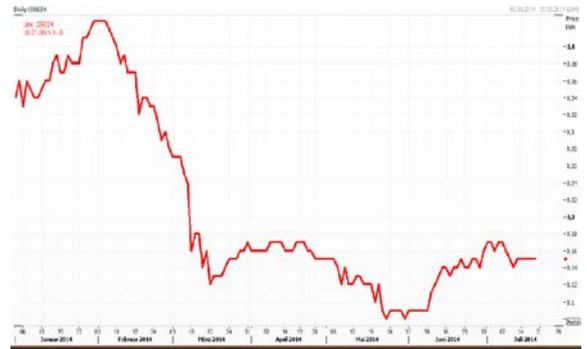




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Emission News 08-2014

Practical Information for Emission Trading
Edition 21.07.2014

Forest and forestry certificates - Development, Utilisation, Perspectives in voluntary/mandatory Emissions Trading (Part II)

As we already begun in the previous Emission News in Part 1, we hereby continue our article on forest and forestry certificates. We report on the development of VER-forest certificates, their use in the voluntary carbon markets, through various conservation categories and about the likely (non-) perspectives in the mandatory EU Emissions Trading Scheme.

Our **Emission News 08-2014** uses the summer break in the EU-Emissions Trading to illuminate this neglected issue parallel to the Paris World-Climate-Conference in 2015. Here it could happen that the community agrees on a deal to set new ambitious climate targets and thus forest certificates can again come to the limelight.

The forest as a carbon offset project

Before emission-certificate can come to live, there must be a climate protection project. To ensure that this is recognised as such, important conditions must be met.

Additionality

In order for a grown forest to turn into a climate protection project, above all its additionality must be observed. Protecting or growing a piece of forest, three days away from the nearest town is certainly not a climate project because there anyway nobody wants to cut down timber there

anyway. Even large forest plantations that are producing for the international tropical timber market *no* climate protection projects by nature. When the necessary infrastructure and the title deeds are available, that such forests or plantations would have been made anyway, not additional. Worse, if forest is cleared to make way for a new plantation of timber, then the climate balance is negative.

The baseline

Before climate certificates are issued, the baseline must be right. Here is the question: "What would happen on this surface (place of land), if no offset project would take place?" An area in the tropics, which is not used 10 years, will be another forest. So if the projected area without human intervention would turn into natural forest anyway it is to be expected to bind more carbon than a plantation. So again no carbon credits here for doing nothing.

The leakage effect

That means the emission shift to other unmonitored areas. This is another risk that can only be partially kept in check, most likely, when the whole country is still reportable, so the government takes over the responsibility. Wood or paper companies, palm oil or soybean industry are very flexible when it comes to obtain the resources from other parts of the country or even from other countries. Thus, if the polluter is not included in the project design, the



carbon footprint at the end may be zero.

The limited human influence

In addition, the nature has some surprises for forest farmers in store. Droughts, forest fires, floods, hurricanes and pests are some of the risks that can destroy again all human efforts. Not even in calm course of business, one can predict exactly how much carbon for example soil organisms actually absorb. Traditionally, foresters are interested in any case only for core wood without bark, roots and branches. For climate forest ranger on the other hand, there is the whole tree carbon. Here, the measurement accuracy has been significantly improved in recent years, but they will never be comparable to the industrial climate projects.

The permanence

Finally, the permanence or consistency of forestation projects with regard to their climate effect is doubtful: The climate is not helped when the forest for 10 years remains protected, but is then cut down. The emissions that were offset still remain for several generations in the atmosphere. So you would have to insure the climate forests – one wonders just how long.

Short-and long-term certificates

To address the unpredictability and uncertainty of carbon sequestration in forest projects, the *temporary emission reduction* has been designed for the Clean Development Mechanism during the 9th Conference on Climate Change in 2003 in Milan. Such projects have a duration of 20-60 years, but the certificates must be verified every 5 years. For political reasons, two types of temporary certificates were created in Milan, tCER and ICER, only the latter have acquired any practical significance. They differ only in the modalities of their regular verification.

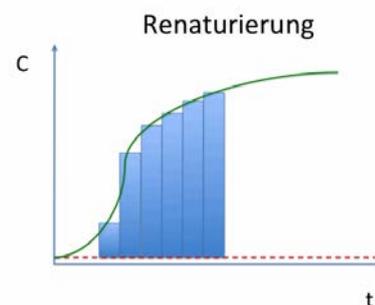


Picture: CER price decline April 2009 – Juli 2014

Temporary certificates have the disadvantage that the event of an unexpected loss (storms, pests, etc.), they must be replaced no later than the end of the project by other emission rights. This would not only bear the project risk, but also the financial risk of a potential buyer. For a buyer of such emission rights its future value is totally unpredictable because no one today knows the value of emission rights in 20 or 30 years.

