

I. Mandate

The Second Session of the Ad Hoc Working Group on Long-Term Cooperative Action under the United Nations Convention on Climate Change (UNFCCC), held in Bangkok Thailand, invited Parties and accredited observer organizations to provide additional information, views and proposals on paragraph 1 of the Bali Action Plan by 14 August 2008. Further, the Parties agreed that at the 3rd Session of the AWG-LCA, a workshop would consider policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

For this purpose, a number of like-minded developing countries met to consider these issues in Santa Cruz, Bolivia, on July 28 - 29, 2008. Considering the short of time for final review and approval, this submission has been prepared by Papua New Guinea in reflection of those general discussions and incorporating input from many Parties, including but not limited to, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, Equatorial Guinea, Ghana, Guatemala, Guyana, Honduras, Kenya, Malaysia, Mexico, Nicaragua, Panama, Papua New Guinea, Paraguay, Thailand, and Uganda.

II. Introduction

The IPCC's 4th Assessment Report estimates that around 5.8 GtCO₂ is released annually into the atmosphere from global deforestation. Therefore, without prompt action to reduce emissions from deforestation, almost 30 GtCO₂ may be released into the atmosphere between 2008 and 2012.

It is estimated that deforestation in developing countries may today contribute approximately 20% of the world's GHG emissions. As a result of human activities, large-scale deforestation has been occurring for several centuries with the balance shifting from developed to developing countries in recent decades. While has not carried a long-lasting correlation with economic development, it has been found that as rural incomes rise, rates of deforestation tend to decrease over time.

Along with the objectives of the Convention, therefore, a system of policy approaches and positive incentives to reduce emissions from deforestation and forest degradation should recognize the rights and roles of rural communities, native and indigenous peoples in order to ensure the sustainability of REDD implementation. The REDD mechanism should also recognize their traditional knowledge, their intrinsic relationship with tropical forests and should significantly support their social, environmental and economic development.

At present, however, most developing countries struggle to adequately address the drivers of deforestation because of insufficient domestic resources and overly cumbersome requirements from international agencies. Further, effective implementation will be unlikely without confidence that the opportunity costs

associated with forgone land-use activities will be replaced. As such, REDD mechanisms should be on voluntary basis and developed to be fair and equitable, recognizing differing national circumstances.

Therefore, substantial and sustainable resources must be mobilized in order for mechanisms to reduce emissions from deforestation to be effective. Further, any alternative revenue streams must be transparent, predictable, sustainable and sufficient.

III. Maximizing Participation while Accommodating National Circumstances

a. Category I: Readiness & Capacity Building

Objective: Consistent with individual national circumstances, each Party should take leadership over their own REDD process of analysis, capacity building, institutional evaluation and policy development along with demonstration activities in preparation for expanded implementation of related efforts to reduce deforestation and forest degradation.

Voluntary: Participation by developing countries in such 'readiness activities' is voluntary and should not prejudice any future negotiations within the context of the Convention, the AWG-LCA, the AWG, or any such processes.

Readiness Coordination: The Parties may consider inviting interested multilateral, bilateral and international agencies to use existing platforms such as the World Bank Forest Carbon Partnership Facility (FCPF) to coordinate programs and initiatives for efficiency, consistency and to avoid redundancy. Inconsistency and lack of coordination between donors, agencies, and programs will complicate developing country participation and the effectiveness of related actions. Parties should rely upon and strengthen local capacities, and when possible, also promote South-South cooperation.

Coordination of Funding Sources: The Parties must consider better coordinating the mobilization of resources, including donors, non-governmental organizations, and the private sector, in order to maximize the access to, and the flexibility of, necessary funding sources. Such funding must be based on the specific financial needs of REDD countries, not be subject to stringent conditionality nor linked to issues not within the scope of climate change, and where possible, be designed to improve knowledge,

increase transparency and standardize relevant methodologies, modalities, formats, templates and strictly defined procedures.

Institutional REDD Platform: Parties may consider leveraging the FCPF Participant's Committee into an international 'Institutional REDD Platform' for developing countries, donors, international agencies, and along with representatives from the private sector, civil society and indigenous peoples as observers, to better coordinate, evaluate and reach consensus related to activities, standards and performance.

Integrating the UN-REDD Initiative: While there is general understanding on how developing and donor Party participation may be organized under the FCPF, there is a need to further integrate other relevant agencies within the United Nations System, such as the UNDP, UNEP and UNFAO, now operating under the mandate by the UN Secretary General as the 'UN-REDD Initiative'.

In order to effectively leverage existing programs and avoid redundancy while increasing the effectiveness of efforts, under the guidance of the Participants Committee, the World Bank and the UN-REDD Program should jointly coordinate and manage the FCPF as an 'Institutional REDD Platform' by:

- Joint Chairing the Participants Committee, in a non-voting role;
- Joint staffing the Facility Management Team;
- Development of a 'Joint Readiness Strategy' that leverages the core competencies, and harnesses the specific national relationships of each agency.

