United Nations Framework Convention on Climate Change

Submission of Views

Reducing Emissions from Deforestation in Developing Countries: Approaches to Stimulate Action

11th Conference of the Parties, Agenda Item #6

<u>Submitted Jointly by:</u>

Bolivia
Central African Republic
Costa Rica
Democratic Republic of the Congo
Dominican Republic
Fiji
Ghana
Guatemala
Honduras
Kenya
Madagascar
Nicaragua
Panama
Papua New Guinea
Samoa
Solomon Islands
Vanuatu

Mandate

The Twelfth Session of the Conference of Parties to the UN Framework Convention on Climate Change invited Parties and accredited observers to submit to the secretariat, by 23 February 2007, their views on issues relating to reducing emissions from deforestation in developing countries, focusing on the discussion of ongoing and potential policy approaches and positive incentives, the technical and methodological requirements related to their implementation, the assessment of results and their reliability, and improving the understanding of reducing emissions from deforestation in developing countries. The COP invited Parties to also consider, as appropriate, relevant provisions in other conventions and the work of multilateral organizations.

The COP requested the Subsidiary Body for Scientific and Technological Advice (SBSTA) to consider the information in the submissions, beginning at its twenty-sixth session (May 2007).

Key Messages

Reducing Rates of Deforestation is Possible and Urgently Needed: Emissions reductions from deforestation and forest degradation can significantly contribute to the ultimate objectives and goals of the UN Framework Convention on Climate Change ('the Convention') and the Kyoto Protocol (the Protocol). Accordingly, Parties should act with a sense of urgency to assist developing countries reduce emissions from deforestation and forest degradation – hereinafter referred to simply as 'deforestation' or 'REDD'. Experience demonstrates that many activities that cause and drive deforestation can be addressed through a system of policy approaches and positive incentives.

Sustainable Development at Scale: To reduce global deforestation rates by 50% over the next decade, the recently issued 'Stern Review of the Economics of Climate Change' estimates that approximately US$5 – US$10 billion per year will be required to be applied through a system of policy approaches and positive incentives. Revenues to developing countries at this scale could catalyze monumental gains toward achieving climate stability, poverty reduction, biodiversity conservation and sustainable economic development.

Sources of Funding are Available: As global deforestation accounts for approximately 20% of global carbon emissions, under the principle of proportionality, it is equitable that international mitigation policies dedicate 20% of available revenues to address this emissions source. For example, a policy that dedicated 20% of the trading volume from existing emissions trading markets to address deforestation would likely generate revenues that are sufficient to reduce global emissions from deforestation by 50% over the coming decades.

Technology and Methods are Available to All: It is currently possible to measure reductions in GHG emissions from deforestation in developing countries to a sufficient level of accuracy. The Intergovernmental Panel on Climate Change has developed Guidance and Good Practice Guidelines ('IPCC Guidance & GPG') relevant to forests that provide a basis for methodological consistency and verification. Estimation of uncertainty around measures of GHG emissions would allow conservative factors to be applied. Most importantly, the existing methods provide a pathway for immediate participation by developing countries while accommodating respective national circumstances.

Major Reduction in Long-Term Mitigation Costs: Reducing emissions from deforestation could significantly increase the amount of reductions that can be achieved while greatly lowering the mitigation costs of meeting the objectives of the Convention. The costs of reducing deforestation and associated emissions will change over time and vary within and among countries. However, acting now to prevent emissions will be easier, more cost-effective and yield more co-benefits than allowing emissions to continue unabated and attempting to reduce emission rates later.

Scope

This 'Submission of Views' has been developed in consultation with several regionally-oriented Submissions on the matter of 'reducing emissions from deforestation in developing countries.' The objective is to facilitate consensus within the respective geographic regions while advancing this important dialogue through a unified interregional and intergovernmental Submission.

Further, this Submission seeks to demonstrate unity of commitment and solidarity of vision related to reducing emissions from deforestation across continents and island chains – from Africa, Asia, the Caribbean, Central American, Oceania and South America.

Policy Approaches

Specific policy approaches must be considered within the context of each nation's circumstances, taking into account economic, legal, policy and institutional implications and in accordance with the Guiding Principles set out in **Annex 1** below. The many drivers of deforestation often vary by country and region. To be effective, developing countries themselves will determine which policy approaches are relevant and where they are to be applied.

