



The Mexico Forest Project Protocol Workgroup

Meeting 4 Meeting Notes September 29, 2010	Meeting was held at the office of CONAFOR in Coyoacan, DF- Mexico
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The meeting was held on September 29, 2010 at CONAFOR's offices in Coyoacan, Mexico. The meeting started at approximately 9:30 am and concluded at 4:00 pm.

In attendance: John Nickerson (Climate Action Reserve), Ruben Bernabe Martinez (Ambiente y Desarrollo), Ricardo Rivera (CONAFOR), Cecilia Simon (Pronatura), Pablo Quiroga (Natura Proyectos Ambientales), Juan Carlos Carrillo (CEMDA), Christoph Neitzel (Academic, UNAM), Carmen Jimenez (Reforestamos Mexico), Gmelina Ramirez (Consejo Civil Mexicano para la Silvicultura Sostenible), Yougha van Laer (Southpole Carbon)

Remote: Tim Kidman (Climate Action Reserve), Robert Youngs (Climate Action Reserve), Kjell Kuhne (Instituto Nacional de Ecologia) Cheri Sugal (Terra Global Capital), Michelle Passero (The Nature Conservancy), Yves Paiz (The Nature Conservancy), Naomi Swickard (Voluntary Carbon Standard), Stephen de Gryze (Terra Global Capital), Elsa Esquivel (Ambio)

Meeting Summary:

The meeting consisted of updates from the various subcommittees since the last workgroup meeting. Presentations were provided from the following subcommittees:

- Jurisdictional accounting/Nested Projects (Yves Paiz, Tim Kidman, Michelle Passero)
- Baselines and Leakage (Alfredo Cisneros, Kjell Kuhne, Cheri Sugal, Steven de Gryze)
- Permanence (Yougha Von Laer, Christoph Neitzel, Carmen Jimenez, Alejandra Cors, Juan Carlos)
- Aggregation (Cecilia Simon, David Ross, Sandie Fournier, Pablo Quiroga)
- Environmental and Social Safeguards (Ivan Hernandez, Gmelina Ramirez, Elsa Esquivel)

Prior to subcommittee presentations, John communicated interest in continuing to communicate with CONAFOR to develop a system that will work both with CONAFOR and with the Reserve. Ricardo (CONAFOR) provided an update on some of the key current activities related to Mexico's REDD activities. There was a discussion of some pilot sites, including REDD projects in Jalisco (state project). In Chiapas there is also interest in developing state projects in the Lacandon rainforest. In Jalisco there is work to put together a proposal for a forest carbon project in conjunction with CONAFOR. In Veracruz, under CDM guidelines, CONAFOR has developed a baseline methodology. In the Cuenca de Tamaulipas, near Veracruz, there is a diagnostic area set up. There was a discussion of plans to present at COP 16 and plans to scale up some pilot projects to the state level.

Jurisdictional Accounting and Nested Projects

Several updates and presentations were given regarding options for nested frameworks and jurisdictional accounting. The group discussed the benefits of jurisdictional accounting with

nested projects. The scheme spreads project risks out. Also discussed is the need to address what incentives/benefits can be provided to jurisdictions to enable them to take on accounting and registration roles as well as assuming some of the liability of project activities.

Tim Kidman gave a presentation on Jurisdictions, Projects, and Nesting which is available on the Reserve's website. There was a discussion of some of the thinking in California, and at the Air Resources Board (ARB) regarding the process. With respect to nesting, the ARB's thinking is a move toward direct crediting to local project developers, rather than jurisdictions, and to have accountability at the jurisdictional level. The comment period to ARB is open to the public.

In moving from standalone to nested projects, much of the methodology would be similar, but with reconciliation/harmonization at the jurisdictional level. Currently in the voluntary US based protocol, all liability falls on the project developer (i.e. forest owner). Such liability could be shared with the jurisdiction with jurisdictional accounting. Terra Global Capital mentioned a white paper they developed to address accounting, and nested and integrated REDD.

The benefits of moving to nested and jurisdiction level accounting include less risk to individual land owners and aggregators. But, again, what are the benefits to the jurisdiction? There was discussion related to benefit sharing between projects and jurisdictions. Getting the support of the jurisdictions is important, but it will be involved and complex and take lots of energy. There was a discussion of the need to further identify and address the needs of jurisdictions.

The discussion included a possible approach to monitoring stocking levels for various forest classes within ecological zones. Tim presented a slide that displayed the conceptual classes being various canopy classes of primary forests (so that degradation could be monitored), secondary native forests, and secondary non-native forests. These would be developed from remote sensing and be updated over time. Inventory estimates for each class would hopefully be based on permanent plots managed by CONAFOR. This would enable the tracking of emissions from the forest sector over time.

