



INTPA-NEAR Environment & Climate Week

27-31 March 2023
Brussels, Belgium



Agenda

- **Introduction and policy context - forest, DG INTPA**
- **Deforestation Regulation presentation, DG ENV**
- **Forests and 1.5 goal under the Paris Agreement, DG CLIMA and NDC Facility**
- **Monetizing from forest, EU existing instruments, F4F**
- **The case of Zambia, EUD Zambia**
- **Roundtable and Q&A**

Introduction on the Forest Session and policy context

Session block 'Life on Earth' - Plenary on Forests

Patrice MOUSSY – INTPA F2- 30 March 2023

EU-Regulation on deforestation and forest degradation free supply chains

Session block 'Life on Earth' - Plenary on Forests

Helge ZEITLER – DG ENV - 30 March 2023



EU-Regulation on deforestation- and forest degradation free supply chains

*European Commission
DG Environment*

Recap - Main elements [1]

- **Commodities covered:** Palm oil, soy, wood, cattle, cocoa, coffee, rubber and some derived products (e.g. chocolate, furniture, tyres, printed products)
Progressive scope - Initially covering selected commodities and derived products; to be updated regularly
- **Mandatory due diligence** for all operators that place relevant products on the EU market or export them from the EU
- **Strict traceability** linking the commodity to the plot of land where it was produced via geolocation
- Only products that are both **deforestation-free and legal** (according to the laws of country of production) will be allowed on or exported from the EU market – need to be covered by a **due diligence statement**

Recap - Main elements [2]

- **No ban against any country or commodity**
- **Based on internationally-backed definitions (FAO)**
- **Non-discrimination:** The Regulation applies both to domestically produced, exported and imported commodities and derived products
- **'Cut-off date' –31 December 2020: deforestation-free means no deforestation after that date;** aligned with UNSDG target 15.2, aims to minimise disruption for trade flows, benefits from reliable satellite monitoring data

Recap - main elements [3]

- **Benchmarking system** will assign risk to countries or regions according to risk of deforestation – standard (by default), low and high
- **Minimum level of inspections** for Member States authorities to perform (9%, 3% and 1%, depending on the level of risk)
- **No additional due diligence requirements for high risk**
- **Simplified due diligence for low-risk** (still required to collect information, but not assess and mitigate risks)

Implementation tasks

- **Information System:** IT developments, Implementing Acts, up and running by the entry into application
- **Benchmarking:** Implementing act, running by the entry into application
- **FAQs/Guidelines:** For operators and traders, for competent authorities, on certain definitions
- **Review:** Impact assessment and legislative proposal (when needed)
 - First review: Other wooded land (one year after entry into force, before entry into application)
 - Second review: Commodities, products, other ecosystems, financial institutions (two years after entry into force)
 - Third review: Smallholders, trade facilitation tools, degradation, circumvention, etc. (five years after entry into force)

Outreach activities

- **Information sessions for EU Delegations**
- **Information sessions for third country Ambassadors**
- **Local workshops in third countries**
- **Support contracts for public diplomacy for key regions**
- **Extensive interaction with third countries:** Bilateral meetings at technical and political level
- **Missions and relevant multilateral fora:** Information and discussion on deforestation and forest degradation
- **Deforestation platform:** Key forum for interactions and implementation

Timeline

- **November 2021:** Commission proposal
- **December 2022:** Preliminary political agreement between European Parliament and Council
- **June 2023 (tentative):** Entry into force
- **December 2024 (tentative):** Entry into application of obligations for EU operators (mid 2025 for micro and small enterprises)

Key takeaways

- The Regulation is based on the following **principles**:
 - Transparency, accountability and sound scientific and methodological basis
 - Consistency with agreed **international commitments**, notably halting deforestation at the levels of December 2020 in line with SDG 15
 - **Non-discrimination**, as it equally treats domestic and imported commodities and products and covers both imports and exports.
- The Regulation will have an impact on suppliers whether in the EU or abroad
- All relevant players need to get ready for **application by the end of 2024** – the fastest to adapt will enjoy a competitive advantage
- EU is **ready to work closely with and support the partner countries' efforts** to promote the transition to sustainable agricultural production, sustainable forest management and the development of transparent and sustainable supply chains.



Thank you!

