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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Subsidiary Body for Scientific and Technological Advice

Thirty-seventh session

Doha, 26 November to 1 December 2012

Item 12(b) of the provisional agenda

Methodological issues under the Kyoto Protocol

**Land use, land-use change and forestry under Article 3, paragraphs 3 and 4,
of the Kyoto Protocol and under the clean development mechanism**

**Views on issues related to modalities and procedures for
alternative approaches to addressing the risk of non-
permanence under the clean development mechanism in
accordance with decision 2/CMP.7, paragraph 7**

Submissions from Parties and admitted observer organizations

1. The Subsidiary Body for Scientific and Technological Advice invited Parties and admitted observer organizations to submit to the secretariat, by 10 September 2012, their views on issues related to modalities and procedures for alternative approaches to addressing the risk of non-permanence under the clean development mechanism, in accordance with decision 2/CMP.7, paragraph 7.¹
2. The secretariat has received one such submission from a Party.² In accordance with the procedure for miscellaneous documents, this submission is attached and reproduced* in the language in which it was received and without formal editing.
3. In line with established practice, the one submission received from an intergovernmental organization³ and the two submissions received from non-governmental organizations⁴ have been posted on the UNFCCC website.

¹ FCCC/SBSTA/2012/2, paragraph 116.

² Also available at <<http://unfccc.int/5901>>.

* This submission has been electronically imported in order to make it available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the text as submitted.

³ <<http://unfccc.int/3714>>.

⁴ <<http://unfccc.int/3689>>.

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Submission under FCCC/SBSTA/2012/L.3 | September 2012

Alternative approaches to addressing non-permanence under the Clean Development Mechanism | SBSTA

I. Overview

This submission contains the views of the Australian Government on alternative approaches to addressing non-permanence under the Clean Development Mechanism (CDM), as part of the Subsidiary Body for Scientific and Technological Advice (SBSTA) consideration of this issue as mandated by Decision 2/CMP.7.

Australia welcomes the opportunity to submit its views on this important issue. Broadly, Australia considers that:

- the land sector has an important contribution to make to the global mitigation challenge;
- addressing the issue of non-permanence as it applies to land use, land use change and forestry (LULUCF) activities under the CDM is vital to realising the potential of the sector;
- an approach to non-permanence should focus on ensuring that reversals of sequestration are monitored and any reversal is accounted for;
- properly designed, LULUCF activities are capable of generating permanent abatement;
 - the current rules on non-permanence in the CDM do not address the underlying issue and thus provide only a partial solution;
 - Australia has introduced robust measures to address non-permanence under its domestic Carbon Farming Initiative – these ensure the integrity of credits and enable fungibility in the carbon market;
- it will be important to recognise SBSTA's on-going work on possible additional LULUCF activities under the CDM, and the application of the work on non-permanence beyond afforestation and reforestation projects;
- the CDM can continue to play an important role post-2012 in providing cost-effective mitigation opportunities and promoting sustainable development; and
- SBSTA's work on non-permanence should strengthen the robustness of the CDM, improve the market functions of the mechanism, and enable further growth and investment from a wide variety of sources.

II. Generating fungible CERs

The sequestration of carbon through biological systems reduces carbon in the atmosphere through storing it in plants, debris and soils; certain activities and events can then cause this carbon to be released. Australia recognises the need to develop rules and modalities to monitor for the potential release back into the atmosphere of carbon which has been accounted for under a project, and ensure that credits issued under a project align with the net carbon sequestered. Australia emphasises that, with appropriate measures, the potential for reversal associated with the sequestration of carbon can be adequately managed through CDM modalities and procedures, thus improving the acceptance of CERs from LULUCF projects within international carbon markets.

Existing CDM rules stipulate that only temporary or long-term certified emissions reductions (tCERs and ICERs) can be issued for CDM activities involving afforestation or reforestation. There has been limited trade in these units, at a lower price, and they have been excluded from some carbon markets. Australia considers that these existing rules do not satisfactorily capture the complexity of carbon sequestration or facilitate mitigation from the land sector. Monitoring for reversal from sequestration activities, and ensuring any reversal is reflected in project crediting, will enable the generation of robust and permanent CERs which will improve the ability of the CDM market to operate alongside, and as part of, international carbon markets.

Australia is open to further consideration of options that will promote environmentally effective and efficient abatement and provide an adequate approach to non-permanence that facilitates the issuance of fully-fungible and permanent CERs.

