



Submission by the Government of Tuvalu

Reducing Emissions from Deforestation in Developing Countries

At its twelfth session, the Conference of the Parties invited Parties to submit their views on issues relating to reducing emissions from deforestation in developing countries, focusing on ongoing and potential policy approaches and positive incentives, and technical and methodological requirements related to their implementation; on assessment of results and their reliability; and on improving the understanding of reducing emissions from deforestation in developing countries taking into consideration, as appropriate, relevant provisions of other conventions and also the work of multilateral organizations (FCCC/SBSTA/2006/L.25, paragraphs 5 and 6). The Government of Tuvalu is pleased to provide its views on this matter.

In the consideration of potential policy approaches and positive incentives the Government of Tuvalu recalls the conclusions it made at the first workshop on Reducing Emissions from Deforestation (RED). In summary these conclusions stated:

- It is difficult to differentiate between deforestation and forest degradation;
- The underlying causes of deforestation and forest degradation are complex;
- If logging is a major cause of deforestation and forest degradation then leakage is going to be a major factor;
- If logging is a major cause of deforestation and forest degradation then carbon exchange projects (e.g. CDM or other similar trading activities) are unlikely to derive any atmospheric benefit;
- Setting aside reserves in exchange for carbon credits will not create atmospheric benefits unless the causes of deforestation are proximate
- Ensuring permanence for reducing emissions activities, even for proximate causes, is difficult and creates many challenges

The conclusions were based on matrix by presented by the Government of Tuvalu at the first UNFCCC Workshop on Reducing Emissions from Deforestation in Developing Countries, Rome, Italy, 30 August - 1 September 2006 (see Appendix A). The matrix was based on conclusions from the Oceania Regional Workshop on the Underlying Causes of Deforestation and Forest Degradation held in September 1998 in Nadi, Fiji.

The Government of Tuvalu considers that a new funding approach is needed to address the issue of reducing emissions from deforestation. In this context it proposes a Forest Retention Incentive Scheme. Details of this scheme are provided below:

The Forest Retention Incentive Scheme

The causes of deforestation¹ and forest degradation are complex. Finding the right incentive mechanisms to allow communities to protect their forests and reduce

¹ While the term deforestation is well defined in the context of decisions under the Kyoto Protocol for the purposes of considering avoiding emissions from deforestation a broader scope should be considered. A significant percentage of emissions from forests in Developing Countries comes from the

emissions needs economic measures that will guarantee that emissions from deforestation and forest degradation activities are reduced or eliminated without creating “false” carbon credits.² For this reason it is considered that a carbon trading scheme (including the CDM or other Kyoto Mechanism) would not achieve the necessary guarantees for an effective and long lasting regime to avoid emissions from deforestation.

As a means of attempting to address some of the concerns identified in the discussion paper for the first workshop, a new arrangement, which Tuvalu calls the Forest Retention Incentive Scheme (FRIS), is proposed.

Forest Retention Incentive Scheme (FRIS)

The FRIS would be established by a decision under the Conference of Parties to the UN Framework Convention on Climate Change. The FRIS would be based on three key components:

1. Community Forest Retention Trust Accounts
2. Forest Retention Certificates
3. International Forest Retention Fund

Community Forest Retention Trust Accounts

Communities that wish to set aside forest areas or manage them on a sustainable basis and hence reduce emissions from deforestation or forest degradation activities would seek funding to establish a Community Forest Retention Trust Account (CFRT Account). Sources of funding for the CFRT Account could include:

- The International Forest Retention Fund (see later description)
- Bilateral ODA
- Corporate sponsorship
- NGO contributions
- Government contributions (including through debt for nature swaps and other similar measures)

The funds received for the forest retention project would be put into the CFRT Account and the community could draw on a prescribed percentage of this Account to establish measures to combat emissions from deforestation and forest degradation. The remaining amount would be set aside in the CFRT Account. A community could then draw upon the interest from the Account on an annual basis, based on the concept of being paid an annual “rent for environmental services”.

Forest Retention Certificates

Once the CFRT Account was established communities could apply for Forest Retention Certificates. These Certificates would be based on an estimate of the amount of greenhouse gas emissions reduced by the project over a period of time. This estimate would be based on emission trends calculated at the commencement of the project compared with potential actions to reduce these emission trends.

process of forest degradation. Forest degradation should be included within any arrangement or decision associated with this concept.

² Tuvalu, being one of the countries most vulnerable to the impacts of climate change, is extremely sensitive to accounting schemes that do not create real climate change benefits.

At the end of a prescribed period, possibly 5 years, certificates equivalent to a determined amount of tonnes of CO₂ equivalent of reduced emissions would be issued. Certificates would be issued by national governments. The issuance of certificates by the national government would help reduce transaction costs currently experience in the Clean Development Mechanism. Governments issuing certificates would need to report annually to the COP. A committee established under the COP would be established to ensure that there was not an over-issuance of these certificates.

