IETA REDD+ UNFCCC SUBMISSION ON MODALITIES OF REDD+ RESULTS-BASED ACTIVITIES:[1]

05 March 2012
Mr Aysar Ahmed Al-Tayeb
Chair, Ad Hoc Working Group on Long-term Cooperative Action
c/o UNFCCC Secretariat
Martin-Luther-King-Strasse 8
D 53153 Bonn
Germany

Dear Mr. Aysar Ahmed Al Tayeb,

On behalf of the International Emissions Trading Association (IETA), I am grateful for the opportunity to provide comments regarding the modalities and procedures of financing results-based activities for reduced emissions from deforestation and forest degradation and contribute to conservation, sustainable management of forests and enhancement of forest carbon stocks (REDD+). IETA views REDD+ as a key new mechanism within a post-2020 climate agreement. It has the potential to provide sufficient financing to emissions reductions activities at an impactful scale. Ensuring an institutional framework is capable and optimised to fulfil the administrative requirements of providing predictability and building confidence among potential market participants, will be critical to its success.

ABOUT IETA

IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions trading since 2000. Our member companies include some of the world's largest industrial and financial corporations—including global leaders in oil, electricity, cement, aluminium, chemicals, paper, and banking; as well as leading firms in the data verification and certification, brokering and trading, offset project development, legal, and consulting industries.

SUMMARY OF MAIN CONSIDERATIONS

Designing and implementing a new mechanism for financing REDD+ contains very many important decisions and elements that require careful deliberation among all stakeholders. Previous experiences related to forest carbon, such as the Clean Development Mechanism (CDM) and Joint Implementation (JI) mechanisms can provide important lessons to take away during the design of a new mechanism for REDD+. IETA has drawn upon its knowledge of incentivizing financing of emissions reductions to inform this submission of our thoughts and recommendations.

[1] Pursuant to Decision 1/CP 17 paragraph 69 which "Invites Parties and accredited observers to submit to the secretariat, by 5 March 2012, their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68 - 70 and 72"

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IETA would like to emphasize the following points to consider:

1. **Demand for REDD+ Credits** – It is critical to provide adequate incentives to reward reduction activities through ambitious goals for reduced emissions, in conjunction with or supplemental to other emissions targets. To maximize private sector finance via carbon markets long-term and robust demand is essential. A prompt start approach to REDD+ market mechanisms would catalyse immediate private sector investment.
2. **Crediting using a Nested Approach** – Crediting emissions reductions activities should include the requirement to maintain environmental integrity of a national accounting framework to prevent leakage with the ability to reward performing projects for their REDD+ efforts.
3. **Administration and Oversight of a REDD+ Mechanism** – UNFCCC should ensure that a REDD+ based mechanism has the institutional tools and framework to provide an efficient system for crediting REDD+ activities.
4. **Environmental and Social Safeguards** – A mechanism must provide a level of assurance to investors in emission reductions that implementation fulfils high social and environmental standards.

In order to incentivize private sector investment at scale, addressing the above points will be critical. In addition, IETA notes that private sector investment in emissions reductions projects requires predictability, both in the process for issuing REDD+ based credits, and finding a marketplace to provide a financial return on these investments. IETA highlights the critical role of the Parties and UNFCCC in achieving predictability in order to further facilitate private sector investment.

THE NEED TO CREATE A ROBUST DEMAND FOR REDD+ CREDITS

IETA encourages the UNFCCC to consider the opportunity presented by the inclusion of a REDD+ crediting mechanism as part of the Durban Platform. The opportunity is for the Parties to increase their collective level of ambition towards the needed emission reduction targets to avoid an increase in global temperatures beyond 2 degrees Celsius. To avoid such a temperature increase (and the related social, environmental and economic consequences), the level of emission reductions that will be required in the short, medium and long term are greater than what has been pledged to date.