Infobox Creation of certificates by renaturation or afforestation

The following is an renaturation project example for a 30-year project period. It is verified every 5 years (blue blocks). The green curve represents a typical growth pattern of forests. After a slower phase of ground cover the greater leaf area provides more rapid growth until the sunlight is optimally used and the vegetation density approaches a stable plateau (graphic flattening of the curve).



In this project, an area is reforested, which was without forest for a long time. The dashed red line represents the carbon sequestration in the previous use of the same area, such as a use as pasture. If no timber is removed, the newly afforested plot is creating new certificates over a longer period of time until the entire system forest has reached its maximum density. In tropical forest, a system of stable carbon density after 50 years again achieved if a restore natural biodiversity needs many hundreds of years. Tropical rain forests, are able to store up to 600 tonnes of CO₂ in the vegetation. These certificates must be verified every five years.

For this reason, the World Bank, is the only buyer of this forest certificates, otherwise forest certificates under the CDM have been a flop. This is particularly tragic, than initially the EU delegation had made a strong push for these temporary rights in 2003, but then not admitted forest certificates this for emissions trading in Europe - to the disappointment of many developing



countries. Therefore, forest certificates are not allowed in the **mandatory emissions trading** and it will not be for the foreseeable future.

Contrary to what has been said, the market for carbon neutrality and compensation has developed (a voluntary emissions trading) other mechanisms to secure the permanence of afforestation projects which leave the liability for the project with the project and thus make such certificates tradable. Many buyers of this voluntary forest certificates rely on political declarations of intent and hope for a future crediting their reduction commitments, or as individuals, rely on rising prices. Emissionshändler.com® strongly advises against such speculations, because there would theoretically be solutions for making forest certificates for the EU-Emissions Trading tradable and compatible but virtually no one has interest in it.

Because ultimately a seller (project developer) or a buyer State or a company or an individual bear the residual risk of these projects, if for example when the owner becomes insolvent or climate change destroys the forest, the risk is not predictable. Furthermore at the current oversupply of emission allowances, government-supported forest certificates would flood the market even further and reduce the prices of the mandatory certificates, CER, ERU and EUA.

If, however, in 2015 at the climate summit in Paris, an agreement will be made, to set the ambitious climate targets and all participating States will be committed, the situation could change. The supplement to the Emissions Trading Directive of 2009 allows in Article 28f for this case to open the door to the recognition of global forestry projects in EU emission trading. Then forest certificates could be tradable emission both from within, and from outside the EU.

But even if it comes to that, experts are sure there will be great value discounts for carbon from the forest to compensate for the uncertainties of this type of project.

Those who cannot leave the forest at piece

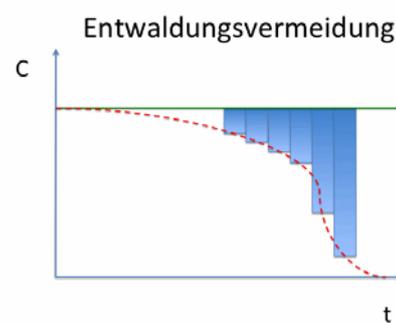
If you still part with the idea of the afforestation or avoidance of deforestation and want to deal as a project developer in the voluntary emissions

trading with forest certificates in the form of CER (Certified Emission Reduction) and VER (Verified Emission Reduction), you can only be advised to combine these projects with - wherever possible - Climate Projects in other sectors. Typical examples are food production, production and use of biomass and oil plants, hydroelectric power plants and large-scale photovoltaic systems. By these means project developers and potential buyers of the certificates benefit of the ecosystem services of the forest and its good public image. In addition, you do not solely depend as a developer on the credit of such forest projects.

Voluntary CER and VER forest certificates are often provided as a bonus for reforestation projects, such as long-term investments in teak. Here it has to be closely examined who verifies and testifies which value and whether or not an economically or socially risky project has been started under the guise of climate change that has been made marketable only at first glance by a certification.

Infobox Creation of certificates by avoidance of deforestation

Subsequently, a project is presented, which for a 30-year term is avoiding deforestation. This too is verified every 5 years (blue blocks).



Picture: Avoidance of deforestation

Due to the avoided deforestation certificates are created in accordance with the project the expected non-deforestation curve (red dashed line). These certificates must be verified regularly to ensure that the compensation effect can be guaranteed. Avoidance of deforestation is not currently approved as a project form under the CDM / Mechanism for clean development. However, in the voluntary market, it plays a very important role. Because of their large contribution to climate change, the avoidance of deforestation will be an important element in a future climate agreement, although so far no decision has been made about their credit.



In any case, it is important to seek the advice of reputable professionals, because doing the wrong thing in the forest sector is more dangerous for the credibility than doing nothing.



A simple tree-nursery in Kisumu, Kenya. Project Partners are a group of women who plant trees in their vegetable gardens. Thus, the soil dries out less, erosion is avoided and the fruit contributes to the diet of children with. (© M. Dutschke)

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Kind emission regards

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