Learn more here:

https://ec.europa.eu/environment/publications/proposal-regulation-deforestation-free-products_en



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Forests and 1.5 goal under the Paris Agreement

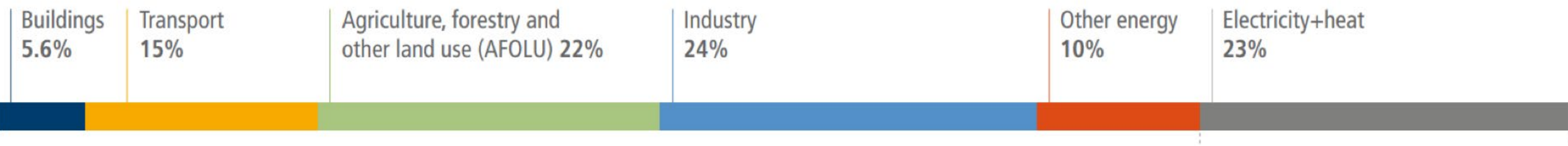
Session block 'Life on Earth' - Plenary on Forests

EU NDCF Leonardo MASSAI / INTPA F1 and Martin HESSION DG CLIMA

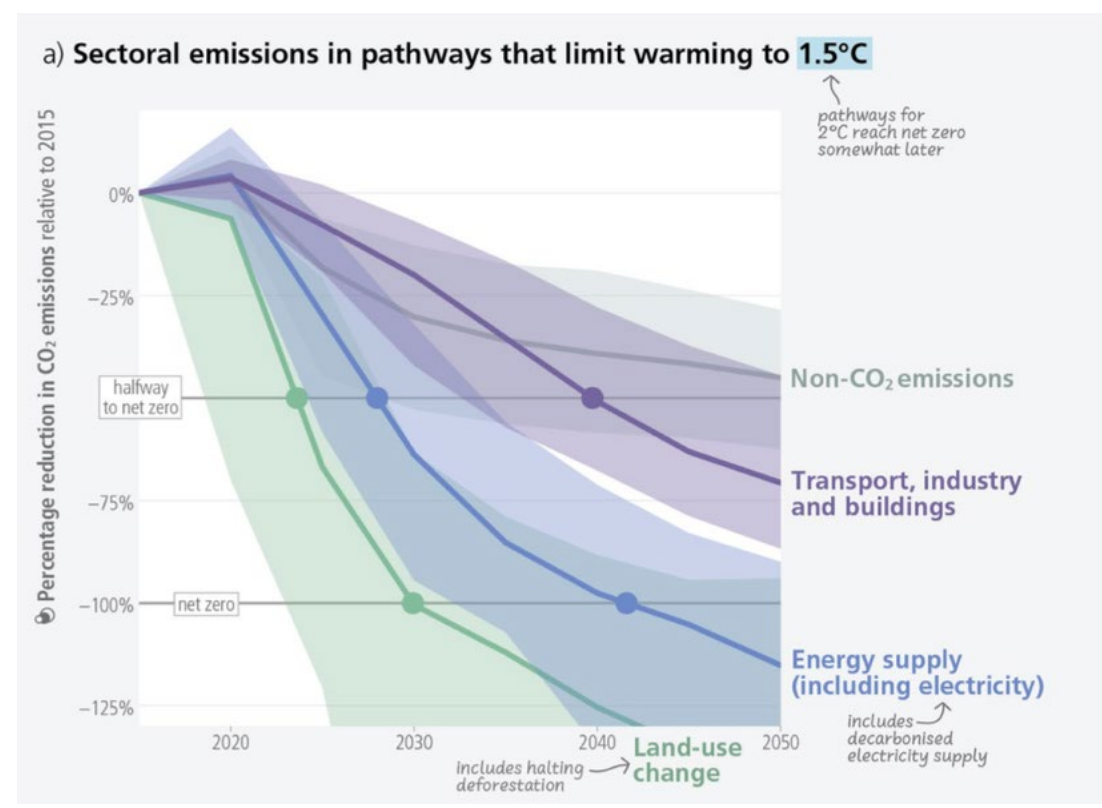
Content

- Land use and 1.5C goal
- Paris Agreement rules and requirements
- Finance sources
- EU support on Enabling Environment

Direct emissions by sector (59 GtCO₂-eq)



Land use and 1.5C goal



Transition towards net zero will have different pace across different actors

Paris Agreement rules and requirements



Article 4 - NDC

Countries to submit national climate action plans (nationally determined contributions NDCs)



Article 5 – REDD+

Conserve and enhance sinks and reservoirs of GHG, including forests

Implement and support existing REDD+ framework (Decisions already agreed under the Convention)



Article 6

Use of internationally transferred mitigation outcomes (ITMOs) towards NDCs

A mechanism to contribute to the mitigation of GHG emissions and support sustainable development



