the kinds of activities that can be included. Even the French representative (Francois Wencelius, the head of his country's forest inventory effort) diverged somewhat with other EU colleagues by supporting consideration of some additional activities under Article 3.4 and for a global carbon accounting system.

Fiji's Assistant Minister, John Ali, emphasized the importance of getting all sinks issues resolved quickly without endorsing specifically the inclusion of Article 3.4 projects. Uganda's Minister Kajura noted that technology transfer and capacity building must be taken into account, while South Africa's Minister Mabudafhasi agreed with Thailand that we should await consideration of the IPCC report before coming to firm conclusions about Article 3.4.

In his only intervention of the entire session, Japan's new Ambassador for the Environment Akasai questioned whether a process that attempts to exclude consideration of the entire package agreed to at COP-3 (which he defined encompassing, inter alia, both Articles 3.3 and 3/4) can in fact lead to ratification by Parties whose target commitments were based on the entire package. He noted the clear difference of views on the part of countries on this matter. He said that this issue should be on the table for further elaboration at the April 28 climate change ministerial in New York (where he will not be present).

Sinks and the CDM

Similar differences in approach were noted in the high level discussion about including sinks in the Clean Development Mechanism (CDM). However, some movement was indicated in favor of this proposition. Costa Rica's Franz Tattenbach led a stinging rebuke of those who are against including sinks in the CDM (led by the Dutch) and especially of the argument that reductions would be lower in cost than those created through various energy renewable or energy efficiency projects. Tattenbach argued that inclusion of sinks is a question of symmetry, and said that their inclusion in the CDM is a non-negotiable matter for most Latin American countries (sic).

The EU Ambassador in Canberra submitted that, despite current EU opposition, a group in Brussels is currently studying options. He told us in private conversation that he expects greater flexibility on this question to emerge at the June ministerial. De Boer said that the EU's current position is against the inclusion of sinks without a specific decision by the COP/moP. However, he also indicated that he personally favors some flexibility in this approach.

South Africa's Minister indicated that her country would like to see consideration of sinks in the CDM — but only after the IPCC report is received and studied. Indonesia, the Solomon Islands, Fiji, Canada, the U.S., and Iceland, all supported — to varying degrees — Costa Rica and Australia's positions supporting sinks in the CDM. Malaysia suggested that the problem of baselines might stall inclusion of sinks at the present time. Thailand tended to support this contention with Minister Ourairat indicating that only once clarifications about the uncertainties involving sinks, can they be included in the CDM. However, after his relatively long explanation of this position, the minister indicated that if sinks are to be included, then this must be done in the context of the definitions that are decided for "ARD" under Article 3.3.

Comment: It was noteworthy that Brazil's representative at this meeting, well-known climate change negotiator, Jose Miguez, did not speak up at this session. Tattenbach told us that this was because Miguez has weak English (true); Tattenbach also stated that President Cardoso, during his meeting last week in Costa Rica with Central American presidents, had voiced support for the CDM in sinks projects provided national sovereignty issues are given appropriate attention. **End Comment.**

Definitional Issues: Linkages between Articles 3.3 and 3.4

In many ways, this portion of the agenda served as a basis for once more raising questions from the initial discussion on sinks and their role in the road to COP-6: in other words, how do we define afforestation, reforestation, and deforestation ("ARD") and the additional categories encompassed by Article 3.4. All delegations agreed that afforestation, reforestation, and deforestation need to be defined, but the way in which this should be done was subject to a range of views. Although many delegates were impressed and intrigued by Dan Bodansky's presentation at the technical meeting, only Norway expressed sympathy at the high level for our view that the best way to overcome the definitional problems and shortcomings posed by Article 3.3 and the IPCC report might be through a full consideration of Article 3.4.

Malaysia, Thailand, and South Africa — to varying degrees — suggested that we must work to get Article 3.3 definitions in order at the Sixth Conference of the Parties (COP-6) in November, and then worry about Article 3.4. This was broadly the same position taken by the EU, the Netherlands, and the UK although the latter caveated his position by indicating that the question of additional activities was limited more by the lack of time than by a lack of inclination to pursue this topic at COP-6.

Among the umbrella countries, all present favored addressing aspects of additional activities under Article 3.4. New Zealand created a bit of a stir by suggesting that (1) we should define ARD in terms of Article 3.3; (2) support applying Article 3.4 as a longer term objective; and (3) as a short term objective, try to identify a few categories that might be considered within the context of Article 3.4's additional categories. France promptly endorsed this approach, and the Netherlands indicated that it was attracted to it, as well. New Zealand's Murray Ward subsequently explained that he did not mean to imply that these elements should be treated serially. He said that New Zealand envisioned the possibility of them all being treated consecutively.

The UK representatives (Henry Derwent and James Penham of Environment, Transport and the Regions) later expressed interest in finding a way to bridge the gap between EU/U.S. views. The Netherlands representative, Yvo De Boer, distorted our position by maintaining that what we are sinking is the "carte blanche" inclusion of all categories in the first commitment period, implying in several side bar conversations that this is tantamount to giving us yet another loophole to avoid our target obligations. De Boer recanted somewhat in his conversations with members of USDEL. However, he said that the Netherlands does not see how we have time to elaborate Article 3.4 by November and called upon us to "be realistic."

Thailand's Minister Ourairat said that Article 3.4 should be discussed, but only after decisions on Article 3.3 definitions have been concluded. He repeated that his country would await the IPCC report before assessing which Article 3.4 categories might be appropriate. He said he is "cautiously optimistic" that delegations will be able to arrive at a compromise position by COP-6.

Conclusions: Raising the Profile of Sinks

Following two day's of discussions, Senator Hill concluded by noting that the one point on which all delegations agreed was the sense of urgency they attach to the issue of sinks. He noted the complications associated with this issue and the importance that many governments attach to receiving the IPCC report. However, he said that these points should not be used as excuses to avoid taking the decisions needed to resolve this issue in a satisfactory manner by COP-6. Hill's views were endorsed by a number of delegates in the room.

Final Comment

This meeting was useful for the reasons stated by Senator Hill: It gave opportunities to those relatively new to the climate change process (almost all of the ministers in attendance) to expand their knowledge about an essential, if complicated issue. And it did develop a cadre of ministerial support for Australia's contention (shared by ourselves and by our umbrella partners) about the importance of resolving both Article 3.3 and 3.4 as a package at COP-6. Defining this package is an elusive goal, even among the umbrella group. But at least we have begun the process, even if it did take a trip half way around the world to do so.

End Final Comment.

TO: **Roger Ballentine**
 Ian Bowles
 Jeff Seabright
 David Gardiner
 David Doniger
 John Beale
 Mark Mazur
 Robert Cumby



UTILITREE CARBON COMPANY



July 28, 2000

The Honorable David B. Sandalow
Assistant Secretary for Oceans,
International Environment, and Scientific Affairs
U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Re: Electric Utility Industry Positions on Land Use, Land-Use Change and Forestry

Dear Mr. Sandalow:

The UtiliTree Carbon Company (UtiliTree) and the Edison Electric Institute (EEI) respectfully submit our positions regarding land use, land-use change and forestry (LULUCF) issues and the Kyoto Protocol.

INTRODUCTION

UtiliTree is a nonprofit company formed in 1995 by 41 North American electric power generators, including the Tennessee Valley Authority. These entities are sponsoring eight projects, six domestic and two international. These projects are projected to avoid or offset 3 million tons of carbon dioxide (CO₂) over their lifetimes. It is notable that the six domestic projects include four that reforest National Wildlife Refuges in Arkansas, Louisiana and

Mr. David Sandalow
July 28, 2000
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Mississippi in cooperation with the U.S. Fish and Wildlife Service and the National Fish and Wildlife Foundation. A ninth project is currently being developed. A poster providing an overview of the UtiliTree projects and a folder providing additional materials on the program are enclosed.

EEI is the association of U.S. investor-owned electric utilities and industry affiliates worldwide, including 200 member utilities in the U.S. and 50 affiliate members in 18 countries. EEI established the Utility Forest Carbon Management Program (UFCMP) and other industry-wide initiatives in 1994 to assist our member companies in implementing voluntary agreements under the Climate Challenge program with the U.S. Department of Energy. Fifty-five companies participate in the UFCMP and 650 participate in the Climate Challenge, with the Climate Challenge expected to total more than 174 million metric tons of CO₂-equivalent greenhouse gas emission reductions in the year 2000.

Since the early 1990's, EEI policy has been to promote comprehensive (all nations, all greenhouse gases, and all sources and sinks), cost-effective, flexible and voluntary approaches to reducing greenhouse gases. U.S. electric utilities, through UtiliTree and individually, have been the leading sponsor worldwide of forestry projects to address CO₂. U.S. electric utilities have funded significant international projects in Malaysia, Belize, Brazil and Bolivia. The Belize

project (Rio Bravo) and the Bolivia project (Noel Kempff) are U.S. Initiative on Joint Implementation (USIJI) efforts, while the other two international projects will join the USIJI program once host country acceptance is achieved. The projects in Belize, Brazil and Bolivia were developed in conjunction with The Nature Conservancy, while the Rainforest Alliance is a partner in the Malaysian project. For each of these projects, years of effort went into development, and \$1 to \$10 million of investment was made.

In addition to these international projects, our industry has sponsored a large number of domestic efforts, because they are easier to implement, they are more secure, they provide environmental benefits where our customers live, there is ample land available, and they are cost effective.

We greatly value LULUCF efforts as an important tool among many toward meeting any possible future requirements, because of their multiple benefits:

- Reduced greenhouse gas emissions and increased uptake of carbon.
- Contribution to sustainable development goals.
- Associated (ancillary) environmental benefits, such as:
 - Restoration of degraded lands.
 - Biodiversity, wildlife and bird habitat.
 - Reduced erosion, reduced soil compaction and improved stream quality.
- Cost-effectiveness.

POSITIONS ON POLICY ISSUES

Based largely on our experience with implementing projects, we have developed the following positions on key issues related to LULUCF activities.

First, projects should be scientifically credible; properly designed, with transparent monitoring, measurement, evaluation and verification; and report actual results for all significant sources and sinks of greenhouse gases.

Experience shows that properly designed projects can address the key issues related to duration (permanence); leakage; baselines, monitoring, measurement and verification; and additionality.

In addition, only a full carbon accounting system, such as endorsed for years by the U.S. government, can be scientifically defensible. Thus, to compensate for a deficient Article 3.3 of the Kyoto Protocol, all other LULUCF activities must be addressed under an all-encompassing Article 3.4.

Finally, we submit that the clean development mechanism (CDM) in Article 12 allows for all LULUCF projects, and that such projects will be important to sustainable development in developing countries.

Mr. David Sandalow
July 28, 2000
Page 5

Each of these issues is discussed in more detail below. We also enclose a copy of the joint EEI-UtiliTree presentation from July 11 at the LULUCF workshop held in Poznan, Poland, which elaborates on our positions.

Duration/Permanence

Project duration can be addressed in several ways:

- Ton-year accounting, which is difficult and arbitrary. Ton-year accounting disadvantages projects, so that many fewer projects would go forward due to the indirect economic penalty. Moreover, secondary benefits would be lost.
- Risk reduction, such as project pooling (as done by UtiliTree), where if one project underperforms, others may make up the shortfall; buffers and contingency credits (*i.e.*, making the project larger as a safety margin); and external insurance.
- Making up any shortfall in a system of full carbon accounting with contiguous budget periods through purchasing credits or undertaking other projects.

In our view, this third option is best, and the second option is acceptable in many situations. We oppose the concept of ton-year accounting.

Projects of only a few decades are valuable, since they may serve as a bridge to future measures that require long lead times, including lower-emitting electric generation technologies.

Regarding duration and UtiliTree projects:

- Contractual commitments are for 40-70 years, but benefits will not evaporate in years 41 or 71 and indeed could be permanent.
- Six of the eight UtiliTree projects are under government protection and essentially are permanent.
- One private land project includes a financial penalty to landowners for failing to keep land forested for 65 years.
- The reduced impact logging project directly avoids emissions, and its benefits should essentially be permanent.

Leakage

Leakage may be both negative (diminishing the benefits of the project) and positive (amplifying project benefits). Early projects may have a high likelihood of spillover (positive leakage).

Leakage is an issue for all types of projects, including energy projects.

Leakage can be avoided or minimized by proper project design, and good projects will monitor and evaluate leakage periodically. To address leakage there are several options:

- Maintain needed resources and provide socioeconomic benefits, including alternative economic opportunities, to local populations.

- Monitor key products, such as timber extraction; quantify and reduce carbon benefits if necessary.
- Deforestation rates can be monitored during the project life and can be quantified to determine actual project carbon benefits.

Regarding leakage and UtiliTree projects:

- The Rio Bravo project includes a protocol with the Belizian government and the Programme for Belize, which includes creation of jobs related to sustainable management.
- The Intergovernmental Panel on Climate Change (IPCC) says that in the long run, reduced impact logging projects may produce greater output than conventional logging and thus will not create a leakage problem. [IPCC Special Report on LULUCF, p. 313.]
- Our U.S. tree planting projects include no commercial forestry and displace no agriculture.

Baseline, Monitoring, Measurement and Verification Issues

The following principles will result in credible projects related to baselines, monitoring, measurement and verification:

- Projects must be monitored routinely.
- Carbon benefits must be real, measured and verified.
- Only actual project results are reported.
- High confidence in measurements can be attained using standard practices.
- New technologies – *e.g.*, remote sensing and videography -- can provide even greater confidence and frequency.

We need to balance cost and accuracy to attain reasonable accuracy, *i.e.*, there is a point at which accuracy is high and thus further incremental investments are not cost effective. We need to avoid requiring "gold-plated" monitoring, measurement and verification programs.

Finally, we would like to address dynamic baselines from the viewpoint of fairness. We believe that it is acceptable to adjust baselines if error is found in calculations or assumptions, but we do not favor adjustment of baselines following a later change in policies or practices. To do so would penalize early efforts that provide spillover benefits and catalyze other projects

Additionality

The CDM calls only for emissions additionality. Second, financial additionality is extremely difficult to analyze and therefore should not be a decision criterion.

Furthermore, private sector sponsorship does not affect overseas development assistance from national governments, and thus private sector funding will only increase mitigation efforts in developing nations.

Finally, since UtiliTree projects are solely for the purpose of addressing CO₂ and will yield no direct economic return to UtiliTree, these projects are clearly additional.

Article 3.4 Issues

UtiliTree and EEI support a full carbon accounting approach, which consists of a complete accounting of all changes in carbon stocks in all important carbon pools on all lands. However, Article 3.3 by itself will only address a small portion of lands under the IPCC definitional approach. Consequently, Article 3.3 could introduce an important bias, resulting in emissions/removals that are much different than those experienced by the atmosphere. Thus, it is crucial that a combined system of Articles 3.3 and 3.4 be designed from the outset that provides scientific integrity by addressing all significant carbon stocks and their changes.

We note with interest the “trial balloon” that the U.S. floated at the Poznan workshop regarding possible “phase-in options” for the first commitment period, two of which could be net removals over a certain threshold or a discount rate. We understand that the U.S. may want to induce movement in the negotiation process, and even its position that it has for some time conceded that it may be difficult to qualify a panoply of additional activities in the first commitment period. Nonetheless, we are concerned about the U.S. proposal, especially in light of the interpretation that it has received in the trade press, which has characterized U.S. negotiators as compromising their positions on not only LULUCF but also emissions trading.¹

¹ Note the story in the July 21, 2000, Inside E.P.A. Weekly Report, with its headline announcing “U.S. Concedes Trading Position on Climate Emissions in Kyoto Talks.” This particular trade press story states, “U.S. negotiators on an international global warming treaty

First, from a strategic standpoint, we find it curious that the U.S. would so publicly propose a position, especially at this time, seemingly without gaining anything significant in return. A compromise of this nature may be more appropriate at the end of the negotiating process, not at this juncture, and if such a compromise were to be made, the U.S. must be assured of something important in return. Second, we have substantive concerns with quantitative limitations on LULUCF activities. The U.S. has repeatedly gone on record as opposing quantitative limitations with regard to the market mechanisms.² Thus, a seeming invitation to accept quantitative limitations in the LULUCF area would be inconsistent with the U.S. position on mechanisms, and would create a “slippery slope” problem. The level of a possible threshold or a discount rate must be carefully considered, because limitations that are too high would create barriers to LULUCF projects and additional activities. Finally, establishing quantitative limitations in the first commitment period would establish a precedent for subsequent commitment periods that could be quite difficult to change.

have announced that they would be willing to modify their hard-line stance on emissions credit trading and land-use activities, marking a major victory for environmentalists.”

² See, *e.g.*, the June 21, 2000, response of Council of Economic Advisors Chairman Martin N. Baily to House Science Committee Chairman F. Sensenbrenner, Jr., p. 10 (response to question 4).

LULUCF Projects in the CDM

Deforestation is responsible for one-third of anthropogenic CO₂ in the atmosphere and one-fifth of current anthropogenic CO₂ emissions annually. Reducing deforestation is one of the greatest environmental challenges that the world faces. The CDM will help developing nations achieve sustainable development and can provide tremendous non-greenhouse gas environmental benefits. As observed by Environmental Defense in Science in June 2000, forest conservation projects are a valuable supplement to reducing fossil fuel emissions.

We fully agree with the Costa Rican submission (FCCC/SB/2000/Misc.1/Add.2) on behalf of 14 Central and South American nations that correctly rejects claims that forestry projects are ineligible under Article 12. We support all types of projects -- forestry, agriculture, rangeland, bioenergy and forest products -- in the CDM.

Some worry about possible adverse environmental impacts of some LULUCF projects in the CDM, but any such impacts should be avoided because of the sustainable development criterion of the CDM.

Finally, we oppose replacing old growth forests with new plantations, while recognizing that sustainable management practices in such forests can provide environmental benefits.

SUMMARY

Projects can provide substantial CO2 benefits. Projects also can provide major non-greenhouse gas environmental benefits.

Projects must be properly designed, transparent, monitored, measured, evaluated and verified.

We can address the issues of duration, leakage, baselines, monitoring, verification and additionality.

We support all types of LULUCF projects in the CDM.

Finally, only a comprehensive full carbon accounting system addressing all substantial emissions sources and sinks is scientifically credible, which argues for a comprehensive inclusion of all possible LULUCF activities under Article 3.4.

Mr. David Sandalow
July 28, 2000
Page 13

We appreciate the opportunity to provide you with our positions. If you or your representatives would like to discuss this submission, please contact John Kinsman, EEI Manager, Atmospheric Science, at (202) 508-5711 or John Novak at (202) 508-5655.

Sincerely yours,


(by John Kinsman)
Gary Kaster
Chairman
UtiliTree Carbon Company


(by W. L. Fong)
John J. Novak
Director, Environmental Activities
Edison Electric Institute

Enclosures
JDK:WLF
cc (w/encs):

Roger Ballentine, Deputy Assistant
to the President for Environmental Initiatives
Frank Loy, Under Secretary of State for Global Affairs
Jeffrey A. Miotke, Director, Office of Global Change
Trigg Talley, Deputy Director, Office of Global Change
Daniel Bodansky, Climate Change Coordinator
Adele Morris, Special Advisor
Kenneth Andrasko, Environmental Protection Agency
Margot Anderson, Department of Energy
William Breed, Department of Energy
James Hrubovcak, Department of Agriculture



UTILITREE CARBON COMPANY



EDISON ELECTRIC
INSTITUTE

July 28, 2000

The Honorable David B. Sandalow
Assistant Secretary for Oceans,
International Environment, and Scientific Affairs
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Mr. David Sandalow
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Page 2

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² See, *e.g.*, the June 21, 2000, response of Council of Economic Advisors Chairman Martin N. Baily to House Science Committee Chairman F. Sensenbrenner, Jr., p. 10 (response to question 4).

LULUCF Projects in the CDM

Deforestation is responsible for one-third of anthropogenic CO₂ in the atmosphere and one-fifth of current anthropogenic CO₂ emissions annually. Reducing deforestation is one of the greatest environmental challenges that the world faces. The CDM will help developing nations achieve sustainable development and can provide tremendous non-greenhouse gas environmental benefits. As observed by Environmental Defense in Science in June 2000, forest conservation projects are a valuable supplement to reducing fossil fuel emissions.

We fully agree with the Costa Rican submission (FCCC/SB/2000/Misc.1/Add.2) on behalf of 14 Central and South American nations that correctly rejects claims that forestry projects are ineligible under Article 12. We support all types of projects -- forestry, agriculture, rangeland, bioenergy and forest products -- in the CDM.

Some worry about possible adverse environmental impacts of some LULUCF projects in the CDM, but any such impacts should be avoided because of the sustainable development criterion of the CDM.

