



UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Submission of Views

Ad-Hoc Working Group on Long Term Cooperative Action
Fourth Session

February 2008

*Reducing Emissions from Deforestation and Forest Degradation
and the role of Conservation, Sustainable Management of Forests,
and the Enhancement of Forest Carbon Stocks*

Jointly Submitted by:

**Belize, Central Africa Republic, Costa Rica, Dominican Republic,
Democratic Republic of Congo, Ecuador, Equatorial Guinea, Honduras,
Ghana, Guyana, Kenya, Madagascar, Nepal, Nicaragua, Panama, Papua
New Guinea, Singapore, Solomon Islands, Tanzania, Thailand, Uganda,
Vanuatu, & Viet Nam.**

The Fourth Session of the Ad Hoc Working Group on Long-Term Cooperative Action under the United Nations Convention on Climate Change (UNFCCC), held in Poznan, Poland, invited Parties and accredited observer organizations to provide additional information, views and proposals on Paragraph 1 of the 'Bali Action Plan' by 6 February 2009. For this purpose, a number of like-minded developing countries met to consider these issues in Singapore from 22-23 January 2009. This submission has been prepared in reflection of those discussions and incorporates input from many other developing country Parties.

1. **Scope for a REDD Mechanism:** A REDD Mechanism should be designed to accommodate differing national circumstances and respective capabilities within and between developing countries on issues relating to reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks.
2. **Industrial Country Leadership:** The foundation of any effective international agreement on climate change must be built upon significant and mandatory national/economy-wide emission reductions targets for all industrialized nations – in aggregate, at least 40 below 1990 levels before 2020 and more than 80% below before 2050. Leadership by Annex-1 Parties, in the form of deeper targets than would otherwise be accepted, that are truly additional, and must precede the introduction of a new supply of carbon credits from reduced emissions for deforestation in developing countries.
3. **Developing Country Partnership:** Based upon positive incentives, a REDD Mechanism should establish a pathway to engage in voluntary nationally appropriate mitigation actions (NAMAs) by developing countries in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner.
4. **Integrating Emissions Intensive Activities:** Given the linkage between the loss of forest carbon due to rural energy and food production needs, the REDD mechanism may be expanded in the future to include other emissions intensive activities or sectors, such as rural energy and food production, consistent with methods approved by the UNFCCC.
5. **Mobilizing Financial Resources:** To be effective, significant global financial resources must be mobilized that are transparent, adequate, predictable and sustainable over time. To support the range of activities referred to in Decision 2/CP.13, measurable, reportable and verifiable funding must be equitably mobilized from a variety of sources, including increased official development assistance, auctions of authorized allowance units (AAUs), carbon taxes, private sector investment, cap & trade market instruments, etc.
 - *ODA:* As appropriate, Official Development Assistance (ODA) should be transparently increased, additional, predictable and sustainable.
 - *Market Linked Funding:* AAUs are presently granted by the Parties at 'no cost' to Annex-1 Countries. Therefore, if any revenues should accrue to an Annex-1 Party through coordinated commercial dealings with AAUs (such as trading or auctions), then such activities should incur a levy to be used by the Parties for specific purposes of common agreement – such as to support elements of a REDD Mechanism, increased funding of the Adaptation Fund, etc.

- *Integrating Funding Sources:* Innovative bond instruments could mobilize greater capital in the short-run by securitizing future revenues from AAU auctions along with auctioned REDD emission reduction credits resulting from pre-2012 demonstration activities to cover interest and principal payments over a 5 – 10 year term. Such bond instruments could enhance understanding for REDD Mechanisms and foster North-South and public-private partnerships.
- *Compliance Markets:* In order to mobilize the required resources to effectively implement REDD activities on the necessary global scale, a REDD Mechanism must include a thoughtfully constructed ‘market window’ as outlined below.

6. **Stepwise Implementation:** To maximize participation in REDD activities, developing country Parties may engage in a voluntary stepwise approach. Movement between categories is voluntary. In certain cases, activities between categories may be simultaneous depending on national circumstances, respective capabilities, and capacity needs.

Category I – Readiness and Capacity Building

- *Scope:* Voluntary analysis, capacity, policy frameworks, institutional review, stakeholder engagement, internal financial mechanisms, and monitoring, accounting and verification to support initial demonstration activities.
- *Financial Sources:* Primarily by new and additional official development assistance (ODA), and augmented as required by, inter alia, revenues generated from the auction of AAUs and carbon taxes within Annex-1 countries.

