

## **-SUBMISSION BY MEXICO**

### **REDUCING GREENHOUSE GAS EMISSIONS FROM DEFORESTATION IN DEVELOPING COUNTRIES**

#### **I. Mandate**

The Subsidiary Body for Scientific and Technological Advice (SBSTA), at its twenty-fifth session (Nairobi, 6–14 November 2006) invited Parties and accredited observers to submit to the secretariat, by 23 February 2007, their views on ongoing and potential policy approaches and positive incentives, and technical and methodological requirements related to their implementation; assessment of results and their reliability; and improving the understanding of reducing greenhouse gas (GHG) emissions from deforestation in developing countries.

Mexico welcomes this opportunity to provide views and submits the following inputs on these issues.

#### **II. Relevant background information**

This submission builds on the information presented and generated during SBSTA sessions, formal and informal workshops on this issue carried out in the last couple of years and on previous submissions by Parties. Additionally, we would like to point out some findings provided by the *Stern Review on the Economics of Climate Change* relevant to the proposals presented in this submission<sup>1</sup>:

- Curbing deforestation is a highly cost-effective way of reducing greenhouse gas emissions and has the potential to offer significant reductions fairly quickly. It also helps preserve biodiversity and protect soil and water quality.
- Policies on deforestation should be shaped and led by the nation where the forests stand but there should be strong help from the international community, which benefits from their actions.
- Compensation from the international community should be provided and take account of the opportunity costs of alternative uses of the land, the costs of administering and enforcing protection, and managing the transition. Research carried out for this report indicates that the opportunity cost of forest protection in 8 countries responsible for 70 per cent of emissions from land use could be around US\$5 billion annually, initially, although over time marginal costs would rise.

---

<sup>1</sup> Source *Stern Review, Final Report*. Part VI, Chapter 27. Cambridge University Press, 2006.

- Carbon markets could play an important role in providing such incentives in the longer term. But there are short-term risks of de-stabilizing the crucial process of building strong carbon markets if deforestation is integrated without agreements that increase demand for emissions reductions, and an understanding of the scale of transfers likely to be involved.
- Action to preserve the remaining areas of natural forest is urgent. Large-scale pilot schemes are required to explore effective approaches to combining national action and international support. Early crediting for the second commitment period could be a feature of pilot schemes.

### **III. Basic elements and principles**

We believe that avoiding emissions from deforestation is a priority issue for most developing countries, and that Parties should not miss this opportunity to design and agree upon effective and equitable schemes.

In our view, any arrangement under the UNFCCC aimed at reducing GHG emissions from deforestation in developing countries should consider four basic elements (see Figure 1):

- A) International sources of funding,
- B) International mechanisms for application,
- C) Implementation instruments and
- D) Internationally agreed methodologies and accounting systems.

