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**ANNEX TO THE**

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Addressing the challenges of deforestation and forest degradation to tackle climate  
change and biodiversity loss**

{COM(2008) 645 final}

{SEC(2008) 2619}

{SEC(2008) 2620}

## ANNEX 1

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## ANNEX 2

### **Causes of deforestation**

#### Broader governance problems

Underlying causes of deforestation are the lack of effective governance structures and law enforcement, and the absence of effective policies to help the poor. Conflicting and unclear land-use policies, land-tenure rights and property and usufruct rights give rise to unsustainable or illegal logging, thereby contributing to deforestation. In addition, economic benefits from forest conversion are often unevenly shared, with policies and land-use strategies often reducing access to the rural communities that depend on forests.

#### Increased pressure on the global cultivated area

Land is a limited resource. Crop and livestock production, mining and urban development all require land. The growth in the world's population and increased meat and dairy consumption in developing countries are creating greater demand for agricultural commodities. At the same time, weather events linked to climate change, political instability in certain regions, higher energy prices, the emergence of new markets for biofuels and under-investment in agricultural research and production have also contributed to rising food prices. In addition, higher energy costs have contributed to the expansion of mining activities in forests. This situation translates into higher demand for productive land, which puts more pressure on forests.

Biofuels are new sources of demand for agricultural production. The European Commission has proposed sustainability criteria to avoid the potential negative impact on deforestation. It is also promoting second generation biofuels, which should produce more energy per unit area. The impact of the overall levels of production of and demand for biofuels on land use, including forest cover, will be monitored closely.

#### Harvesting of forest products

Commercial or subsistence exploitation of forests does not compromise the long-term existence of forests provided it is sustainable and legal. However, if there is no effective regulation, it is often more profitable in the short term to harvest trees without practising any form of forest management. In certain parts of the world, particularly Africa, forests are lost because fuel wood is harvested at unsustainable levels.

#### Lack of valuation of forest ecosystem services and market failures

The products and services provided by forests include medicinal plants for local use, water regulation, slope stabilisation, and climate mitigation and adaptation functions. Major benefits of forest conservation and sustainable forest management are externalities. Forest owners rarely receive payment for conserving and providing forest services, so forests tend to be less attractive economically than other types of land use.

## ANNEX 3

### **Sources of funding in addition to revenue from auctioning of allowances**

#### *The Global Climate Change Alliance*

The Global Climate Change Alliance, launched by the Commission in 2007, is intended to be a platform for enhanced dialogue and increased cooperation between the EU and the poor developing countries most vulnerable to climate change, in particular the Least Developed Countries and Small Island Developing States. It is aimed primarily at supporting and integrating climate adaptation into poverty reduction strategies. The sum of €50 million has been earmarked by the Commission for the period 2008-2010. The reduction of emissions from deforestation is one of its priorities.

#### *Pooling efforts at EU level on Official Development Aid allocated to forestry*

EU forest aid continues to be insufficiently coordinated. With about €40 million/year of ODA devoted to forestry, the efforts made by the Commission and many Member States can only make a difference if there is close coordination between the EU donors and other donors. The current fragmented approach is an impediment to effectiveness. Efforts should also better reflect the particular forest challenges in the countries concerned. Enhanced donor coordination would leverage additional assistance from other actors, including the private sector.

#### *EU contributions to bilateral and multilateral initiatives*

The EU should remain at the forefront of the development of innovative funding mechanisms. Importantly the EU (European Commission and Member States) is the major contributor to the World Bank's Forest Carbon Partnership Facility<sup>1</sup>, with more than 80% of the total. The Facility is an advanced multilateral initiative to address deforestation in the context of climate change. It tests designs for performance-based systems to reduce deforestation in developing countries and ways to generate funding for the protection of tropical forests.

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<sup>1</sup> Launched in June 2008, the US\$ 300 million Forest Carbon Partnership Facility will support pilot projects using a system of policy approaches and performance-based payments. It consists of a Readiness Fund, mainly for capacity building, and a Carbon Fund, for trading of emission reductions