



# Australian Government

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## Department of Climate Change

### EMISSIONS TRADING STAKEHOLDER CONSULTATION

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## **AGENDA PAPER: INTERNATIONAL ACCOUNTING RULES RELATING TO EMISSIONS FROM LANDUSE: IMPLICATIONS FOR SCHEME DESIGN**

*This paper does not necessarily represent the views of the Australian Government or any Government Minister. It is a working paper prepared by the Emissions Trading Division of the Department of Climate Change. The views contained in this paper are preliminary only and are subject to change. The aim is to promote discussion and submissions at not sought at this time.*

### **1. Introduction**

There has been ongoing and active debate about the international greenhouse gas accounting framework for emissions from land-use.

The Kyoto accounting rules are relevant to the design of the emissions trading scheme because they determine what emissions sources and sinks count towards our internationally agreed emissions target.

### **2. Current international accounting**

The international accounting framework specifies which emissions sources and sinks count towards our Kyoto target and provides guidance on approaches and methodologies for calculating Parties' national emissions inventories. These are used to measure progress towards Kyoto emissions targets.

The current Kyoto accounting rules require emissions from forestry and deforestation to be reported on a land basis and non-CO<sub>2</sub> gases (primarily nitrous oxide and methane) to be reported for specific activities.

Kyoto Protocol accounting rules for land-based emissions are not comprehensive. They cover a limited set of emissions sources and sinks:

- Agriculture emissions (Article 3.1) includes enteric fermentation (feed digestion) in livestock, manure management, methane from decay of organic matter, agricultural soils (e.g. fertiliser use), prescribed burning of savannas and field burning of agricultural residues; and

- Emissions from land use change and forestry (Article 3.3) include net emissions from forests established since 1990 on land that was clear of forest on 31 December 1989 and deforestation (deliberate removal of forest and replacement with non-forest land use).

Article 3.4 of the Protocol provides for additional activities that countries may elect to count towards their emissions target during the first commitment period. These elective activities are:

- Forest Management (plantation forests established prior to 1990 and all native forests under some form of management);
- Revegetation (establishment of woody vegetation that does not meet forest criteria);
- Grazing Land Management (carbon stored in soil and vegetation on grazing land), and
- Cropland Management (carbon stored in soil and crops).

If a country chooses to include any of the additional activities, then it must also include, and report on, all emissions from all land on which these activities are undertaken. Australia has elected not to include these activities because of the risk that drought or bushfire could result in significant emissions from these sources during the Kyoto commitment period. This means that Australia does not account for soil carbon in agriculture, although soil carbon is counted where it is associated with forestry (Article 3.3) activities.

Kyoto accounting rules do not recognise storage of carbon in harvested wood products; harvesting is treated as a source of emissions at the time of harvest. Australia has long advocated an alternative accounting approach which involves deferring allocation of the emissions liability until it actually occurs, either through product usage or in landfill.

The Australian Government will continue to work actively in international fora to pursue climate change frameworks that reflect Australia's particular circumstances and which are based on good science and provide maximum incentives for actions to achieve real emissions reductions.

### **3. Possible evolution of international accounting rules**

There is international movement towards more comprehensive, land-based accounting of emissions. For example, the 2006 Intergovernmental Panel on Climate Change Guidelines for Agriculture, Forestry and Other Land Use recognise all direct human-induced effects on greenhouse gas emissions and removals that occur on six categories of managed lands – forest land, cropland, grassland, wetlands, settlements and other land defined to incorporate all managed land areas within a country.

Emissions estimates calculated using a comprehensive land-based approach would, for example, account for activities currently covered by Article 3.4. Future decisions will need to be made regarding Australia's position on the international accounting rules that apply to setting international obligations. These decisions will need to balance the risk

arising from the variability of these emissions in a commitment period against the potential for reductions of these emissions - in other words, whether additional activities encompassed by the broader approach are more likely to be sinks or sources of emissions. Further analysis of these issues will need to be undertaken once more is known about commitment periods and other rules.

International negotiations are at a very early stage so the likelihood of these changes can not yet be predicted and Australia has not determined its negotiating position on these points. However, future international obligations for developed countries will almost certainly continue to cover the key, human-induced sources of emissions currently counted under the Kyoto Protocol – agricultural emissions listed under Article 3.1 and emissions from forestry and land-use change (Article 3.3).

It should be noted that not all emissions sources that count towards our Kyoto target have to be included in the scheme. Judgment will be needed as to the merits of including emissions activities in the scheme, based on Australia's particular circumstances and the practicalities of including different emissions sources and sinks in the scheme.

#### **4. Accounting framework for the emissions trading scheme**

Australia could decide to include emissions sources that cannot be counted in its national inventory. For example, carbon in harvested wood could be included for strategic reasons, in order to demonstrate the workability of an approach that Australia advocates internationally.

Including activities that do not count towards Australia's international commitments could increase the costs of the scheme relative to what they might otherwise have been because Australia would still need to meet its commitments but would not be able to count abatement from ineligible sources. It could also limit the tradability of Australia's permits, as other countries are unlikely to want to buy abatement that cannot be counted towards their international commitments.

##### ***Questions for stakeholders:***

- *Stakeholders are invited to comment on the benefits and limitations of the current Kyoto accounting rules on emissions from land-use.*
- *Stakeholders are also invited to comment on the benefits and risks of including emissions sources and sinks in the emissions trading scheme that do not count towards our international commitments.*