III. Elaborating modalities and procedures for non-permanence

An alternative approach to non-permanence should be supported by robust modalities and procedures which minimise the risk of sequestered carbon being released into the atmosphere and ensures the accounting of any reversal of carbon sequestration that has been credited for as part of a project. These may include arrangements to allow the host Party to take on responsibility for non-permanence; modalities to set out minimum requirements for ongoing monitoring of the project, and/or the elaboration of guidance on host Party governance arrangements.

Australia suggests that Parties consider a broad range of potential options for addressing non-permanence under the CDM. One potential option is that the host Party declare, at the project outset, that it will accept responsibility for the reversal of carbon sequestration from the project. Where evidence exists of a reversal of carbon sequestration, the host Party would be responsible for restoring carbon or handing-back CERs equivalent to the same value as the net carbon which has been credited under the project. This approach provides host Parties with the opportunity to take responsibility for, and implement, robust domestic arrangements to address non-permanence, and to have these efforts recognised through the issuance of permanent CERs. The approach could be introduced as an alternative to existing ICER and tCER arrangements, providing host Parties with flexibility to choose an approach to non-permanence which best suits national priorities and circumstances.

Australia considers that arrangements for non-permanence should also include modalities and procedures that require host Parties to provide for ongoing monitoring for reversal of sequestered carbon which has been accounted for under a project.

CDM modalities and procedures should provide that host Party responsibility for reversal of sequestered carbon that is accounted under a project, and monitoring for this reversal, must extend over the longer term, possibly beyond the life of the project. Long-term monitoring and accounting of sequestered carbon is important to ensuring the permanence of sequestration.

The experience of existing land sector offset schemes is particularly relevant for the purposes of addressing non-permanence under the CDM. Australia's Carbon Farming Initiative, which is linked to Australia's Carbon Pricing Mechanism, includes a robust range of mechanisms to address non-permanence and ensure the integrity of offset credits generated by the scheme.

The Carbon Farming Initiative introduces regulatory arrangements that ensure permanence for a period of at least 100 years. This includes an obligation to maintain carbon sequestration or hand back credits, and an arrangement for maintenance obligations to run with the land, so that they continue to apply to the current landowner, regardless of any change in land ownership.

CDM Modalities and Procedures may also include guidance on host Party governance arrangements. These may include monitoring requirements, as described above, the development of plans to address non-permanence or other appropriate domestic arrangements to minimise the risk of reversal of carbon sequestration, or require restoration efforts after reversals. Under the Carbon Farming Initiative, project participants are required to take responsibility for the permanence of emissions reductions. The scheme requires that if sequestered carbon is intentionally reversed, credits must be handed back to the Government. This allows landowners to decide the use of their land without undermining the integrity of credits. Projects under the Carbon Farming Initiative are nested within the Australian national accounts. While arrangements have been made to manage non-permanence at a project level, ultimately, due to national level accounting, including international responsibility under the Kyoto Protocol, the Australian Government is responsible for any reversal in sequestered carbon.

Within the CDM, alternative approaches may be developed for the case of reversal of sequestered carbon which is the result of natural disturbance (for example drought or fire). One approach could be for a proportion of issued CERs to be surrendered to a 'permanence buffer', at the time of issuance, and retired from here in the event of future reversal which is beyond the control of the host Party. Maintenance of such a buffer could be the responsibility of a host Party. A permanence buffer could also be coupled with an agreement by the host Party – given at the outset of the project – that in the case of a reversal of sequestered carbon due to natural disturbance, efforts will be made to re-establish the carbon, or equivalent CERs handed back. The burden of proving that a particular reversal of sequestration results from natural disturbance would sit with the host Party.

The use of a 'permanence buffer' is similar to the approach used within Australia's Carbon Farming Initiative where a risk of reversal buffer applies to all projects, reducing the number of carbon units issued

to a project participant by 5%. This buffer is to account for temporary losses or reversals of carbon sequestration that cannot be avoided. In addition to this buffer, the Carbon Farming Initiative requires that where carbon sequestration is unintentionally reversed, reasonable steps must be taken to allow carbon sequestration to recover.

Parties may also wish to consider the merits of nesting of projects within a sub-national or national system as a way to monitor for non-permanence. The further development of effective Measurement, Reporting and Verification (MRV) systems and practices for CDM projects provides a valuable framework for CDM projects, but more broadly provides benefits for inventory system development.

Australia considers that modalities and procedures to address non-permanence in CDM projects should be fully integrated into the design of the project. A host Party could indicate in the letter of approval whether they will take on responsibility for possible future reversal in carbon sequestration or proceed under existing tCER/ICER arrangements. The project design document could include an outline of the arrangements for monitoring, and a plan to address permanence, noting that all these aspects need to be fully integrated at the design stage and included in project methodologies.