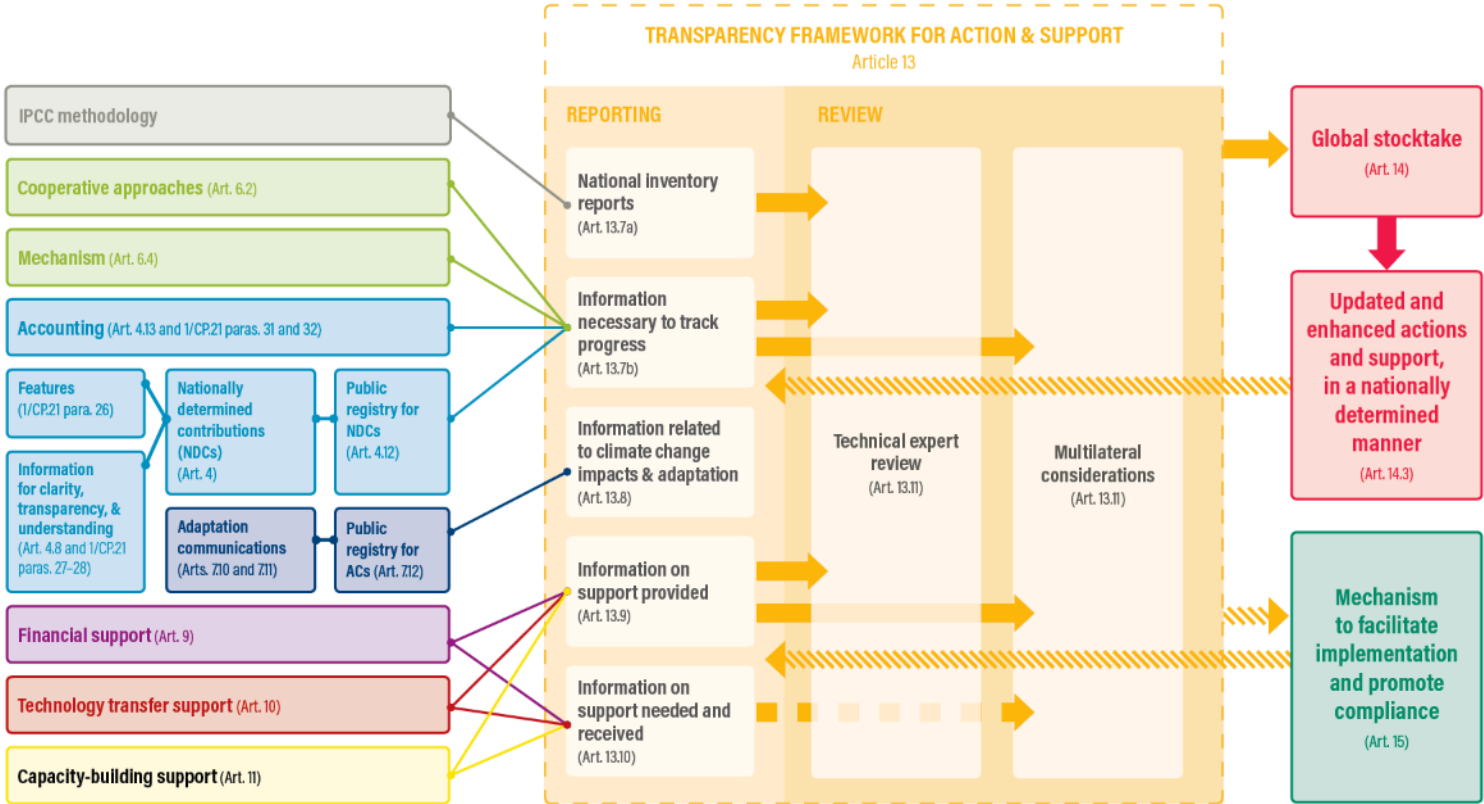
Article 13 - ETF

Report on climate action and support

Track progress towards NDCs through a robust transparency and accountability system

Enhanced Transparency Framework

Mapping the Linkages between the Transparency Framework and Other Provisions of the PA



Article 6 reporting:

- Initial report
- Annual information
- Regular information

KEY:

■ = Article 4 ■ = Article 6 ■ = Article 7 ■ = Article 9 ■ = Article 10 ■ = Article 11 ■ = Article 13 ■ = Article 14 ■ = Article 15

— = linkage made explicit in the Paris Agreement between Article 13 and other articles
→ = linkage within Article 13 - - - → = nonmandatory linkage within Article 13
- - - - - → = potential linkage explored in this paper with Article 13 → = linkage within Article 14

Finance sources for REDD+

| Potential Buyer or Source of Finance | FCPF | ART TREES | GCF RBP Pilot | JCM | Verra's JNR | Verra's VCS Project Scale | Other National Forest Standards (Not Reviewed) |
|--------------------------------------|------|-----------|---------------|-----|-------------|---------------------------|--|
|--------------------------------------|------|-----------|---------------|-----|-------------|---------------------------|--|

Public Sector Finance

| | | | | | | | |
|------------------------|--|--|--|--|--|--|--|
| World Bank Carbon Fund | | | | | | | |
| GCF REDD+ RBP | | | | | | | |

Private Sector Finance

| | | | | | | | |
|---|-----------|--|--|--|--|--|--|
| Voluntary Carbon Market | (Limited) | | | | | | |
| Japanese Companies participating in Joint Crediting Mechanism | | | | | | | |

International Market Mechanisms

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| Countries participating via Article 6 of the Paris Agreement | (Limited) | | | | | Theoretically, if it meets Art. 6 guidance | |
| Airlines under CORSIA | Likely (Future) Conditionally Approved as of March 2020 | | | | | | |

