

Ways to use forestry credits in the EU ETS

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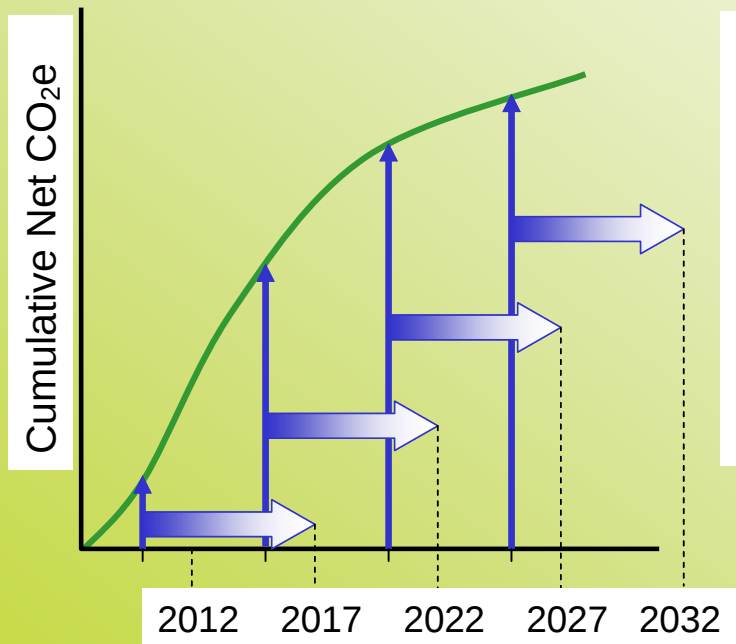
ICERs and tCERs

- Proposed by Colombia
- Credits expire:
 - tCERs: After 5 years
 - tCERS and ICERs: When carbon is released (harvest, disturbance)
 - tCERs and ICERs: At the end of the project (by default)
30 years, or up to 3 x 20 years

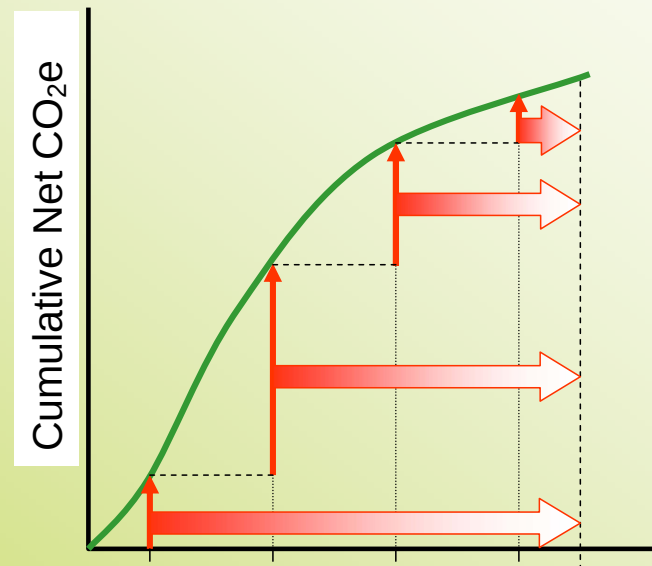
ICERs and tCERs

Source: L. Pedroni

tCERs & ICERs



End of subsequent
commitment period



End of crediting period

Linking Directive

The Commission should consider, in its
review of Directive 2003/87/EC in 2006,
technical provisions relating to the

temporary nature of credits and the limit of 1 % for
eligibility for land use, land-use change and forestry
project activities as established in Decision 17/CP.7

to allow operators to use CERs and ERUs resulting from
land use, land use change and forestry project activities
in the Community scheme from 2008,

in accordance with the decisions adopted pursuant to
the UNFCCC or the Kyoto Protocol.