Expand Existing Efforts: For example, many developing countries are already implementing policies to reduce emissions from deforestation that incorporate legal initiatives, tax structures, forest fire management plans, protected areas, agricultural intensification, sustainable forest management, reduced impact logging, payment for environmental services, improvement of land tenure rights, expansion of sustainable livelihood practices to address poverty alleviation, and the like.

Deepen Annex-B Targets: Unequivocally, deeper targets by Annex-B countries are a pre-condition for the introduction of this new source of emissions reductions from deforestation. Developed countries themselves must support policy approaches that ensure this 'new supply' is met by 'new demand.' This 'new demand' must be brought about by greater reductions and deeper targets by Annex-B nations. Reduced emissions from deforestation cannot simply compete with, and thereby lower prices realized by, other existing mechanisms such as the CDM.

Credit for Early Action: Furthermore, developed countries must 'credit early action' by ensuring that emission reductions generated by developing countries engaged in early efforts to reduce their emissions from deforestation should be creditable in future commitment periods post-2012. Such 'credit for early action' will allow emissions reductions markets to more quickly bring revenues to support developing country policies to reduce emissions from deforestation and also provide important learning opportunities.

Sustainable Financial Resources: When considering policy approaches, traditional sources of funding have unfortunately not been available at sufficient scale to meaningfully reduce emissions from deforestation in developing countries. Developing countries need to sustain the implementation of integrated policy approaches to address the associated opportunity costs, institutional overheads, and transitional costs necessary to support sustainable livelihoods and development.

Positive Incentives

To be effective at scale and over the longer term, relevant policy approaches must be underpinned by a basket of complementary instruments that provide simple, transparent and positive incentives to reduce emissions from deforestation in developing countries. When considering possible instruments, the Parties can apply learning from existing mechanisms, bodies and precedents within the Convention, and where appropriate, the Protocol.

When considering the forestry sector in developing countries on an aggregate basis, and within the diversity of national circumstance, the Parties must continue to strengthen existing tools that reward carbon sequestration through afforestation and reforestation but also consider new mechanisms to reduce emissions from deforestation. Additionally, the Parties must develop a complementary instrument to support those developing countries with historically low rates of deforestation that seek to stabilize existing forest areas and cannot benefit from either of the two aforementioned activities. Finally, an 'enabling fund' is needed to effectively and efficiently implement these instruments.

The CDM only accommodates afforestation and reforestation activities (CDM-AR). Now the Parties must develop a new basket of incentives to address the differing dynamics of the forest sector in developing countries by including instruments that reduce emissions from deforestation along with those that stabilize existing forest areas. Within this context, a new menu of voluntary incentives could include:

A. **REDD Mechanism:** to account for gross carbon emission reductions and non-CO_2 emission reductions only in existing forest areas on a national basis.

B. **REDD Stabilization Fund:** to account for carbon emissions and removals and non-CO_2 emissions in countries participating in the REDD Mechanism that seek to maintain and stabilize existing forest areas on a national basis.

C. **REDD Enabling Fund:** a special purpose group of funds designed to prepare and support developing countries who seek to participate in mechanisms A and B above, including piloting activities.

The nationally-based REDD Mechanism could be implemented synergistically with project-based CDM-AR activities in the same country since each instrument will be applied to different land areas. Clearly, the design of the REDD Mechanism must not conflict with CDM-A/R activities and must effectively offer developing countries a new and additional instrument that can be applied to areas that were forested during an agreed upon reference period. In all cases, each of these instruments may be immediately applied by using technical and methodological principles already in effect, principally the relevant IPCC Guidance & GPG. Further, new and additional funding will be needed to implement B and C above.

A. REDD Mechanism

The REDD mechanism must be designed to provide positive incentives to support voluntary policy approaches that result in gross reductions in GHG emissions from deforestation in developing countries as measured against a Reference Scenario (RS).

A RS will be made by estimating a reference emissions rate (RER) and taking account of a Development Adjustment (DA) factor.