Standards not covered: standards such as the American Carbon Registry (ACR), Climate Action Reserve (CAR), Gold Standard (GS), California Tropical Forest Standard (TFS), Clean Development Mechanism (CDM), REDD.plus, and Plan Vivo

Source: Nature Conservancy and Conservation International 2021

EU support to Enabling Environment

Identify options to monetize value of GHG emissions reductions and removals

Enhance understanding on PA rules and requirements

Strengthening Institutional Arrangements

Capacity building to fulfil reporting requirements (Articles 4, 5, 6 and 13)

Carbon Markets and Net Zero

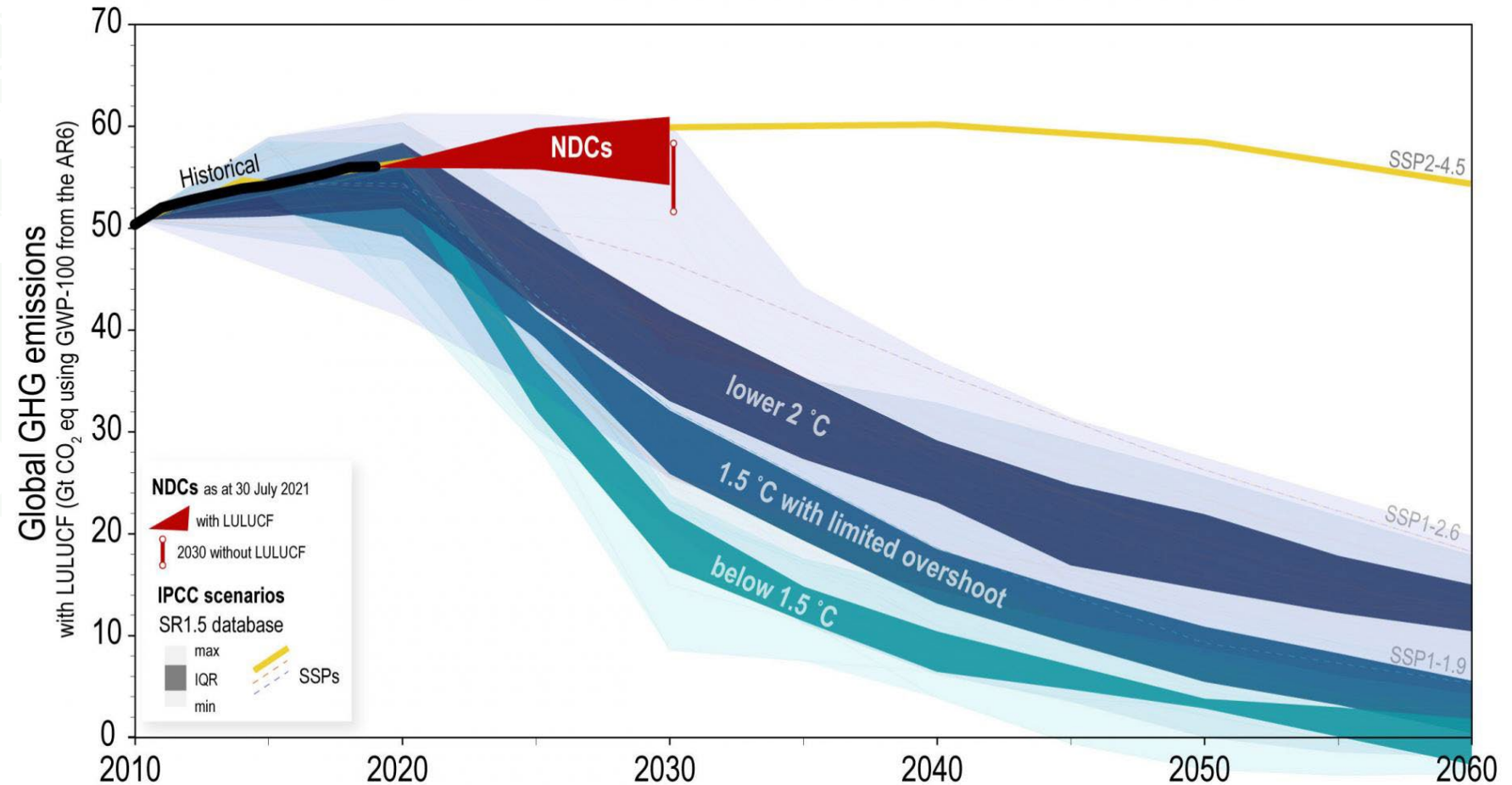
50 GT Emissions

50 GT Target

25 GT where we need to be

500 GT the budget left to 1.5

1200 GT total in forest sink (50% of total)



Carbon Markets and Forestry

Article 6

Paris Agreement provides for crediting of Emissions Reductions and enhancement of Removals

Does not current provide for the crediting of avoidance (preservation carbon stocks) which could would swamp the market.

Emissions Reductions and Removals – that are dependant on continuing storage are problematic when used as offsets.