Category II – Expanding Implementation under the Convention

- *Scope:* Positive incentives to support the scaling-up of demonstration activities including a range of national, sub-national, local and project-level activities in developing countries under the Convention.
- *Financial Sources:* Primarily by revenues generated from the auction of AAUs and carbon taxes within Annex-1 countries, and as required by new and additional official development assistance (ODA).
- *Flexible Implementation:* Provides an opportunity to develop internal policies and strategies for implementation based upon respective capabilities and national circumstances.
- *Methods:* Application of IPCC 1996 methodologies approved by the UNFCCC, encouraging the use of the 2003 IPCC GPGs, and the guidance provided by Decision 2/CP.13 and Decision SBSTA/2008/L.23.
- *Integration into National Accounting:* To facilitate the implementation of National monitoring and accounting systems, the SBSTA Chair should convene an Experts Group to explore methodologies to integrate activities at various scales into National monitoring and accounting systems.
- *Demonstration Trading:* Establishment of a voluntary ‘Demonstration Trading’ platform designed to facilitate learning-by-doing, simulate market conditions, and pilot market access.

Category III – MRV Emissions Reductions through a Market Mechanism:

- *Scope:* Measurable, reportable and verifiable (MRV) emissions reductions units which are fully fungible within market mechanism(s).

- *Financial Sources:* A REDD Mechanism should provide full and equitable participation with global carbon markets including instruments to stabilize dramatic fluctuations in supply and demand that could be supported by funds derived by the auction of AAUs and carbon taxes (see below.)
- *National Monitoring, Accounting and Reporting:* should apply national-scale monitoring, reporting and accounting systems, including the principle of conservativeness and guidance provided by Decision 2/CP.13 and Decision SBSTA/2008/L.23, requiring 2003 IPCC GPG methodologies where utilizing carbon offsets, and subject to the necessary funding and capacity support for their implementation.
- *Reporting:* When reporting, Parties would apply reporting principles already established under UNFCCC (transparent, consistent, comparable, complete and accurate) and may also implement a new principle of conservativeness.
- *Fungible:* Emissions reductions units earned under an agreed national reference emissions level that are measurable, reportable, and verifiable, should be guaranteed direct market access, be fully fungible with AAUs, and transacted at a price equal to those credits transacted by Annex-1 Parties.
- *Credit for Early Action:* Emission reductions undertaken before 2012 that are subsequently integrated into a national accounting system should be permitted for use in achieving future compliance by Annex-1 Parties, subject to independent review by Expert Teams supported by the Secretariat (applying precedent granted to the CDM in the Kyoto Protocol.)
- *Price Floors:* To encourage broader participation by guaranteeing the livelihoods of rural and indigenous communities, the Parties should agree on a 'price floor'. Such price floors could be independently supported from the revenues generated from AAU auctions, for example.
- *National Trust Accounts:* To improve participation by domestic stakeholders, donors, and market participants, Parties may choose to transparently address funding inflows, fund management, and disbursement commitments, if appropriate, through independently governed trust arrangements.
- *Reserve Accounts:* On a periodic or annual basis, a proportion of realized emission reductions or removals could be maintained in reserve to provide:
 - a buffer against future emissions that are greater than the emissions reference level, or
 - the opportunity to fulfill shortfalls by other REDD countries.
- *End of Term Accounting:* To maintain atmospheric integrity within and between international agreements on climate change, at the end of an agreement period, any final quantity of emissions above the reference emissions level could be:
 - deducted from any remaining national 'reserve' accounts, or
 - transferred to a subsequent international agreement on climate change.

7. Entry into Market Instruments: Developing countries wishing to voluntarily engage in Category III of a REDD Mechanism, shall inform the Parties of their intention and include the information set out below. Upon receipt of the information, the Subsidiary Bodies shall convene a Contact Group to consider the information provided and make recommendations to the next COP.

- *Reference Scenario*: a national reference emissions or removal level taking into account historical data and national circumstances, including low rates of historical deforestation and forest degradation, and assessed over a period of at least five years.
- *Projected Emissions Reductions*: a National REDD Plan, including policy approaches, that states the total projected emissions reductions or removals to be achieved below the reference emissions or removal level during an agreed timeframe.
- *Early Action*: emission reductions or removals achieved under a national accounting system prior to the request for market entry, subject to independent review by an Expert Team supported by the Secretariat.
- *Developmental Adjustment*: an adjustment to the reference emissions or removal level, either elevated or reduced, and early action credits taking into account, inter alia, the developmental divergence and respective capabilities of REDD countries.