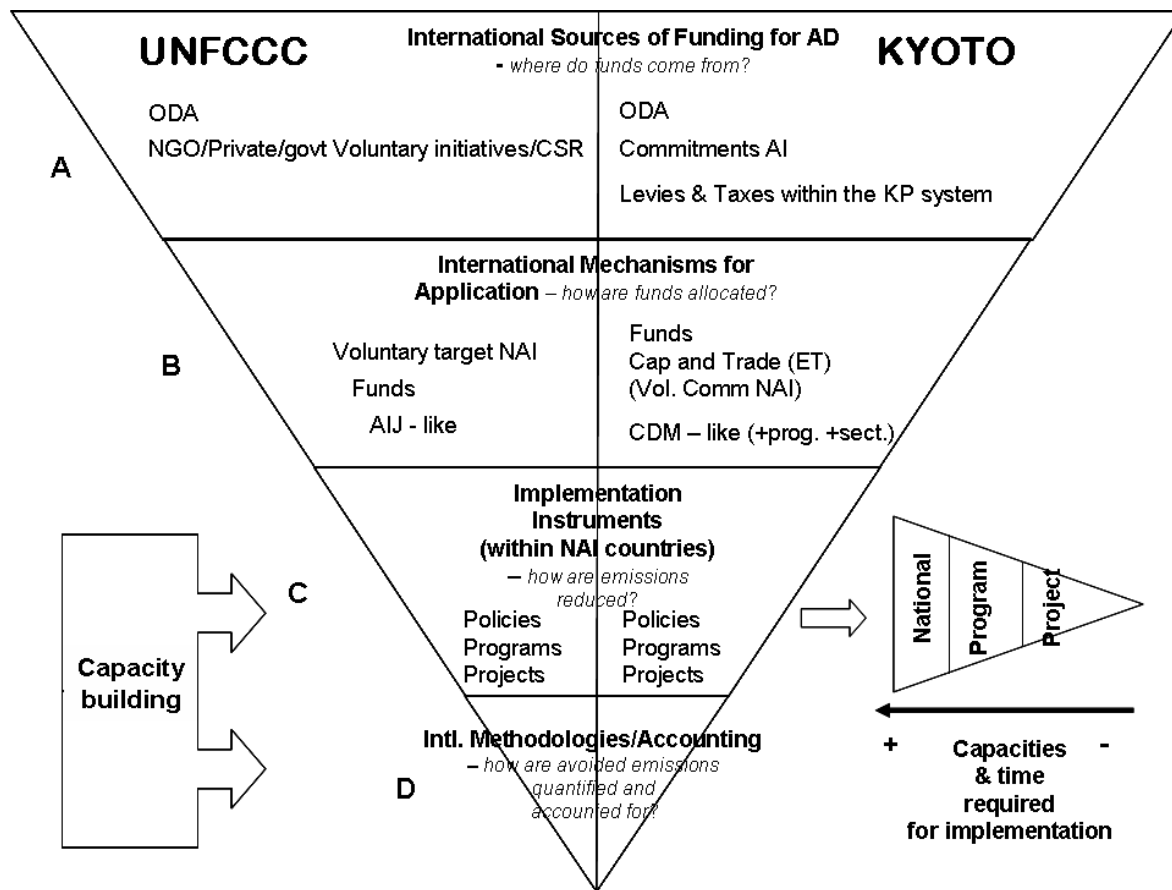
Additionally, capacity building efforts are required to ensure the successful implementation of initiatives and the accurate measurement of their carbon benefits.

Examples of these elements already exist under (or outside, but as a result of the existence of) the UNFCCC and the Kyoto Protocol, and some others have recently been proposed by other Parties.

However, effectively addressing emissions from deforestation in developing countries might entail the combination of existing elements, or even the creation of new ones, based on the experience gathered so far on their application and considering the required volume of funding and the different circumstances and levels of capacity of such countries.

These basic elements are presented below, together with some principles that we consider indispensable for the success of any proposal on this subject.

**Figure 1. Basic elements (with exemplified options) of an international arrangement under the UNFCCC to reduce emissions from deforestation in Developing Countries**



#### A) International sources of funding

In our opinion, international sources of funding to address emissions from deforestation should be:

- Sufficient.* The amount of funds available will be closely related to the volume of reductions that will be achieved. Implementing measures to avoid emissions from deforestation can be expensive. However, the cost per ton of CO<sub>2</sub> not emitted can be competitive in carbon market.
- Continuous and predictable.* Addressing emissions from deforestation effectively implies a long-term effort. Individuals, communities and governments implementing measures to tackle deforestation require certainty regarding the flow of funds available to support their efforts over time.
- Additional.* International funds (both public and private) directed to avoiding emissions from deforestation in developing countries should not be distracted from other areas, or switched from one country to another.

While already existing options under the Convention, such as ODA and voluntary carbon markets - promoted originally by the pilot phase of Activities Implemented Jointly (AIJ) and mostly driven by NGOs and socially and environmentally responsible companies - have been very useful and sometimes successful, it is clear that significantly cutting emissions from deforestation in developing countries will require an unprecedented effort.

Therefore, we consider that options associated to the carbon market are most likely to provide enough resources to achieve significant emissions reductions in the forest sector of developing countries, provided deeper mitigation commitments are taken on post – 2012 by Annex B countries.