Typically biological removals are subject to a reversal risk, and as yet there is no agreed approach to addressing these reversals

Article 5

Paris Agreement provides that Parties should take action to conserve and enhance, as appropriate, sinks and reservoirs of greenhouse gases, including forests

Parties are encouraged to take action to implement and support, including through results-based payments, the existing framework REDD+

reaffirming the importance of incentivizing, as appropriate, non-carbon benefits associated with such approaches.

Existing Initiatives

REDD+

REDD+ is a framework created by the UNFCCC Conference of the Parties (COP) to guide activities in the forest sector that reduces emissions from deforestation and forest degradation, as well as the sustainable management of forests and the conservation and enhancement of forest carbon stocks in developing countries

ART-TREES

TREES – The REDD+ Environmental Excellence Standard – is ART’s standard for the quantification, monitoring, reporting and verification of Greenhouse Gas (GHG) emission reductions and removals from REDD+ activities at a jurisdictional and national scale.

LEAF

The Lowering Emissions by Accelerating Forest finance (LEAF) Coalition’s goal is to halt deforestation by financing large scale tropical forest protection. In 2021, the Coalition mobilized \$1bn in financing, kicking off the largest-ever public-private effort to protect tropical forests.

4 Windows

Private Results Based Finance (Contributions/Offsets?)

Public Results Based Finance (Contributions)

Private Compliance Buyers (Adjusted -CORSIA?)

Public Compliance Buyers (Adjusted NDC)

Capacity Building Approach

Integrated Assessment for Article 6 (IAAS)

– UNEP

<https://unepccc.org/carbon-market-capacity-building/>

- Inventory Data
- Cost Data
- Project Data/Modelling
- Enable Wise Choices

Observations

- Support to capacity rather than promotion of international markets per se – moral hazard
- Ensure that mitigation benefits of funded activities are clearly monitored
- Note that use of public money for offsetting reduces the carbon impact of investment

Thank you



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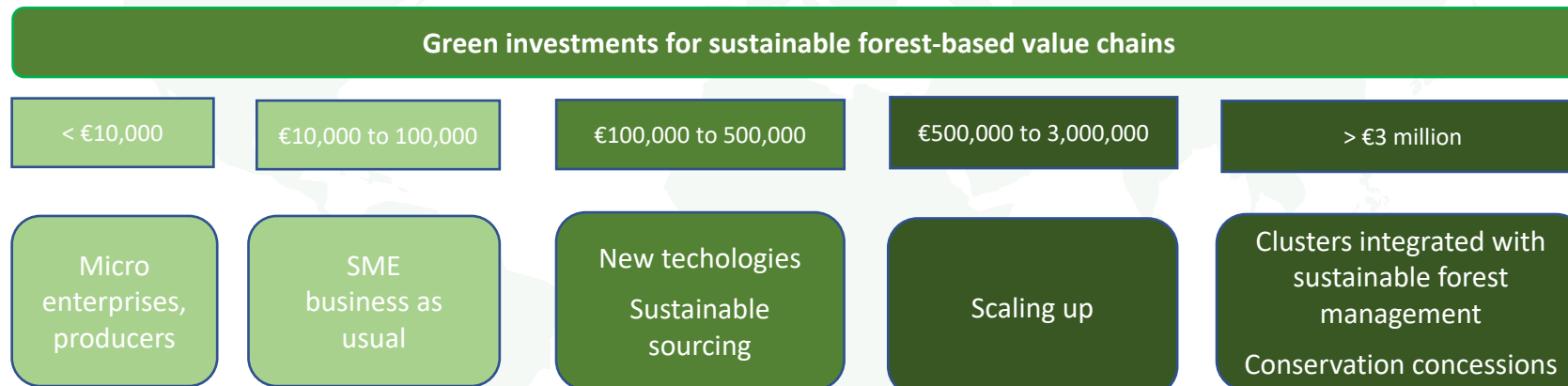
Monetizing Forests