Finally, we oppose replacing old growth forests with new plantations, while recognizing that sustainable management practices in such forests can provide environmental benefits.

SUMMARY

Projects can provide substantial CO₂ benefits. Projects also can provide major non-greenhouse gas environmental benefits.

Projects must be properly designed, transparent, monitored, measured, evaluated and verified.

We can address the issues of duration, leakage, baselines, monitoring, verification and additionality.

We support all types of LULUCF projects in the CDM.

Finally, only a comprehensive full carbon accounting system addressing all substantial emissions sources and sinks is scientifically credible, which argues for a comprehensive inclusion of all possible LULUCF activities under Article 3.4.

Mr. David Sandalow
July 28, 2000
Page 13

We appreciate the opportunity to provide you with our positions. If you or your representatives would like to discuss this submission, please contact John Kinsman, EEI Manager, Atmospheric Science, at (202) 508-5711 or John Novak at (202) 508-5655.

Sincerely yours,


(by John Kinsman)
Gary Kaster
Chairman
UtiliTree Carbon Company


(by W. Li-Fang)
John J. Novak
Director, Environmental Activities
Edison Electric Institute

Enclosures
JDK:WLF
cc (w/encs):

Roger Ballentine, Deputy Assistant
to the President for Environmental Initiatives
Frank Loy, Under Secretary of State for Global Affairs
Jeffrey A. Miotke, Director, Office of Global Change
Trigg Talley, Deputy Director, Office of Global Change
Daniel Bodansky, Climate Change Coordinator
Adele Morris, Special Advisor
Kenneth Andrasko, Environmental Protection Agency
Margot Anderson, Department of Energy
William Breed, Department of Energy
James Hrubovcak, Department of Agriculture

Mr. Frank Loy
Undersecretary of State for Global Affairs
United States Department of State
2201 C Street, NW
Room 7250
Washington, D.C. 20520

high h?

Mr. Roger Ballentine
Deputy Assistant to the President
for Environmental Initiatives
The White House
1600 Penn. Ave., NW
Washington, DC 20500

September 11, 2000

Dear Undersecretary Loy and Mr. Ballentine:

We are writing to express our deep concern with the United States Submission on Land-Use, Land-Use Change, and Forestry, dated August 1, 2000. While we agree with several important elements of the submission, and appreciate their inclusion, we are dismayed by the overall thrust of the document, which we believe is to weaken the U.S. emissions reduction commitment. The submission limits the issue of LULUCF to a debate about numbers, specifically, how many credits the United States and other Annex I Parties can claim under Article 3.4 for business-as-usual activities. These "anyway" credits would replace real efforts that would otherwise have been made in the United States and elsewhere to reduce greenhouse gas emissions. Furthermore, the submission fails to provide adequate rules and standards to safeguard the environment. For these reasons, elaborated below, the undersigned groups will oppose the U.S. position presented in the submission, unless it is substantially modified.

Strengths are undermined by flaws

On several points, we agree with the approach laid out in the submission. We agree that afforestation, reforestation and deforestation should be defined under Article 3.3 as changes in land use, consistent with the 1996 Revised IPCC Guidelines. We believe it is proper that the United States not claim the credit that would have been available under some other definitions of ARD, and strongly condemn efforts by a few Parties to seek such credits. We note, however, that even on this rather straightforward issue the U.S. submission is equivocal, conditioning acceptance of "appropriate" rules under Article 3.3 to the inclusion in the Protocol of forest management "in a comprehensive manner."

There is no principled reason to link sound definitions of ARD under Article 3.3 to achievement of U.S. objectives under Article 3.4.

→ How about clear negotiating history

Windfall Credits

We appreciate the fact that the United States is not seeking *all* the credit for business-as-usual sequestration, and we applaud this decision. We are of the view, however, that no amount of credit for business-as-usual is appropriate. We urge the United States and other Parties to adopt a full additionality rule for Article 3.4, so that credits are given out only for reductions and removals that are beyond business-as-usual. This approach would allow the United States to significantly reduce the cost of compliance without undermining the integrity of its target. In addition, Article 3.4 credits should be discounted to reflect ranges of uncertainty for each specific activity, and a cap should be placed on total credits to avoid serious weakening of the First Commitment Period targets.

why would "uncertainty" be addressed with a cap?

Revisionist history?

We are troubled by what appears to be the submission's rewriting of history. It asserts in several places that the United States struck a bargain in Kyoto to include LULUCF in a manner that would result in significant additions to the U.S. assigned amount for the first commitment period. This was not the view expressed by the State Department immediately after Kyoto. A January 15, 1998 State Department fact sheet states that "[t]he 7% target represents at most a 3% real reduction below the President's initial proposal of reducing greenhouse gases to 1990 levels by 2008-2012." It explains that "[a]ltering the accounting method for carbon-absorbing activities...accounts for about 3% of the 7% reduction" agreed to in Kyoto. Were the United States to receive even half of the credit for business-as-usual sequestration during the first commitment period, the U.S. budget would increase by an additional 8-12 percentage points. This would make the U.S. commitment 4-8 percentage points weaker than President Clinton's original proposal. This is unacceptable.

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Monitoring and Verification Capacity

The broad approach to Article 3.4 advocated in the submission may have merit as a long-term approach to LULUCF, provided that accurate monitoring and verification is feasible, a case we believe still needs to be made. For the first commitment period however, we do not support such an approach. We are of the opinion that few, if any, Annex I Parties will have gained sufficient experience with LULUCF accounting by 2008 to accurately report carbon stock changes across their entire landscapes.

Wood Products

It was explained to several of us earlier this year by a member of the Administration's "sinks task force" that the Administration had decided to defer any decision on wood products until after COP6. Nevertheless, the submission calls for the decision on Article 3.4 to include wood and other biomass products in use and in landfills. This accounts for 90 of the 312 MMTCE of annual sequestration during the commitment period. Depending on the accounting rules, this number could increase from 90 to 110. The text is not clear on which number would be adopted. Given that the Parties have not adequately analyzed this issue, it is inappropriate to adopt a decision at COP 6 that is so different from current IPCC best practice guidelines.

7

Oversights with Potentially Major Ramifications

Turning our attention to the proposed text in Part VIII, we have a number of specific concerns. First, the text does nothing to remedy a perverse incentive that was discussed extensively in the IPCC Special Report on LULUCF. It has long been known that a timing discrepancy in Article 3.3 could allow Parties to deforest up to 2008 without incurring any debits. If they subsequently reforest, they could receive credits. This discrepancy can, and should, be eliminated, as several other Parties propose in their texts.

we did this.

Second, the U.S. text would allow Parties to elect to apply *one or more* of the additional activities- forest management, cropland management, and grazing land management- during the first commitment period. Allowing Parties to select among these activities, rather than requiring them to adopt all or none, will allow them to count only activities that provide credits and ignore those that might result in debits. This is contrary to both the letter and the spirit of Article 3.4, and will only serve to further weaken the Protocol.

Third, the text requires Parties to start counting stock changes from the time the activity begins or the beginning of the commitment period, *whichever is later*. This will allow Parties that do not select forest management as an activity during the first commitment period to "game" the system, for example, by clearing their forests to the threshold during the first commitment period and deferring the land use change until the second commitment period. Under the proposed timing rule, the bulk of the stock change would not be counted.

Missed Opportunity: No Promotion of Environmental Standards or Values

Finally, by placing the focus entirely on business-as-usual, the United States misses a great opportunity to discuss the types and potential of new and additional LULUCF activities that could be utilized to advance the fight against global warming and to further the objective of the Kyoto Protocol. Protection of old growth forests, permanent set aside of commercial timberland, and expansion of cover crops and conservation tillage are among the activities that could provide additional environmental benefits while enhancing climate protection. These win-win activities could be promoted by inclusions of rules that encourage conservation and environmental values.

Yet the U.S. text contains no binding rules, standards, or criteria for protecting other environmental values and accounting for ancillary environmental impacts. The US text stating that "Parties should take into account, as appropriate, ancillary environmental effects in developing their domestic approaches related to implementation of Article 3.3 and 3.4..." is woefully inadequate. Such impacts may often be beneficial, but there is also substantial risk of serious harm. For example, the rules promulgated in the text could provide an incentive to suppress fires, even in areas where fire suppression is inappropriate. The terrible example of this summer's forest fires in the western United States should provide ample evidence that safeguards are needed to prevent such practices from being implemented in the name of carbon stock management.

The issue of environmental standards and safeguards is critical not only for domestic policies, but also for the international mechanisms. We urge the U.S. and other Parties to include the following environmental safeguards in the decision texts for Article 3.4, Article 6, and Article 12, irrespective of what activities or projects are allowed under these Articles:

- **No Conversion of Native Ecosystems.** Credits shall not be awarded for activities which convert or cause significant impacts to any primary and native ecosystems, including native grasslands and wetlands.
- **Ecosystem Restoration.** Priority should be given to activities that help protect and restore native ecosystems.
- **Old Growth and Late Successional Forests.** Emissions offsets credits shall not be awarded to activities which would result in the logging of, or other significant impacts to, primary old growth and primary late successional forest areas.
- **Other Ecological Impacts.** Emissions offsets credits shall not be awarded to activities which would result in adverse impacts, for example to sensitive species (such as those listed in CITES and in the IUCN red lists), to water quality, or to rare ecosystems.
- **Genetically Modified Organisms (GMOs).** Emissions offsets credits shall not be awarded to activities that utilize GMO trees or other GMO organisms because of such risks as invasiveness, genetic modification of native species, and increased vulnerability to pests and disease.
- **Other Harmful Forestry Practices.** Emissions offsets credits shall not be awarded to activities associated with harmful forestry practices, such as large-scale clearcutting, extensive applications of herbicides, fertilizers, and other chemicals, and fire suppression in forests where fire has historically been a natural ecological process.
- **Sustainable Harvest.** Activities that limit logging and wood removals to the site's rate of growth should be encouraged.
- **Consistency with Environmental Treaties.** Credits shall not be awarded to activities that would contravene the International Convention on Biological Diversity or any other environmental treaties.
- **Consistency with National Legislation.** Credits shall not be awarded to activities that do not comply with the domestic legislation of the country hosting the project.

In conclusion, while there are elements in the U.S. submission that merit praise, we believe the overall approach to Article 3.3 and 3.4 would undermine the Protocol and provide inadequate protection for forests and other natural resources. Therefore, we will apply ourselves to ensuring that the U.S. proposed text is not adopted without substantial modification.

Respectfully,

American Lands Alliance
Aaron Rappaport

Center for International Environmental Law
Donald M. Goldberg

Environmental and Energy Study Institute
Kim Doherty

Friends of the Earth
Jon Sohn

Greenpeace
Gary Cook

National Environmental Trust
Kalee Kreider

Natural Resources Defense Council
Daniel Lashof

Ozone Action
Kert Davies

Union of Concerned Scientists
Alden Meyer

World Wildlife Fund
Jennifer Morgan



UTILITREE CARBON COMPANY

CO₂

The non-profit **UtiliTree Carbon Company** consists of 41 utilities sponsoring a portfolio of forestry projects that manage greenhouse gases, especially CO₂. The projects consist of a diverse mix of rural tree planting, forest preservation, forest management and research efforts at both domestic (Arkansas, Louisiana, Mississippi, and Oregon) and international (Belize and Malaysia) sites. These projects lead to substantial secondary environmental benefits related to reduced soil erosion, improved water quality and improved habitat for wildlife and birds. The UtiliTree Carbon Company has committed more than \$2.5 million to fund these projects.

Project	Location	Type	Acres	CO ₂ Benefit	Partners
St. Catherine Creek NWR	Mississippi (Adams County)	reforestation	600	360,000 tons over 70 years	U.S. Fish & Wildlife Service National Fish and Wildlife Foundation
Bayou Coudrie NWR	Louisiana (East Central)	reforestation	400	240,000 tons over 70 years	U.S. Fish & Wildlife Service National Fish and Wildlife Foundation
Upper Quachita River NWR	Louisiana (Morehead Parish)	reforestation	1,000	600,000 tons over 70 years	U.S. Fish & Wildlife Service Louisiana Tech University
Overflow NWR	Arkansas (Ashley County)	reforestation	400	240,000 tons over 70 years	U.S. Fish & Wildlife Service
Mississippi River Valley Bottomland Hardwood	Louisiana (Catahoula Parish)	reforestation	80	47,000 tons over 70 years	Louisiana Tech University Louisiana Dept. Fish & Wildlife
Western Oregon Carbon Sequestration Project	Oregon	reforestation	315	~ 200,000 tons over 65 years	Metro (Portland, OR) Oregon Woods, Inc. Trexler & Associates
Rio Bravo Carbon Sequestration Project *	Belize	conservation (purchased) sustainable management	14,400 120,000	~ 1,000,000 tons over 40 years	The Nature Conservancy Programme for Belize
Reduced Impact Logging of Natural Forests	Malaysia	forest management	2,500	380,000 tons over 40 years	Rainforest Alliance University of Florida PG&E Generating Innoprise Corporation

* UtiliTree is funding 20% of the first phase of this project. Partners in the first phase include the following electric utility companies: Wisconsin Electric Power Company, Cinergy, Detroit Edison and PacifiCorp. Total phase 1 benefit exceeds 5 million tons CO₂.

Member Companies — UtiliTree Carbon Company

Allegheny Power Service Corporation	Duke Power Company	Nevada Power Company	Southern Company
Alliant Energy	Duquesne Light Company	New York State Electric & Gas Corporation	St. Joseph Light & Power Company
American Electric Power Company	Edmonton Power	Northern Indiana Public Service Company	Tampa Electric Company
Ameren	Empire District Electric Company	PacifiCorp	Tennessee Valley Authority
Baltimore Gas & Electric Company	Entergy Services, Inc.	Pennsylvania Power & Light Company	Texas Utilities Electric Company
Central & South West Corporation	FirstEnergy	PG&E Generating	TransAlta Corporation
Central Illinois Light Company	Florida Power & Light Company	Public Service Electric & Gas Company	Tucson Electric Power Company
Central Louisiana Electric Company	General Public Utilities Corporation	Sierra Pacific Power Company	Western Resources, Inc.
Cinergy Corporation	Hawaiian Electric Co., Inc.	South Carolina Electric & Gas Company	Wisconsin Electric Power Company
Connectiv	Illinois Power Company		Wisconsin Public Service Corporation
Detroit Edison Company	Kansas City Power & Light Company		

For more information contact: John Kinsman at jkinsman@eet.org or Gary Kaster at gkaster@aep.com.

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October 5, 2000

Mr. Roger Ballentine
Deputy Assistant to the President for Environmental Initiatives
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20520
Fax: (202) 456-1736

RE: Kyoto Protocol and Old Growth Forest Protection

Dear Mr. Ballentine:

With the international climate summit only a few weeks away, it is critical that the United States carefully reconsider its position on forest management and reducing emissions. I am writing to urge you to support binding environmental safeguards and rules that permanently protect old growth forests and encourage their restoration.

A recent report in the journal *Science* has found that preserving old growth forests is significantly more effective than growing tree plantations at protecting the earth's climate. Mature forests capture large amounts of CO₂ even as they grow older, to make needles, leaves, and stems, and when these fall to the ground, some of the carbon they hold becomes part of the soil rather than being emitted back into the atmosphere. When a forest is logged, ground disturbance causes most soil carbon to be re-emitted as CO₂.

The timber industry lobbying campaign claims that young, vigorously growing trees absorb CO₂ more quickly than older trees, yet it fails to mention that it takes *centuries* for new tree plantations to reabsorb all of the CO₂ emitted when old growth forests are logged. Under the current carbon credit rules, if a timber company replaces a second growth natural forest with a short-rotation, monoculture tree plantation, and grows the new trees for chipping purposes, the timber company would be able to claim a profit from an environmentally-degrading process (the chipping), and still be able to sell carbon credits. This is unacceptable, as it provides an economic incentive for irresponsible forestry.

The solution is to create binding environmental safeguards in the Treaty, and make available carbon credits only to projects that use diverse natural forests and long rotations. This would provide the financial incentive needed to encourage ecologically sustainable forestry, as well as protect habitat, native species, and water quality.

Mr. Roger Ballentine
Page 2
October 5, 2000

Please make the right decision and support old growth forest protection and binding environmental safeguards. Stand up for the future; the opportunity to save these forests may never come again.

Respectfully,

A handwritten signature in cursive script, appearing to read "Alexandra West", followed by a horizontal line.

Alexandra West
Attorney at Law

cc: Mr. Frank E. Loy
Mr. Ian Bowles



**EDISON ELECTRIC
INSTITUTE**

July 28, 2000

Roger S. Ballentine
Deputy Assistant to the President
for Environmental Initiatives
Old Executive Office Building
The White House
Washington, D.C. 20502

Dear Mr.  Ballentine:

John Novak and I appreciated the opportunity to meet with you on Monday, and believe you understand the significance of the policy issues to our industry leading up to the sixth meeting of the Conference of the Parties in November.

In that regard, I enclose for your information a copy of our positions on various land use, land-use change and forestry issues that we transmitted to Under Secretary of State Frank Loy today. We also plan to transmit a copy of our comments on market mechanism issues to you upon sending them to Under Secretary Loy next week.

Please let us know if you have questions about our positions or comments. Mr. Novak may be reached at (202) 508-5655; I am at (202) 508-5617. We look forward to further discussions with you on these and other issues in the near future.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Bill Fang'.

William L. Fang
Deputy General Counsel

WLF:ty
Enclosure
cc (w/o enc):
J. Novak



UTILITREE CARBON COMPANY



EDISON ELECTRIC
INSTITUTE

July 28, 2000

The Honorable David B. Sandalow
Assistant Secretary for Oceans,
International Environment, and Scientific Affairs
U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Re: Electric Utility Industry Positions on Land Use, Land-Use Change and Forestry

Dear Mr. Sandalow:

The UtiliTree Carbon Company (UtiliTree) and the Edison Electric Institute (EEI) respectfully submit our positions regarding land use, land-use change and forestry (LULUCF) issues and the Kyoto Protocol.

INTRODUCTION

UtiliTree is a nonprofit company formed in 1995 by 41 North American electric power generators, including the Tennessee Valley Authority. These entities are sponsoring eight projects, six domestic and two international. These projects are projected to avoid or offset 3 million tons of carbon dioxide (CO₂) over their lifetimes. It is notable that the six domestic projects include four that reforest National Wildlife Refuges in Arkansas, Louisiana and

Mr. David Sandalow
July 28, 2000
Page 2

Mississippi in cooperation with the U.S. Fish and Wildlife Service and the National Fish and Wildlife Foundation. A ninth project is currently being developed. A poster providing an overview of the UtiliTree projects and a folder providing additional materials on the program are enclosed.

EEI is the association of U.S. investor-owned electric utilities and industry affiliates worldwide, including 200 member utilities in the U.S. and 50 affiliate members in 18 countries. EEI established the Utility Forest Carbon Management Program (UFCMP) and other industry-wide initiatives in 1994 to assist our member companies in implementing voluntary agreements under the Climate Challenge program with the U.S. Department of Energy. Fifty-five companies participate in the UFCMP and 650 participate in the Climate Challenge, with the Climate Challenge expected to total more than 174 million metric tons of CO₂-equivalent greenhouse gas emission reductions in the year 2000.

Since the early 1990's, EEI policy has been to promote comprehensive (all nations, all greenhouse gases, and all sources and sinks), cost-effective, flexible and voluntary approaches to reducing greenhouse gases. U.S. electric utilities, through UtiliTree and individually, have been the leading sponsor worldwide of forestry projects to address CO₂. U.S. electric utilities have funded significant international projects in Malaysia, Belize, Brazil and Bolivia. The Belize

project (Rio Bravo) and the Bolivia project (Noel Kempff) are U.S. Initiative on Joint Implementation (USIJI) efforts, while the other two international projects will join the USIJI program once host country acceptance is achieved. The projects in Belize, Brazil and Bolivia were developed in conjunction with The Nature Conservancy, while the Rainforest Alliance is a partner in the Malaysian project. For each of these projects, years of effort went into development, and \$1 to \$10 million of investment was made.

In addition to these international projects, our industry has sponsored a large number of domestic efforts, because they are easier to implement, they are more secure, they provide environmental benefits where our customers live, there is ample land available, and they are cost effective.

We greatly value LULUCF efforts as an important tool among many toward meeting any possible future requirements, because of their multiple benefits:

- Reduced greenhouse gas emissions and increased uptake of carbon.
- Contribution to sustainable development goals.
- Associated (ancillary) environmental benefits, such as:
 - Restoration of degraded lands.
 - Biodiversity, wildlife and bird habitat.
 - Reduced erosion, reduced soil compaction and improved stream quality.
- Cost-effectiveness.