At the end of a prescribed period of time, possibly 10 years, the area of forest originally set aside or sustainably managed by a community would be assessed by an independent assessor. An independent auditor would also assess whether the CFRT Account was still in operation. If the project and the account were endorsed by the assessor and auditor, communities could redeem a prescribed percentage of their Certificates. This process would be repeated every 10 years. The purpose of this certification scheme would be to guarantee an ongoing source of funding for communities, hence helping to maintain effort to reduce emissions from deforestation and forest degradation.

International Forest Retention Fund

Funding for the redemption of these Certificates would come from an International Forest Retention Fund established under the Convention. Source of funding for the International Forest Retention Fund could come from:

- The Special Climate Change Fund³
- Voluntary contributions from governments
- International financial institutions
- Corporate donations
- NGO contributions

The redemption of the Certificates would be granted *ex poste*. In other words, communities would need to show that they had retained the forest they had set aside and had maintained their CFRT Account, before they would be eligible for redemption of a percentage of their certificates. This would hopefully create a significant incentive to retain their forests. National Governments would apply for funds from the IFRF based on the number of certificates they had issued or were about to issue.

Communities could deposit the redeemed Certificates into their CFRT Account (hence allowing a higher annual rent for environmental services) or use the money as the community sees fit. Procedures for assessment and auditing would be kept as simple as possible to minimise transaction costs.

³ Some governments have suggested that funding for RED could come from expanding the share of proceeds from the sale of CERs and other trading mechanisms under the Kyoto Protocol. The Government of Tuvalu believes that this would be inadvisable as funding from the share of proceeds is a Kyoto Protocol funding source and should be directed towards the Adaptation Fund.

The Certificates can only be redeemed to the International Forest Retention Fund. The fundamental component of this scheme is founded on the principle that the certificates could not be sold, transferred or traded.

Data needs and availability

In order to provide the necessary data to ensure that correct emissions rates are calculated at the commencement of the project and during ex poste assessments, communities may need to draw on technical expertise to assist them. Communities could draw from the Community Forest Retention Trust Accounts to employ appropriate technicians to assist in undertaking assessments.

Purpose of a New Funding Arrangement

The purpose of a new funding arrangement under the Convention is to provide the necessary financial incentives to allow communities in Developing Countries to set aside forests or sustainably manage their forests and avoid economic pressures to lose their forests or see them degraded. This is an alternative to carbon trading as there are inherent problems associated with carbon trading (including the CDM) in the context of avoiding emissions from deforestation or forest degradation.

There are both advantages and disadvantages to this proposal. These include:

Advantages of FRIS

- It would not devalue price of tradable carbon credits
- It would not divert financial resources from major sources of GHG emissions (energy and transport)
- It provides resources directly to communities where deforestation and degradation is occurring
- The implications of leakage are less significant due to non-linkage to carbon markets
- The Trust funds and certificate redemption give an opportunity for long term funding and help address permanence issues
- It does not upset the Marrakech Accords, therefore the proposal would be eligible for early action
- It is less likely to infringe on the rights of Indigenous and local communities because the communities would be directly involved in the management of the activity
- As it is not linked to CDM, it reduces the pressure on Annex B countries to significantly increase their emission reduction targets in the second commitment period to offset against RED removals

Disadvantages of FRIS

- It may not address non-proximate (underlying) causes of deforestation and degradation
- It is limited to voluntary sources of funding
- It may not address leakage if leakage is due to non-proximate causes of deforestation and degradation

The Forest Retention Incentive Scheme is not fool proof and could be undermined by unscrupulous players. However, quarantining the Scheme from carbon trading may remove some of the incentives to fraud the system or to gain carbon credits where no

real and long term climate benefits are achieved. Hopefully it will provide the necessary incentives to reduce emissions from deforestation and forest degradation.

Appendix A

Emissions Reduction Effectiveness Matrix:

The following matrix was presented by the Government of Tuvalu at the first UNFCCC Workshop on Reducing Emissions from Deforestation in Developing Countries, Rome, Italy, 30 August - 1 September 2006. The matrix was based on conclusions from the Oceania Regional Workshop on the Underlying Causes of Deforestation and Forest Degradation held in September 1998 in Nadi, Fiji.

