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<u>Why the EU must exclude policy assumptions from forestry accounting rules</u>

Forests are important for successful climate policy. They act as a sink of carbon, sequestering CO_2 from the atmosphere and storing it in wood, other forest products and in the soil. Forests thus have an important role in reaching a "balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century", as stipulated by the Paris Agreement. At the same time, forest products are an important building block for reducing emissions in other sectors by substituting non-renewable materials.

For this reason, the climate effect of managed forest lands shall be accounted for under the proposed EU Regulation on the inclusion of emissions and removals from land use, land use change and forestry (LULUCF).

Managed forest lands are subject to significant natural variations beyond human control. Additionally, an uneven age class structure of forests makes it hard to compare current forestry removals and emissions with a fixed base year in a meaningful way and to identify the climate impact of management changes in this sector. In order to level out those fluctuations and to identify current anthropogenic influences, a projection of the expected forest sink is used as the reference under the second commitment period of the Kyoto Protocol. The European Commission has proposed to continue this type of accounting approach for managed forest lands in EU legislation for the time after 2020, however in an improved way.

Given the important role of forests in climate policy, it is essential to ensure a reliable and credible accounting of emissions and removals from this land category. This depends on the criteria for setting forest reference levels: What can be included in the calculation of forest reference levels (FRLs) and what should not?

In our view, it is central that FRLs are based on the management practice and intensity of a historic base period. There are three major reasons why assumed effects of new additional policies must be excluded from forest reference levels:

1. *Policy assumptions can hide forestry emissions in the FRL*: If a Member State anticipates the impact of a policy to increase wood harvest in its FRL, this will lead to a situation where a reduced sink or higher emissions are not showing up in its accounts because only deviations from the FRL are accounted for. In that case, there would be an anthropogenic effect on greenhouse gas emissions which simply "disappears". A prominent example for such a case is wood-based bioenergy. The emissions of burning wood for energy are not accounted for in the ETS or non-ETS, thus reducing emissions from other sources in these sectors, because these emissions are included in the LULUCF accounting framework. If the reduced forest sink due to intensified forest management resulting from bioenergy demand was already included in the FRL, this assumption would be untenable.

2. *Projections are rewarded and incentivised, not climate action*: An FRL which includes policy assumptions can lead to a situation where a Member State is rewarded for allegedly improving the contribution of forests to climate action when in reality it did not. This can occur when the FRL overestimates future harvest as a result of policy assumptions – i.e. when the FRL projects a strong decrease in the forest sink due to policies – and the forest sink declines less than projected. The Member State concerned would receive credits even though increased forest management actually had a detrimental effect on the carbon sink. This could set the perverse incentive for Member States to project a very strong decline of the forest sink. In this case, the sense of setting FRLs could be questioned altogether: If the purpose of FRLs is to identify the effect of management changes on the forest sink it does not make sense to include exactly those management changes in the FRL in the first place.
3. *The EU is one of the first Parties to detail its LULUCF accounting rules for its Nationally Determined Contribution (NDC) under the Paris Agreement.* Meanwhile, the international LULUCF accounting principles for subsequent NDCs under the Paris Agreement are yet to be defined. The EU's example will be an important reference point for other Parties and it will strongly influence whether the EU can credibly call for robust LULUCF accounting systems in other Parties' NDCs.

For these reasons, the forest reference levels of Member States must be based on historic and verifiable data – i.e. the continuation of documented forest management practice in a meaningful reference period combined with the anticipated forest structure in the future compliance period.