POSITIONS ON POLICY ISSUES

Based largely on our experience with implementing projects, we have developed the following positions on key issues related to LULUCF activities.

First, projects should be scientifically credible; properly designed, with transparent monitoring, measurement, evaluation and verification; and report actual results for all significant sources and sinks of greenhouse gases.

Experience shows that properly designed projects can address the key issues related to duration (permanence); leakage; baselines, monitoring, measurement and verification; and additionality.

In addition, only a full carbon accounting system, such as endorsed for years by the U.S. government, can be scientifically defensible. Thus, to compensate for a deficient Article 3.3 of the Kyoto Protocol, all other LULUCF activities must be addressed under an all-encompassing Article 3.4.

Finally, we submit that the clean development mechanism (CDM) in Article 12 allows for all LULUCF projects, and that such projects will be important to sustainable development in developing countries.

Mr. David Sandalow
July 28, 2000
Page 5

Each of these issues is discussed in more detail below. We also enclose a copy of the joint EEI-UtiliTree presentation from July 11 at the LULUCF workshop held in Poznan, Poland, which elaborates on our positions.

Duration/Permanence

Project duration can be addressed in several ways:

- Ton-year accounting, which is difficult and arbitrary. Ton-year accounting disadvantages projects, so that many fewer projects would go forward due to the indirect economic penalty. Moreover, secondary benefits would be lost.
- Risk reduction, such as project pooling (as done by UtiliTree), where if one project underperforms, others may make up the shortfall; buffers and contingency credits (*i.e.*, making the project larger as a safety margin); and external insurance.
- Making up any shortfall in a system of full carbon accounting with contiguous budget periods through purchasing credits or undertaking other projects.

In our view, this third option is best, and the second option is acceptable in many situations. We oppose the concept of ton-year accounting.

Projects of only a few decades are valuable, since they may serve as a bridge to future measures that require long lead times, including lower-emitting electric generation technologies.

Regarding duration and UtiliTree projects:

- Contractual commitments are for 40-70 years, but benefits will not evaporate in years 41 or 71 and indeed could be permanent.
- Six of the eight UtiliTree projects are under government protection and essentially are permanent.
- One private land project includes a financial penalty to landowners for failing to keep land forested for 65 years.
- The reduced impact logging project directly avoids emissions, and its benefits should essentially be permanent.

Leakage

Leakage may be both negative (diminishing the benefits of the project) and positive (amplifying project benefits). Early projects may have a high likelihood of spillover (positive leakage).

Leakage is an issue for all types of projects, including energy projects.

Leakage can be avoided or minimized by proper project design, and good projects will monitor and evaluate leakage periodically. To address leakage there are several options:

- Maintain needed resources and provide socioeconomic benefits, including alternative economic opportunities, to local populations.

- Monitor key products, such as timber extraction; quantify and reduce carbon benefits if necessary.
- Deforestation rates can be monitored during the project life and can be quantified to determine actual project carbon benefits.

Regarding leakage and UtiliTree projects:

- The Rio Bravo project includes a protocol with the Belizian government and the Programme for Belize, which includes creation of jobs related to sustainable management.
- The Intergovernmental Panel on Climate Change (IPCC) says that in the long run, reduced impact logging projects may produce greater output than conventional logging and thus will not create a leakage problem. [IPCC Special Report on LULUCF, p. 313.]
- Our U.S. tree planting projects include no commercial forestry and displace no agriculture.

Baseline, Monitoring, Measurement and Verification Issues

The following principles will result in credible projects related to baselines, monitoring, measurement and verification:

- Projects must be monitored routinely.
- Carbon benefits must be real, measured and verified.
- Only actual project results are reported.
- High confidence in measurements can be attained using standard practices.
- New technologies – *e.g.*, remote sensing and videography -- can provide even greater confidence and frequency.

We need to balance cost and accuracy to attain reasonable accuracy, *i.e.*, there is a point at which accuracy is high and thus further incremental investments are not cost effective. We need to avoid requiring "gold-plated" monitoring, measurement and verification programs.

Finally, we would like to address dynamic baselines from the viewpoint of fairness. We believe that it is acceptable to adjust baselines if error is found in calculations or assumptions, but we do not favor adjustment of baselines following a later change in policies or practices. To do so would penalize early efforts that provide spillover benefits and catalyze other projects

Additionality

The CDM calls only for emissions additionality. Second, financial additionality is extremely difficult to analyze and therefore should not be a decision criterion.

Furthermore, private sector sponsorship does not affect overseas development assistance from national governments, and thus private sector funding will only increase mitigation efforts in developing nations.

Finally, since UtiliTree projects are solely for the purpose of addressing CO₂ and will yield no direct economic return to UtiliTree, these projects are clearly additional.

Article 3.4 Issues

UtiliTree and EEI support a full carbon accounting approach, which consists of a complete accounting of all changes in carbon stocks in all important carbon pools on all lands. However, Article 3.3 by itself will only address a small portion of lands under the IPCC definitional approach. Consequently, Article 3.3 could introduce an important bias, resulting in emissions/removals that are much different than those experienced by the atmosphere. Thus, it is crucial that a combined system of Articles 3.3 and 3.4 be designed from the outset that provides scientific integrity by addressing all significant carbon stocks and their changes.

We note with interest the “trial balloon” that the U.S. floated at the Poznan workshop regarding possible “phase-in options” for the first commitment period, two of which could be net removals over a certain threshold or a discount rate. We understand that the U.S. may want to induce movement in the negotiation process, and even its position that it has for some time conceded that it may be difficult to qualify a panoply of additional activities in the first commitment period. Nonetheless, we are concerned about the U.S. proposal, especially in light of the interpretation that it has received in the trade press, which has characterized U.S. negotiators as compromising their positions on not only LULUCF but also emissions trading.¹

¹ Note the story in the July 21, 2000, Inside E.P.A. Weekly Report, with its headline announcing “U.S. Concedes Trading Position on Climate Emissions in Kyoto Talks.” This particular trade press story states, “U.S. negotiators on an international global warming treaty

First, from a strategic standpoint, we find it curious that the U.S. would so publicly propose a position, especially at this time, seemingly without gaining anything significant in return. A compromise of this nature may be more appropriate at the end of the negotiating process, not at this juncture, and if such a compromise were to be made, the U.S. must be assured of something important in return. Second, we have substantive concerns with quantitative limitations on LULUCF activities. The U.S. has repeatedly gone on record as opposing quantitative limitations with regard to the market mechanisms.² Thus, a seeming invitation to accept quantitative limitations in the LULUCF area would be inconsistent with the U.S. position on mechanisms, and would create a “slippery slope” problem. The level of a possible threshold or a discount rate must be carefully considered, because limitations that are too high would create barriers to LULUCF projects and additional activities. Finally, establishing quantitative limitations in the first commitment period would establish a precedent for subsequent commitment periods that could be quite difficult to change.

have announced that they would be willing to modify their hard-line stance on emissions credit trading and land-use activities, marking a major victory for environmentalists.”

² See, *e.g.*, the June 21, 2000, response of Council of Economic Advisors Chairman Martin N. Baily to House Science Committee Chairman F. Sensenbrenner, Jr., p. 10 (response to question 4).

LULUCF Projects in the CDM

Deforestation is responsible for one-third of anthropogenic CO₂ in the atmosphere and one-fifth of current anthropogenic CO₂ emissions annually. Reducing deforestation is one of the greatest environmental challenges that the world faces. The CDM will help developing nations achieve sustainable development and can provide tremendous non-greenhouse gas environmental benefits. As observed by Environmental Defense in Science in June 2000, forest conservation projects are a valuable supplement to reducing fossil fuel emissions.

We fully agree with the Costa Rican submission (FCCC/SB/2000/Misc.1/Add.2) on behalf of 14 Central and South American nations that correctly rejects claims that forestry projects are ineligible under Article 12. We support all types of projects -- forestry, agriculture, rangeland, bioenergy and forest products -- in the CDM.

Some worry about possible adverse environmental impacts of some LULUCF projects in the CDM, but any such impacts should be avoided because of the sustainable development criterion of the CDM.

Finally, we oppose replacing old growth forests with new plantations, while recognizing that sustainable management practices in such forests can provide environmental benefits.

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Projects must be properly designed, transparent, monitored, measured, evaluated and verified.

We can address the issues of duration, leakage, baselines, monitoring, verification and additionality.

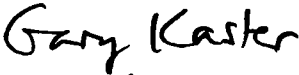
We support all types of LULUCF projects in the CDM.

Finally, only a comprehensive full carbon accounting system addressing all substantial emissions sources and sinks is scientifically credible, which argues for a comprehensive inclusion of all possible LULUCF activities under Article 3.4.

Mr. David Sandalow
July 28, 2000
Page 13

We appreciate the opportunity to provide you with our positions. If you or your representatives would like to discuss this submission, please contact John Kinsman, EEI Manager, Atmospheric Science, at (202) 508-5711 or John Novak at (202) 508-5655.

Sincerely yours,


(by John Kinsman)
Gary Kaster
Chairman
UtiliTree Carbon Company


(by W.L. Fong)
John J. Novak
Director, Environmental Activities
Edison Electric Institute

Enclosures
JDK:WLF
cc (w/encs):

Roger Ballentine, Deputy Assistant
to the President for Environmental Initiatives
Frank Loy, Under Secretary of State for Global Affairs
Jeffrey A. Miotke, Director, Office of Global Change
Trigg Talley, Deputy Director, Office of Global Change
Daniel Bodansky, Climate Change Coordinator
Adele Morris, Special Advisor
Kenneth Andrasko, Environmental Protection Agency
Margot Anderson, Department of Energy
William Breed, Department of Energy
James Hrubovcak, Department of Agriculture

Sinks Policy Issues

Frank Loy
David Sandalow
Department of State
June 26, 2000

What did we achieve on sinks in Kyoto?

- ◆ Limited inclusion of forest sinks
- ◆ A process that could lead to including more sinks

Kyoto sinks provisions

- ◆ 1990 baseline emissions don't include sinks
- ◆ Emissions in the commitment period will include sequestration from:
 - afforestation, reforestation and deforestation (Article 3.3)
 - other sink activities added by decision of the Parties (Article 3.4)
- ◆ Helped allow US to take -7% target

Key Issues at COP-6

- ◆ Article 3.3:
 - Definition of reforestation
- ◆ Article 3.4:
 - Whether to include additional sink categories and, if so, which ones
 - Whether to limit first commitment period sink credits

Time Line

- ◆ July 10-12: International workshop on sinks (Poland)
- ◆ August 1: Submissions due with proposed definitions and additional activities
- ◆ September 4-15: Negotiations (Lyon)
- ◆ October: Informal consultations (Rome)
- ◆ November 13-24: COP-6 (The Hague)

Policymaking factors

- ◆ Simplicity
- ◆ Credibility: Measurable, verifiable
 - Reasonable levels of certainty
 - Based on sound science
- ◆ Cost-effectiveness
- ◆ Implications for US: projected tons from
 - Business-as-usual (BAU)
 - Above BAU effort

Forest activities under Article 3.3

- ◆ Includes only afforestation, reforestation and deforestation.
- ◆ These activities included only if they occur since 1990.
- ◆ Count changes in carbon stock during commitment period (i.e., 2008-2012).

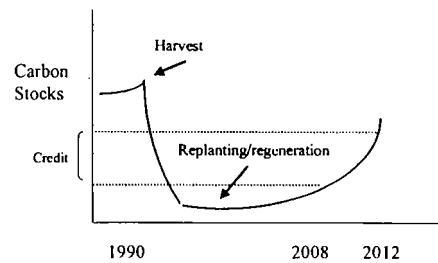
Accounting under Article 3.3

- ◆ Step 1:
 - Human activity after 1990 triggers creation of Kyoto Land
 - Afforestation
 - Deforestation
 - Reforestation
 - ◆ Step 2:
 - Carbon stock changes on Kyoto Land during the commitment period (2008-2012) count towards meeting targets
- Issue: How do we define reforestation?

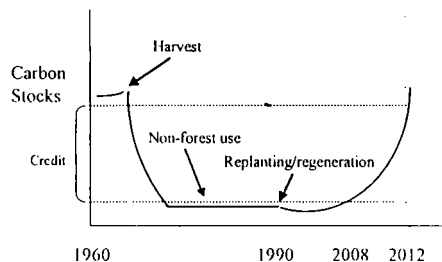
Major Definitions of Reforestation

- ◆ IPCC
 - Land-use change from non-forest to forest
- ◆ FAO
 - Land-use change from non-forest to forest, or
 - Regeneration after harvest

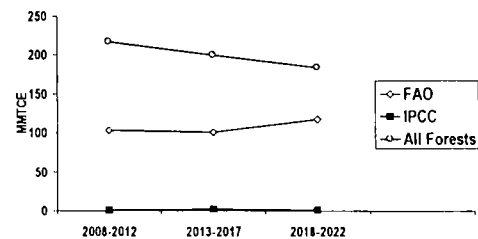
Reforestation: FAO Definition



Reforestation: IPCC Definition



Estimated annual tons sequestered in US forests (BAU)



Article 3.3: Potential to increase forest sequestration above BAU

- ◆ Very small potential in first commitment period (~0 to 10 MMTCE per year)
- ◆ Principal areas would be:
 - Afforestation of marginal cropland and pasture
 - Reduced deforestation
- ◆ Greater potential in subsequent periods if actions are taken soon

Article 3.4: Additional Activities

- ◆ Parties may decide to include additional sink activities under the Protocol.
- ◆ Their decision shall apply in second and subsequent commitment periods (i.e., post-2012).
- ◆ Parties may choose to apply decision for first commitment period (2008-2012) for activities taking place since 1990.

Implications for US of new sink activities under Article 3.4

- ◆ Tons under business as usual, per year
 - Forest Management: ~200 MMTCE (~1/3 of the way towards our target)
 - Cropland Management: ~ 8 MMTCE (~1% of the way towards our target)
- ◆ Additional sequestration
 - Doubling current ag conservation programs could yield ~ 14 MMTCE per year
 - Forest management potential very uncertain

Sinks in Clean Development Mechanism

- ◆ Kyoto establishes a "Clean Development Mechanism" that allows industrial countries to get credits for projects that reduce emissions in developing countries
- ◆ Rules for CDM will be a major item of business at COP-6
- ◆ EU and some developing countries (Brazil, Peru) strongly oppose allowing sink projects in CDM
- ◆ US, Canada, Japan and many other developing countries (including most Latins) support sinks in CDM

Principal COP-6 Issues

- ◆ Definition of Reforestation
 - Accept IPCC definition, or
 - Link acceptance of IPCC definition to results under Article 3.4, or
 - Push for FAO definition
- ◆ What categories of sinks to add under Article 3.4
 - Forest management, agricultural soils, grazing land management
- ◆ Whether and how to limit sink credits in the first budget period

Cost Implications

- ◆ The first 100 MMTCE of BAU sinks per year:
 - Lowers US reductions needed by 17%
 - Lowers US compliance costs by about 30%, with trading
- ◆ Based on illustrative model runs

Positions of other Parties

- ◆ Most countries strongly support IPCC definition of reforestation. A few (Japan, Canada and some Latins) favor FAO definition.
- ◆ Some Parties see COP-6 as resolving Art. 3.3 and setting a process for Article 3.4.
- ◆ Several Parties (e.g., Australia, NZ, Iceland) favor adding revegetation under Article 3.4.
- ◆ Some openness to US broad approach under Article 3.4 if tons are sufficiently limited.

Constituency Positions

- ◆ Environmental NGOs
 - Heatedly opposed to FAO definition of reforestation (under 3.3)
 - Concerned about allowing BAU tons (under 3.4)
- ◆ Business
 - Forest industry wants full carbon accounting
 - Farmers skeptical about Kyoto in general
 - Strong support for sinks in CDM
- ◆ Senate
 - Concerned about cost of Protocol
 - Little focus on details of Protocol
 - Some ag state Senators want soils in

10/30/00 10:30
10/30/00

Congress of the United States

Washington, DC 20515

Fyler Roger
B.

October 25, 2000

President William J. Clinton
The White House
Washington, DC 20500

Dear Mr. President:

On July 28, some of us wrote to you urging your Administration to support strong land use, land use change, and forestry (LULUCF) rules under the Kyoto Protocol on Climate Change (letter attached). We believe these rules should promote the protection and restoration of native forests, contain strong environmental standards that protect against ecological degradation, and exclude business-as-usual forestry activities from receiving carbon credits. On August 1, the Department of State released the U.S. proposal for these rules. This proposal will form our nation's negotiating position at the upcoming Sixth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 6), where final LULUCF rules will be adopted.

We appreciate that the U.S. proposal contains provisions which attempt to achieve the goals described in our original letter. First, the concept of a threshold, such that only carbon sequestration by forests above this amount would receive credit, could achieve the effect of limiting carbon credits for business-as-usual forestry. Second, the Administration has suggested that nations should take into account environmental impacts when planning carbon sequestration by land use and forestry activities. Third, the adoption of the Intergovernmental Panel on Climate Change (IPCC) definition of reforestation will more properly account for carbon in forestry issues. This definition will also help eliminate incentives for the logging of old growth forests.

However, further improvements are essential to eliminate credit for business-as-usual forestry and establish binding environmental safeguards. For instance, we are disappointed with language in the U.S. proposal which would promote a low threshold by contemplating the removal of the IPCC definition of reforestation unless nations such as our own receive "significant additions to their assigned amounts" (i.e., significant additional carbon credits). This approach could promote the granting of emissions reduction credits for business-as-usual forestry, which cannot actually reduce our emissions relative to 1990 levels.

Failing to make environmental safeguards mandatory could result in unintended consequences, such as allowing the Protocol to provide financial incentives for the degradation of fish and

Page Two
October 25, 2000

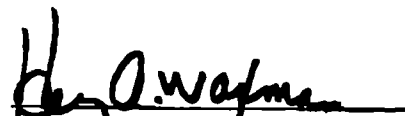
wildlife habitats, biodiversity, and water quality. For example, a strict carbon analysis alone could encourage the irrigation and overstocking of forests in dry areas, including America's West. While this activity might well increase carbon sequestration, it could have devastating impacts on native forest, grassland and aquatic communities of plants and animals. As we stated in the July 28 letter: "LULUCF environmental standards should ensure that activities and projects that degrade, damage, or place at risk native ecosystems, native biodiversity, and natural ecological processes should not qualify for carbon credits under Kyoto's forest rules."

Finally, we urge the adoption of two points that were not included in the U.S. proposal. First, a provision to account for "leakage," the shift of logging from countries that have committed to emissions reductions to those that have not, would help ensure that forest activities receive carbon credits commensurate with true reductions in CO2 emissions to the atmosphere. Second, a requirement that nations adequately document their reports of forest carbon sequestration with fine-scale maps and other materials would ensure that the accuracy of those reports could be independently verified. This would considerably enhance the credibility of the monitoring system, and would facilitate the implementation of provisions to avoid adverse ecological consequences.

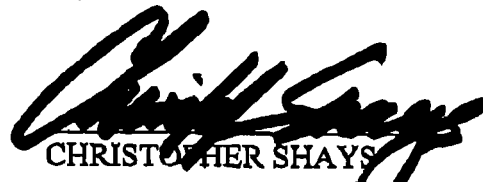
In summary, although we are pleased at the first steps in the current U.S. rules proposal, we believe the proposal must be strengthened. We must ensure that the Kyoto Protocol encourages environmentally beneficial land use and forestry activities while achieving actual greenhouse gas emission reductions. We appreciate your consideration of this important issue.