→ EC to report to Parliament and Council by 30 June, 2006

Objectives of this proposal

- Technical solutions for making tCERs or ICERs compatible with the ETS
- Propose solutions for risk management

Solution 1:

direct use of temporary credits in the ETS

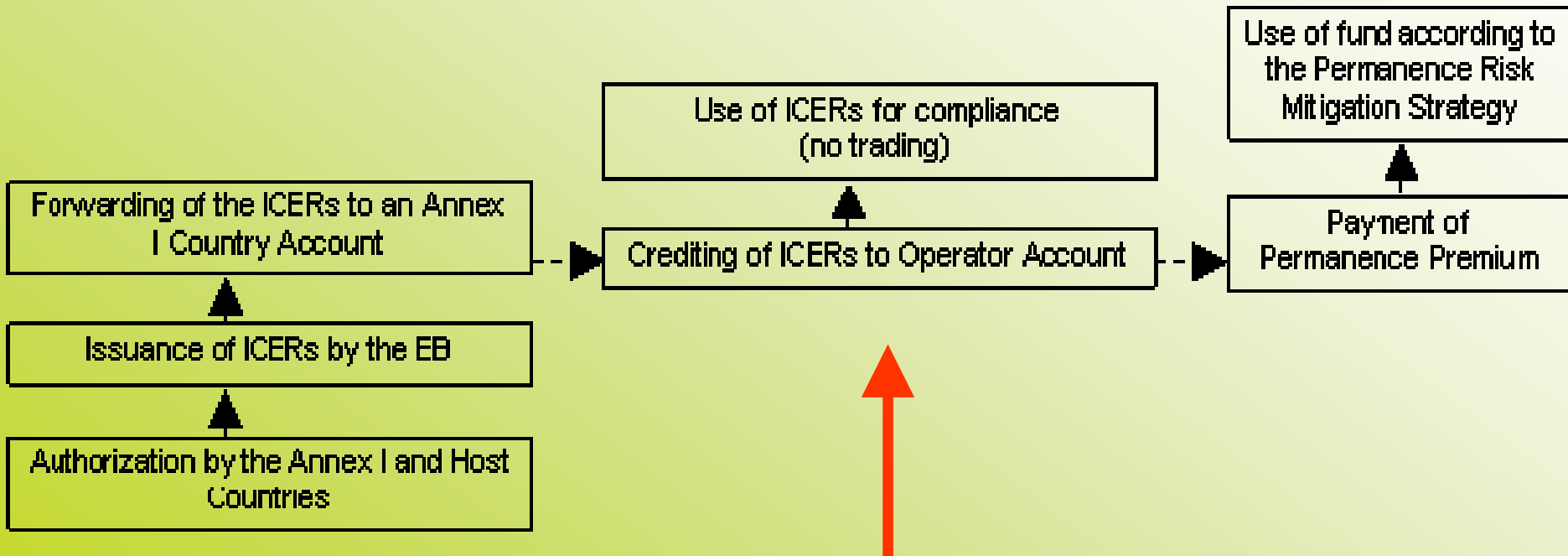
- Installation acquires ICER
- 1 ICER issued to Country registry
- Installation pays risk premium to government
- Installation uses ICER for compliance

Solution 1: direct use of temporary credits in the ETS

UNFCCC/Kyoto Protocol

EU ETS

Mitigation of
permanence risk



Solution 1: key features

- Amendment of Linking Directive
- Company accounts must allow holding of temp. credits
- Permanence premium due when ICER is surrendered
- Permanence risk is covered