REDD+, if properly designed, has the potential to allow for a steeper, more aggressive global emission reduction curve. This is an important opportunity, especially while the global economy continues to slowly rebound from the recent crises. In light of the inherent limitations on purely public finance to address the scale of the global climate challenge, IETA strongly believes that any REDD+ mechanism will require a fully engaged private sector to mobilize the needed capital. In order to quickly draw and ensure sustained private capital to REDD+ at scale, investors must have a reasonable expectation for a risk-adjusted return on investment. One of the clearest ways to provide such return is to create tradable market instruments, much like CERs under the CDM[2]. A key challenge with REDD+, however, is ensuring through ambitious reduction commitments, that there will be sufficient demand for such tradable instruments to yield such a risk-adjusted return for investors.

[2] IETA recognises that carbon markets are complementary to other efforts in financing REDD+ and views market solutions as part of a suite of financing options.

IETA – MAKING MARKETS WORK FOR THE ENVIRONMENT
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Like all other emissions markets, a REDD+ market is a policy created market. Thus, the demand for a UNFCCC-created tradable REDD+ credit will be dictated by the policy choices made by the Parties in the design of a REDD+ mechanism. There are several ways to ensure a level of demand that is designed to attract scaled private sector investment. The first is for the Parties to agree on more ambitious overall mitigation targets that also recognize REDD+ instruments to help achieve them. The second is to create a separate minimum quota for REDD+ instruments that certain Parties must acquire as part of their commitments that could be used to count towards or in addition to emission reduction commitments or objectives. There could be any combination of steeper targets and supplementary quotas also used. Finally, the “prompt start” approach adopted for the CDM should also be applied to REDD+ market mechanisms, as this would encourage private capital to be deployed as soon as possible.

In addition to carbon markets that involve REDD+ instruments sourced in one country being transferred to another, other market-based approaches should be considered. These could include approaches to stimulate (and finance) domestic demand for REDD+ instruments within developing countries or options to incentivize changes across supply chains.

IETA does not take a view at this juncture on which combination of these tools is optimal, but encourages further dialogue and consideration on such measures. To be clear, REDD+ is an essential policy tool that should be implemented as soon as possible and without delay. IETA cautions the Parties, however, to manage any expectations of scaled private sector investment into REDD+ absent of adequate demand for such instruments. IETA believes the UNFCCC should play the central role in creating such demand, but also welcomes and encourages individual Parties and sub-national governments to supplement such demand through domestic action.

PROVIDING A BASIS FOR CREDITING BY USING A NESTED APPROACH:

The decisions taken by the UNFCCC permitted the establishment of national and sub-national accounting frameworks. Implementing these frameworks will enable a mechanism that credits successful REDD+ activities at multiple scales. IETA believes that crediting at multiple scales allows environmentally robust project level crediting, which is critical in order to enable private sector investment in REDD+.

Creating a REDD+ crediting mechanism that permits crediting for performance at multiple scales will be critical to attracting the necessary private sector investments and stimulate broader government level policy changes.

IETA is therefore encouraged by the progress achieved by carbon standards such as the Verified Carbon Standard (VCS) and the Climate Action Reserve (CAR), in establishing protocols for crediting REDD+ at multiple scales using a nested approach.

The basic concept is to promote the direct engagement of private actors in project activities, nested within larger scale (jurisdictional) accounting.[3] Leakage is addressed at the jurisdictional level to ensure environmental integrity of projects. Nested approaches can also provide significant flexibility to governments when designing their domestic REDD+ policy. For example, governments may use

[3] Chagas et al (2011), Nested Approaches to REDD+: An Overview of Issues and Options, *Forest Trends and Ecosystems Marketplace* pg. 5

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different ‘crediting pathways’ to reward projects, depending upon their particular national/sub-national circumstances. This approach is taken within the *VCS Jurisdictional and Nested REDD Initiative* where projects can use the established jurisdictional baseline when registering for credits, and undertake leakage assessment as part of the MRV process. This standardizes the baseline used by project developers and reduces transaction costs for investments. Alternatively, there can be a mixture of crediting between the jurisdictional level and nested projects, or credits can be internally allocated from the jurisdictional government to reward nested projects or other domestic policies or programs that generate emissions reductions or removals.[4] However, it is important to clarify that initial credit issuance would come from a UNFCCC body.