Sincerely,


GEORGE MILLER

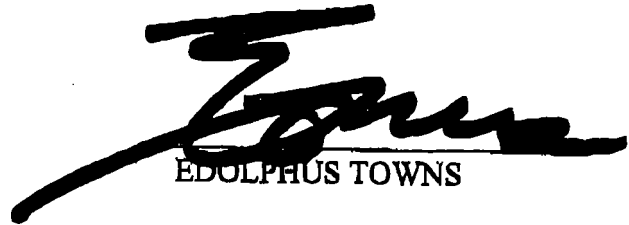

HENRY WAXMAN


MARK UDALL

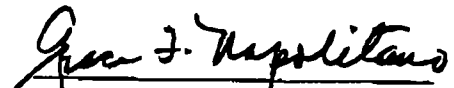

CHRISTOPHER SHAYS

Page Three
October 25, 2000

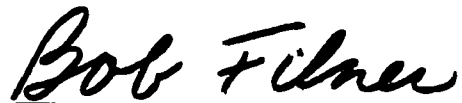

NANCY PELOSI


EDOLPHUS TOWNS

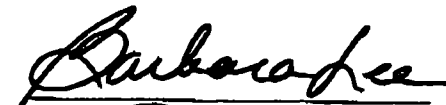

HOWARD BERMAN


GRACE NAPOLITANO


CYNTHIA MCKINNEY

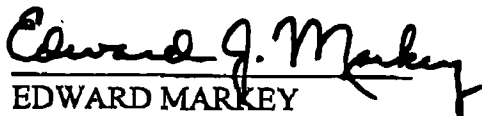

BOB FILNER


FORTNEY PETE STARK


BARBARA LEE


JAMES McDERMOTT


ROBERT WEXLER


EDWARD MARKEY


JOHN LEWIS

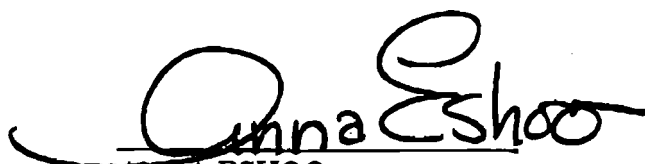

BARNEY FRANK

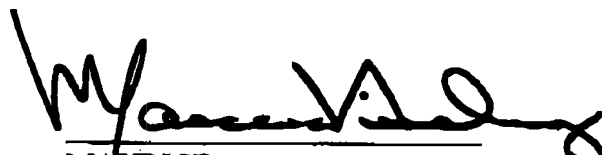

LLOYD DOGGETT


LANE EVANS


PATSY MINK

Page Four
October 25, 2000


ANNA ESHOO


MAURICE HINCHEY


JAMES LEACH


JOHN CONYERS



A FAX FROM
CONGRESSMAN
GEORGE MILLER
(D-CALIFORNIA, 7TH DISTRICT)



TO: _____

Courtney

FROM: ☐ GEORGE MILLER ☐ CHARLES BARONE ☐ GRETEL LAURO
☐ DANIEL WEISS ☐ DAVID MADLAND ☐ CONNIE GILLET
☒ SYLVIA ARTHUR ☐ JENNIFER COATE ☐ LOREN BAUSELL
☐ _____

TOTAL NUMBER OF PAGES: 3 (INCLUDING COVER SHEET)DATE: 10/31/00 TIME: _____ EST

MESSAGE:

*This is the enclosure that was inadvertently
left out in a fax sent to you yesterday: a letter
to the President dated Oct. 25 re the same subject.
Please call me if you have any questions. 225-2095*

2205 RAYBURN HOB, WASHINGTON DC 20515
PHONE: (202) 225-2095 FAX: (202) 225-5609
WWW.HOUSE.GOV/GEORGEMILLER

Congress of the United States
House of Representatives
Washington, D.C. 20515

July 28, 2000

President William Jefferson Clinton
The White House
1600 Pennsylvania Ave., NW
Washington, DC 20502

Dear President Clinton:

We understand that the U.S. will soon finalize its negotiating position regarding the land use, land use change, and forestry (LULUCF) rules under the Kyoto Protocol. We are deeply concerned that so far the U.S. has failed to support strong, environmentally sound, land use and forestry rules. We urge the Administration to adopt a negotiating position which recognizes the need to reduce industrial greenhouse gas emissions and the need to protect and restore native forests.

Land use changes, including logging, account for up to 20 percent of the world's annual carbon dioxide emissions. Fortunately the U.S. public overwhelmingly supports forest protection and will respond positively to a proposal that addresses climate change, while safeguarding the ancient forests, roadless areas, and other special places that people want to enjoy and leave for their children and grandchildren.

Specifically, we urge the Administration to seek strong international environmental standards for land use and forestry activities that do not give credit for business-as-usual forestry activities. If we adopt LULUCF rules which merely calculate carbon sequestration and release, the results could be environmentally devastating. Such rules could remove pressure to develop renewable energy sources, increase export markets, bring to market the most fuel efficient vehicles possible, and implement strategies that will achieve both clean air and climate benefits. Furthermore, ill-considered rules could threaten forest ecosystems and their biodiversity here and overseas by encouraging clearcutting, logging of old-growth, conversion of natural forests to plantations, and other harmful logging practices.

LULUCF environmental standards should ensure that activities and projects that degrade, damage, or place at risk native ecosystems, native biodiversity, and natural ecological processes should not qualify for carbon credits under Kyoto's forest rules. Otherwise, we could be establishing incentives for environmentally harmful activities.

For example, converting old-growth forests to tree plantations for the production of biomass could be encouraged by poor LULUCF rules. A strict carbon analysis would fail to recognize the other environmental impacts at stake. In addition to sequestering massive amounts of

carbon, old-growth forests provide clean water and vital habitats for threatened and endangered species. Plantations store relatively low amounts of carbon, fail to provide necessary wildlife habitat, increase vulnerability, and typically depend on short logging rotations and on chemicals that adversely impact biodiversity, water quality and soils.

On the other hand, restoring degraded forests and moving to long rotations (e.g. 140 years) in privately owned, managed forests will benefit forest ecosystems, the public, the climate, adaptability, and timber production. In short, strong LULUCF rules could both increase the level of carbon sequestration and the quality of forest ecosystems on land currently under timber management.

Additionally, LULUCF rules which grant credit for business-as-usual (BAU) forestry would severely compromise the Protocol. If these activities are given carbon credits then the U.S. will appear to have achieved large emissions reductions when in fact none have occurred. This perverse result would stem from the fact that emissions are calculated using a *gross-net* method for the purposes of the Protocol. That is, Kyoto requires that *net* annual emissions in 2008-2012 (carbon emissions by sources such as smokestacks, etc. minus sequestrations by sinks such as growing trees, etc.) be less than 93% of *gross* emissions in the 1990 baseline year (emissions by sources *only*). Therefore, to maintain the integrity of the accounting system, we urge the Administration to support carbon credits only for forest activities that would not have occurred in the absence of the Protocol.

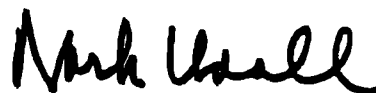
We urge you to take a strong negotiating position in the development of LULUCF rules that incorporate international environmental standards for land use and forestry activities and do not give credit for business-as-usual forestry activities. This is a critical issue and we appreciate your leadership.

Sincerely,


Henry A. Waxman
Member of Congress


George Miller
Member of Congress


Chris Shays
Member of Congress


Mark Udall
Member of Congress

cc: Mr. Roger Ballentine
Mr. Frank Loy

Congress of the United States

Washington, DC 20515

October 26, 2000



432012

President William Jefferson Clinton
The White House
1600 Pennsylvania Avenue NW
Washington, DC 20500

Dear Mr. President,

As members of the Florida Delegation, we are writing to express our support for a strong U.S. position on the Kyoto Protocol at the Sixth Conference of the Parties of the UN Framework Convention on Climate Change (COP6) at The Hague in November. Our state is particularly susceptible to the impacts of climate change, and it is vital for the future of Florida that the environmental integrity of the Kyoto Protocol is intact.

We understand that the upcoming negotiations are crucial in this regard, as the rules of the key provisions of the Kyoto Protocol will have vast implications for the effectiveness of the Protocol in reducing greenhouse gas emissions. The final rules must ensure that a significant amount of emissions reductions occur in the United States, so that our citizens can benefit from those actions. This will also demonstrate the seriousness with which the U.S. is treating the problem of global warming.

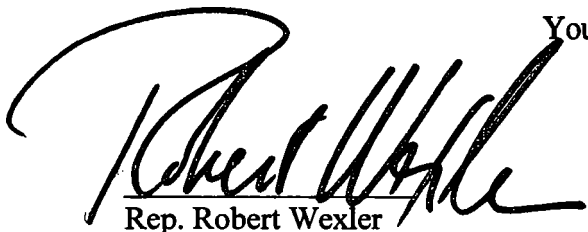
There will be severe consequences for Florida's public health and economy, as well, if we do not address this growing problem. Florida is considered by many to be ground zero for climate change impacts; our state's average temperatures are expected to rise by 3 to 4 degrees Fahrenheit over the next century. According to leading scientists and environmental organizations, increasing temperatures will mean more heat-related illnesses among our significant elderly population, while red tides become more frequent and the ranges of vector-borne diseases, such as malaria and dengue fever increase. Sea-level rise will result in salt-water intrusion, threatening our drinking water supplies. Wildfires are likely to become more frequent and widespread, while hurricane frequency and intensity may increase, causing extensive damage, loss of lives, property and a dramatic increase in insurance rates. Income from tourism, seafood and agriculture will then be lost, and increased temperatures will cause energy and health care costs to skyrocket.

On the other hand, early domestic implementation of environmentally sound Kyoto targets will offer great opportunities for technological innovation and will result in net economic gains for Florida, while bringing us ecological and social benefits. According to a recent World Wildlife Fund report entitled "Florida's Global Warming Solutions," a mix of financial incentives, regulatory changes, and market measures, would double the emission cuts specified in the Kyoto climate treaty to 14 percent below 1990 levels, and spur substantial job and economic growth in Florida. The state would save as much as \$300 per person each year by 2010, and 38,600 new jobs would be created over that period. The economic boon comes mostly from money-saving cuts in

energy use and energy-using equipment. In Florida, these policies would reduce global warming pollution by more than a third.

As Members of the Florida Delegation we must protect our environment, economy and most of all our citizens. For these reasons we urge you to support an environmentally sound Kyoto Protocol that ensures a downward trend of emissions in the United States. The future of our state and our natural legacy and at stake.

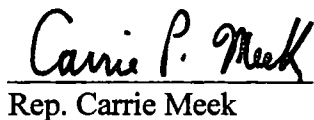
Yours Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Robert Wexler'.

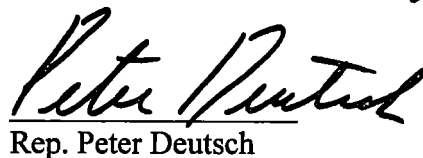
Rep. Robert Wexler

A handwritten signature in black ink, appearing to read 'Alcee L. Hastings'.

Rep. Alcee Hastings

A handwritten signature in black ink, appearing to read 'Carrie P. Meek'.

Rep. Carrie Meek

A handwritten signature in black ink, appearing to read 'Peter Deutsch'.

Rep. Peter Deutsch

A handwritten signature in black ink, appearing to read 'Corrine Brown'.

Rep. Corrine Brown

COP-6 Sinks Issues: Structure of the Phase-in

A. Background

The United States has indicated that it is willing to consider a phase-in on sinks accounting for the first commitment period. In our August 1 submission, we did not propose any particular phase-in approach. The submission merely identified two possibilities: either a discount rate could be applied to sinks credits; or, countries could be allowed to count only those removals above a predetermined threshold.

Although we have made progress in the last several months in propagating our general approach to Article 3.4 (i.e., inclusion of broad activities, with a phase-in for the first commitment period), we will need a more specific proposal at COP-6 if we hope to reach a favorable outcome. At COP-6, our aim during the first week will be to reach broad agreement on a phase-in structure in the sinks negotiating group, and then, in the second week, to negotiate at the ministerial level the actual numbers that would go into the phase-in formula.

B. Views of other Parties regarding the phase-in

Although there appears to be increasing, although grudging, acquiescence to the phase-in approach, reaching a successful outcome at COP-6 remains difficult:

- At the working level, the EU has responded positively to the idea of a phase-in for broad activities in the first period. But whether there is higher level acceptance remains uncertain, and it is likely that the EU will demand significant limits on the scale of the phase-in. They are looking for specifics from us, including an opening bid on how the phase-in would be structured and our expectations on its numerical implications.
- Developing countries (the so-called G-77) have, until recently, questioned the feasibility of reaching sinks decisions at COP-6. They now seem willing to reach decisions but, like the EU, are likely to demand significant limits on the scale of Article 3.4 sinks.
- A number of countries (including the EU and Brazil) have proposed that sink removals due to carbon fertilization, nitrogen deposition, and the so-called "rebound effect" (forest recovery from long-ago cultivation) should be factored out from a country's sinks accounts. We do not believe that this is scientifically possible at present. We are strongly urging that these factors be addressed, if at all, in the context of setting the parameters for the phase-in. The EU appears open to this approach, but others may balk.
- Both Canada and Japan have smaller projected sinks (and higher relative compliance costs) than we do, and have opposed any notion of limiting their sink credits in the first period.

C. Relevant factors

- The phase-in structure needs to be as simple as possible, in order to be negotiable in the relatively short amount of time available at COP-6.
- To the extent possible, the phase-in should fully preserve incentives to undertake additional activities, by providing full credit for removals above BAU

- The various phase-in may need to address the concerns of Japan and Canada, who want to count all their removals. To do so, it would need to fully count all removals up to a specified threshold that is higher than Japan and Canada's total removals.

D. Options for phase-in structure

- The interagency group has agreed to support applying the phase-in to forest management only.
- The phase-in structures we are considering divide a Party's total forest removals into three intervals:
 - The first interval is the first X sink tons, for example, X could be either a small percent of a Party's initial assigned amount or a fixed number (which would be the same for all Parties). If a fixed number were used, a number that is meaningful for other Parties could mean very little to the U.S (which has a much bigger assigned amount). Thus, a fixed X would argue for a discount for the middle interval that is not too steep.
 - The second interval would represent the bulk of BAU removals for countries with large sinks.
 - The third interval would include the tons most likely to derive from additional (above-BAU) effort.

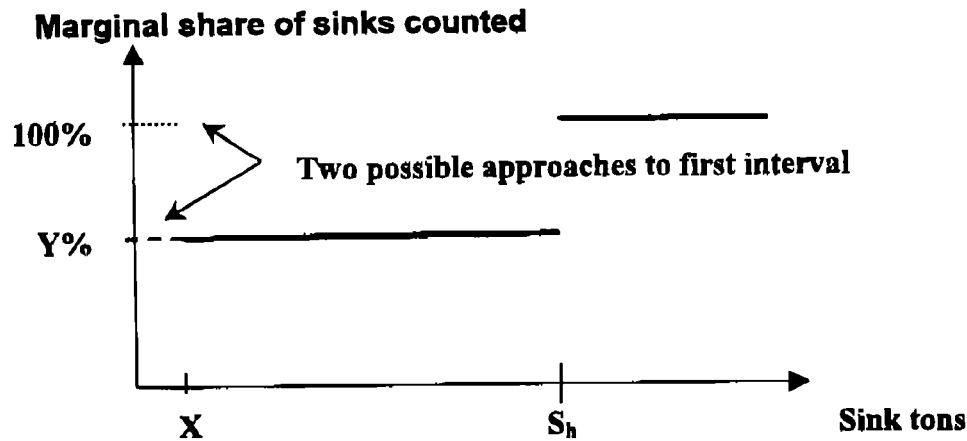
Different structures address these different intervals in different ways.

Two illustrative structures are discussed below. Both begin by first calculating the full net change in carbon stocks in managed forests during the first commitment period, S_{cp} . Each Party would also compute a threshold, based on its forest sinks in a given historical period for which data is available (e.g., the U.S. has data for 1992 and 1997) or a percentage thereof, S_h .

Approach A:

Count only $Y\%$ of the forest sinks, S_{cp} , that lie below the threshold S_h , and fully count the share (if any) above that threshold.

Approach A-2 – A variant of Approach A would allow some tons (below X) to count fully. Under this approach, if a Party's total forest sinks were 4% of its initial assigned amount, and X were set at 5% of initial assigned amount, then the Party could count all of its forest removals and no phase-in would apply. This approach would address the concerns of Japan and Canada.



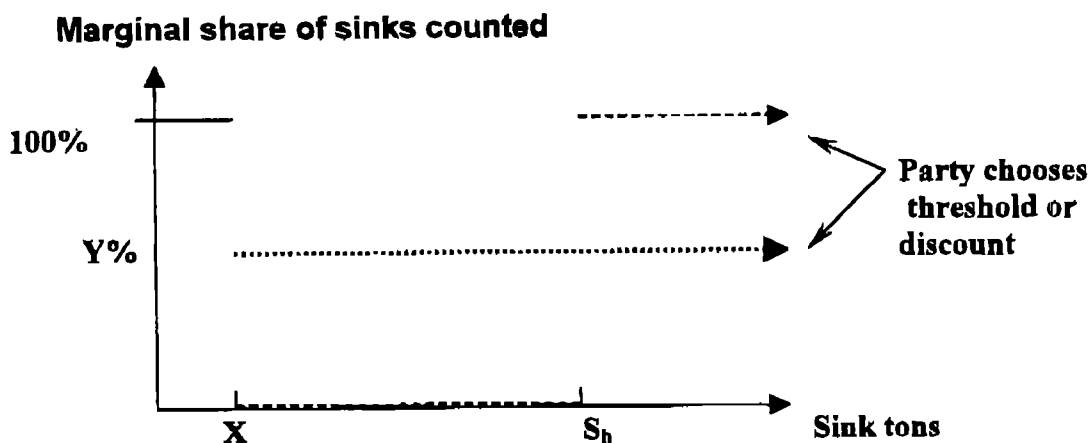
Pros and Cons

- Simple. Could require only two numbers to negotiate – Y% and S_h .
- Fully rewards additional effort, if S_h is set correctly. (For countries like the U.S. with declining sinks, a proper threshold will be complicated to negotiate. To avoid discounting additional effort, we would need agreement to set threshold below historical levels (e.g., at z% of historical levels).)
- Does not address problems of Japan and Canada unless first interval with no discount is added (Approach A-1).

Approach B:

Fully count the share of forest sinks, S_{cp} , up to X (as in Approach A-2). If total forest sinks are larger than that, then either

- (i) count only Y% of the rest of the sinks or
- (ii) fully count the removals above the threshold (but count none of the sinks between X and S_h).



Discussion Document/Not Administration Policy/Do Not Distribute
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Pros and Cons

- Could address problem of Japan and Canada if X is set correctly.
- Offers flexibility for Parties to choose between threshold and discount. Once choice is made, accounting is simple.
- Raises issue of when the choice is made (before or after the commitment period).
- Raises a possible dilemma for U.S. If we take the discount above X, then we would have to discount all our additional effort. If we take the threshold and it is too high, then this approach becomes a cap, possibly at a relatively low level. Thus, we must be careful how threshold is set.