Enabling Investments for Sustainable Forest-based Value Chains

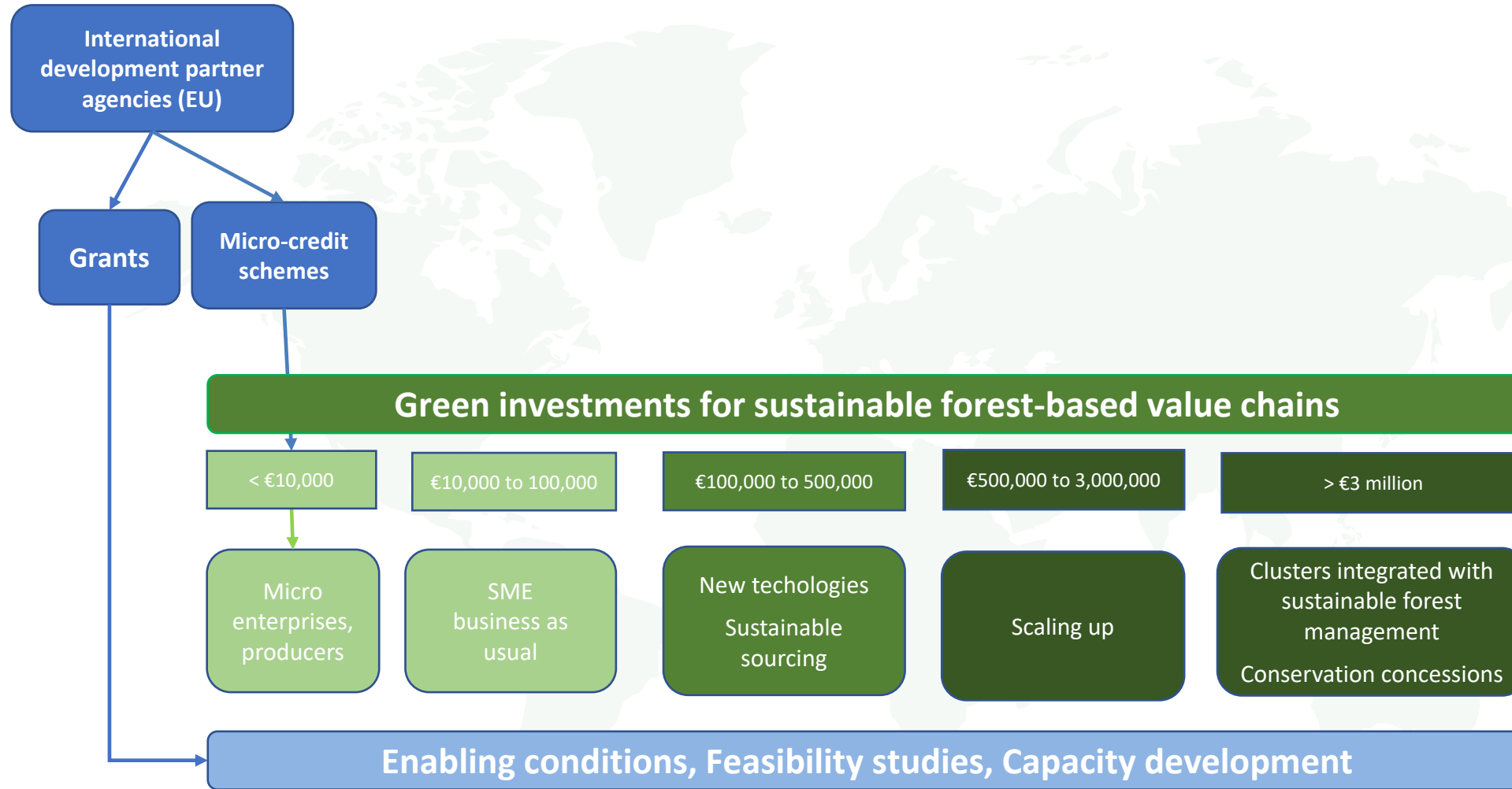
Session block 'Life on Earth' - Plenary on Forests, 30 March 2023

DG INTPA Unit F2 / EU Forests for the Future Facility

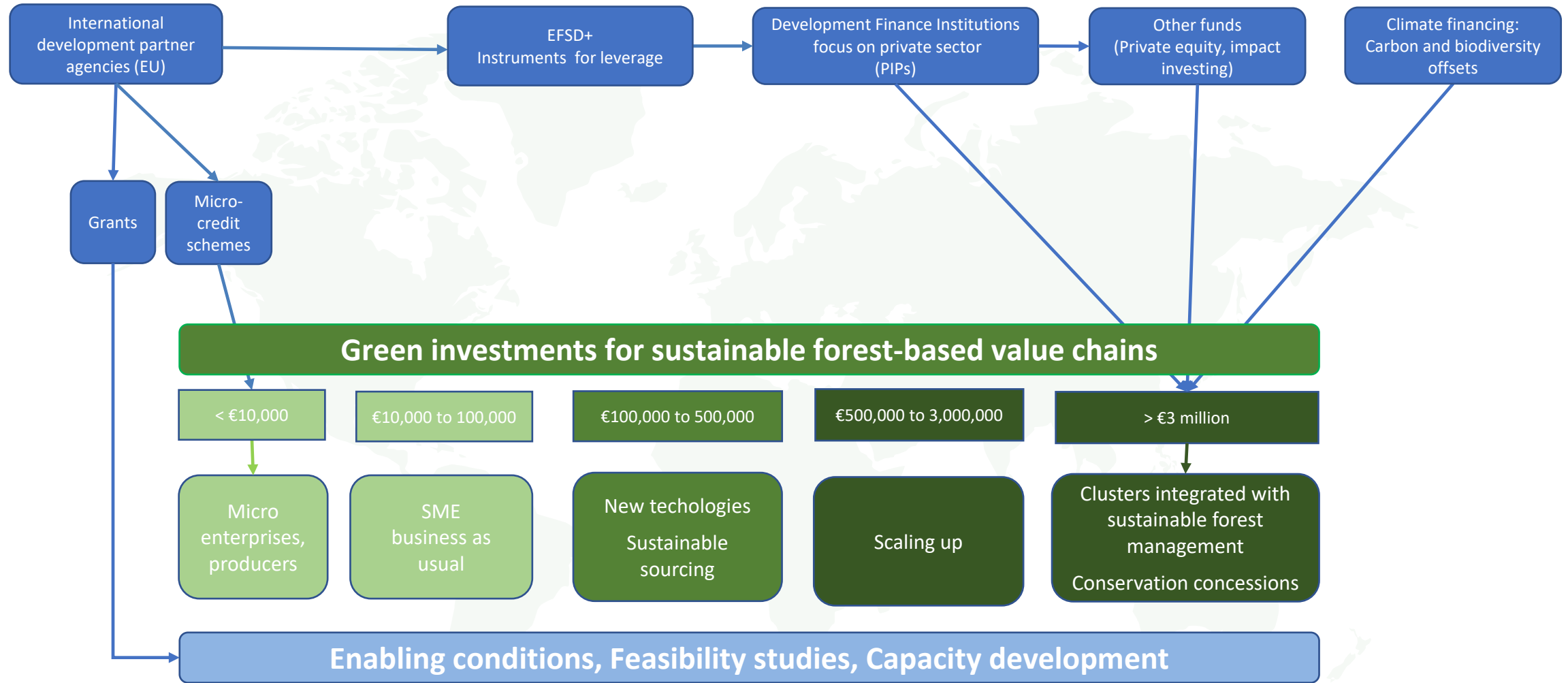
Gaps in financing forest-based value chains (1)