There was a discussion of how to determine how liability is shared. Concern was raised for projects where the jurisdiction meets the crediting baseline and subsequently has a reversal – what are the impacts to the projects? Also, mention of a sliding scale (e.g. if jurisdiction has decrease of 10%, then individual project can only receive X% of their project level increases for that year). There was a discussion of whether co-benefits will be considered in this particular reconciliation context; likely they will not. Standards will be established for both projects and jurisdictions. It was mentioned that some states and jurisdictions have better organization and readiness than others for these types of projects.

Permanence Subcommittee

Juan Carlos presented an overall discussion of the advances of the subcommittee since the last meeting. The presentation is available on the website.

There was a discussion of the various land rights categories in Mexico and the varying complexities of characterizing 'small' landholders, including size (above or below 150 hectares and 300 hectares) as well as crop suitability. The various types of private land holders, (including Ejidos, communities, and non communal landowners) were discussed at length, as well as the potential land rights and title issues associated with each category. One of the reasons for this discussion is that each class of land tenure has different levels security, which will necessitate the need to develop risk classes.

It was noted that in communities and Ejidos, legal commitments cannot go beyond 30 years, which is problematic for the 100 year permanence period required by CAR for forestry projects. Regarding use-rights, Ejidos are typically given a land certificate from the state. Basically, individuals that manage parcels can make many decisions regarding their own parcel, but

selling that parcel must be decided by the larger community (the parcels cannot typically be split off and sold). There is a process in which the Ejido can collectively agree to convert the land to private, non-Ejido use, but the process is complex and requires consensus from the Ejido governing body. Parcel owners may rent the property to others, and give them temporary rights-use to the parcel. Only certain rights of use are given to parcel owners. It should be noted that parcel owners do not need permission from their community/Ejido to reforest an area.

There was a discussion of other types of private land owners and rights regimes, including the process for some people that have lived on the land for extended periods (Poseedores) to receive a 'tramite' or permit to receive title, but the process can be complex, and unclear title was identified as an area of increased risk.

There was a discussion of the various risks involved with different ownership regimes, including Ejidos on land on the other side of municipality borders, as opposed to land within their own municipality that has been controlled and managed by one ancestral group for an extended time. There was also a discussion of the relative lowered risk for land that might have social or cultural significance to an indigenous group. There was discussion of the need to further flesh out criteria within each class as there are variations of risk within each class. This was identified as an action item for the next meeting.

There was further discussion from John regarding the rationale behind the 100-year permanence period and its relation to the life of carbon dioxide in the atmosphere. Ensuring permanence is integral to providing credible sequestration offsets.

This was followed by a discussion related to how permanence can be assured related to a 100 year period after the first 30 years of crediting. Approximately 75-80% of forest land is under the control of Ejidos. They are a very important group, but by law Ejidos are only allowed to sign contracts of 30 year duration, so other creative solutions are necessary. Ideas were related to how to incentivize continued forest cover as well as continued monitoring beyond the end of the first 30 years, such as contributions from the existing buffer pool if subsequent longer term agreements are signed after the initial 30 years. Other ideas were related to a trust fund type system for Ejido and community projects. That is, potentially working with Monex or Ecobanca to spread out the payments to assist with the long-term monitoring requirements (provide an incentive to meeting the required permanence period. Legal and enforcement issues were identified with this. Lowering the permanence period through jurisdictional accounting was discussed as an important option. Interest was expressed in obtaining estimates on the costs of incremental forest monitoring for 100 years after the end of a permanence period. Further discussion was related to dealing with overall permanence on a jurisdictional level to lower the burden on individual landowners.

Juan Carlos gave a presentation about adapting the Project Implementation Agreement (PIA) to Mexico and particularly the difference between land rights and regimes and social-cultural issues in the US and in Mexico. There were ideas around adapting a modified PIA for the different forest owner types in Mexico (Ejidos, non-communal private, etc). Mexican forestry law states that the owner of the land is the owner of all forest resources. The general thinking is that this applies to the carbon, just as any other commodity produced by a plot of land. There are not strict legal definitions around forest carbon currently on the books in Mexico.

Beyond the risk profile established (related to title, etc.), Juan noted the importance of the modified PIA being registered with the state to lower the project risk and uncertainty. Although one could argue there are never full guarantees, this is an important way to lower risk. Must also establish procedure and rights for both parties associated with the possibility to rescind the PIA in the future (what would be the Reserve's recourse, and the forest owner's recourse, and what fees/fines would be relevant if either party chose to rescind the agreement). Clear, written language for both parties is currently lacking in this respect. Restrictive language around what cannot be done in forest under the agreement will need to be looked at. The language in the

PIA must clearly allow for traditional uses to occur, taking into account the spiritual and subsistence practices that might be precluded by such an agreement. Indigenous rights were discussed at length.