LULUCF Country Position Matrix

31 August 2000

Definitions							Positions											
Country	Forest	ARD Definition	Afforestation	Reforestation	Deforestation	Human-Induced	Accounting	3.4 Position	3.4 decisions apply when	Non-CO2 gases	Separate 3.3 and 3.4?	Comprehensive Accounting	LULUCF in CDM	Reversion of Carbon Stock	Carbon Pools Included	Baseline/ Natural Effects	Treaty links	Key Issue (Implied)
Annex B Countries																		
US	FAO (10% cover)	IPCC	Direct human-induced conversion of land to forest that has not historically been forest.	conversion of land to forest that has historically been forest but has been converted to land that is not.	... conversion of forest to land that is not forest.	Forest, cropland, and grazing land management	Land-based	Comprehensive forest, cropland, and grazing land management.	1st commitment period, phased in	Yes	No	Yes	Yes	Lose credit.	All, incl. Wood products	Not practical to separate	No	Comprehensive accounting in 1st period
EU	FAO (10% cover)	See indiv definitions	Conversion to forest of land that has not supported forest within 50 yrs	Supported forest within 50 years, but was converted to other land uses for at least 20 yrs prior to start of commitment period	Conversion of forest to non-forest land	Intent to establish forest by planting, seeding, or natural regeneration, or the intent to deforest, traceable to decisions affecting the land areas concerned.	Activity-based	No additional activities under Art 3.4 in 1st period, except if the COP decides that the issues of scale, uncertainty and risk related to the sinks are resolved. Also see comment.	After 1st commitment period	Yes. See comment.	No	No	No	Lose credit. If monitoring ceases, also lose credit.	Above ground biomass, roots, litter and forest soil organic matter. No Wood Don't need to count increasing pools.	Not specified	CBD, Rio Forest Principals, Agenda 21	No obvious key issue.
Japan	Not specified	FAO Activity Based	FAO Activity Based	FAO Activity Based	FAO Activity Based	Not specified	Activity-based	Broad definitions and activity-based approach.	Not specified	Only for nitrogen fertilization and planting on wetlands.	No	No	Not Specified	Lose credit.	None. No wood products	No baseline or natural effects. Subtract 2012 stock from 2008 stock.	Not Specified	FAO Activity based.
Canada	Parties may define for themselves; must be consistent	Similar to FAO	Change in land-use that, through the establishment of a stand of trees, forms a forest.	Land-use practice that, through the establishment of a stand of trees, forms a forest.	Land-use change that removes a forest.	Not specified	Country-specific, comprehensive approach	Include forest management, cropland management, grazing land management and shelterbelts	During 1st commitment period	Yes	No	Yes	Not Specified	Lose credit.	All Consider wood products in SBSTA 14/COP7 Don't have to count incr. pools.	Commission IPCC study. Comprehensive approach.	CBD, Desertification	Connection of 3.3 and 3.4
Australia	No need for definition	See indiv definitions	Direct human induced establishment of new forests on lands which historically have not contained forests	Direct human induced establishment of forests on lands which historically previously contained forests but which have been converted other use.	Proportion of canopy cover per hectare on a given area of forested land is reduced by 30% or more through forest conversion as a result of direct human induced removal of trees	Must result from a deliberate human action or intervention. 'Establishment' includes all deliberate human induced activities to establish trees.	Narrow activities, Land-based	Agreed specific human induced additional narrow activities in agricultural soils and LULUCF.	Not specified	Yes	No	No	Not specified	Lose credit.	All: above ground biomass, litter and woody debris, below ground biomass, soil carbon and harvested materials.	Natural effects yield credits/debits to parties' assigned amounts.	Not Specified	Activities must be directly human induced.
Norway	Parties define for themselves	See indiv definitions	Establishment of forests by planting, seeding or other changes in human land-use practices on areas not defined as forests	Re-establishment of forests by planting, seeding or other revegetation on previously forested land or other wooded land	converting forest lands to other land	All practices that are implemented with the purpose of establishing forests. Includes planting, seeding, and natural revegetation	Activity-based	Full accounting, but not until 2nd period. See comment.	Limited activities get credit in 1st period. See comment.	Yes	Not specified	Not until 2nd commitment period	Not Specified	Lose credit	All verifiable pools: stem wood, branches, tops, stumps and roots, slash and soil carbon, wood products.	Need baselines to factor out BAU and natural effects.	CBD, UN Forum on Forests, other relevant agreements.	No comprehensive accounting in 1st period.
New Zealand	Parties define for themselves, based on land cover and carbon density characteristics	IPCC	Establishment of forests on lands which, historically, have not contained forests	Establishment of forests on lands which, historically, have contained forests but which have been converted to another use.	Conversion of forest land to some other use	Given the land conversion base of the definitions of afforestation, reforestation and deforestation, these activities, by their nature, are direct human induced.	Land-based (implied)	Position not specified.	In 2nd period	Not Specified	Yes	Yes	Not Specified	Lose credit up to amount of previous increase for same land units.	Above and below ground carbon pools and litter, no soil carbon. (implied)	Not Specified	Not Specified	3.3 land use changes must have occurred since 1990.
Switzerland	Not Specified	Not Specified	Not Specified	Not Specified	Not Specified	Not Specified	Land-based	Not Specified	Not Specified	Not Specified	Not Specified	Yes	Not Specified	Not Specified	Not Specified	Not Specified	Not Specified	No obvious key issue.
Iceland	Not Specified	See indiv definitions	Direct human action to increase carbon stock through planting trees	Same as afforestation	Not Specified. Mentioned multiple thresholds.	Not Specified	Not Specified	Include revegetation (direct action to increase carbon stocks in soil with low organic matter content)	Not Specified	Not Specified	No	Not specified	Not Specified	Not Specified	Above-ground biomass, litter and woody debris, below-ground biomass, soil carbon, and harvested materials. (implied)	Not specified	Indirect link to Desertification. See Comment.	Revegetation in 3.4
Russian Federation	FAO - multipurpose forest shelter belts	See indiv definitions	Artificial establishment of forest on land that was previously under different land use.	Artificial establishment of forest on forested lands at present not covered by forest or with insufficient forest cover.	Artificial conversion of forested lands to non-forest as a result of human activities incl. unfavorable anthropogenic impacts	Anthropogenic activities on land management within a given territory that modify its ability to emit or capture GHGs and store them or their components.	Activity-based (implied)	Additional human-induced activities should be flexible and include all types of activities that result in absorption of GHGs or prevent emissions	Not specified	Yes (implied)	No	Yes	Not Specified	Not specified	Soil carbon	Not specified	Not Specified	Connection of 3.3 and 3.4 and flexibility and comprehensiveness of 3.4.
Poland	No need for definition	See indiv definitions	All regrowth.	IPCC (implied)	Land-use change to non-forest land (implied)	Includes natural succession	Not Specified	Use provisions in Sustainable Forest Management (SFM), existing under Pan-European Process on Forests, Montreal Process or Tarapoto Process instead of list of human induced activities.	Not in 1st period	Not Specified	Yes	Not specified	Not Specified	Not Specified	Not specified. Wood products included as an activity	Not specified	Yes See 3.4 position	No obvious key issue.
Non-Annex B Countries																		
Indonesia	Not Specified	Parties define for themselves	Parties define for themselves	Parties define for themselves	Parties define for themselves	Not Specified	Not Specified	Deforestation avoidance, forest fire prevention, sustainable forest management, sustainable agroforestry, and conservation of threatened protected areas.	Not Specified	Not Specified	Not Specified	Not Specified	Possibly	Not Specified	Not Specified	Not Specified	Not specified	Questions re: LULUCF in CDM
Costa Rica	Natural land ecosystem or forest plantation with live above-ground biomass above 10% of its potential biomass, which varies by biome.	See indiv definitions	Establishment of forest condition where there were no forests during the last 20 years, whenever these activities have been performed since 1990.	Reestablishment of forest condition in lands that had been deforested, whenever these activities have been performed since 1990.	Conversion of forest to non-forest condition for economic purposes by human activity, whenever these activities have been performed since 1990.	Not Specified	Not Specified	Land-use and agricultural soil activities of common application to all Annex I Parties.	1st period	Not Specified	Not Specified	Not Specified	Yes, see comment.	Not Specified	Not Specified	Not Specified	Not specified	LULUCF should be included in CDM
Chile	One canopy cover threshold for each biome	See indiv definitions	Direct human-induced activity that establishes forests in lands where there were no forests in 1990.	Reestablishment of forests by direct human-induced activities or natural regeneration in landscape units deforested after 1990.	Natural or direct human-induced land use change resulting in the conversion of forests to other land use.	Not specified	Land-based	Not Specified	Not Specified	Not Specified	Not Specified	Not Specified	Yes, see other comments	Lose credit (implied)	All (for 3.3 afforestation). Wood products not specified.	Not Specified	Not specified	Changes must have occurred since 1990.
Bolivia	Complicated 2 level definition: see Comment	See indiv definitions	Establishment of trees in an area of land, which previous to 1990 had no forest cover.	Establishment of trees in an area of land that previously had forest or a forest ecosystem, taking into account historical times.	The process in which a human-induced loss in the quantity of biomass of a forest occurs, with a tendency to convert a land covered by forest into a land with no forest or forest ecosystem	Every activity which is a product of an unequivocal and instant human action.	Land-based	All activities.	Complicated. See Comment	Yes	Not specified	Yes	Yes; ton-year liability or ex-ante ton-year crediting.	Not specified	Above-ground and below-ground biomass, soil carbon to 1 meter. Wood products not specified.	Differentiate. No credit for natural effects.	CBD, Article 21, Ramsar, inter alia.	LULUCF should be included in CDM
AOSIS	An area of trees of no less than 0.5 ha in size. (Parties cannot define for themselves)	IPCC	Conversion of land (which has not had a forest on it for a period of at least 50 years prior to 1990) to forested land	Conversion of land that has supported forest within the past 50 years, but was converted to non-forested land prior to 1990, to forested land.	Conversion of forested land to non-forested land, including land in the process of deforestation whereby the land is likely to be cleared within a period of 50 years.	Any action directly carried out by humans that results in afforestation, reforestation and deforestation.	Not Specified	Not Specified.	After 1st commitment period	Yes. All GHGs, based on above, below ground and aquatic sources assoc. w/ wetlands.	No	No	Not Specified	Not specified	Above and below ground carbon. No wood products.	Not specified	CBD	No obvious key issue.
Tuvalu	See AOSIS	See AOSIS	See AOSIS	See AOSIS	See AOSIS	See AOSIS	Not Specified	See AOSIS	See AOSIS	See AOSIS	No	No	Not Specified	Not specified	See AOSIS	Not specified	See AOSIS	No LULUCF in CDM.



U.S. Views on Land Use, Land-Use Change and Forests Framework Convention on Climate Change

Fact sheet released by the Bureau of Oceans and International
Environmental and Scientific Affairs
U.S. Department of State, August 1, 2000

The United States today released detailed views concerning the role of forests and agricultural lands under the Kyoto Protocol. U.S. views were described in a submission under the Framework Convention on Climate Change ("Framework Convention").

BACKGROUND

Carbon sinks can play an important role in meeting the challenge of climate change. Today, managed lands remove significant amounts of carbon dioxide from the atmosphere. Reducing the rate of deforestation and increasing the rate of sequestration through improved forest and cropland management would result in even greater net removals of carbon from the atmosphere, counterbalancing in part the effects of fossil fuel emissions.

The Kyoto Protocol clearly recognized the positive role of carbon sinks in assisting countries in addressing climate change and meeting their targets, but leaves open the exact ways that sinks will count. One of the central issues at the next Conference of the Parties to the Framework Convention (scheduled for November 13-24 in The Hague) will be to elaborate the Protocol's carbon sinks provisions. Currently, the Protocol addresses only a few limited land-use change activities such as reforestation and deforestation. The inclusion of other land-use activities such as forest, cropland and grazing land management will require a decision of the Parties. In preparation, the Intergovernmental Panel on Climate Change (IPCC) recently completed a detailed study on the role of land use, land-use change and forestry in combating climate change, providing essential scientific information for sound decisions on sinks at COP-6.

U.S. VIEWS

The United States has long supported a comprehensive approach to emissions and removals of greenhouse gases from managed lands under the Kyoto Protocol. The United States believes that a comprehensive approach would best account for the full range of natural and human activities that could affect the global climate system.

In today's submission, the United States:

- Strongly reaffirms the important role of forests and agricultural lands in meeting the challenge of climate change.
- Insists that decisions be based on sound science.
- Proposes strong incentives to remove carbon from the atmosphere through sound land management and to protect existing reservoirs of carbon, for example those in mature forests.
- Proposes inclusion of broad land management categories -- e.g. forest management, cropland management, and grazing land management -- together with comprehensive greenhouse gas accounting.
 - Rejects narrower approaches, citing its concerns about incompleteness,

difficulty of measurement, and potentially unbalanced treatment of emissions and removals.

- Is willing to consider a "phase-in" for the first commitment period (2008 to 2012) to address the concerns of some countries about the effect of comprehensive greenhouse gas accounting on the first budget period targets.
 - Under a phase-in, countries would receive credit towards meeting their first budget period targets for only a portion of their total net removals of carbon from land management activities. Possible approaches to a phase-in include applying a discount rate or counting removals only above a pre-defined threshold. The exact approach will require further negotiations, but must ensure that the United States receives significant credit for the substantial sequestrations by its forests, as contemplated at Kyoto.
- Strongly supports rules -- including definitions of key terms such as reforestation -- that help protect forests and avoid creating "perverse incentives" (for example, to log old growth forests).
- Proposes a strict accounting system that looks at the total impact of land management on carbon stock changes, including both emissions and removals, and that requires Parties to be able to accurately monitor and verify emissions and removals.

The comprehensive, broad-based approach proposed by the United States:

- Provides the greatest long-term incentive to protect existing carbon reservoirs, increase carbon removals, and reduce greenhouse gas emissions through better land management practices.
- Best reflects "what the atmosphere sees".
- Prevents countries from picking and choosing only those activities that sequester carbon, while ignoring other activities that emit carbon.
- Is easier to monitor and verify than activity-based accounting.
- Allows flexibility and provides incentives to develop new land management practices.
- Minimizes leakage and double counting.
- Addresses many of the accounting problems identified by the Intergovernmental Panel on Climate Change in its recent scientific report on carbon sinks.
- Provides substantial "co-benefits," since practices that enhance carbon also tend to improve soil, water and air quality, and maintain biodiversity in forests.

While the U.S. projects it would remove approximately 300 million tons of carbon per year through land management activities during the Kyoto commitment period, the actual number of credits that will count towards meeting the U.S. target will depend on the outcome of discussions on a phase-in approach.

[End of Document]

[Link to 8/1/00 U.S. Submission to UNFCCC on Land-Use, Land-Use Change, and Forestry \(3,029 KB .pdf file\)](#)

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**Center for International Environmental Law • Natural Resources
Defense Council • Ozone Action • Union of Concerned Scientists •
World Wildlife Fund • National Environmental Trust •
The Nature Conservancy**

July 26, 2000

David Sandalow
Assistant Secretary of Bureau for Oceans
and International Environmental and Scientific Affairs
Department of State
2201 C Street, N.W.
Washington, DC 20520

Dear David:

As you know, the final decisions on land-use, land-use change and forestry (LULUCF) in the Kyoto Protocol could have a large impact on both the landscape and the Kyoto targets of the United States and other countries. We have already communicated with you in some detail our view that any rules for LULUCF must exclude credit for business-as-usual activities. With this letter we would like to elaborate on another matter that we are deeply concerned about, the overall ecological impact of the LULUCF rules. The IPCC Report refers to the "associated impacts" of the inclusion of various activities in the LULUCF system. While some of these could certainly be positive, we believe that others could encourage practices that would have a negative impact on the landscape. For this reason, we believe that the U.S. should support rules designed to avoid adverse ecological impacts of any LULUCF activities undertaken pursuant to the Kyoto Protocol. We urge the U.S. to discuss these ecological implications in its August 1 submission and report, where possible, on both the negative and positive ecological implications of its proposed activities. We would be happy to work with the delegation to develop a set of rules and procedures that ensures that ecological implications of LULUCF activities are appropriately taken into account.

Carbon-only decision-making

Creating a system that only requires countries to consider the carbon implications of the sequestration activities (in Articles 3.3 and 3.4) could, in some cases, be counterproductive to sound ecosystem management. Ecosystems provide a large range of services that may not be captured if countries are only counting carbon stocks. For example, it may make good carbon sense to plant poplars in a grassland from a carbon perspective. However, that grassland may include nesting ground for a particular species, which would be lost if it were converted to poplars. Similarly, a focus on carbon benefits alone can provide an incentive to rely on monocultures of fast-growing species and use of

genetic engineering to produce faster-growing trees. These can have significant negative ecological impacts. Will such ecological implications enter into the decision-making or implementation framework?

Forest fertilization may, according to the IPCC Report, lead to higher growth rates of aboveground and below-ground biomass and thereby increase carbon storage. However, it would also increase the emission of N_2O and NO_x to air and water and influence soil processes. While Parties are now requested to report on these other greenhouse gas emissions, will the impact on air, water and soils be included in either the decision-making framework or the national implementation schemes? Similarly, fire suppression can temporarily increase carbon stocks in many ecosystems, yet inappropriate fires suppression can have profoundly negative ecological impacts and can increase the risk of future catastrophic fires. Such fires could kill mature trees which normally survive natural fires, thus releasing not only the credited carbon stock increases but substantial additional carbon as well. Despite these risks, inappropriate fire suppression could become attractive from a purely carbon/financial perspective.

In the agriculture sector the implications of including reduced tillage need to be addressed. While this activity certainly has positive associated impacts, such as increased soil quality, it can have negative associated impacts, such as increased herbicide use. Will this be taken into account?

A further, often overlooked, aspect is whether the included activities would actually increase or decrease an ecosystem's ability to be resilient and resistant to climate change and other stress factors. There are a number of forest practices, such as creating buffer zones, decreasing fragmentation and identifying refugia, that would assist forests in adapting to climate change. Will the system take these factors into account when developing its carbon credit scheme?

Perverse Incentives

In previous communications we have highlighted the perverse incentives that could occur under Article 3.3 of the Protocol. As you know, the Protocol does not count carbon stock decreases previous to 2008, yet it counts stock increases in the 2008-2012 and subsequent time periods. This brings about an unnecessary risk for old growth forests that should be excluded. The IPCC Report includes a number of ways to avoid this perverse incentive.

The definitions chosen for Article 3.3 could also create a system whereby countries did not have to count harvesting, but could receive credits for regeneration (e.g., FAO, activity-based accounting). This obviously would have a great impact on the landscape of industrialized countries and should not be permitted in the Kyoto Protocol. Other definitions exist which would exclude such perverse incentives.

We are concerned that the ecological implications of the LULUCF decisions that are to be made in The Hague are not receiving adequate attention in the decision-making process. The land-use change and forestry aspects of the Protocol are likely to have large

impacts on the landscape. While domestic policies in some countries, such as the U.S., may take non-carbon factors into account and tend to ameliorate any perverse incentives, we are very worried that this is not the case in all countries. We therefore ask that ecological considerations be included in the U.S. August 1 submission. Additional details on how to address these issues within the Kyoto agreement could be developed in the lead-up to The Hague.

We hope that we can work together to ensure that the Kyoto Protocol is sound from an ecological as well as atmospheric perspective.

Sincerely,

Kert Davies
Ozone Action

Donald Goldberg
Center for International
Environmental Law

Daniel Lashof
Natural Resources Defense Council

Peter Frumhoff
Union of Concerned Scientists

Jennifer Morgan
World Wildlife Fund

Kalee Krieder
National Environmental Trust

Michael Coda
The Nature Conservancy

cc: Roger Ballentine, White House
Robert Perciasepe, EPA
Mark Mazur, DOE
Jim Lyons, USDA

The FAO Definitional Approach

- The negotiating history of Article 3.3 provides support for the view that “reforestation” was intended to include regeneration after harvests.
- As Table One indicates, under the FAO definitional approach, the United States would receive significant net credits during the first commitment period, in contrast to net debits of between 0 and 17 MMTCE under the IPCC definitional approach.
- Table One includes both the FAO Land-Based II approach and the FAO Activity-Based Approach (Table One, Parts B and C). Under the FAO Land-Based II approach, the United States would receive credits of between 66 and 102 MMTCE during the first commitment period. Under the FAO Activity-Based approach, the U.S. would receive credits of between 137 and 185 MMTCE during the first commitment period. For the reasons explained in section xx above/below, the United States does not support activity-based accounting under either Article 3.3 or 3.4.
- The United States recognizes that the FAO definitional approach raises significant issues - in particular, it could allow countries to receive credits from a forest area that experiences a loss of carbon during the commitment period (as a result of harvesting). Because of the problems raised by the FAO definition, the United States strongly supports the broader inclusion of forestry activities under Article 3.4 of the Protocol, so that both emissions and removals resulting from forestry activities are counted in a comprehensive and symmetric manner.

Perverse incentives

- The United States also recognizes that concerns have been raised about possible “perverse incentives” resulting from Articles 3.3 and 3.4. The United States opposes proposals that would lead to “perverse incentives,” especially proposals that would promote the logging of old growth forests. Moreover, the United States believes that Parties should ensure that, through their domestic implementation, no such incentives are created.

Conclusion

- Given the negotiating history of the Kyoto Protocol, which supports a broader inclusion of forestry activities - in particular, reforestation after harvest - the U.S. believes that there is an important connection between the decisions regarding forests under Articles 3.3 and 3.4. Thus, ~~if the more limited IPCC definitional approach is adopted for Article 3.3, it would be necessary to include forest management activities more broadly under Article 3.4.~~

while we are willing to support a

land

we do so
with the
expectation
that we
the parties
will

THE WHITE HOUSE
WASHINGTON

July 21, 2000

MEMORANDUM FOR DISTRIBUTION

FROM: ROGER BALLENTINE 
Deputy Assistant to the President

RE: Decisional COP-6 Meeting -- Sinks

We will hold a decisional COP-6 strategy meeting on Tuesday, July 25 at 10:00 a.m. in Room 180. At this meeting we will give necessary guidance to our negotiators on the subject of sinks. The U.S. must make a submission on this highly complicated and politically challenging issue by August 1st.

If we begin promptly at 10, I expect that we can conclude this meeting by 11.

I enclose a decision memo for your review prior to the meeting.

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Todd Stern (Treasury)
Hattie Babbitt (USAID)

Neal Lane

cc:

John Podesta

Climate Change:

Decision on Definition of Reforestation

1. Issue for Decision

In our August 1 submission on carbon sinks, should the United States:

- continue to hold open the possibility of supporting the *FAO definition* of “reforestation” under Article 3.3 of the Kyoto Protocol in order to gain negotiating leverage vis a vis Article 3.4, or
- endorse the *IPCC definition* of “reforestation”?

2. Background

Our proposals to the Parties regarding carbon sinks under the Kyoto Protocol are due on August 1, and must address two key issues:

- the definitions of afforestation, reforestation and deforestation under Article 3.3, and
- whether to include additional sink activities under Article 3.4 and, if so, which ones.