Solution 2: swapping temporary credits for EUAs

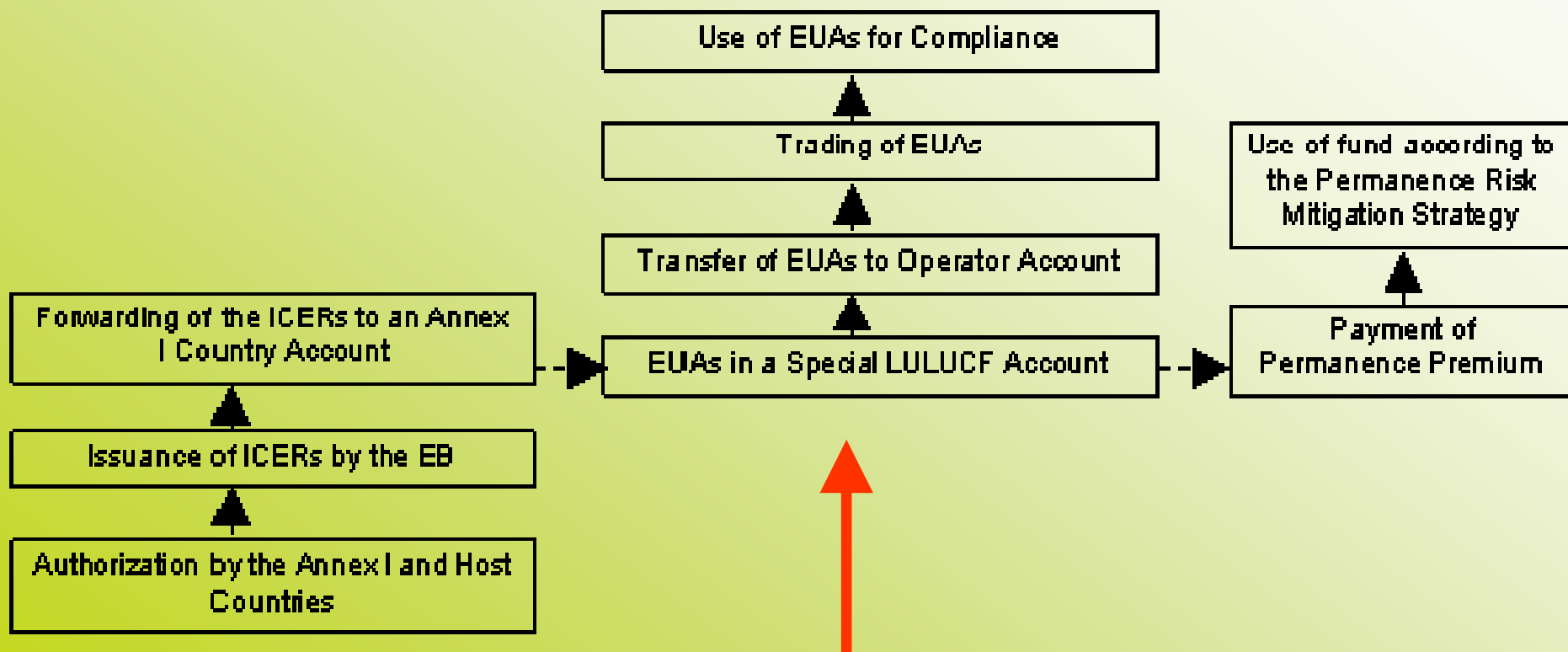
- Government sets up special EUA account
(max 1% of 1990 emissions)
- Installation acquires ICER
- 1 ICER issued to Country registry
- Installation pays risk premium to government
- Country issues 1 EUA to installation