IETA views the nested approach as an effective mechanism for balancing environmental integrity in emission reductions, and providing the necessary incentives to drive private sector investments. Governments will play a critical role in establishing national accounting frameworks and reference emissions levels from which baselines are able to be determined. Market-based mechanisms can then unlock the potential of private sector financing to provide the funds necessary to achieve sufficient results on REDD+.

IETA welcomes the thought leadership demonstrated by standards such as VCS which have explored workable mechanisms that address many of the specific characteristics of a REDD+ nested approach. In looking at the modalities for a REDD+ crediting mechanism, IETA believes that the UNFCCC should consider the progress made by existing standards, and understand the necessity of incorporating mechanisms that provide certainty in the validity of emissions reductions, while also spurring essential private sector participation.

ADMINISTERING AND OVERSEEING A REDD+ MECHANISM:

IETA views REDD+ as an essential element of a new climate agreement. For REDD+ to succeed it is critical that an institutional framework able to effectively and efficiently meet the mechanisms requisite administrative and regulatory requirements in a predictable way supports a future mechanism. This is essential in building confidence for future market participants. The administrative tasks that need to be carried out include review and registration of national and subnational reference levels/reference emission levels, review and approval of monitoring reports, registering (nested) (subnational) programs, issuing credits to authorized public and private entities, managing a buffer account to address permanence, and dispute resolution procedures. How a future REDD+ mechanism relates to the NAMA registry and financial mechanisms of the UNFCCC (GEF and Green Climate Fund) will also need to be considered.

The Clean Development Mechanism (CDM), Joint Implementation (JI), and Annex I LULUCF accounting rules can all be looked upon with a critical and objective eye to draw lessons of successes and challenges of operating these mechanisms. Consideration will also need to be given to how a future REDD+ mechanism may differ from these existing project based mechanisms and how this may impact its administration. For example, the CDM is not currently linked to national or subnational achievements, whereas JI is linked to national accounting and affected by national reporting and review by the Expert Review Team (ERT). REDD+ will also be linked to national and/or subnational results, but operate under a different system to JI’s cap-and-trade approach. The LULUCF process for setting reference levels and the treatment of natural disturbances should also be

[4] Verified Carbon Standard, www.v-c-s.org/JNRI

examined for applicability to REDD+. If a future REDD+ mechanism generates tradable units, using existing infrastructure such as the ITL should also be considered.

IETA believes that ensuring fungibility between emissions reductions credits is critical to enable liquidity and increasing flexibility and scale within carbon markets, all of which are essential elements of a well functioning market. The separation of a REDD+ mechanism from CDM or JI institutional processes should not result at the UNFCCC level in a distinction between REDD+ credits and other credits such as Certified Emissions Reductions (CERs) or Emission Reduction Units (ERUs) for purposes of the overall UNFCCC emission reduction targets. The Parties should avoid creating a non-fungible credits, such as was done under the CDM for forestry-based offsets. The experience with tCERs and lCERs suggests that such an approach is not optimal. Similarly only allowing Removal Units (RMUs) and not also Assigned Amount Units (AAUs) to be converted into ERUs for JI forestry projects also created a significant barrier for these project types. Ensuring fungibility and practical, workable rules will provide a greater incentive for market participants to create, purchase, and trade REDD+ credits, a critical element for developing a functioning mechanism.

THE ROLE OF EXISTING VOLUNTARY STANDARDS AND BEST PRACTICES IN ENSURING ENVIRONMENTAL AND SOCIAL SAFEGUARDS

IETA welcomes UNFCCC's consideration that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support results-based actions by developing country Parties.[5]

Principles and standards for responsible investments in REDD+ (and including forestry and agriculture) have been initiated by the private sector, in addition to work undertaken by institutions such as UN-REDD and the World Bank's Forest Carbon Partnership Facility (FCPF). IETA recommends that the Parties closely examine and draws lessons from such principles in their efforts to develop policies and guidance on environmental and social safeguards.