Selecting a Lead Agency: Under the leadership and guidance of each host Party and based on development priorities, each REDD country should have flexibility to select a lead agency, as required – WB, UNDP, UNEP, and/or the FAO – to sub-coordinate national readiness activities.

b. Category II: Expanding Implementation through non-Market Instruments

Objective: Consistent with individual national circumstances, each Party should take leadership over their own process to expand the implementation of policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries, and of the role of conservation, sustainable

management of forests and enhancement of forest carbon stocks in developing countries.

Voluntary Participation: Based upon national circumstances, along with the results of 'readiness activities' undertaken within Category I, where applicable, Parties may voluntarily notify the UNFCCC Secretariat of ongoing activities and their intention to operate under Category II. These activities should not prejudice any future negotiations within the context of the Convention, the AWG-LCA, the AWG or any such process.

Timeframe: Category I activities can be undertaken in parallel with Category II activities depending on national circumstances. Further, participation in Category II should not be limited by time, meaning that Parties may take the necessary time to develop the capacity, institutions, policy approaches, incentive frameworks, etc., with sufficient robustness to support a national accounting system and/or participation in market-based instruments, where relevant.

Activities under the Convention: Category II activities must operate within the context of the Convention and can thereby facilitate development of approaches for implementation at the national, sub-national, local and project scales. There can be significant learning-by-doing resulting from these activities.

Flexible Scale: A range of national, sub-national, local and project-level activities are presently being applied by many Parties under the Convention and should be encouraged and expanded. As agreed by the Parties, sub-national activities should be designed to be a 'step toward' a national accounting system.

Methods: The Parties will apply methods approved by the UNFCCC, including application of the IPCC GPGs, and the 'Indicative Guidance' provided by Decision 2/CP-13 where possible.

Coordination: Through the 'Institutional REDD Platform,' the Parties should continue to coordinate implementation activities, methodological standardization, and frameworks to transparently and equitably distribute positive incentives within the context of national circumstance.

Mobilizing Increased Resources: To be adequate, activities under Category II will require a significant increase of funding and initiative like the World Bank Carbon Facility, the Norway REDD Initiative, the G8 Special Climate Fund, and other similar efforts, must be welcomed. However, such funding increases may best be coordinated through the 'Institutional REDD Platform' described in Category I.

Demonstration Trading: Where market-based positive incentives may best be applicable, the Parties should consider establishing a voluntary 'Demonstration Trading' platform administered by the Participant's Committee of the 'Institutional REDD Platform' designed to simulate market conditions to facilitate learning-by-doing bearing in mind that early action taken before 2012 should be credited within future international agreements on climate change.

c. Category III: Measurable, Reportable & Verifiable (MRV) Emission Reductions through Market-Based Mechanisms

Objective: Consistent with national circumstances, each Party not included in Annex I may pursue sustainable development and contribute to the ultimate objective of the Convention by participating in a REDD mechanism. At the same time, A REDD mechanism will also assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments under Article 3 of the Kyoto Protocol, or similar article in a successor agreement.

Voluntary: Participation in a REDD Mechanism is voluntary and must be approved by each host Party.

Timeframe: Parties may agree to participate within a REDD Mechanism at any time while a relevant international agreement on climate change is in force while continuing participation until the expiry of that agreement.

Implementation: Under a national accounting system, Parties could implement at any scale that is appropriate (national, sub-national, project) for each specific policy approach and/or positive incentive framework, based upon national circumstance.

Participation: Parties shall inform the UNFCCC, through the Secretariat, of their intention to participate in a REDD Mechanism, which could include the following information for consideration by the Parties:

- *Reference Scenario:* a reference emissions 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;

- *Developmental Adjustment*: an appropriate development adjustment factor when assessing reference emissions levels (see below);
- *Early Action*: MRV emissions reductions achieved under a national accounting system during the period 2005 – 2012, subject to independent review by an Expert Team supported by the Secretariat.

Credit for Early Action: As a result of activities undertaken from 2005 - 2012 within the context of Decision 1/CP.13 and Decision 2/CP.13 and subject to independent review by Expert Teams supported by the Secretariat, the Parties should ensure that MRV emission reductions achieved up to the commencement of any future international agreement on climate change can be used to assist in achieving future compliance by Annex-1 Parties (following the precedent granted to the CDM in the Kyoto Protocol.)

Developmental Adjustment: Based on national circumstances, environmental, social and economic factors could be taken into consideration in order to determine an appropriate development adjustment factor when determining reference emissions levels. Any developmental adjustment should be applied on the basis of equity and in accordance with common differentiated responsibilities and respective capabilities, thereby contributing to the objectives of Article 3.1 the Convention.

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.

Methods: Parties would apply the relevant methodological guidance developed by the IPCC and approved by the Parties (IPCC LULUCF Good Practice Guidance.)

Fungibility: MRV emissions reductions units earned under an agreed 'reference emissions level' should guarantee direct market access, be fully fungible with AAUs, and transacted at a price equal to that applied to credits earned by Annex-1 Parties.

Ex-Ante Crediting: A Party could be issued allowance credits 'ex-ante' against an agreed 'reference emissions 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 Article 3.3 and 3.4 of the Kyoto Protocol.

