Carbon Market Watch Response to Inception Impact Assessment on LULUCF Regulation

Carbon Market Watch (CMW) supports increasing the climate ambition of the LULUCF Regulation so it can promote climate action, while providing much needed co-benefits in other environmental fields (especially biodiversity and restoration of ecosystems). CMW also supports the feedback from Climate Action Network Europe and Fern.

1. **Make the LULUCF regulation compatible with the goals of the Paris Agreement.**

   The LULUCF Regulation could become a powerful tool to increase carbon dioxide removal (CDR) in the EU while providing many co-benefits, including for rural communities. CMW agrees that climate-neutrality will need significant CDR across the EU, and that the LULUCF sectors have a major role to play in sequestering greenhouse gases (GHGs) from the atmosphere. The LULUCF Regulation should contribute to a 65% emissions reduction by 2030 and to reaching climate neutrality by 2040.

2. **LULUCF offsets in ETS/ESR would undermine emission reductions**

   CMW has strong reservations against using carbon trading, offsetting or Emission trading (ETS)/Effort Sharing Regulation (ESR) loopholes to achieve this important objective. ETS/ESR loopholes and LULUCF offsets would seriously undermine the absolute primary objective of EU climate policy: urgent, deep and sustained emission reductions throughout our society and economy.

   GHG sequestration in the LULUCF sector should not in any way hamper decarbonization in other sectors. In that regard, CMW calls for closing off the LULUCF loophole in the ESR Regulation, and for keeping the promotion of LULUCF sinks separate from emission reduction efforts. Natural sinks are not equivalent in any way to emission reductions, and fungibility between the two should be avoided.

   The EU climate framework should not allow for any 'out of sector' flexibility mechanisms/loopholes. CMW therefore strongly disagrees with Option 2 in the Inception Impact Assessment ("strengthen the flexibility with the Effort Sharing Regulation"). It is important to note that in the EU ETS offsetting loopholes have been steadily closed in past EU ETS revisions due to the adverse impacts they had on EU ETS functioning, price setting, and decarbonization efforts in the power and industrial sectors.

3. **Use Common Agriculture Policy funding for incentivizing LULUCF sequestration**

Common Agriculture Policy funds should be used to incentivize halting the degradation of, and restoring and expanding sinks throughout the EU, instead of relying on credits for LULUCF sequestration that can be used in the ESR or ETS sectors.

The LULUCF Regulation should not rely on the forthcoming Carbon Farming and Carbon Removal Certification Mechanism initiatives for providing climate incentives, especially as the monitoring, reporting and verification (MRV) methodologies and accounting frameworks related to permanence of sequestration (and linked liability) are likely to be complex and controversial.

4. **Impose rigorous life-cycle assessments**

With regards to bio-based economy, any use of bio-based products for climate reasons should be accompanied by extensive life-cycle assessments to ensure that adverse impacts (for example deforestation in and outside the EU) and perverse incentives are limited. Only real climate solutions should be promoted instead of false and temporary ones.

5. **Strengthen MRV requirements**

CMW supports strengthening the MRV requirements for the LULUCF sector.

6. **Promote coherence with other policies**

Other policy objectives (especially CAP implementation and protection of ecosystems and biodiversity) should be made coherent with the goals of the LULUCF Regulation.