Solution 2: swapping temporary credits for EUAs

UNFCCC/Kyoto Protocol

EU ETS

Mitigation of
permanence risk



Solution 2: key features

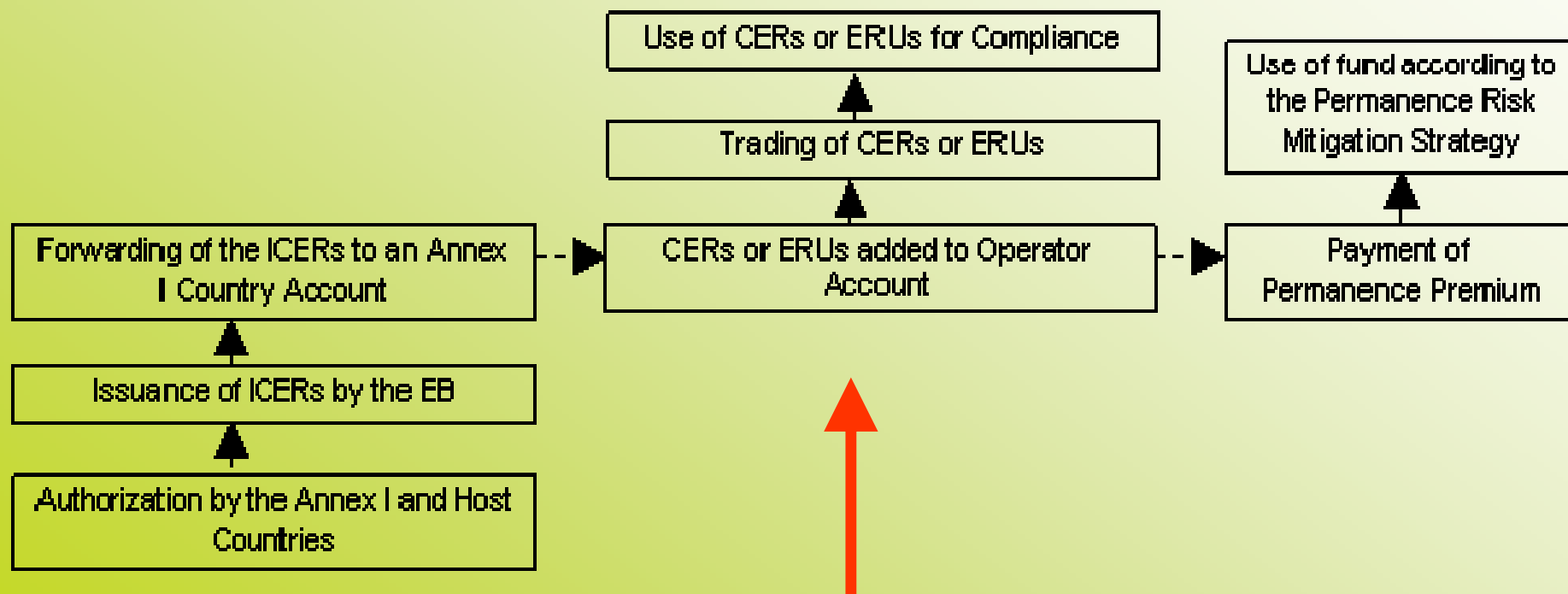
- No amendment of Linking Directive needed
- Special Account needed at national level
- Could be implemented by individual member states
- Permanence premium due when EUA is issued to installation

Solution 3: swapping temporary credits for Kyoto units

UNFCCC/Kyoto Protocol

EU ETS

Mitigation of
permanence risk



Solution 3: key features

- No amendment of Linking Directive needed
 - No special account needed at national level
 - Could be implemented by individual member states
 - Permanence premium due when ICER is swapped against CER or ERU
-
- ➔ Swapping could also be done by private entities (carbon funds)
 - ➔ Swapping could be done within multi-nationals

Five options for risk mitigation

1. Invest Risk Premium in credits / futures / options
2. Exchange rate for converting ICERs into EUAs
 - 1 ICER equals , for example, 0.7 EUAs
3. Use Risk Premium to buy further temporary credits (similar to 2)
4. Use Risk Premium to buy future CERs
5. Government assumes full risk
6. Insurance

Example: risk Premium buys future CERs

- 2007: project start
- 2007: buy 1 CER for second commitment period
- 2012: Verification → 1 tCER
- 2017: 1 tCER expires
- 2017: Verification → 1 tCERs
- 2017: 1 CER can be
 - used for compliance
 - banked to next commitment period
- ➔ Creates a market for post 2012 CERs

Climate Policy 5 (2005) 199–208

RESEARCH ARTICLE

Can the EU emission trading scheme support CDM forestry?

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