The RER should be determined by assessing the activity data related to rates of deforestation and estimating the carbon stock implications using the relevant IPCC Guidance & GPG over a historical Reference Period (RP). Under the principle of 'conservatism', the RP should be as long as is possible, based upon the availability of country-specific activity data, but not shorter than five years. The RER could be updated periodically.

The DA must take into account the Convention's climate objectives and the atmospheric benefit of aggregately reducing emissions from deforestation in developing countries. However, the DA should seek to accommodate national circumstances and be applied in accordance with the common but differentiated responsibilities, respective capabilities and social and economic conditions within and between Parties.

The REDD Mechanism would provide a system of positive incentives that would be determined by calculating the estimated reduced emissions from deforestation and degradation (REDD), over an agreed upon past time period, evaluated against the Reference Scenario (RS).

REDD could be estimated in accordance with existing IPCC Guidance & GPG. In this respect, no new forest related definitions or rules are necessary because all relevant emissions and removals could be covered by application of the IPCC Guidance & GPG.

Furthermore, the IPCC Guidance & GPG apply a tiered approach. The tier selection for reporting on carbon stocks is based on national circumstances and related to data availability. Properly implemented, all tiers are designed to provide unbiased estimates while accuracy and precision should, in general, improve from Tier 1 to Tier 3. Conservative estimates could be achieved by taking into account uncertainty ranges. Deforestation rates will need to be measured using geographically explicit data. Developing countries may use available archived satellite remote sensing data to assess historical deforestation rates. Thus, Parties would provide estimates of land area representation using Approach 3 of the IPCC Guidance & GPG.

Within the context of national circumstance, the REDD Mechanism should be made available to developing countries to reduce emissions from deforestation via a system of positive incentives that may be either non-market and/or market-based.

Accordingly, non-market instruments would likely carry more conservative carbon accounting systems, lower performance standards, and consequently result in lower economic values per ton of emissions reductions. Conversely, market options could operate with more robust carbon accounting systems, higher performance requirements, and result in higher economic values per ton of emissions reductions.

We envision that under the REDD Mechanism, the UNFCCC Secretariat would organize a periodic review to assess the accuracy of the RS and the REDD for each creditable past time period.

B. REDD Stabilization Fund

A REDD Stabilization Fund could support developing countries that have very low rates of deforestation and seek to maintain their existing forest areas. Atmospherically, this is important to defend against the migration of deforestation from one developing country to another. Such migration would not result in the needed aggregate global reductions in emissions from deforestation in developing countries.

This fund could be supported through contributions generated from a variety of sources, including:

i) a levy on Emissions Reductions Units issued or Assigned Amounts, similar to those imposed on CERs,

ii) a tax on carbon intensive commodities and services, or industries currently excluded from emissions reductions policies,

iii) new and additional Official Development Aid, and/or other voluntary contributions.

The REDD Stabilization Fund will not be sustainable without clearly identifying sufficient, consistent and predictable sources for replenishing the fund.

C. REDD Enabling Fund

In order for some developing countries to participate in a REDD system of positive incentives, specific capacity constraints must be addressed. Early financial resources are necessary to ensure maximum participation at the earliest opportunity. Adoption of policies supporting 'credit for early action' will catalyze financial resources earlier and at greater scale.

Developing countries need to establish and improve national capacities to construct reference scenarios (expanding forest inventories, remote sensing capabilities, etc.), analyze the existing drivers of deforestation, and carryout policies and measures to implement and estimate reduced emissions from deforestation. Enabling assistance should facilitate cooperation and capacity building among relevant institutions within each country.

Further, the Enabling Fund should develop three voluntary tracks for a system of positive incentives, supported by various pilot activities, which could be formalized by the Parties to operate beyond 2012:

i) REDD non-market (or fund-based) instruments,

ii) REDD market-based instruments, and

iii) REDD stabilization instruments.

Annex 1: Guiding Principles

Real Benefits for the Climate: Any future action to mitigate climate change should pursue the ultimate objective of the UNFCCC as stated in its Article 2. To achieve real and measurable benefits for the climate, policy approaches and positive incentives should be appropriate, sufficient, and credible to address emissions from deforestation at an adequate scale. Further, such policy approaches and positive incentives should be implemented as soon as possible and should not prevent or delay other emissions reduction efforts.