IETA encourages further dialogue with the UNFCCC secretariat in developing modalities and procedures for results based actions by gathering knowledge and learning through demonstration projects delivered by the private sector. This should cover modalities and procedures for both social and environmental integrity. The results and benefits from demonstration projects can build confidence, establish successful best practices and lead to essential learning among government officials, local communities and indigenous peoples. This will promote champions willing to implement robust REDD+ programs and projects with strong safeguards and transparent, verified results.

IETA supports the use of real, verified, permanent, and additional carbon offsets only. Projects evidencing the above and, in addition, institutional, social, economic and environmental benefits, should be noted and replicated in order to scale REDD+ and build momentum and confidence.

Voluntary standards such as Climate, Community & Biodiversity (CCB) Standards are currently being used to evaluate the design and implementation of land-based projects that simultaneously reduce or remove greenhouse gas emissions and generate positive impacts for local communities and the local

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[5]http://unfccc.int/files/meetings/durban_nov_2011/decisions/application/pdf/cop17_lcaoutcome.pdf

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environment.[6] The CCB Standards can be used to: Demonstrate good project design to generate significant climate, community and biodiversity benefits. Successful CCB validation can help build support for the project among stakeholders and investors. 3rd party verification using a qualified auditor for the delivery of social and environmental benefits demonstrates a method to evidence results based action. This in turn safeguards environmental and social integrity. The REDD+ SES initiative provides similar guidance over how to optimise project design to achieve high environmental and social performance.

Forestry carbon standards such as VCS[7] when combined with social and environmental impact methodologies, such as Climate, Community & Biodiversity (CCB) Standards demonstrate how projects can achieve internationally recognised social and environmental integrity.[8] This includes new VCS standards that will scale up REDD+ accounting to sub-national (state and province) and national scales.

IETA strongly supports the development of MRV for social and environmental integrity in an international framework in order to support private investment in REDD+ projects. Having clear international policies for environmental and social safeguards is crucial to build investor confidence and to engage communities in REDD+.

IETA also recognises and respects that sovereigns may have varying capacities to implement identical safeguard measures, but allowing purely self-defined safeguard policies could lead to an unintended "race to the bottom" for such safeguard standards. Thus, IETA strongly encourages further dialogue toward striking the right balance between ensuring a minimum and robust level of internationally recognised safeguards and recognising the vital role sovereigns play in implementing REDD+ policy.

CONCLUDING REMARKS

IETA emphasizes that these recommendations are mutually reinforcing and, taken together, will provide a solid foundation for the design of an effective REDD+ mechanism. Providing demand for REDD+ credits will attract investment for these results-based activities. A crediting mechanism designed to allow performance to be credited, against a national accounting framework gives a level of assurance to investors that if they achieve reduced emissions they will be rewarded. This is enhanced if the process for issuing REDD+ credits is efficient, transparent and communicative with stakeholders.

Finally, if there is integrity in the emissions reductions that REDD+ credits signify, there is confidence in the mechanism to drive these necessary emissions reductions.

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[6] For example see: http://www.wildlifeworks.com/WWCarbon/WWCarbon/The_Kasigau_REDD_Project_VCS_Methodology_PD_v9.PDF

[7] http://www.v-c-s.org/develop-project/agriculture-forestry-projects

[8] Other lessons can be drawn from CarbonFix: http://www.carbonfix.info/, ACR http://www.americancarbonregistry.org/carbon-accounting/forest-carbon-project-standard-v2.0 and the Gold Standard http://www.cdmgoldstandard.org/project-certification/rules-and-toolkit; in overcoming technical issues in MRV of forest carbon projects and measurement of environmental and social integrity.

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IETA reiterates gratitude for the opportunity to communicate our perspectives, and we look forward to a continued dialogue with the UNFCCC over the development of a REDD+ mechanism.

If you have any questions regarding IETA's comments, please do not hesitate to contact Sophy Greenhalgh (greenhalgh@ieta.org) or Anthony Mansell (Mansell@ieta.org).

Sincerely,

Henry Derwent

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President and CEO

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