The strategies to address the underlying causes of deforestation and forest degradation identified in the Oceania workshop have been matched against carbon accounting issues and emissions reduction effectiveness criteria to create the following matrix⁴:

Carbon Accounting Issues and Emissions Reduction Effectiveness							
<i>Strategies to Address Underlying Causes</i>	Feasibility	Emissions displacement (leakage)	Short and long term effectiveness (permanence)	Potential as a credit exchange project (e.g. CDM-like project)	Potential as funded activity other than through credit exchange	Environmental or social effects	Overall effectiveness with respect to CO₂ changes in atmosphere
Promote consumer education programmes in consumer countries	High demand countries unlikely to accept	Reduction in global demand will reduce leakage	Likely to last only as long as education programmes last	Difficult to link project to source of emissions	Worthy project to fund	May push market to other GHG intensive products e.g. steel	Potentially significant but requires considerable effort
Promote timber certification strategies (e.g. FSC criteria) in key timber products markets	Resistance by consumer countries. May have WTO complications	Leakage highly likely unless global coverage	Market demands may override consumer awareness	Difficult to define project and establish baseline	Possible but outcomes uncertain	Potential to have positive env. and social effects due to value added products	Limited effectiveness due to leakage
Encourage participation in, and community awareness of, the effect of globalization on the timber trade in the region.	Difficult to do, due to pressure from logging companies	Leakage highly likely unless global coverage	Economic pressures likely to override awareness	Difficult to define project and baseline	Potential ODA project	May have positive spin-offs that support local industries	Limited effectiveness due to leakage
Establish national parks and forestry reserves	Limited local support due to limited income opportunities	Leakage highly likely if deforestation due to timber trade	Generally long term benefits if effectively policed	Possible as credit exchange project but leakage would be major obstacle	Potential funding from NGOs	Both positive and negative effects depending on local involvement	Limited effectiveness due to leakage. If undertaken as carbon exchange project could result in increase in emissions
Develop eco-tourism enterprises and other economic alternatives to logging	Has potential but would face opposition from logging companies	Leakage highly likely if deforestation due to timber trade	Economic viability needs to be assured to have long term effectiveness	Difficult to define baseline	Potential ODA or NGO project	Likely to have positive environmental and social effects	Limited effectiveness due to leakage

⁴ It should be noted that the activities relate only to the causes of deforestation and forest degradation in the Oceania region, though parallels may be found in other regions.

<i>Strategies to Address Underlying Causes</i>	Feasibility	Emissions displacement (leakage)	Short and long term effectiveness (permanence)	Potential as a credit exchange project (e.g. CDM-like project)	Potential as funded activity other than through credit exchange	Environmental or social effects	Overall effectiveness with respect to CO2 changes in atmosphere
Legislate to enshrine Reduced Impact Logging and Sustainable Forest Management practices	Difficult to enforce, reluctance due to market pressures and governance issues	Leakage highly likely if deforestation due to timber trade	Enforceability biggest obstacle	Possible to establish as project but complex	Potential ODA project	Enforcement may infringe community rights but may have positive environmental effects	Limited effectiveness due to leakage
Strengthen investigative and prosecutorial capacities of law enforcement institutions to ensure good leadership and good governance	Difficult to do due to pressure from logging companies and sensitivities within government	Leakage highly likely if deforestation due to timber trade	Laws may change due to market demand changes	Difficult to identify as project with forestry outcomes	Potential ODA project	Potential positive environmental and social effects	Worthy action but limited effectiveness due to leakage
Initiate dialogue with IMF and other IFIs to review structural adjustment policies that downsize public sector and promote fee payments for health and education in poor communities	Difficult to change IMF ideology	Only effective if undertaken in all timber exporting countries	Economic circumstances may change placing greater pressure on government expenditure	Difficult to define as a project	May be difficult to find a sponsor for this activity	Potential positive environmental and social effects	Worthy action but limited effectiveness due to leakage
Develop downstream processing of timber products	Difficult due to market pressures and influence of logging companies	Leakage highly likely if deforestation due to timber trade	Potential long term effectiveness if industry made viable	Possible project but may be difficult to define baseline. Unlikely due to leakage	Potential ODA project of foreign direct investment	Potential positive environmental and social effects if wastage can be controlled	Limited effectiveness due to leakage
Negotiate trade measures in regional and international trade regimes that support sustainable forest management practices (e.g. timber certification)	Highly unlikely due to WTO complications	Could potentially address leakage if global coverage	If applied may have long term benefits	Difficult to define as project	May be difficult to find a sponsor for this activity	Potential positive environmental and social effects	May have overall benefits if global coverage