Nevertheless, in our view this effort should be undertaken jointly by Parties to the Convention and to the Protocol, and options should be open to allow the former to participate, for instance, in creating the capacities needed to implement successful measures, including pilot activities.

#### B) International mechanisms for application

Ideally, any international mechanisms for the application of resources to address emissions from deforestation under the framework of the UNFCCC should be:

- a) *Voluntary*. Participation by developing countries shall be voluntary, and the existence of such mechanisms shall not imply new commitments of any kind for these countries.
- b) *Ensure the environmental integrity of the climate change regime*. Adopted mechanisms should include provisions to ensure their contribution to the achievement of the ultimate objective of the UNFCCC.
- c) *Equitable*. Every developing country wanting to reduce its emissions from deforestation should be able to use the agreed mechanisms at some level, regardless of its capacities and circumstances. This flexibility is required not only to ensure an equitable and wider participation, but also to facilitate a timely and effective reduction of emissions from deforestation, since it allows more countries to start addressing this problem immediately.
- d) *Efficient*. These mechanisms should operate efficiently, imply low transaction costs and facilitate the implementation of activities (i.e., not impose artificial barriers to their development). Accordingly, the use of institutions and mechanisms already established should be prioritized over the creation of new ones.

Taking these principles into account, we consider that almost all of the options known so far and presented in Figure 1 could be applied - provided that they be linked to a reliable source of funding (A above) - with the exception of emissions reduction commitments for developing countries under the Kyoto Protocol, which would not be acceptable at this point and would contradict the decision adopted by the COP/MOP2 regarding the review of the

Protocol, which states that “the second review of the Kyoto Protocol pursuant to Article 9 shall take place at its fourth session in 2008 (...) the second review shall (...) not lead to new commitments for any Party”.

Moreover, in order to ensure an equitable participation by all interested developing countries, mechanisms should be able to accommodate different levels of capacity, so that countries may be able to increase their participation as they enhance their capacities, thus allowing for a wide participation whilst guaranteeing the environmental integrity of the regime. Limiting the scope of these mechanisms to national-level approaches, for instance, would severely restrict the participation of most developing countries due their current lack of institutional and technical capacities, thus delaying emissions reductions currently achievable.

### C) Implementation instruments

In our view, instruments for the implementation of measures for the reduction of emissions from deforestation in developing countries should ideally comply with the following principles:

- a) *Sovereignty*. Developing countries should freely decide what instruments to cut emissions from deforestation best accommodate their interests, circumstances and capacities, as well as what may be the best moment for their implementation.
- b) *Sustainable development*. Instruments aimed at reducing emissions from deforestation should be designed in line with national sustainable development goals, and facilitate the achievement of economic, social and environmental objectives. They should also be respectful of relevant international conventions and agreements.
- c) *Long-term social and climate benefits*. Implementation instruments should be designed so as to ensure both durable economic benefits for individuals and communities and long-term emissions reductions. These instruments should ideally promote behavioral and structural changes.
- d) *Efficiency*. Instruments should be designed in a way that the costs of implementation and bureaucracy be minimal to allow for those reducing emissions on the ground to receive most of the resources in a timely manner.
- e) *Adequacy*. Implementation instruments chosen should be coherent with existing levels of capacity (see Figure 1 above).

### D) Internationally agreed methodologies and accounting systems

Methodologies and accounting systems should be defined only after the elements mentioned in the previous sections are agreed upon. They shall build on existing

methodologies and accounting approaches and ensure the environmental integrity of the climate regime without posing unnecessary costs and/or obstacles to the implementation of activities to reduce emissions from deforestation. They should also be transparent, in order to generate credibility in the mechanisms and the regime itself.

#### **IV. Proposals**

Taking into account the information and principles presented in the previous sections, Mexico proposes the following options to address GHG emissions from developing countries and looks forward to discussing them with other Parties.

##### A) Market-based options

The options presented below would require that the level of commitments beyond the first commitment period of the Kyoto Protocol be adjusted to accommodate the reduction potential of this and other new alternatives in order to avoid weakening the market signal in favor of the development and deployment of new mitigation technologies such as renewable energies.

