Climate Markets & Investment Association

CMIA submission on agenda item 11(c) Methodological issues under the Kyoto Protocol

Land use, land-use change and forestry under Article 3, paragraphs 3 and 4, of the Kyoto Protocol and under the clean development mechanism

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The Climate Markets and Investors Association (CMIA) is an international trade association representing companies that finance, build, and support emission reduction projects across five continents, as well as service providers to liable entities under cap-and-trade schemes. Formed to represent businesses working to reduce carbon emissions through the market mechanisms of the United Nations Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at USD 120 billion in 2010.

CMIA strongly supports the continued efforts of the international community to ensure effective action is taken to reduce emissions from forest and land use activities.

The Scientific Body for Scientific and Technology Advice (SBSTA) has asked parties and observers to the UNFCCC to provide a submission of views on the following topics relevant to the Land Use, Land Use Change and Forestry (LULUCF):

1. Views from Parties and admitted observer organizations on issues related to modalities and procedures for possible additional LULUCF activities under the CDM in accordance with decision 2/CMP.7, paragraph 6 (FCCC/SBSTA/2012/L.3, paragraph 3).
2. Views from Parties and admitted observer organizations on issues related to modalities and procedures for alternative approaches to addressing the risk of non-permanence under the clean development mechanism (CDM), in accordance with decision 2/CMP.7, paragraph 7 (FCCC/SBSTA/2012/L.3, paragraph 2).
3. Views from parties and admitted observer organisations on issues related to a more comprehensive accounting of anthropogenic emissions by sources and removals by sinks from LULUCF, including through a more inclusive activity-based approach or a land-based approach, as referred to in decision 2/CMP.7, paragraph 5.

In CMIA's capacity as an active participant in the development of REDD+ (including as an observer to the UNFCCC, World Bank Forest Carbon Partnership Facility and the Forest Investment Program), we submit the following for SBSTA to consider:

1. Modalities and procedures for possible additional LULUCF activities under the CDM in accordance with decision 2/CMP.7, paragraph 6.

A REDD+ mechanism has the potential to make a major contribution to global climate mitigation by reducing deforestation and forest degradation in developing countries. Where amendments to the Kyoto Protocol and its existing flexible mechanisms are agreed via the AWG-KP work-stream, the CDM could provide one option to reward emission reductions for REDD+ activities.

We would highlight the following principles for consideration of REDD+ modalities and procedures:

- **Strong safeguards:** REDD+ modalities and procedures will have a better chance of success where reputable investors know that strong safeguards are in place.
- **Recognise and build upon REDD+ country strategies:** Initiatives such as the FCPF and UN-REDD have enabled developing countries to document clear implementation strategies for REDD+. Provisional modalities and procedures that draw from these strategies will have a greater chance of success.
- **Develop robust systems of MRV:** REDD+ offers opportunities to deliver multiple benefits beyond the mitigation of climate change. However, the objectives of a REDD+ mechanism in the context of the UNFCCC should remain at the forefront. That is, ensuring that REDD+ can form a significant element toward mitigating dangerous climate change. As such, being able to scientifically measure and account for success based upon tonnes of carbon dioxide avoided or sequestered is critical to measuring success in meeting these objectives. However, we believe that this could be provided for activities at landscape or program level, and would not necessarily have to take place at project activity level only.

2. **Issues related to modalities and procedures for possible additional LULUCF activities under the CDM in accordance with decision 2/CMP.7, paragraph 6 (FCCC/SBSTA/2012/L.3, paragraph 3).**

LULUCF CDM projects have not attracted significant investment to date. This is in part due to the current tCER / lCER crediting arrangement which emerged as a response to the lack of clarity on the issue of non-permanence associated with forest conservation projects. The lack of investor confidence is compounded by the decision to exclude all non-A/R projects even though many such projects may score high on additionality and sustainable development merits. This has created the perception amongst many investors that LULUCF project types are inferior to others.

To safeguard the permanence of emissions reductions and provide clarity to investors and fungibility with other CERs, we recommend that SBSTA look to replace the tCER and lCER arrangement with an alternative mechanism such as a credit reserve or buffer. Such an approach is currently used by a number of standards in the voluntary carbon market (such as the VCS or the jurisdictional nesting mechanisms under development by ACR) which offer practical examples of how such a mechanism could be designed and implemented to deal with non-permanence[1].

CMIA also supports further research into other new mechanisms that limit and mitigate the reversal risks of LULUCF projects. These could include, but are not limited to the following:

- Develop **carbon accounting frameworks** to aggregate projects at the national or sub national to pool risks;
- Require developers to acquire **insurance** against project reversals;
- Provide **exceptions** to the temporary crediting arrangement for low risk activities;
- Apply **discounting factors** to credits dependent on the risk profile of the project;
- Host country **guarantees** of credit losses.

Without such a mechanism, the medium term investment potential in LULUCF projects, even those which are sustainable, additional and with significant emission sink and offset potentials, may remain challenging.

[1] For example LULUCF projects certified under the verified carbon standard (VCS) deposit credits into a pooled buffer account to cover non permanence. The percentage of credits deposited is dependent on the project's overall risk classification. The VCS Agriculture Forestry and Other Land Use (AFOLU) non permanence risk tool provides the procedures for conducting the non-permanence risk analysis and buffer determination. Further information about the tool can be found here: http://v-c-s.org/sites/v-c-s.org/files/AFOLU%20Non-Permanence%20Risk%20Tool%2C%20v3.1.pdf.

3. More comprehensive accounting of anthropogenic emissions by sources and removals by sinks from LULUCF, including through a more inclusive activity-based approach or a land-based approach

LULUCF projects face several disadvantages compared to other CDM activities, of which one is the time that is needed to build up terrestrial carbon pools. In order to provide carbon flows and revenues attractive to investor's this would logically lead to projects that are very large by area. However, in practice these projects face other significant challenges. In response to this a large number of small scale projects have emerged. Due to small project scales and long time frame for accumulation of carbon, these projects often struggle with transaction costs that are proportionally higher than other CDM project types.

To make LULUCF activities economically feasible at a larger scale, a landscape approach to project development and accounting would likely reduce transaction costs.

CMIA recommends that SBSTA should explore options for comprehensive monitoring and accounting frameworks that include pre-defined activities at landscape level and which take account of emissions from deforestation and degradation of forests and the degradation of other stores of terrestrial carbon.

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