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Establish education programs on the connection between population increase, land use and resource issues	Possible to include in school curriculum	If overall reduction in population then local leakage may be addressed	Education priorities may change	Not feasible as project due to long term outcomes and indirect benefits	Potential ODA and NGO funded activity	Likely to have environmental benefits but may face cultural or religious resistance	Limited effectiveness
Expand family planning education programmes	Possible but may face resistance from certain cultural or religious groups	If overall reduction in population then local leakage may be addressed	Very long term benefit if effectively undertaken	Not feasible as project due to long term outcomes and indirect benefits	Potential ODA and NGO funded activity	Likely to have environmental benefits but may face cultural or religious resistance	Potential long term benefits
Develop and implements appropriate/acceptable farming systems, agroforestry	Possible but economic viability would need to be assured	Limited leakage unless people displaced	Potential short to medium term benefits if viability shown	Potential to develop as project though baseline may be difficult	Potential ODA and NGO funded activity	Potential positive environmental and social effects	Potential atmospheric benefits if long term viability assured
Undertake strategic valuation and assessment of forest values (timber, watershed, gene pool)	Complex process, would face resistance from logging companies	Leakage highly likely if deforestation due to timber trade	Economic circumstances may change	Not feasible as project due to uncertain outcomes	Potential ODA and NGO funded activity	Potential positive environmental and social effects	Limited effectiveness due to leakage
Incorporate forestry awareness programs at all levels of education	Possible but may be subverted by logging industry	Leakage highly likely if deforestation due to timber trade	Education priorities may change	Not feasible as project due to uncertain outcomes	Potential FAO, ODA and NGO funded activity	Potential positive environmental and social effects	Limited effectiveness due to leakage
Ensure all legal and contractual documents are translated and well understood by all parties.	May face resistance from logging companies	Leakage highly likely if deforestation due to timber trade	Enforceability biggest obstacle	Potential to develop as project though baseline may be difficult	Potential ODA and NGO funded activity	Potential positive environmental and social effects	Limited effectiveness due to leakage
Integrate the principles of the UN Draft Declaration on the Rights of Indigenous Peoples in programs on forestry, land use and economic development	Difficult to undertake and would face significant resistance from logging companies	Leakage highly likely if deforestation due to timber trade	Enforcement of rights may be difficult	Not feasible as project due to uncertain outcomes	May require ODA support to develop legislation	Potential positive environmental and social effects	Limited effectiveness due to leakage

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Establish mechanisms and institutions to enable full and effective participation by Indigenous Peoples in decision making at local, national and regional levels	Difficult to undertake and would face significant resistance from logging companies	Leakage highly likely if deforestation due to timber trade	Enforcement of participatory rights may be difficult	Not feasible as project due to uncertain outcomes	May require ODA support to develop legislation	Potential positive environmental and social effects	Limited effectiveness due to leakage
Provide properly resourced ongoing stakeholder participation to facilitate full and inclusive involvement in natural resource management and policy	Difficult to undertake and would face significant resistance from logging companies	Leakage highly likely if deforestation due to timber trade	Ensuring ongoing participation may be difficult	Not feasible as project due to uncertain outcomes	Potential ODA and NGO funded activity	Potential positive environmental and social effects	Limited effectiveness due to leakage
Improve access to information sharing by providing extension services through the Forestry Department and Environment Department	Possible, but would need commitment from government to support	Leakage highly likely if deforestation due to timber trade	Only effective will programme continues	Not feasible as project due to uncertain outcomes	Potential ODA	Potential positive environmental and social effects	Limited effectiveness due to leakage
Improve community involvement in development, planning and implementation of foreign assistance programmes	Difficult to undertake due to foreign policy agendas	Leakage minimized if dealing with local deforestation activities	Would have limited longevity unless enshrined in legislation	Not feasible as project due to uncertain outcomes	May be difficult to find sponsor because of foreign policy agendas	Potential positive environmental and social effects	May have some benefits but linkage distant
Create development funds for poverty alleviation programs through non-government and community-based organisations	Feasible but coverage may be limited due to different development priorities	Leakage could be minimized due to addressing local deforestation activities	No guarantee of permanence due to change in funding or government priorities	Certain types of projects may be possible	Potential ODA and NGO funded activity	Potential positive environmental and social effects	May have overall benefits if directed against local deforestation causes

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Identify and implement positive economic incentives to encourage and facilitate appropriate regimes of forest and remnant vegetation management (eg. through taxes, local rates, stewardship payments)	Possible but may face resistance from logging companies	Depending on what type of deforestation being addressed (e.g. local or international) leakage could be minimized	No guarantee of permanence due to change in funding or government priorities	May be difficult to identify baseline for a project	Potential ODA and NGO funded activity	Potential positive environmental and social effects	May have overall benefits if directed against local deforestation causes
Develop and implement national, provincial and local government sustainable development plans.	Possible, but would need commitment from government to support	Depending on what type of deforestation being addressed (e.g. local or international) leakage could be minimized	No guarantee of permanence due to change in funding or government priorities	May be difficult to identify baseline for a project	Potential ODA and NGO funded activity	Potential positive environmental and social effects	May have overall benefits if directed against local deforestation causes
Review infrastructure development strategies to avoid problems of deforestation.	Possible, but would need commitment from government to support	Leakage may be minimized by addressing local deforestation	No guarantee of permanence due to change in funding or government priorities	May be difficult to identify baseline for a project	Potential ODA and NGO funded activity	Potential positive environmental and social effects	May have overall benefits