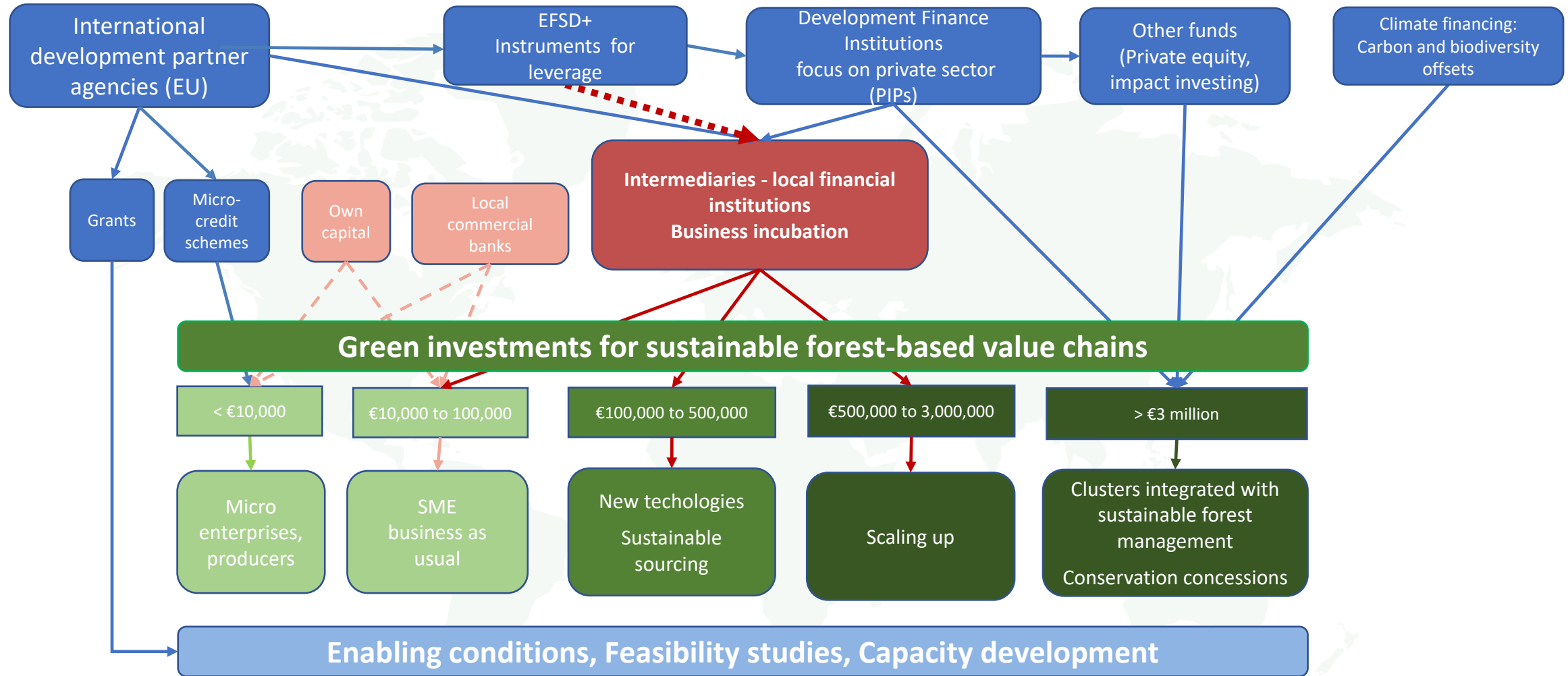
Gaps in financing forest-based value chains (2)



Gaps in financing forest-based value chains (3)



Gaps in financing forest-based value chains (4)





How we can use existing instruments?