It was noted that it is very important that the project language is positive, mentioning rights *to* the forest, not the other way around (what can be done, instead of what can't be done). There was discussion of possibly maintaining the modified PIA between the Reserve and the Aggregator instead of the Reserve and the individual landowner. There was talk of developing a model/template contract to be used for the contract between the aggregator and the indigenous or agrarian communities. The current draft contracts are perhaps too complex for many communities. There was a discussion of keeping in consideration that the forest is the livelihood of many small landholders, and bridging the gap between 100 years of forest carbon and 100 years of day-to-day life in the forest.

For the next meeting, there are plans to evaluate potential buffer pool requirements for each of the land tenure classes and how they might fit in with jurisdictional accounting. Also, there is a need to look into monitoring requirements in greater detail. If monitoring for 100 years is required, then we must look at relationship between monitoring costs over time and carbon revenues over time. Discussion of possibility of monitoring requirements with lowered frequency to ease costs. There was discussion of using remote sensing or LIDAR on a large scale to facilitate lowered monitoring frequency. The technology costs are high, but could lower over time. In addition, ideas were discussed related to lowering monitoring costs through an aggregation type scheme. Also, the group plans to look with greater detail at the logistics of structuring a trust fund system.

Kjell raised points related to structuring projects to not simply be related to conserving forest carbon and receiving payments for the 'opportunity cost' of converting it to non-forest, but seeing the carbon revenue as seed-capital for an active and positive management of the forest by the local communities. Also, while the forest owners can invest the carbon revenue however they see fit, it would be good to try to link up the projects with local or regional development goals, or to actively develop alternatives to forest conversion/degradation so that forest owners can see the positive effects. It is important to have not only legal/insurance/trust fund mechanisms in place, but also to provide positive and less intensive land alternatives to increase permanence.

In the interest of time, the permanence discussion was ended, but Michelle Passero wished to make the following comment: "I know you need to move on so I'll flag a consideration related to permanence and enforcement for future discussion. In the California regulatory discussions there is very little desire by regulators to have any credit liability placed on subnational governments. In part this is due to federal-state treaty issues, but it also relates to the state not wanting to take enforcement action for lack of permanence against a government (their desire is to identify all potentially responsible parties). This issue should be considered in how permanence and management of permanence is addressed. For instance, transferring permanence obligation for reductions to the subnational government after 30 years could be problematic because it places the government on the hook as a potentially responsible party.

Deforestation Model

A presentation was given from INE, and is available on the Reserve's website. The presentation discussed methods to find the important drivers related to changes in land use. There was a discussion of short term project specific drivers such as shifting to agriculture, and other factors such as commodity and crop prices, technology, institutions, and infrastructure. The model incorporates looking at the various prices of planting and transporting goods as well as prices of the goods in the market. Examples were given related financial viability of agricultural commodities as well as proximity to small towns (for labor) and medium sized towns (for market/distribution).

The model takes into account different factors and then is based on empirical evidence from 2000 and 2007. The probability of conversion of different forest types was discussed, specifically, cloud forest and pine forests are more likely to be managed sustainably (less conversion risk), while tropical forests had a generally higher conversion risk. A question was raised related to cloud forests, and their prominence in Mexico. There was a discussion of socio-economic factors and how they might figure in; currently it is limited to the variables mentioned in the presentation and doesn't take into account decisions on an Ejido level, what the tendencies of different community organizations are, or local government programs related to development, grants, other financing, etc.

Look at the risk index map, there was discussion related to the how different management schemes in "protected areas" affect risk levels, as well as how to monitor frontier/buffer zones adjacent to agricultural areas. There was a discussion of different baseline schemes, including a fixed baseline and a baseline that lowers over time.

There was an extended discussion of how the model works and what factors are involved. It was suggested that some elements of the model could be used, as well as some project specific variables to determine baselines. There was discussion related to the accuracy of the model and evaluating the modeled deforestation risks, along with the deforestation that actually occurred. It was discussed that in spite of some inherent inaccuracy, the model is able to provide a level of standardization greater than what could occur at a project level with different evaluators and different methods of evaluating risk. In some areas of the country they are doing smaller scale studies related to such factors as: size of particular communities or Ejidos, how often they meet to discuss their land, etc, which also influence land management decisions and risk levels. There was discussion of the demographic and migration effects as well as effects that NGOs can have on land management on the local level. Both these factors are difficult to scale up because there are not data bases at this level of detail.

It was mentioned that the current model can give a good orientation/reference point for the deforestation risk, but other factors likely need to be included, that could be gathered on a project level, to make the model broader and more complete. There is a need to identify these other possible socio-cultural variables in order to be able to include them in a risk index or baseline. Some suggestions were raised regarding initial site visits with questionnaires related to current management. There is a need to come up with a way to weight the different variables and reconcile them on larger scales. Difficulties could arise around adding variables on local levels and trying to scale them up. A comparison was made between the appraisal method used in the US forest protocol, and options available in Mexico. There was also a discussion of combining the permanence risk indicators with some of the baseline and deforestation risk factors.