End of Term Accounting: For developing countries, it is important that there is no obligation to acquire emission reductions externally for any unanticipated emissions increases in the forestry sector remaining at the expiration of a future international agreement on climate change. However, atmospheric integrity must be maintained under a REDD Mechanism, or any other such instrument. Therefore, given the voluntary nature of the REDD Mechanism, any final quantity of emissions above the reference emissions level could be:

- Deducted from any remaining national 'reserve' accounts
- Transferred to a subsequent international agreement on climate change

Additional to the CDM: A new mechanism for REDD 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.

Balance Supply & Demand: When considering cap-and-trade market instruments, leadership by Annex-1 Parties, in the form of deeper targets that are truly additional, must precede the introduction of a new supply of carbon credits from reduced emissions for deforestation in developing countries. Therefore, Annex-1 Parties should agree to deeper emissions reductions than would otherwise be accepted to support a REDD Mechanism.

Draft Article for REDD Mechanism:

1. A mechanism is hereby defined and effected to reduce emissions from deforestation and forest degradation (REDD Mechanism.)

2. The purpose of the REDD mechanism shall be to assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention, and to assist Parties included in Annex I in achieving compliance with their quantified emission limitation and reduction commitments.

3. Under the REDD mechanism:

(a) Parties not included in Annex I will benefit from REDD activities resulting in measurable, reportable and verifiable (MRV) emissions reductions; and

(b) Parties included in Annex I may use the MRV emission reductions accruing from such activities to contribute to compliance with part of their quantified emission limitation and reduction commitments, as determined by the Conference of the Parties.

4. The REDD mechanism shall be subject to the authority and guidance of the Conference of the Parties.

5. Emission reductions resulting from each REDD activity shall be independently reviewed by an Expert Review Team supported by the Secretariat, on the basis of:

(a) Voluntary participation approved by each Party involved; and

(b) Real, measurable, and long-term benefits related to the mitigation of climate change.

6. The REDD mechanism shall assist in arranging funding of relevant activities as necessary.

7. The Conference of the Parties shall, at its next session, elaborate modalities and procedures, applying the relevant methodological guidance developed by the IPCC and approved by the Parties (IPCC LULUCF Good Practice Guidance) where relevant, with the objective of ensuring transparency, efficiency and accountability through independent review of REDD.

8. Participation under the REDD mechanism, including in activities mentioned in paragraph 3(a) above and in the acquisition of MRV emission reductions, may involve private and/or public entities, and is subject to any guidance provided by the Parties.

9. MRV emission reductions obtained during the period from the year 2005 up to the beginning of the commencement of a future international agreement on climate change can be used to assist in achieving compliance under the terms and conditions of that agreement.

IV. Important Issues Requiring further Consideration

The Parties may consider that Forest Management (FM) activities, including efforts to reduce forest degradation, the sustainable management of forests, conservation, etc, could be accounted as 'forest land remaining forest land' under the IPCC Guidelines on GHG inventories. Accordingly, the Secretariat could convene an Expert Group to consider forest degradation, enhancement of forest carbon stocks, sustainable management of forests, and conservation, along with metrics upon which to transparently elevate emissions reference levels, or apply non-market instruments to support such efforts and make recommendations. The outcomes of this Expert Group should be considered by the AWG-LCA.

Forest Degradation: The relevant methodological guidance developed by the IPCC and approved by the Parties (IPCC LULUCF Good Practice Guidance) is believed sufficient for the purposes of forest degradation. However, the Parties have asked the Secretariat to convene an Expert Group to make recommendations to the Parties regarding methods to address emissions resulting from forest degradation.

Enhancement of Forest Carbon Stocks & Sustainable Management of Forests: Parties may consider methods to enhance forest carbon stocks or otherwise sustainably manage forest areas, as defined by each host Party, and account for the carbon stock implications, where relevant. There is a need to strengthen and expand the enhancement of forest carbon stocks in order to have a real and meaningful impact toward climate objectives and such activities should be considered as an eligible mitigation activity under Category III.

However, the standards imposed by the international community to achieve SFM are very high and requires a significant increase in financial resources. Serious consideration should thus be given to provide adequate incentives to promote the broad implementation of activities to enhance forest carbon stocks or SFM practices, as these have been shown to be an effective approach to controlling deforestation in developing countries.

The Role of Forest Conservation: In order to recognize the efforts of countries that have maintained or reached a stable level of forest cover we propose the following instruments:

- a) *Low Rates of Deforestation:* In order to maintain low rates of deforestation and forest degradation, such Parties could intentionally increase their emissions reference level under Category II or Category III in order to generate the revenues necessary to continue maintaining carbon stocks while overcoming risks of alternative opportunity costs. The Secretariat could convene an Expert Group to consider metrics to upon which to transparently elevate an emissions reference level and make recommendations.

- b) *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. In such cases, non-market instruments, such as auctioning AAUs with Parties listed in Annex-1, could be used to support efforts to increase carbon reservoirs.

- c) Countries should have the opportunity to use REDD instruments and participate in non-market instruments for permanent conservation activities.