##### *1. Including project activities that reduce GHG emissions from deforestation in the CDM during the second commitment period of the Kyoto Protocol*

In our view, the CDM has all the necessary elements to successfully promote activities to avoid emissions from deforestation in developing countries. It provides the only means for developing countries to participate in the (formal) international carbon market, which is considered as one of the most important new sources of funding in the next decades, with participation from both private and governmental resources.

Moreover, the CDM could - with minor modifications based on work already underway - cover a wider scope of application, from small projects to programmatic and sectoral ones, thus offering options for countries with different circumstances and capacities. The institutional capacities already established - plus those to be developed before the start of the second commitment period - by the Executive Board, Designated Operational Entities and Designated National Authorities would also facilitate the equitable implementation of projects and reduce transaction costs.

##### *2. Launching a Pilot Phase for Large Scale Initiatives under the Convention*

As mentioned in section II of this submission, action to preserve the remaining areas of natural forest is urgent, and large-scale pilot schemes are required to explore effective approaches to combining national action and international support. Therefore, we propose the establishment of a Pilot Phase for Large Scale Initiatives under the Convention aimed at promoting actions to reduce emissions from deforestation in developing countries.

Under this pilot phase - which should be implemented in parallel with the inclusion of activities to avoid emissions from deforestation in the CDM in the second commitment period - developing countries could voluntarily engage in initiatives at the municipal, state or national levels with the support of Annex I Parties and/or international funds and organizations.

Initiatives achieving real, anthropogenic, measurable and additional emissions reductions that may be expected to be long-lasting could be, if desired by the Host Party, verified and certified and registered as CDM activities in a subsequent commitment period. These large-scale initiatives would only be able to claim CERs retroactively, avoiding double counting the credits already issued to individual CDM projects or programs. Alternatively, such initiatives could continue under the pilot phase and generate verified emissions reductions, which could be sold in carbon markets outside the Kyoto Protocol.

In our view, this option could entail the following benefits:

- Providing incentives for immediate actions that would voluntarily reduce emissions from deforestation in developing countries at all levels (projects and programs in the CDM and large-scale initiatives under the pilot phase), according to their interests and existing capacities.
- Letting Parties know *ex ante* the amount of credits from large scale initiatives that could enter the market in a subsequent commitment period, thus allowing them to adjust emissions reduction and limitation commitments accordingly in order to preserve the environmental integrity of the regime and maintain the stability of the carbon market.
- Allowing non-Parties to the Protocol to participate in addressing emissions from deforestation in developing countries.
- Providing developing country Parties – at the municipal, state and sectoral levels - additional incentives to develop carbon-related capacities in the LULUCF sector.

## B) Funds

### *1. Establishing an Avoided Deforestation Carbon Fund*

Considering that funds based on voluntary contributions from Parties would not provide the level of funding and predictability required to significantly reduce emissions from deforestation in developing countries, we propose the creation of an Avoided Deforestation Carbon Fund, which would be fed by a X% levy on Emissions Reductions Units or Assigned Amount Units, similar to the one imposed on CERs. This Fund would be aimed at providing resources for the implementation of specific activities that should directly reduce emissions from deforestation in developing countries.

The Fund would act as a “common carbon fund”, where the emissions avoided by the activities funded would generate credits, which would be owned exclusively by the non-Annex I “project developers” (as in the case of unilateral CDM). This would provide such “project developers” an entry to the carbon market (through registration by the CDM following the usual procedures), which would in turn entail additional funds and incentives to continue, reinforce and expand conservation activities. This fund’s replenishment instruments are based on the polluter pays principle, which justifies the issuance of credits.

Obviously, this option would imply the insertion of activities to reduce emissions from deforestation in the CDM, including the development of projects outside the fund. The establishment of the Avoided Deforestation Carbon Fund would ensure the implementation of projects with high social and environmental benefits, regardless of the buyer’s preferences in the carbon market.

### C) Support for capacity building activities

In our view, the creation of a Fund to support capacity building activities related to avoiding emissions from deforestation in developing countries should be considered urgent and independent of the approaches eventually adopted to deal with such emissions. Negotiations on this Fund and its rules should start as soon as possible.