Common but Differentiated Responsibilities: Recalling the principle of "common but differentiated responsibilities", all Parties have the responsibility to collaborate to reduce GHG emissions and combat their adverse effects on climate. There are historical differences in the contribution to the current composition of the atmosphere by industrialized and developing countries, as well as differences in Parties' respective economic and technical capabilities to address the resulting environmental implications. Reducing GHG emissions from deforestation offers a historic opportunity to enhance the effective participation of developing countries in the climate regime on a 'voluntary' basis. It also provides industrialized countries an opportunity to positively fulfill their historical commitments for additional financing to support forest conservation and reduce emissions from deforestation and forest degradation in developing countries.

Polluter Pays: Recalling Principle 16 of the Rio Declaration, we reaffirm the concept that Annex 1 Parties that have proportionally contributed greater amounts of GHG emissions should bear the same proportion of responsibility and mitigation costs.

State Sovereignty, Intergenerational Responsibility & Sustainable Development: Recalling the Preamble of the UNFCCC and the Rio Principles we reaffirm that Parties have the sovereign right to exploit their own resources pursuant to their own environmental and developmental policies in order to fulfill their present needs without limiting the options for future generations. Toward these objectives, forest-based ecosystem services need to be recognized and valued by the international community in order to allow developing countries with forests to capitalize these services on a voluntary basis. Therefore, not only should the Parties' participation in efforts to reduce emissions from deforestation be voluntary, Parties alone shall decide how to implement specific measures.

Equitable and Fair: Any effort to reduce GHG emissions from deforestation should ensure a fair distribution of the responsibilities and benefits both within and among countries. We must ensure that, on the basis of the principle of common but differentiated responsibilities, all countries have equitable and fair access to any incentive instruments developed and are assisted to overcome any comparative capacity and technical disadvantages impeding their access to these instruments. Further, market regulations and methodological issues should not be applied more stringently for developing countries – or for the forestry sector in general, as compared to other countries and sectors.

Cost Effectiveness: Policy approaches and positive incentives should be designed and implemented in ways that improve their cost-effectiveness. Incentives should be sufficient to cover implementation costs of the measures taken to reduce GHG emissions from deforestation, including opportunity costs, and should also assist countries that reduce emissions from

deforestation to address poverty alleviation while pursuing the ultimate objective of the UNFCCC.

Supplemental Funding and Capacity Building: Supplementary resources should be made available for developing countries to build the technical, legal and institutional capacity necessary to implement actions aimed at reducing GHG emissions from deforestation. Funding for emission reductions from deforestation should be additional to current and already established ODA programs.

Enhancing Forest Ecosystem Services as a Capital Resource: Many developing countries have difficulty putting into effect policies for maintaining or increasing the area of forest biodiversity habitats due to limited human, institutional, technological and financial capacity. Well-constructed mechanisms to reduce emissions from deforestation can have multiple benefits for sustainable development in developing countries, as forests function as a tangible capital resource that provides a diverse set of ongoing ecosystem services related to air and water quality, improved agricultural production, healthy coral reefs and fisheries, control of infectious diseases, medicinal cures, and social and political stability.

Need to Act Quickly while Protecting the Integrity of Existing Mechanisms: Any delay in addressing emissions from deforestation is counterproductive to the objectives of the Convention and will unnecessarily increase the costs of climate change mitigation. However, new policies and incentives related to reducing emissions from deforestation should be consistent, where possible, with existing mechanisms for reducing GHG emissions, should not undermine emissions reduction efforts by Annex I countries, and should complement existing flexibility mechanisms within the Kyoto Protocol.

Annex 2: Notes on Relevant Multilateral Treaties and Organizations

A. World Trade Organization

Trade-Related Issues Regarding Positive Incentives to Reduce Emissions from Deforestation in Developing Countries:

- The UNFCCC constitutes an independent international legal regime. It is not -- nor should it be -- subordinate to international agreements on trade. Article 3.5 of the UNFCCC makes clear that measures to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or disguised restrictions on international trade.