Grants, TA and budget support

- Governance, business environment and information systems
- capacities, organizations – smallholders/SMEs
- pipelines of bankable projects
- strengthen local financial intermediaries
- de-risk investments

EFSD+ instruments

- leverage additional finance from DFIs and capital markets

DFI sovereign loans (e.g. EIB)

- build infrastructure that is critical for the value chains

DFI private sector lending and private funds

- Critical for long-term sustainable finance for forest sector



EFSD+ and PIPs in Forestry

EDFI Carbon Sinks Global Guarantee Programme

- EFSD+ guarantee enables investment portfolio of over EUR 8 billion for forests and forest-based value chains
- Investment size: EUR 5 - 30 million
 - natural forests, smallholder forestry, planted forests, agriculture, and other carbon sink investments as well as forest product processing

DFCD Aya Scalable Climate Solutions Programme

- EFSD+ guarantee enables investment portfolio of EUR 3 billion of which 20% for forestry
- EUR 120 million to financial institutions that can on-lend to smallholders and SMEs
 - Climate-smart agriculture and forestry as well as climate relevant water, sanitation and oceans/ecosystems infrastructure projects
 - Allows also smaller ticket sizes
 - SNV / WWF origination facility develops bankable projects with SMEs and producers

- A wide range of countries in Sub-Saharan Africa, Latin America and Asia, including several LDC countries including the Forest Partnership countries



EIB Forest Loans

- Afforestation, forest rehabilitation, erosion control, forest fire-fighting, mitigation and adaptation to climate change, forest value chain investments through government agency
- EU has assisted feasibility studies in Nepal and Uzbekistan – negotiations in Mongolia and Côte d'Ivoire
- Loan size varies from EUR 30 to 100 million covering 50% of the investment
- Duration can exceed 30 years
- The projects should create fiscal revenues in the long term to justify the loans and ensuring government's balanced indebtedness





De-risking investments

- business environment, governance
- infrastructure
- capacities

Developing bankable pipelines

- scaling smallholders and SMEs
- capacities in business skills

Local financial institutions

- strengthen intermediary capacities

Eligibility for climate finance

- complementary benefits – integrating value chains with restoration and conservation

Critical elements for innovative forest value chain finance

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The Zambia-EU Forest Partnership

Cristina Soriani, European Union Delegation to Zambia



Forests in Zambia

- **Zambia has significant forest cover:** 44.8 million ha = 61% of land surface area.
- **But forest are under severe pressure:** High deforestation rate, estimated at 172,000 ha/year, i.e. 12.5 Mt CO₂e of emissions
- **Both to human activities and climate change:** over-logging, fuelwood harvesting, expansion of agriculture and human settlements, change in rainfall.



Untapped Potential

- Decline of forest ecosystem services
- Perpetration of vulnerability and poverty
- Negative effect on the trade balance and foreign exchange rate



HOWEVER:

- Zambian forests are natural capital with goods for value chains, jobs and state revenue





Zambia's NDC

- Updated NDC (2021) show increased ambition:
 - Added 3 sectors: transport, liquid waste and coal to sustainable agriculture, **sustainable forest management**, renewable energy and energy efficiency.
 - But Emission Reduction targets remain unchanged: Unconditional NDC: 25 % ; Conditional NDC: 47 %



Why a Forest Partnership with Zambia?



MIP (2021-2027) Priority Area 1: Green partnerships for sustainable recovery, growth and decent jobs:

- Integrated landscape approach
- Economic Diversification & job creation
- Support to Climate Agenda and NDC

New Government highly committed towards climate resilient economic transformation:

- 8th National Development Plan, NDC and reform agenda
- Signed Leaders' Declaration on forest and land use
- Elected Chair of the African Group of Negotiator



Aligned Priorities

- MoU signed at COP27
- MoU reflects the EU-Zambia priorities:
 1. Good governance environment
 2. Economic transformation and job creation
 3. Environmental sustainability
 4. Human and social development
- A Roadmap within 6 months with long-term strategy to forest sector finance

Zambia's Forest Partnership and NDC

How can the Forest Partnership contribute to the implementation of Zambia's NDC?



How can Climate change policy, finance and action contribute to the implementation of the Forest Partnership?



Next steps

- Roadmap to be finalised by May/June 2023
 - Informed by Team Europe partnerships
 - Operationalise objectives
 - Be forward looking
- Set up of Governance structure
- Technical Assistance to the Forest Department (AAP 2022) will act as secretariat to the FP

Thank you



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Round Table / Q & A

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