8. Contributing to Pricing Stability: Developed and developing parties should collaborate to encourage general price stability with global carbon markets in order to promote both technological transformation and incentives for emission reductions in developing countries. Therefore, a process to improve market price stability, as described below, should be considered by the Parties:

- *Registry*: The Secretariat would register the agreed reference emissions or removal level, projected emission reductions or removals, request for early crediting, and when achieved, the periodic or annual realized emission reductions or removals.
- *Deduction from AAU Allocations*: On a periodic or annual basis, the Secretariat would proportionally deduct the total of the agreed requests for early crediting along with the projected emissions reductions or removals from the respective AAU allocations of Annex-1 countries, in an equitable way, that will be held in a REDD Settlement Account.
- *Settlement*: On a periodic or annual basis, REDD participants would report realized emissions reductions to the Secretariat, and
 - *Sales*: subject to independent verification, realized emission reductions would be exchanged on an equal basis by the Secretariat for the fully fungible AAUs being held within the REDD Settlement Account.
 - *Proportionality*: the Secretariat would exchange AAUs held within the REDD Settlement Account on a proportional basis between all participating Annex-1 Parties.
 - *Shortfalls*: On a periodic basis, if the supply of realized emissions reductions is less than the total AAU deductions:
 - The shortfall from one REDD country could be fulfilled by another REDD country, or
 - If no fulfillment was made by other REDD participants, the Secretariat would proportionally return the residual AAUs to the participating Annex-1 Parties.
 - *Oversupply*: On a periodic basis, if the supply of realized emission reductions is greater than the total AAU deductions available:
 - The oversupply could be used to fulfill shortfalls by other REDD countries, or
 - If there is no shortfall by other REDD countries, the realized emission reductions could be banked for application in future years, or a portion could be made available for offsets, or otherwise addressed by the Parties.

9. Ex-Ante Crediting: A further step forward, a developing country Party could be issued allowance credits 'ex-ante' against an agreed 'reference emissions or removal level,' considering that a REDD Mechanism would effectively constitute a sectoral approach for a system of policy approaches and positive incentives, similar to that applied by Article 3.3 and 3.4 of the Kyoto Protocol.

10. **Additional to the CDM:** A REDD mechanism cannot simply compete with, and lower market prices for, actions taken under the Clean Development Mechanism (CDM). Therefore, while REDD should be addressed within a separate mechanism, a REDD mechanism must be complementary and additional to the CDM.
11. **International Coordination:** Interested donors and bilateral multilateral, and international agencies, should coordinate, under the guidance of the UNFCCC process, related programs and initiatives for efficiency, consistency and to avoid redundancy, to provide at scale, consistent and adequate funding.
12. **Forest Degradation:** Parties should be guided by the most recent methodologies developed by the IPCC and approved by the Parties (IPCC LULUCF Good Practice Guidance), including the recommendations of the Expert Group convened by the SBSTA Chair.
13. **High Forest Cover and Low Rates of Deforestation and Forest Degradation:** Any post 2012 agreement should recognize the need to include highly forested countries which have maintained very low historical rates of deforestation through SMF. Parties with high forest cover having maintained low rates of deforestation and forest degradation, for example, may propose an increase in their emissions reference level.
14. **Permanent Forest Conservation Areas:** For Parties seeking to increase or consolidate permanent forest conservation areas within the context of a REDD mechanism, certain forest areas could be permanently identified as conservation areas.
15. **Role of Local Communities and Indigenous Peoples:** Recognizing the rights and roles of local communities and indigenous peoples, based on national circumstances, REDD activities should respect their traditional knowledge and intrinsic relationship with tropical forests while significantly supporting their social, environmental and economic development and also achieving the ultimate objective of the Convention.
16. **Technology Needs & Institutional Capacity Building:** The capabilities of developing countries, and/or regional centers of expertise, vary greatly when considering the implementation of approved methodologies. In many cases, REDD countries will require an expert team to assist in undertaking a 'gap analysis' that identifies currently available in-country capabilities and technology resources and assesses the gaps and costs required to support full and effective implementation of the relevant IPCC guidelines for the REDD Mechanism.
17. **Ungoverned Areas:** Based upon national circumstances and to avoid perverse incentives, a REDD country may advise Parties of unmanaged or ungovernable geographic areas within its national border that are not included in a REDD mechanism due to such factors as war, rebellion, geographic remoteness, etc.
18. **Extreme Weather Events and Natural Disasters:** For purposes of clarity, the Convention considers only anthropogenic emissions, and therefore, greenhouse gas emissions resulting from extreme weather events and natural disasters affecting forest areas should not be included within any REDD Mechanism.