(a) Article 3.4 Additional Activities

It is the consensus of the Assistant Secretaries-level group that in our August 1 submission we should propose:

- the inclusion of a broad array of sink activities under Article 3.4, including forest management, cropland management, and grazing land management. Under business-as-usual, the carbon stock changes resulting from these activities during the first commitment period are projected to be about 300 million metric tons of carbon equivalent (MMTCE) per year (approximately one-half of our overall target reduction), virtually all from forests.
- However, we would also offer support for a phase-in or limitation of the eligibility of these various activities during the first commitment period, to counter arguments that comprehensive carbon stock accounting would undermine the emissions reduction targets in the Protocol. Possible phase-in approaches include: (a) counting changes in carbon stocks only above a pre-defined threshold, (b) applying a discount rate to these sequestration credits, or (c) accepting a temporal or some other type of limitation. We plan to leave

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the choice of approach as well as the specific number for the threshold or discount rate to the negotiations.

At the recent workshop on sinks in Poland, the U.S. presentation on Article 3.4 along the above lines was favorably received. However, many delegations (including the EU, China, and the small island developing states) have questioned whether there should be any additional sink activities allowed in the first budget period. Thus, we will have a very difficult time reaching any agreement, let alone acceptance of the broad approach we are advocating.

(b) Article 3.3 Definitions

The key open issue for our August 1 submission relates to Article 3.3, and in particular, whether or not to endorse the IPCC definition of reforestation.

Article 3.3 of the Kyoto Protocol requires that Parties, in meeting their targets, count emissions and removals from three specified land-use change and forestry activities: afforestation, reforestation and deforestation since 1990. The definitions of “afforestation” and “deforestation” raise important technical considerations, but are not controversial from a political standpoint. In contrast, the definition of “reforestation” is quite controversial, with different definitions having very different implications for the United States (see Table 1 below).

International and domestic discussions have focused on two possible definitions of reforestation, referred to as the IPCC and FAO definitions.

- The **IPCC definition** defines reforestation as a land-use change from a non-forest use to a forest use.
- In contrast, the **FAO definition** also includes replanting after harvest (arguably two stages of “forest use”) within the definition of reforestation – without counting the harvest as an emission.

Table 1 sets forth the implications for the U.S. of the IPCC vs. FAO definitions, assuming business-as-usual. Under the IPCC definition, the U.S. would likely have a small debit (an addition to our target) from Article 3.3. In contrast, the U.S. would gain a credit of 80-90 MMTCE (about one-seventh of overall target reduction) under the FAO definition of reforestation.

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Table One

Estimated U.S. Emissions and Removals from Afforestation, Reforestation, and Deforestation since 1990 under Business-as-Usual

Note: The three numbers in each category represent the low, most likely, and high estimates of tons that would apply toward (+) meeting our target or against (-). For reference, 100 is one-sixth of our target. Estimates are derived from 1997 US Forest Statistics.

IPCC definition of reforestation

U.S. Sink/Source	Estimated Annual MMTCE Carbon Sequestration (+) or Emissions (-) during the budget period (BAU Case) for the U.S.		
	2008-2012	2013-2017	2018-2022
Afforestation/ reforestation	(26) 40 (54)	(29) 45 (61)	(30) 48 (66)
Deforestation	(-61) -47 (-33)	(-54) -39 (-24)	(-49) -31 (-13)
Total of ARD	(-16) -7 (0)	(-7) 6 (13)	(3) 17 (31)

FAO definition of reforestation

U.S. Sink/Source	Estimated Annual MMTCE Carbon Sequestration (+) or Emissions (-) during the budget period (BAU Case) for the U.S.		
	2008-2012	2013-2017	2018-2022
Afforestation	(26) 40 (54)	(29) 45 (61)	(30) 48 (66)
Reforestation	(73) 91 (109)	(106) 129 (152)	(137) 163 (189)
Deforestation	(-61) -47 (-33)	(-54) -39 (-24)	(-49) -31 (-13)
Total of ARD	(66) 84 (102)	(111) 135 (159)	(151) 180 (209)

The negotiating history of the Kyoto Protocol is hotly disputed among Parties, although we have argued that it provides some support for the FAO definition. However, several arguments have been voiced against the FAO definition:

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- First, the FAO definition credits regrowth without debiting the first harvest (this is sometimes referred to as “asymmetrical” accounting). Thus it selectively brings land into the system as it is about to start sequestering carbon, without counting the substantial emissions occurring earlier in the commitment period resulting from harvests. This is a legitimate environmental concern (even though it may be consistent with what Kyoto intended).
- Second, the FAO definition could create a perverse incentive to harvest existing forests early, since Parties would be able to count the sequestrations from replanting without being debited for the emissions from harvesting. In practice, however, this effect may be unlikely, since the value of carbon credits would in most circumstances be small relative to other factors in timber management decisions. Nevertheless, this concern has become a rallying cry for the environmental community.
- Finally, by giving some parties significant credits, the FAO definition would weaken the Kyoto targets (although, again, one could argue that to the extent that the FAO definition is supported by the negotiating history, it is by definition consistent with the Kyoto package, not a weakening of it).

Most Parties, including a number of Umbrella Group countries such as Australia and Norway, support the IPCC definition. Japan is one of the few countries to publicly support the FAO definition.

Environmental groups have universally condemned the FAO definition in very strong terms. A coalition of groups has launched a postcard campaign targeting administration policymakers. Meanwhile, industry groups have not weighed in strongly one way or the other.

3. Analysis of Options

Thus far, the U.S. has not taken a position regarding the FAO vs. IPCC definitions of reforestation. No agency has pressed for the FAO definition, but we have been reluctant to endorse the IPCC definition, since it would result in a small debit, rather than any credits.

Instead of supporting either definition, we have attempted to treat Articles 3.3 and 3.4 as a package. We have acknowledged that the FAO definition is problematic from an environmental standpoint, but have argued that it is supported by the negotiating history of Kyoto. Rather than endorse either definition, we have argued for addressing forestry (and other sink activities) in a more rational manner, through comprehensive carbon accounting under Article 3.4. In doing so, we have signaled that we would be willing to give up the FAO definition in return for a good (i.e. expansive) decision regarding additional sink activities under Article 3.4. What would count as a “good” or “acceptable” outcome on Article 3.4 will require further elaboration as the negotiations proceed.

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In our August 1 submission, we could:

- (1) remain uncommitted as between the FAO and IPCC definitions, and attempt to use the FAO definition as trade bait to gain a better decision under Article 3.4, or
- (2) endorse the IPCC definition, presenting this conservative position on 3.3 and our more aggressive position on 3.4 as a package.

Option 1: Continue to leave open the FAO definition of reforestation, in order to try to extract a better outcome on Article 3.4 additional activities.

Pros:

- We should not make major concessions prematurely, without gaining something in return;
- If we do not get significant additional sink activities under Article 3.4, then our target will be much tougher to achieve.

Cons:

- It is unlikely that we would actually insist on the FAO definition, given its environmental difficulties. To the extent that other countries realize this, the FAO definition may not be a credible threat and therefore may not gain us much negotiating leverage;
- We will continue to be strongly criticized by environmental NGOs for not clearly repudiating the FAO definition of reforestation.

Option 2: Repudiate FAO definition and indicate our support for the IPCC definition.

Pros:

- This would eliminate a major source of criticism from environmental groups;
- This could buy us good will from other countries, and thereby give us greater credibility in the Article 3.4 negotiations.

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Cons:

- Adopting the IPCC as opposed to the FAO definition of reforestation would represent a significant tightening of our target (a difference of approximately 90 MMTCE). Even considering that this may be an unrealistic calculation, given that there is little chance that the FAO definition would ever actually be adopted, our opponents might strongly criticize us for making a major concession with significant cost implications (adding 90 MMTCE to our target could add as much as 30% to our compliance costs, given the marginal costs of reducing the last 90 million tons).

THE WHITE HOUSE
WASHINGTON
Room 115
Old Executive Office Building

OFFICE OF ENVIRONMENTAL INITIATIVES
FACSIMILE COVER SHEET

TO: **See Distribution Below**

FROM: **ROGER BALLENTINE**

**DEPUTY ASSISTANT TO THE PRESIDENT FOR
ENVIRONMENTAL INITIATIVES**

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When: Tuesday July 25, 10-11:30am

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Lael Brainard (NEC) 6-5353 (Sharon Yuan)

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Ms. Linda Delgado (USDA)

Franklin Moore (USAID)

John Beale (EPA)

Noel Gerson (DoI)

Margo Anderson

David Gardiner (WHCCTF)

Mike Orfini

NOT ATTEND:

Leon Feurth (OVP) 6-9501 (Anne Woolston)

Martin Baily (CEA) 5-5042

Stuart Eizenstat (Treasury) 622-1080 (Carolyn)

John Podesta

**A/S Climate Change Meeting:
August 1 Sinks Submission**

July 21, 2000, 3:30-5:00 PM, Rm. 7835

1. Background

Our proposals regarding carbon sinks under the Kyoto Protocol are due on August 1, and must address the following key issues:

- the definitions of afforestation, reforestation and deforestation (ARD) under Article 3.3, and
- whether to include additional sink activities under Article 3.4 and, if so, which ones
- accounting rules for sink activities.

A copy of the draft submission is attached for your review. It reflects our discussions at previous meetings, as well as additional inter-agency consultation. The key open issue relates to Article 3.3, in particular, whether to endorse the IPCC definition of reforestation, or continue to remain neutral between the FAO and IPCC definitions. A deputies meeting is scheduled for next Tuesday, July 25, to address this issue. Our meeting on Friday will review the submission generally, and address any other remaining issues.

Highlights of the submission include the following:

- Comprehensive carbon stock accounting for the long-term, through the inclusion of broad sink activities under Article 3.4. Proposed activities will include forest management, cropland management, and grazing land management. The BAU carbon stock changes resulting from these activities during the first commitment period are projected to be about 300 MMTCE per year (approximately 30% of our 1990 base year emissions), virtually all from forests.
- A phase-in during the first commitment period, to counter arguments that comprehensive carbon stock accounting would undermine the emissions reductions targets in the Kyoto Protocol. Under the first commitment period phase-in, parties would be allowed to claim only a share of the total carbon stock changes on managed lands. Possible phase-in approaches include: (a) counting changes in carbon stocks only above a pre-defined threshold, or (b) applying a discount rate, for example, to factor out sequestrations due to indirect human effects such as carbon fertilization.

We do not plan to address the issue of sinks in the CDM in our August 1 submission, since we believe that this issue should be addressed in the mechanisms group.

Handwritten note:
would we say this?

2. Issues

Issue 1: How specific should the U.S. submission be with regard to a possible phase-in approach?

Options (from less to more specific):

- Give no specific numbers or equations, but indicate (as we did in our Poland presentation) that a phase-in could be implemented using a discount rate or threshold or some other general approach.
- Indicate which general phase-in approach the U.S. prefers (e.g. discount or threshold or other), but do not include any calculations for specific examples for the U.S.
- Choose a phase-in approach and show a range of calculated accounts for the U.S. by applying different specific parameter assumptions.
- Choose a phase-in approach and show one set of calculated credits for the U.S. with that general approach by applying one specific parameter assumption. This is the "opening bid" approach.

Proposed approach

- Elaborate the phase-in only in general terms, without advocating any particular approach or specifying how many tons of carbon we would expect to be able to claim.
- Leave until later in the negotiations the choice of approach (thresholds, discount rates, etc.), as well as any specific number or equations that would be used to calculate thresholds or discount rates.

Pros

- Requires fewer decisions now.
- Leaves negotiators flexible to respond to others' views.
- Doesn't show the US hand on how many BAU tons we could be seeking.
- Avoids the need to pick a specific number, which will be very difficult. Since any number we put forward would likely become the starting point of the negotiations, we need to put forward a higher number than our bottom line. However, a high number would attract significant criticism, in particular from environmental groups.

Cons

- May raise suspicions that we want to claim large BAU sinks.
- May be criticized for not completing all parts of the data tables agreed at SBSTA 12.

If we were to be more specific in our August 1 submission, we would need to further consider:

- The pros and cons of various possible phase-in approaches.
- The relative roles of scientific vs. political factors in defining possible thresholds or discount rates.
- Specific methodologies for constructing baselines or choosing discount rates (for example, setting thresholds based on BAU).

Issue 2: Should the US submission propose a rule that would restrict crediting for conversion of old growth forests, native grasslands or other native habitat?

Option:

- Propose rule excluding credits under Articles 3.3 or 3.4 for conversion of native habitats.
- Articulate general support for further discussion of such a rule, but note a reluctance to add a myriad of complex rules that could be difficult to apply.
- Be silent on this issue.

Discussion:

The EU, some Umbrella Group countries, and a number of environmental NGOs have supported this approach. The US currently converts little old growth forest and almost no native grasslands to other uses. Canada, however, does significantly log old growth forests.

To some degree, conversions of old growth forests and other native habitats would be discouraged, to the extent that they released carbon into the atmosphere during the commitment period. A rule prohibiting credits would further discourage such activities.

Pros of proposing a rule:

- Could address an important concern of NGOs.
- Forest industry would not be likely to oppose, since it would have little effect on them.

Cons:

- Could open the door to other, more problematic, rules.
- Limitation of regrowth credit could reduce regeneration just as much as it discourages conversion.
- May be difficult to define and identify which land should qualify for special accounting treatment. Land types could include primary native forests, wetlands, and native grasslands. We would likely have to gather additional data and add some special tracking features to implement such a rule.

**Center for International Environmental Law • Environmental Defense •
National Environmental Trust • Natural Resources Defense Council •
Ozone Action • Physicians for Social Responsibility • The Nature
Conservancy • Union of Concerned Scientists • Woods Hole Research
Center • World Wildlife Fund**

June 30, 2000

David Sandalow
Assistant Secretary of Bureau for Oceans
and International Environmental and Scientific Affairs
Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear David:

We are writing to urge you to ensure that the United States provides comprehensive data on a full range of land-use, land-use change and forestry (LULUCF) options as part of its submission required by August 1, 2000 pursuant to FCCC/SBSTA/1999/14 and FCCC/SBSTA/2000/CRP.2. As you know, the decisions related to land-use, land-use change and forestry anticipated at the sixth Conference of the Parties to the climate convention (COP6) will have profound implications for the environmental integrity of the Kyoto Protocol. We therefore urge you to personally place a high priority on the development of the August 1 submission and subsequent negotiations regarding these issues.

To make sound decisions at COP6 Parties and observers require access to detailed information on the likely consequences of each option under negotiation. The decision on methodological issues for LULUCF adopted at SBSTA 12 (FCCC/SBSTA/2000/CRP.2) calls on Parties to report current and projected emissions/removals from LULUCF activities based on their "preferred proposals," but indicates that Parties "may provide data and information in relation to other options." Recognizing that the data and projections submitted "by no means prejudice" the decisions to be made at COP6, we believe that it is essential for the United States to submit information on a full range of plausible options under negotiations. We further urge the United States to encourage other key countries (such as Canada and Russia) to do likewise.

Specifically regarding additional activities under Article 3.4, we believe that is essential for the United States to submit information related to both broad and narrow approaches under both land-based and activity-based accounting. In each case

information should be submitted on possible baselines, including at least the following options identified by the IPCC: emissions/removals in 1990, the emissions/removals projected in the absence of incentives created by the Kyoto Protocol (i.e., a business-as-usual baseline) and the emissions/removals projected under a continuation of management practices in use in 1990. We also believe that information should be submitted regarding a project-based approach to additional activities.

We recognize that this is a very substantial task and that there is a limited amount of time to complete it. We see no alternative, however, given the importance of the LULUCF issue and the need for well-informed decisions to be made at COP6.

Thank you for your personal attention to this issue.

Sincerely,

Kert Davies
Ozone Action

Donald Goldberg
Center for International
Environmental Law

Karen Hopfl-Harris
Physicians for Social Responsibility

Patricia Kenworthy
National Environmental Trust

Daniel Lashof
Natural Resources Defense Council

Alden Meyer
Union of Concerned Scientist

Jennifer Morgan
World Wildlife Fund

Tia Nelson
The Nature Conservancy

Kilaparti Ramakrishna
Woods Hole Research Center

Ram Uppulari
Environmental Defense

cc: Roger Ballentine, White House
Robert Perciasepe, EPA
Mark Mazur, DOE
Jim Lyons, USDA



dlashof@nrdc.org (Dan Lashof)

07/07/2000 05:45:12 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP, doniger.david@epamail.epa.gov, andrasko.ken@epa.gov

cc:

Subject: Rules for Article 3.3

Here is our best shot at workable rules for Article 3.3. This is not for attribution at this time.

-Don Goldberg and Dan Lashof

Rules for Article 3.3

The following rules describe a "narrow" approach to Article 3.3 intended to include only ARD activities that involve land use change (i.e., based on the IPCC definitional scenario described in the Special Report). The harvest-regeneration cycle is excluded in areas that remain forest, because under Article 3.3 it is virtually impossible to account for this cycle in a way that is consistent with "what the atmosphere sees." The potential for a perverse incentive to clear land in order to claim reforestation credit is avoided by excluding land cleared between 1990 and 2008 from the definition of afforestation/reforestation.

When a forest area is harvested it may not be immediately obvious whether a land-use change has occurred or whether the land is in the process of being replanted/regenerated. Deforestation is deemed to have occurred in cases where the harvesting activity has removed sufficient crown cover that the harvested area no longer meets the definition of 'forest', and where replanting/regeneration (potentially including natural regeneration in appropriate circumstances) has not been initiated within one year and allowed to successfully mature for five years. To avoid accounting anomalies across the boundary of commitment periods (e.g. in cases where there is a delay in determining if an area has been subject to deforestation) accounting in any commitment period is always referenced to the stock in place in 2008, net of any debits/credits previously accounted for.

A. Forest means any land area containing more than [x%] potential tree crown cover. The threshold [x%] used to define a forest shall be determined for each forest type by a panel of experts appointed by the [SBSTA/ IPCC].

B. Assessment area (AA) means five hectares of contiguous forest.

C. Deforestation means conversion of an AA from a forest use to a non-forest use.

D. An AA shall be deemed to have converted from a forest use to a non-forest use if, after 1990, the potential tree crown cover falls below the threshold determined under paragraph A, unless:

1. the AA is replanted within one year and five years after replanting can be shown to be maturing successfully; or
2. in cases where natural regeneration will lead to restoration of the forest, the AA is allowed to regenerate naturally and five years after replanting can be shown to be maturing successfully.
3. An AA is maturing successfully if its tree crown cover is likely to exceed the threshold determined under paragraph A at maturity.

E. Afforestation/Reforestation means conversion of an AA that did not contain forest in 1990 or was deforested after 2008 from a non-forest use to a forest use.

F. An AA shall be deemed to have converted from a non-forest use to a forest use if, after 2008, the potential tree crown cover rises above the threshold determined under paragraph A.

G. For the first commitment period, net credits or debits from A/R or D for each AA shall be equal to the change in stock between Jan 1 2008 and December 31 2012.

H. For any subsequent commitment period, net credits or debits from A/R or D for each AA shall be equal to the change in stock between Jan 1 2008 and the end of that commitment period, less any credits or debits that have previously accrued.

I. During the five year period after replanting or natural regeneration, the AA shall be considered to have remained under forest.

J. A land-based accounting system shall be applied to ARD lands. This means that once an AA has been identified as subject to an ARD activity, all stock changes shall be counted, regardless of the cause of the change. Adjustments may be made, however, for uncertainty or other factors.

K. Once identified as Article 3.3 land, an AA remains Article 3.3 land.

L. All pools associated with ARD activities that may be net sources shall be counted. Accounting shall be "conservative" (emissions shall be estimated on the high end of the range of uncertainty; removals shall be estimated on the low end of the range of uncertainty).



**EDISON ELECTRIC
INSTITUTE**

PAUL C. BAILEY
Vice President
Environmental Affairs

August 8, 2000

The Honorable David B. Sandalow
Assistant Secretary for Oceans,
International Environment, and Scientific Affairs
2201 C Street, N.W.
Washington, D.C. 20520

Dear Mr. Sandalow:

Upon reviewing the results of the 12th sessions of the subsidiary bodies to the Framework Convention on Climate Change (FCCC) in Bonn, Germany, the Edison Electric Institute (EEI) has concluded that they are less than encouraging for purposes of the sixth meeting of the Conference of the Parties (COP-6) in November and thereafter. Insofar as the Kyoto Protocol market mechanisms and compliance are concerned, the texts are unacceptable. In fact, among the few bright spots from the Bonn sessions were the release of the Intergovernmental Panel on Climate Change Special Report on Land Use, Land-Use Change and Forestry (LULUCF) and the openness and transparency generally followed by the chairmen of the two subsidiary bodies and the Secretariat regarding workshops and contact group meetings, which enabled non-governmental organizations (NGO's) to participate as observers.