Generally, it was decided that additional variables need to be identified and evaluated for incorporation with the model, or use in conjunction with the model in establishing baselines.

Leakage Subcommittee

Cheri Sugal gave a presentation on leakage, addressing standardization, data collection, etc. The presentation is available on the Reserve's website. The presentation discussed fleshing out the available leakage drivers, assessing their potential intervention/mitigation potentials, evaluating standard data that is available, and re-assessing the leakage deduction factor.

There was discussion of combining deforestation risk factors with leakage risks to have an improved overarching model. Kjell made comments about addressing leakage from unintended and (non forest) sectors, and reiterated the concerns regarding permanence, about having seed-capital, and alternative development plans in place in addition to the legal mechanisms. Some ideas were related to alternative (non forest degrading) development routes such as

forest pharmaceuticals, ecotourism, spiritual values, etc. in order to make permanence viable even in the potential absence of legal and insurance mechanisms. There was discussion of having complimentary measures such as insurance and trust fund mechanisms as well as development paths independent of carbon. Kjell also expressed interest in the possibility of temporary credits. Discussion was related to the fungibility of temporary credits and their potential value in the market place.

Aggregation Subcommittee

Cecilia Simon gave a presentation on some of the advances of the subcommittee since the last work group meeting. The presentation is available on the Reserve's website. Ideas were related to aggregators dealing directly with the Reserve, choosing the verification bodies, coordinating the CRTs, etc. Baselines would be developed on a project level.

There was a discussion of the average size of Ejidos and the viability of the 2,500 hectare limit. More information is needed regarding these issues. There was an emphasis on ensuring that property rights remain with the forest owners, and taking into account indigenous concerns, offering oral explanations in native indigenous languages, etc. As only some community members names will be on registration lists and documents, how can we assure that people and signatures are real? Notary publics are an option. The subject of community member's rights, and insuring they are aware of what they are agreeing to/signing also falls in the environmental/social issues subcommittee.

There was discussion of lowering risks for NGO aggregators who assume financial risk for possible local reversals. Ideas were raised that NGOs or trust fund managers must have some financial incentive as well, in order to incentivize aggregators to enter the market. There was also discussion of what would happen in the event of aggregator organizations disbanding before the end of the permanence period. It was noted that the Reserve must take great care in choosing aggregators (i.e. defining eligibility requirements) as well as developing steps in the case that aggregator organization disbands. There was also discussion of possibly developing several different aggregator schemes/types (e.g. NGO, private for profit, government, etc). John expressed interest in keeping it simple for now, with one aggregator agreement scheme.

Environmental and Social Issues Subcommittee

Ivan Hernandez gave a presentation on advances of the subcommittee since the last workgroup meeting. There was a discussion of methods to protect environmental integrity and sustainable development based on Gold Standard. The subcommittee has developed a list of 11 principles to guide the evaluation. They are thinking about ways to use and evaluate these principles, such as a license or permit that is issued based on compliance with the parameters. There are also parameters that are more specific and will need to be looked at critically on a project level. Some principles are evaluated at the beginning of the project (implementation) while others are evaluated throughout the project life. The list is available on the Reserve's website. A focus should be outlining the principles clearly in the protocol, with appropriate guidelines. If during the initial implementation assessment there is mitigation required, there must be a procedure for this. The main questions are related to 1) establishing the parameters 2) establishing how they are verified.

These parameters should be included in monitoring regime, but this will add costs to the project developer. Some thoughts have been around making certain monitoring requirements optional, with better market prices associated with it. That is, implementation of monitoring of the sustainability/social parameters would receive a premium carbon price in the voluntary market for the associated co-benefits. John summarized the presentation related to the environmental and social risks that were identified from the gold standard, and how they can be assessed at both a country and a project level. Indicators are being developed so project developers can easily understand if they are eligible, and how they can apply, as well as how the verifiers can

use those parameters. More guidelines regarding the parameters are being developed and should be available for the next workgroup meeting.

There were some comments and questions regarding the parameters. Naomi asked about the Climate, Community and Biodiversity Alliance (CCBA) standards, and if they were incorporated into the principle/parameters given in the presentation. The answer was yes; these are being evaluated and looked at (in addition to FSC standards) for possible incorporation.

Also, there were questions related to how these standards might be applied on not just a project and country level, but on a jurisdictional level. This is still being evaluated for use on the jurisdictional level; the focus for now is on the project level, but they are looking to use on a jurisdictional level as well.

Sandy and Elsa from Ambio are also looking at what inputs can be contributed from Plan Vivo.

There was discussion of possible dates for the next work group meeting. The next meeting was tentatively scheduled for Thursday November 11, 2010.