- The question of how Parties ultimately decide to use any credits, money, or compensation they receive for reducing their national rate of deforestation relevant to a certain reference scenario is wholly separate from the question of whether a framework of "positive incentives" adopted under the UNFCCC or Kyoto has any adverse trade implications. In other words, the possibility that a particular country might decide to use any revenues derived from such "positive incentives" in a manner that violated its obligations under international trade agreements is not a proper basis for arguing that the any framework of "positive incentives" adopted by the UNFCCC and/or Kyoto parties has adverse trade implications.

- Decisions by Annex I countries to allocate emissions allowances for trading purposes to a particular sector or sectors (at no cost) have not raised trade concerns. So too, then, a decision by developing country to allocate credits to particular individuals or companies for efforts to conserve tropical forests should not raise trade concerns.

- Positive incentives for reducing emissions from deforestation that involve direct payments from participants in the carbon markets for credits generated as a result of efforts to reduce emissions from deforestation would not constitute "subsidies" as that term is defined in Article 1.1 of the Agreement on Subsidies and Countervailing Measures because they would not be "financial contributions" from the national government.

- If the revenues derived from positive incentives for reducing emissions from deforestation resulted in transfer payments from national governments to the agents of deforestation in a particular country, such payments would not constitute subsidies as defined under Article 1.1 of the Agreement on Subsidies and Countervailing Measures as long as they do not go beyond correcting for market failure.

- Even if revenues and transfer payments derived from positive incentives for reducing emissions from deforestation could be construed as "subsidies" as defined under Article 1.1, as long as they meet the test for "general availability" (*i.e.* they are not specific to a particular enterprise or group of enterprises/industries), they would not be actionable subsidies.

- Finally, even if a program for channeling any revenues derived from positive incentives for reducing emissions from deforestation were construed as an agricultural subsidy, such

payments would be non-actionable subsidies as long as they meet the criteria for "Green Box" subsidies under Annex 2 of the Agreement on Agriculture. Such "green box" subsidies are defined in Annex 2 of the Agriculture Agreement and are allowed without restriction. In order to qualify for "green box" treatment, the incentives must have no or minimal trade-distorting effects or effects on production; the support in question must be provided through a publicly-funded government programs not involving transfers from consumers; and the support in question shall not have the effect of providing price support to producers. In addition, Annex 2 identifies certain policy-specific criteria and conditions that must be met in order to qualify as a green box subsidy. Among them are payments under environmental programs, provided that eligibility for such payments is determined as part of a clearly-defined government environmental or conservation program and is dependent upon the fulfillment of specific conditions under the government program; and the amount of payment is limited to the extra costs or loss of income (i.e. the opportunity cost) involved in complying with the government program.

B. World Bank

On 14 February 2007, Paul Wolfowitz, the President of the World Bank, announced: 'together with our partners, we are developing a Forest Carbon Facility, that would help countries combat deforestation and be rewarded with carbon finance credits, generating much needed income for poor countries.'

In summary, developing and industrialized countries have requested the World Bank to explore a framework for piloting activities that would reduce emissions from deforestation and degradation using a system of policy approaches and positive incentives. The proposed framework is called the Forest Carbon Partnership Facility. The proposed Facility would set the stage for a future, large-scale market by building countries' capacity to harness the future carbon market and piloting performance-based payments for avoided emissions in a subset of these countries.

For the first lime, win-win solutions to fight two major global problems, deforestation and global warming, would be piloted at a national scale while offering a learning-by-doing opportunity to developing and developed countries. Developing countries would have the opportunity to access sustainable financing flows to reduce deforestation and protect biodiversity. Developed countries would have the opportunity to scale up their contribution to climate change mitigation in cost-effective ways, as well as contribute to other sustainable development goals. Furthermore, major reductions in emissions from developing nations could make a significant contribution to global efforts to address climate change. The Facility would demonstrate that when developed and developing nations work together emission reductions can be scaled up significantly. The Facility can play a key role in fueling this transformation.

The FCPF proposes to create a body of knowledge and experience that would facilitate the development of a global program of incentives for REDD by generating analytical tools and implementation experience to benefit ongoing international negotiations, particularly in design of incentive structures, setting of emissions reference scenarios, monitoring and verification, legal frameworks, program implementation and so on. It would develop a methodological and policy framework and test a supporting program of performance-based incentive payments. Performance-based payments would be disbursed in a transparent and accountable budgetary framework in the context of a national public expenditure program managed by the host country.