Since we previously corresponded with you on December 22, 1999, about our concerns that the June and September sessions of the subsidiary bodies would not be open to NGO's, we express our sincere appreciation to Under Secretary Frank Loy, Ambassador Mark Hambley, the U.S. delegation and you for the efforts made to support and encourage such openness in June. We look forward to a repeat performance at the 13th sessions of the subsidiary bodies in Lyon, France and at COP-6 in The Hague, the Netherlands.

Environmental, Economic and Global Integrity

We are aware of a June 15, 2000, letter by some environmental NGO's to John Podesta at the White House, which said that the Administration apparently told them that it is committed to "negotiating an outcome at COP-6 that maintains the environmental integrity" (which they do not define) of the Protocol. Of course, another element of the Protocol that must be maintained is "economic integrity," which was defined by the Administration's 1998 economic analysis

(discussed below) and by S. Res. 98. In addition, it needs "global integrity," as required by S. Res. 98, which passed the Senate on July 27, 1997, by a 95-0 vote, after being introduced two days earlier by more than 60 bipartisan cosponsors. That facet of the Protocol is not an agenda item for either Lyon or The Hague. As you know from our prior letters to the State Department, EEI has consistently opposed legally binding targets and timetables, such as those contained in the Kyoto Protocol. We know you are familiar with our reasons for our opposition, and we will not repeat them in this letter, except to emphasize that the absence of economic integrity and global integrity are significant reasons for lack of support by EEI for the Protocol.

Significance of Flexibility Mechanisms

Shortly after the Protocol was adopted, the Administration sought to quell the concerns expressed by many, including EEI, about the Protocol's expected adverse economic consequences by releasing in 1998 an economic analysis that focused on "three basic kinds of flexibility provisions that were proposed by the United States." The analysis said that these provisions "-- commonly referred to as 'when', 'what', and 'where' flexibility -- have great potential to significantly lower the costs of meeting the Kyoto targets."

In our view, "when" flexibility, which, according to the analysis, would be derived in part from the "multi-year commencement period," would certainly be threatened by the compliance text and its emphasis on enforcement of eligibility requirements for the mechanisms during this period. "Where flexibility" in the form of "international emissions trading and joint implementation among countries that take on binding targets, coupled with a 'clean development mechanism' allowing industrial countries or firms to earn credits for projects in the developing world that reduce emissions," would appear to be contradicted by the latest text of the chairman of the Joint Contact Group on Articles 6, 12 and 17. As for "what" flexibility, which is provided both by the basket of gases and the coverage of LULUCF activities, any adequate and acceptable resolution to the U.S at COP-6 or later seems, at this time, highly unlikely, based on the results in Bonn.

We recognize that there will be a two-day intersessional meeting in late August on mechanisms, which was postponed from July, and an intersessional meeting in October on LULUCF, as well as intersessional meetings on issues of prime interest to developing countries. An additional intersessional meeting on compliance is possible after Lyon. However, because of the closed nature of these intersessional meetings and because they are not supposed to be negotiating sessions since they are not open to all Parties, we cannot view them as a positive development. If anything, they cause us even greater concern. In fact, the last intersessional meeting in May on mechanisms produced the first version of the text that we find so objectionable now.

Nevertheless, we take this opportunity to provide the enclosed comments about some issues in the latest market mechanisms text. In doing so, we express a particular objection to the approach in the mechanisms text for individual draft decisions for each mechanism Article. In our view, that only encourages the possibility of decisions at COP-6 on some, but not all, mechanism Articles. As you know, EEI has supported the U.S. delegation position that while there is a

priority in time for Article 12, the COP must decide all three Articles as a “package,” not individually. We think that that is the right position and urge that there be only “one common” decision on all three Articles at COP-6, which, according to the chairmen’s “Introduction” (at ¶ 7), is an appropriate alternative to the three separate decisions in their text. In addition, we also believe that any such decision for all three Articles at COP-6 should be complete and not leave to future COP sessions any substantive or procedural issues, such as CDM baselines and LULUCF details.

We think that the “package” approach is also appropriate for Articles 5 and 7 and possibly Article 8 of the Protocol. In Bonn, the Subsidiary Body for Scientific and Technological Advice (SBSTA) completed work on so-called “mandatory” and “non-mandatory” guidelines for Article 5.1, but not for the other provisions of Article 5 and the other two Articles. They await the 13th sessions of the subsidiary bodies. A proposed draft of a decision for the Subsidiary Body for Implementation (SBI) to recommend to COP-6 was deferred at the urging of the U.S. after questions were raised by the Group of 77 and China that SBSTA was considering these in a “piecemeal” fashion, rather than as a “package.” The U.S. representative and other delegates also raised questions about the practice of SBSTA making recommended decisions through the SBI, rather than directly to the COP. Since Articles 5 and 7 guidelines are quite important to the mechanisms from the standpoint of “eligibility” during the commitment period and compliance, any proposed decision for COP-6 should cover all of the guidelines under these two Articles as a package.

We also note that the several decision proposals in the mechanisms text include extraneous provisions in the “preamble” of each, albeit without any consensus, which concerns us about their effect or impact on the attached annex of “guidelines” under Article 6, “modalities and procedures” under Article 12, and “principles, rules and guidelines” under Article 17. As noted above, in the context of Article 5, the U.S. at the 12th sessions raised questions about a draft of a proposed decision for Article 5.1 guidelines and asked, in essence, what the COP would in fact be deciding at COP-6. We have similar inquiries for the mechanisms text because of these extraneous provisions, which could have an overarching effect on future implementation of such guidelines, modalities, procedures, principles and rules.

Although some COP decisions have included preamble language (*e.g.*, Decisions 2/CP.4 and 4/CP.4 of the Buenos Aires Plan of Action), most such decisions have been largely procedural and have not related to the Protocol’s implementation. Even Decision 1/CP.3, which adopted the Protocol, was largely devoid of such preamble provisions. That does not appear to be so regarding the proposed decisions in the mechanisms text. They seem to be substantive and are intended to be more than political window-dressing. Any retention of such preamble provisions, based on negotiations and compromise between now and COP-6, would make us question when and how they would be used and what authority under the FCCC and Protocol would be empowered to interpret or rule on their application. In our view, such decisions should be short and simple and without substantive effect on the attached guidelines, modalities, procedures, principles and rules. If the issues now in the preambles are accepted in any fashion, they should

be a part of the guidelines, modalities, procedures, principles and rules, not the preamble to a decision. At this time we find nothing in such preambles that warrant their retention in any form.

LULUCF Issues

As we and the American Forest & Paper Association (AF&PA) said in our joint letter of July 19, 2000 to you, from a procedural standpoint achievement of a process at SBSTA-12 (see FCCC/SBSTA/2000/CRP.2) for submissions of "textual proposals" regarding Articles 3.3 and 3.4 and subsequent consolidation of them into a synthesis document was positive. In addition, the document (FCCC/SB/2000/MISC.1/Add.2) by Costa Rica and 13 other Latin American Parties that LULUCF projects are to be included in the CDM was positive.

However, we were surprised to learn about the outline of a U.S. LULUCF proposal through a workshop in Poznan, Poland prior to it being vetted with NGO's and others in the U.S. and then to read in the publication Inside EPA a July 21, 2000, article entitled "U.S. Concedes Trading Position on Climate Emissions in Kyoto Talks." Nevertheless, we appreciate the elaboration of the State Department's views by Adele Morris, Daniel Bodansky and you at the July 24, 2000, briefing for NGO's. That briefing indicated that in offering the option of a "phase-in" the U.S. was reacting to a position in paragraph 7 of the June 22, 2000, European "Community Strategy on Climate Change" statement, which said:

The Council has serious concerns about the scale and the scientific and other uncertainties and risks associated with sinks. The Council therefore takes the position that a decision on the inclusion of defined and limited activities associated with further sources and sinks (Article 3.4) shall not apply in the first commitment period, except if these concerns are met. Criteria will be needed to develop modalities, rules and guidelines for the application of Art. 3.4 of the Kyoto Protocol before quantified objectives are fixed for the second commitment period.

These considerations apply even more strongly to sinks in the CDM, and the Council therefore believes these should not be included, in accordance with the provisions of the Protocol.

Apparently, the U.S. delegation especially reacted to the word "scale" in the European Union (E.U.) statement and made the phase-in offer as a way of opening negotiations with this group of Parties regarding Article 3.4's "additional human-induced activities."

At the July 24 briefing we emphasized that the Protocol only applies to the "first commitment period" because a second has yet to be negotiated. That negotiation must await the Protocol's entry into force, which is obviously not imminent. For now, Article 3.4 provides that the Conference of the Parties serving as the meeting of the Parties (COP/MOP) "decide upon modalities, rules and guidelines as to how, and which," activities "related to changes in greenhouse gas emissions by sources and removal of sinks" in certain categories "shall be added

to, or subtracted from, the assigned amounts” of Annex I Parties. That COP/MOP decision may, at the option of a Party, apply to the first commitment period. Until the U.S. knows the nature of that decision and related modalities, etc. at COP-6 or later, we said that for the U.S. to agree (before it even has the opportunity to choose to “apply” it to the first commitment period) to a phase-in of those activities is at best, premature. It limits a Party’s choice under the plain words of the Protocol. Moreover, the E.U. did not give up anything in its June 22 position in exchange for the U.S. proposal. Furthermore, a decision on these activities could be relevant to the inclusion of LULUCF projects in the CDM. Presumably, the LULUCF activities covered by the CDM would include those adopted for Article 3.4.

Subsequent to the July 24 briefing the State Department provided us with a copy of the U.S.’s August 1, 2000 LULUCF submission to the Secretariat, which we appreciate. While we have not had time to fully evaluate the entire submission, we are pleased to see in the document that the U.S. “strongly” believes that any LULUCF “decision” at COP-6 “must be considered as a package” covering both Articles 3.3 and 3.4 and that it strongly supports inclusion of LULUCF projects in the CDM.

However, we are disappointed to see that the Poznan “trial balloon” has been included in a proposed LULUCF decision. We note that a Wall Street Journal article of August 2, 2000, states that the State Department “calculates” that the “so-called carbon-sink effect of America’s land and forests could cut by as much as half the carbon-dioxide reductions needed to comply with the Kyoto treaty.” Abandonment of some portion of that “effect” for the first commitment period in a LULUCF decision, by either a net removal over threshold approach or a discount rate, is more than just a strategic problem. It directly affects the economic integrity of the Protocol that we discussed earlier. Although such phase-in options may be in brackets, this portion of the U.S. submission is not encouraging for a COP-6 decision. Indeed, there should be no consensus for any “package” that undercuts, either directly or indirectly, the right of the U.S. or any Annex I Party to meet a significant part of its Article 3 commitment through the “so-called carbon-sink effect” if and when the Protocol is ratified by the U.S. and enters into force.

We have other concerns about the Poznan LULUCF proposal, which were previously elaborated to you in our joint letter with UtiliTree Carbon Company dated July 28, 2000 (at pp. 9-10).

* * * *

We look forward to continuing to work with the U.S. delegation and others in the Administration in Lyon, The Hague and beyond on all of these elements, and appreciate the opportunity to

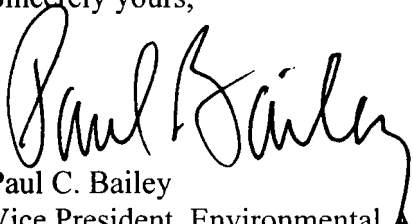
Mr. David B. Sandalow

August 8, 2000

Page 6

submit the enclosed comments regarding our economic integrity concerns for the Protocol. We emphasize that our comments do not cover all of the problems with the mechanisms text.

Sincerely yours,



Paul C. Bailey

Vice President, Environmental Affairs

Enclosure

PCB:nff

cc (w/ enc):

Frank Loy

Ambassador Mark G. Hambley

Jeffrey A. Miotke

Trigg Talley

Daniel Bodansky

Susan Biniaz, Esq.

Adele Morris

John Podesta, White House Chief of Staff

Roger S. Ballentine, Esq., Deputy Assistant

to the President for Environmental Initiatives

David Gardiner, Executive Director,

White House Climate Change Task Force

Bill Richardson, Secretary of Energy

Melanie Kenderdine, Acting Director,

Office of Policy, Department of Energy

Margot Anderson, Deputy Director,

Office of Policy, DOE

Dr. Richard Bradley, Office of Policy, DOE

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ENCLOSURE

**ADDITIONAL COMMENTS OF THE EDISON ELECTRIC
INSTITUTE REGARDING THE RESULTS OF THE 12TH
SESSIONS OF THE SUBSIDIARY BODIES TO THE
FRAMEWORK CONVENTION ON CLIMATE CHANGE IN
JUNE 2000 CONCERNING THE KYOTO PROTOCOL
MARKET MECHANISMS.¹**

August 8, 2000

I. Overview²

The October 26, 1999, "Terms of Reference for the Joint Contact Group on Mechanisms" by the chairmen of the subsidiary bodies were for the Group to "use" the revised and "consolidated" synthesis of proposals by the Chairmen "as the basis for its discussions . . . with a view to preparing a draft negotiating text for consideration by the twelfth sessions of the subsidiary bodies." The key word in that document is "consolidated," which has largely been ignored since the fifth meeting of the Conference of the Parties (COP-5). Instead, three versions have been prepared of varying lengths. Each has included in Articles 12 and 17 a reference to undefined eligibility requirements relating to Articles 5

^{1/} Our comments are based on the chairmen's text on mechanisms, which is the "advance, unedited version of future document FCCC/SB/2000/4," released in Bonn, Germany on June 16, 2000.

^{2/} We understand that the mechanisms and compliance texts are heavily bracketed and that the U.S. delegation offered or supported some of the brackets. However, our view is that brackets are insufficient when, particularly in the case of mechanisms, the text on its face is contrary to the applicable Articles of the Protocol.

and 7, even though such requirements are not mentioned in Articles 12 and 17 – in contrast to Article 6, which does mention Articles 5 and 7. Their inclusion is apparently based on an interpretation of the Kyoto Protocol by the proponents of these requirements, including the U.S.

We now find that the Parties are liberally interpreting the Protocol to include all manner of proposals that also have no basis in the plain language of the relevant articles of the Protocol, with the result that the text has grown in complexity and controversy to the frustration of all concerned, including the Edison Electric Institute (EEI). By incorporating in the last two textual versions a so-called “UNFCCC . . . reference manual” that is extraneous to the Protocol, the chairman of the Joint Contact Group contributed to this effort in an apparent attempt to rewrite the Protocol Articles outside of the amendment process in Article 20.

It is one thing for Parties to interpret the words of the Protocol and to hold differing views, such as in the case of the European Union (E.U.) and the Umbrella Group regarding the “supplementarity” issue. However, in the case of many of the provisions of the latest mechanisms text, there is simply no wording or basis in the Protocol to support these wide-ranging interpretations. Decisions based on such interpretations would set a bad precedent. Clearly, if the Parties insist on this approach to post-Protocol decision-making for the mechanisms, no decision at COP-6 on all three mechanisms would be far

better for purposes of the U.S. and its economy than a bad one. Given the history of the last intersessional on mechanisms and the subsequent results of the 12th sessions, we have no basis to believe at this time that the next intersessional and the 13th sessions will result in a decision on the mechanisms at COP-6 that is anything but a bad one.

In addition, in light of the new mechanisms text it is appropriate to point out once again that if and when the Protocol is ever ratified by the U.S. and enters into force, it only covers a single five-year commitment period that is scheduled to begin only a little more than seven years from now, and that ratification is only one step in the U.S. toward compliance with that period, particularly since the Protocol is not self-executing for any Party. Yet all of the Parties and many environmental non-governmental organizations (NGO's) are acting as if there will never be another opportunity to devise guidelines, modalities, principles and rules for Article 6, 12 and 17 and other provisions of the Protocol. They appear to want to anticipate every possibility where there could be a "loophole" or "cheating" by Parties and devise some "fix," even if it is not called for by the Protocol. No one apparently wants to experiment and learn by doing for possible future commitment periods.

We continue to think that that is the wrong approach because all governments lack experience with this kind of an international agreement as well as with national laws, regulations and policies for carrying out such an agreement. What is needed is experience from which to learn, not constraints. Even the U.S. lacks experience on an

international scale regarding all sources and sinks, six greenhouse gases and all sectors of the economy.

II. Proposed UNFCCC Reference Manual³

New to the Kyoto Protocol is the concept of the reference manual that first surfaced through the chairman of the Joint Contact Group after the May intersessional meeting. It has no merit and should be opposed by the U.S. It certainly is not required by the Protocol or the Framework Convention on Climate Change (FCCC).

It is not, as originally suggested by the Joint Contact Group chairman, merely a centralized document containing a compilation of decisions and other materials relevant to the clean development mechanism (CDM), which if needed in the future could presumably be developed by the Executive Board or the Secretariat without recognition of any kind in the mechanisms text. As now proposed, it is contemplated to have operational and substantive aspects outside of the decisions of the COP or the Conference of the Parties serving as the meeting of the Parties (COP/MOP).

Most importantly, the mechanisms text includes proposals that suggest that the Executive Board will establish “baseline and monitoring methodologies and other criteria” that shall

^{3/} Some of these comments apply to more than one annex in the mechanisms text. For example, the JI Annex also contains the manual.

be contained in the manual (see ¶ 59 of the CDM Annex, p. 70, and ¶ 123(a) of Appendix B to the Annex, p. 89). The effect is to defer decisions on these important CDM issues until after the Protocol enters into force and the Board is established and operational. We strongly believe that those decisions need to be included in the ones establishing modalities and procedures for a CDM in the Annex in the text and should be available if and when the President submits the Protocol to the Senate for its advice and consent to ratification, as well as to the public. Moreover, we cannot have confidence in a Board that is yet to be established.

III. Expansion of CDM-Like Provisions to Articles 6 and 17

The Protocol provides in Article 12 for operational entities, an Executive Board, sharing of the proceeds, environmental additionality, and other features all unique under the Protocol to Article 12 and not to other Articles. Yet the mechanisms text ignores this uniqueness and proposes to apply many of these provisions to either Article 6 or Article 17 or both. In some cases, such as Article 6, the text includes as one “option” a “note” that there “is no basis in the Protocol” for the particular proposal. However, in the case of Article 17, there is the absence of such notes, and we must question why. For example, regarding the “share of proceeds” issue, Part Three of the text addressing Article 17 includes ¶ 4 (p. 100) on this issue, with no note that Article 17 does not provide for sharing of proceeds for any purpose.

We strongly object to this attempt to rewrite the Protocol. If allowed to stand, such maneuvers would increase costs and undermine efforts to achieve economic integrity through the mechanisms.

IV. Eligibility/Participation in Emissions Trading

The Annex on emissions trading includes, in ¶¶ 1-10 (pp. 101-03), a whole series of possible requirements applicable to a Party that wants to engage voluntarily in emissions trading, most of which are problematic. The first two paragraphs (1 and 2) are options that appear to apply at the beginning of the commitment period, while ¶ 3 applies during the commitment period, and ¶¶ 7, 8 and 10 relate to participation by legal entities.

Paragraph 4 presumably applies to the E.U. and is bracketed. Paragraph 5, which is also bracketed, also applies also to the E.U. and possibly other Parties. Paragraph 6 recognizes that “changes” in a Party’s eligibility “may occur” during the commitment period, without indicating any consequences. Finally, ¶ 9 requires reporting in accordance with Appendix B. That Appendix provides in ¶¶ 24-26 (pp. 112-13) matters to be reported in the annual inventory and national communications. Paragraph 26 imposes reporting requirements on non-Annex I Parties participating in CDM projects.

At this time, our focus is on the two options in ¶¶ 1-2, and ¶¶ 7, 8 and 10. Both ¶¶ 1 and 2 appear to set forth preconditions for emissions trading, and option 2 would involve an expert review team to occur prior to the start of the first commitment period.

Most of the preconditions in both paragraphs (other than the requirement that the Party has ratified the Protocol) are inappropriate, vague or too uncertain to warrant support. In addition, if the U.S. were ultimately to ratify the Protocol, it would also have to enact implementing legislation. Either or both events would likely take time, and even entry into force under Article 25 may not occur for some years, whether or not the U.S. ratifies. Thus, adding time-consuming obstacles to emissions trading that must be met before 2008, such as certification of inventories by an independent entity or review by expert review teams, should be avoided. There should be only minimal requirements to be performed by Parties and given notice of prior to the commitment period in 2008 and during that period that are directly related to emissions trading, such as the establishment of a national registry, compliance with Article 5.1, and timely submission of the inventory due in April 2007 and annually thereafter.

As for ¶¶ 7, 8 and 10, the Administration has supported “involving interested private entities in international emissions, JI, and the CDM” in order to “promote cost-effectiveness.” See Economic Report of the President at 272 (Feb. 2000). We realize that Article 17, unlike Articles 6 and 12, is silent on the role of private entities in emissions trading. However, that silence does not mean that a Party is precluded from authorizing its private entities to trade under its supervision, which is the way that this

Article should be applied. This is logical because the obligation of compliance with the Protocol is on Parties, not private entities. Thus, there is no need for ¶¶ 7, 8 and 10.

V. Supplementarity

Appendix X of the mechanisms text includes provisions under the headings “Limits on Acquisitions,” which includes options 1-5 (pp. 107-08), and “Limits on Transfers,” which includes options 1-4 (pp. 108-09). We continue to support Option 1 under the first heading (*i.e.*, no elaboration of the term “supplemental”), and there should be the same option for the second heading. We note that the Economic Report of the President, *supra* at 272, “opposes quantitative restrictions on trading.” As to qualitative measures, Council of Economic Advisors Chairman Martin N. Baily, in a June 21, 2000, reply to House Science Committee Chairman F. James Sensenbrenner, Jr., said:

The Administration is opposed to the EU proposal to place quantitative restrictions on emissions trading. However, the Administration has established a position in support of restrictions on trading in those cases where a country has not developed an adequate monitoring, inventorying, and reporting infrastructure. We believe this infrastructure is important to ensure the integrity of trading, and we would thus support restrictions on trade for a country that has not complied with these basis requirements for trading.

The Administration will continue to oppose any proposal that **arbitrarily restricts international emissions trading.**

(Emphasis added.)

As we have generally indicated above, we support those requirements that are largely bottomed on the plain language of the Protocol, including Articles 17 and 5.1, such as the “infrastructure” referred to by Chairman Baily. However, we are concerned that the U.S. might accept other “qualitative” limitations on trading in order to placate the E.U. or other groups, making such trading unattractive and uneconomic. The above-discussed options “arbitrarily restrict” such trading and should be opposed.

VI. Liability

The Economic Report of the President, *supra* at 272, also states that “the Administration supports a system of seller liability for trading, coordinated with a strong compliance system.”⁴ Notwithstanding suggestions to the contrary, EEI also supports seller liability and opposes the various options in the mechanisms text for “Shared” (or “hybrid”) and “Acquiring Party” liability, as well as variations of these options, all of which would complicate emission trading, reduce market liquidity and increase transaction costs.

These options are all part of the problem of a lack of trust by some Parties and environmental NGO’s in the good faith of a sovereign nation, like the Russian Federation and its so-called “hot air.” It is an attempt to devise “backdoor” compliance schemes outside of the compliance text. That text is the place to address issues of compliance, not

^{4/} We note that prior to the Kyoto negotiations, the Administration set forth what appeared to be some firm positions that later were abandoned in whole or in part in order

the mechanisms text. These schemes amount to the imposition of Article 18 “binding consequences” prior to any finding of noncompliance by a Party. It presumes bad faith and interferes with a system that should operate free of governmental interference beyond the limited infrastructure mentioned by Chairman Baily. Again we strongly urge the U.S. delegation to resist the temptation to weaken in any way the U.S. position on seller liability.

VII. Limitations on CDM Project Activities

In the CDM Annex, ¶ 63 (pp. 70-71) seems to take away the provision in Article 12.2 for the project-site developing country to decide on the type of project activity that will achieve sustainable development for that Party, by attempting to lay out several mandatory conditions for that Party’s decision. This is another attempt by some Parties to amend the Protocol, and the U.S. should oppose it.

Included in these conditions are direct and indirect proposals to prefer or emphasize some activities, while sending negative messages about other activities. Such emphasis, preferences and messages should be rejected because there is no basis in the Protocol for them and because they give the appearance of Annex I Parties trying to dictate to non-Annex I Parties what is good for them. That is neither wise nor politically sound.

to obtain a “deal.” We strongly urge that there not be a repeat of such compromises at COP-6 in the cases of supplementarity and seller liability.

Nothing in the text should be said about the project-site country decision or about how Annex I Parties can participate directly or through the private sector.

We note also that the proposed CDM reference manual includes a "Project Design Document" (pp. 90-92) that seems to include provisions aimed at the project-site Party justifying its decision on what constitutes sustainable development. It is our understanding that Article 12 does not contemplate the need for such justification.

VII. Public Comment/Objections Regarding Validation/Registration of CDM Activities

U.S. industry is quite familiar with provisions in U.S. law regarding opportunities for public comment in regulatory matters, in environmental impact statements and in connection with projects that are funded by government agencies, and we generally support such opportunities. However, we do not understand that such opportunities have much of a history in the international arena. Clearly, in the FCCC process such opportunities for NGO's are limited and can be cut off entirely by the chair of a subsidiary body or contact group. Similarly, we do not understand it to be common practice in Europe or in developing countries regarding projects or even regulatory activities.

Yet the mechanisms text seems to suggest that the concept should be applied in some way in the context of CDM activities as part of the validation and registration of projects, e.g., ¶ 57(d), p. 68 and ¶ 94, p.77. The text is vague and unclear as to how and when such

public input should be encouraged and fostered. In discussions on the previous mechanisms text in June, some gave the impression that such input would occur in the project-site country, while others seemed to suggest that such input would occur at a later stage or during all stages. All of this suggests a lack of understanding among Parties and NGO's of what is contemplated by having public input, including the method, timing and extent, and what the impact would be on transaction costs. But the Protocol does not require public input. Even assuming *arguendo* that it were provided for, there is no provision on how extensive or adequate it should be as a basis for approval or disapproval of a CDM activity. Furthermore, even the mention of such input raises the question of what to do with the results, as the CDM is not a regulatory activity.

In addition, a section in the CDM Annex of the mechanisms text on "Financing" (¶¶ 49-52, pp. 66-67) suggests that funding for CDM activities could originate from a variety of sources or entirely from private sources. In the case where the funding is entirely from private, non-governmental sources, the basis for public input seems to be lacking. In such cases, the private sector always has the option of not engaging in CDM activities or abandoning projects for financial or other reasons. Parties should avoid either alternative in devising any opportunity for public input.

Related to this issue is the concern of private entities in entering into agreements with project-site countries for CDM activities that confidential business and proprietary

information be protected (see ¶ 56 of the CDM Annex, p. 68). However, we continue to be uncertain how and whether this can occur since the FCCC and the Protocol are silent on confidentiality and, in fact, there is no enforceable mechanism to provide such protection. We have raised this issue before to your Department and have never received a response.

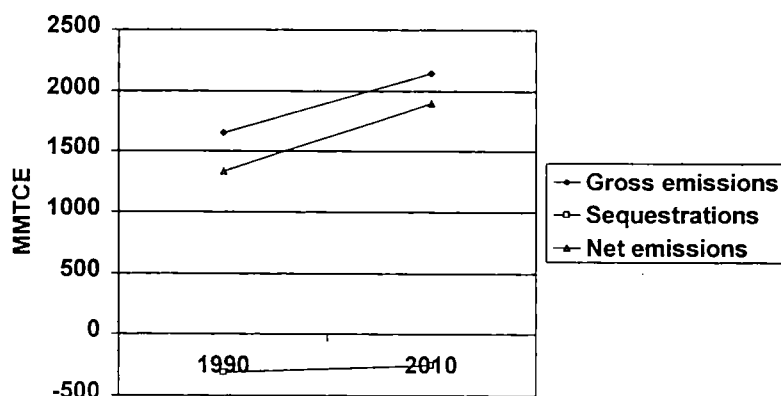
Sinks Policy Issues

Dan Bodansky
Department of State
March 30, 2000

What did we achieve in Kyoto?

- ◆ Gross-partial net accounting (Art. 3.7)
 - 1990 baseline: gross emissions
 - Commitment period: partial-net accounting - count sequestrations from:
 - » ARD (Art. 3.3)
 - » Other LULUCF activities added pursuant to Art. 3.4
- ◆ Helped allow US to take -7% target

What did we achieve in Kyoto?



Possible Issues for Decision at COP-6

- ◆ Art. 3.3:
 - Definitions of afforestation, reforestation, deforestation?
 - Possible accounting rules?
- ◆ Article 3.4:
 - Whether to include additional LULUCF activities and, if so, which ones?
 - Possible accounting rules?
 - Whether to establish ongoing process for inclusion of other activities?
- ◆ Article 12: Whether to include sink projects in the Clean Development Mechanism (CDM)?

Time Line

- ◆ April 17-20: Perth ministerial
- ◆ May 1-8: IPCC Plenary
- ◆ June 5-16: Subsidiary body meetings
- ◆ July 10-12: Workshop on IPCC Special Report
- ◆ August 1: Submissions due with proposed definitions and additional activities
- ◆ September 4-15: Beginning of negotiations
- ◆ November 13-24: COP-6

Policymaking factors

- ◆ Simplicity
- ◆ Credibility: Measurable, verifiable
 - Reasonable levels of certainty
 - Based on sound science
- ◆ Cost-effectiveness
- ◆ Differing national circumstances
- ◆ Implications for US: projected tons from
 - Business-as-usual (BAU)
 - Additional activities

Article 3.3: ARD

- ◆ Includes only afforestation, reforestation and deforestation (ARD).
- ◆ These activities included only if occur since 1990.
- ◆ Count changes in carbon stock during commitment period (i.e., 2008-2012).

Counting ARD under Art. 3.3

◆ Step 1:

Human activity after 1990
triggers creation of Kyoto
Land

- Afforestation
- Deforestation
- Reforestation

→ Issue: How do we
define ARD?

◆ Step 2:

Carbon stock changes on
Kyoto Land during the
commitment period
(2008-2012) count
towards meeting targets

→

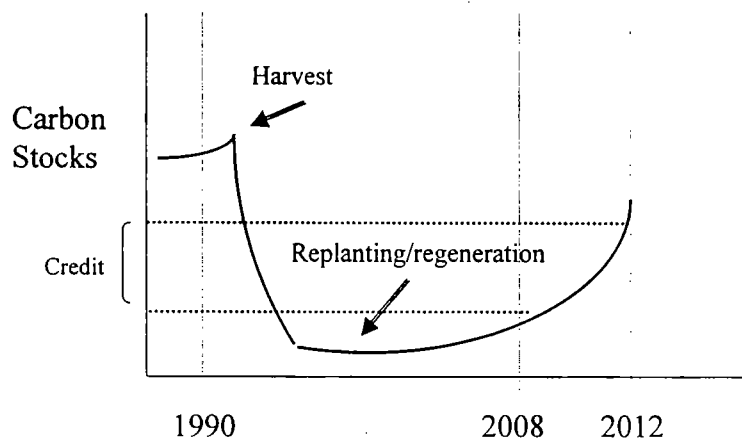
Definitions of ARD

- ◆ Option 1: Based on land-use change from forest to non-forest, or vice versa
 - Need definition of "forest"
 - » Is common definition required, or different national definitions?
- ◆ Option 2: Based on land-cover change of specified magnitude
 - Issue: Is this measurable and reportable by US?

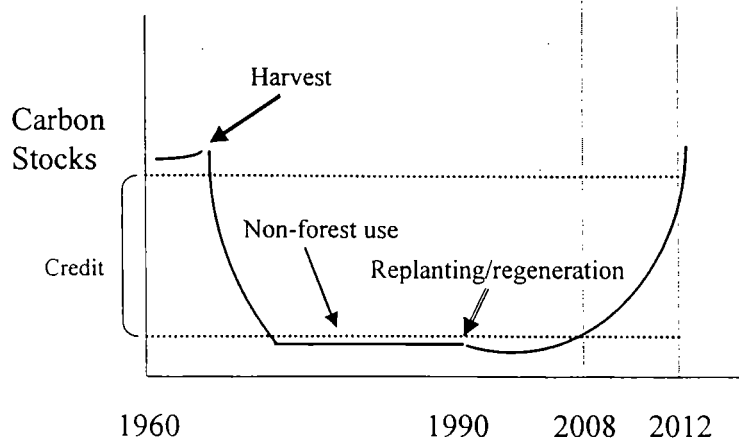
Definitions of Reforestation

- ◆ FAO
 - Replanting after harvest counted - no land-use change required
- ◆ IPCC
 - Land-use change from non-forest to forest

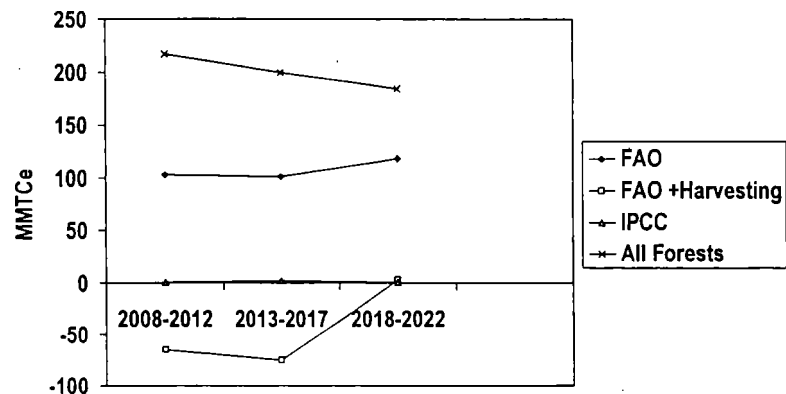
Reforestation: FAO Definition



Reforestation: IPCC Definition



BAU tonnes for US under different definitional approaches



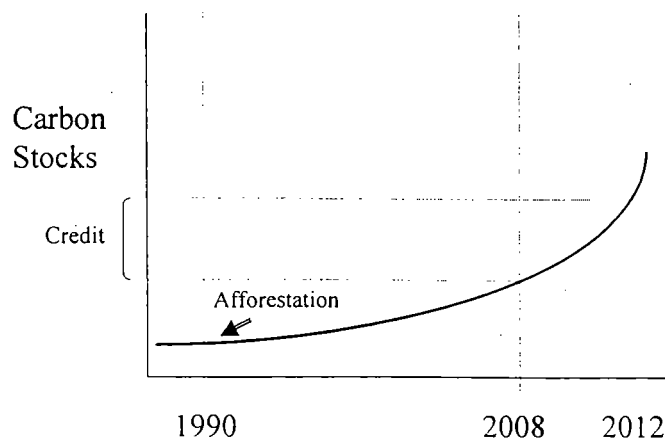
Art. 3.3: Options to increase forest sequestrations

- ◆ Afforestation of marginal cropland and pasture
- ◆ Reduced deforestation

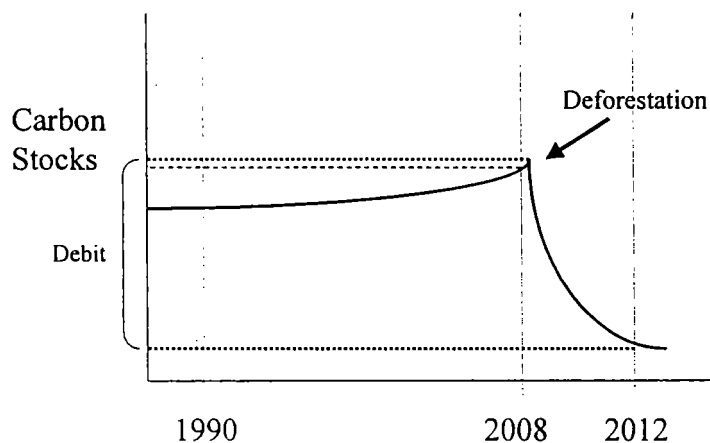
Accounting rules

- ◆ Issue: How Do We Account for Carbon Stock Changes on Kyoto Lands?
- ◆ US has favored comprehensive carbon accounting
 - All carbon pools: above-ground biomass, woody debris, soils, wood products
 - From date of ARD activity to end of commitment period
 - Once land is in the Kyoto accounting system, stays in indefinitely

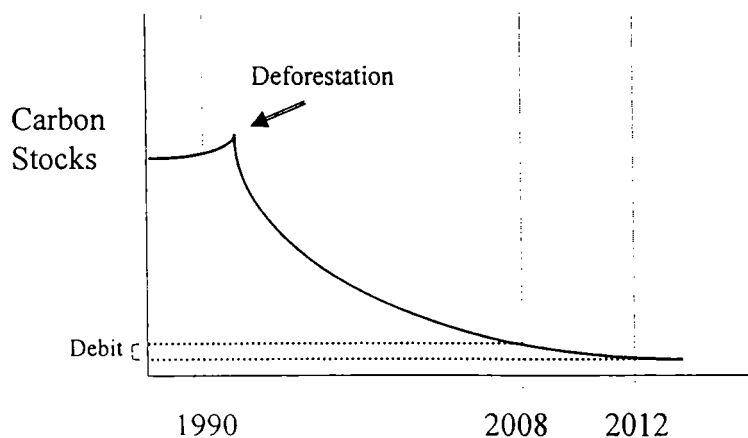
Afforestation after 1990



Deforestation during the Commitment Period



Deforestation before the Commitment Period



Article 3.4: Additional Activities

- ◆ COP/MOP may decide to include additional LULUCF activities.
- ◆ Decision shall apply in second and subsequent commitment periods (i.e., post-2012).
- ◆ Parties may choose to apply decision for first commitment period (2008-2012) for activities taking place since 1990.
- ◆ Criteria for adding LULUCF activities include:
 - Level of uncertainties
 - Transparency in reporting
 - Verifiability

Article 3.4: Issues

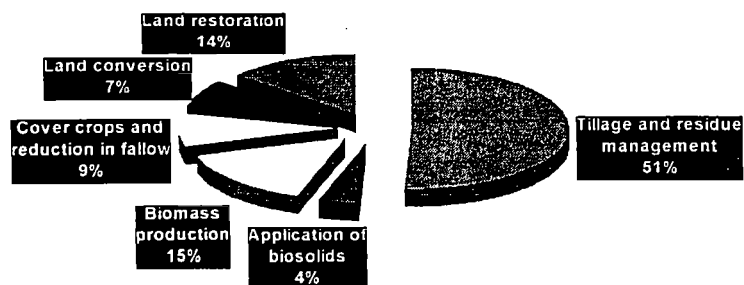
- ◆ Whether to define activities broadly or narrowly:
 - *Broad categories:* e.g., forest conservation and management, cropland management.
 - *Specific management practices:* e.g., conservation tillage, better use of manures, rehabilitation of over-grazed lands.

Note: US has supported, as a goal, comprehensive carbon stock accounting.
- ◆ Whether to try to use Article 3.4 to fix problems raised by Article 3.3 regarding forestry?
- ◆ What accounting rule??

Implications for US

- ◆ BAU tonnes
 - Forestry: ~200 MMTCE
 - Agricultural soils:
 - » Current sequestrations: ~ 8 MMTCE
- ◆ Additional activities??

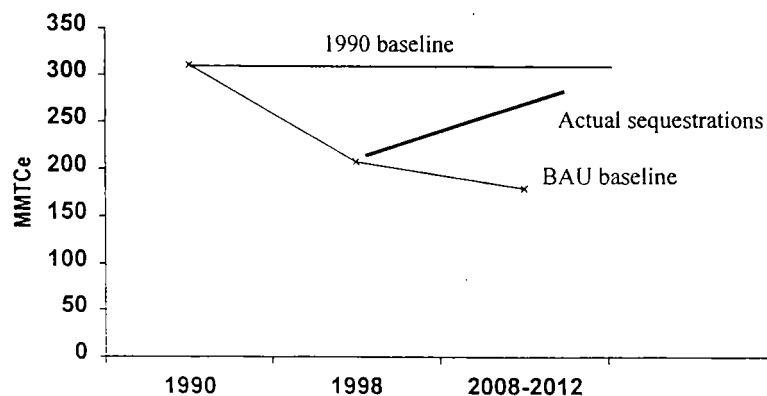
Where is the Carbon Potential?



Article 3.4: Baseline options

- ◆ No baseline
 - Add/subtract net removals/emissions during commitment period (both BAU and additional)
- ◆ 1990 baseline
 - Credit only for additional sequestrations above 1990 levels (and debit if below 1990 baseline)
- ◆ BAU baseline
 - Credit only for additional sequestrations above BAU (and debits if below BAU baseline)

Illustration of alternative baselines



Possible tradeoffs

- ◆ More generous inclusion of sinks under Article 3.4, but limits on how much they count towards first commitment period targets ("walk-back" option)
- ◆ IPCC definition of reforestation, but more generous treatment of forestry management under Article 3.4