



The Mexico Forest Project Protocol Workgroup

Meeting 5 Meeting Notes November 11, 2010	Meeting was held at the office of CONAFOR in Coyoacan, DF- Mexico
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The meeting was held on November 11, 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), Cecilia Simon (Climate Action Reserve), Ruben Bernabe Martinez (Ambiente y Desarrollo), Pablo Quiroga (Natura Proyectos Ambientales), Juan Carlos Carrillo (CEMDA), Christoph Neitzel (Academic, UNAM), Yougha van Laer (Southpole Carbon), Carlos Perez (SAO), David Ross (Grupo Ecologico Sierra Gorda)

Remote: Tim Kidman (Climate Action Reserve), Robert Youngs (Climate Action Reserve), Ricardo Rivera (CONAFOR), Kjell Kuhne (Instituto Nacional de Ecologia), Cheri Sugal (Terra Global Capital), Stephen de Gryze (Terra Global Capital), Robert Hrubes (Scientific Certification Systems), Julie Teel (Governor's Climate and Forest Task Force), Yves Paiz (The Nature Conservancy), Naomi Swickard (Voluntary Carbon Standard), Elsa Esquivel (Ambio), Danae Azuara (Environmental Defense Fund), Rosa María Vidal (Pronatura Sur)

Meeting Summary:

The meeting consisted of updates from the various subcommittees since the last workgroup meeting as well as presentations from Gary Gero regarding the draft cap and trade regulation under AB32, Julie Teel of the Governors' Climate and Forest Task Force (GCF) and Robert Hrubes regarding FSC certification and environmental and social safeguards. Presentations were also provided from the following subcommittees:

- Jurisdictional accounting/Nested Projects (Yves Paiz, Tim Kidman, Michelle Passero, Naomi Swickard, Julie Teel, Brian Shillinglaw, Danae)
- 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)

Draft Cap and Trade Regulation in California (AB32)

Gary Gero, president of the Climate Action Reserve, gave a presentation on the draft regulation and potential impacts on the international forest carbon sector. There was a basic overview of the draft regulation, and it was noted that the regulation is available for public comment on ARB's website. This was followed by a general discussion of the regulation with respect to sector based offsets, both national and international. While the guidance is not specific, the regulation does specifically call out international forestry and REDD style projects. There was a discussion of options around sector level crediting and potential project level crediting *if* projects are appropriately nested. As rules and guidelines are developed, the Air Resources Board will need to give approval for any offsets protocols. The general thinking is to begin the development of some pilot guidelines in 2011, with pilot projects beginning in 2012 and potentially full entrance into the compliance program in 2015 (the second compliance period). Some basic requirements will be good inventories/starting places; sound reference levels that are conservative across the sector; jurisdictional targets that must be met (although these have not yet been defined); clear and transparent stakeholder process with public involvement; mechanisms for refinement, and mechanisms to deal with reversals.

ARB will give a webinar on November 23, 2010 on how existing credits and historical credits will work, but there will not be a discussion specific to REDD projects. There might be the potential to set up a separate call to discuss international forest sector crediting. There is currently no deadline to receive comments on this sector specifically, but development of pilot rules will likely begin next year. There were some comments related to language in the draft regulation, namely on page 113 it states that US, Canada and Mexico are to be included, but then only US based protocols are identified as currently eligible. The thinking is that the general language leaves open the possibility for participation in the Western Climate Initiative (WCI) and there is the possibility that other protocols could be adopted later (for example Mexico livestock, Mexico landfill, Mexico forest, etc). There was also a discussion of what would happen in the event the ARB changes its guidance. The response was that domestically, large changes are unlikely, and the idea is to work in tandem with ARB on any potential international standards or protocols and assure that they are of high quality and that they meet all applicable requirements.

Governors' Climate and Forest Task Force (GCF)

Julie Teel of the GCF gave a presentation on the history of the organization and state led efforts to combat climate change through forest initiatives. The first meeting of the GCF was held in 2008 in California. Several Brazilian and Indonesian states signed a Memorandum of Understanding (MOU) with California to demonstrate to the world the strong role that states can play in

combating climate change. Now, with stalling at the national and international levels, there is even greater effort and focus on the GCF. Two Mexican states have joined the GCF, namely Campeche and Chiapas. The current focus at GCF is to work on solid REDD criteria, evaluating the framework that would need to be in place, and then moving towards a nested framework while maintaining those principles. The general idea is to develop accounting and compliance requirements to bridge gaps and facilitate the “handshake” between tropical forest states and compliance states (e.g. California). There is currently a big effort to identify the needs of tropical forest states to comply with rules and requirements of compliance programs. A database of these requirements will be available on the GCF website soon. GCF is looking forward to working with California and the Climate Action Reserve.

There is a need to identify potential financing opportunities for projects in the interim period, before California compliance programs accept international forest sector credits. It is often difficult for tropical forest states to keep up momentum and capacity building in the absence of carbon revenue. GCF is looking to establish a fund (~5 – 6 million) to assist with this transition. There is an effort to establish good ties between state and national governments related to forest practices and funding.

There was a question related to whether GCF has been working with Conafor. The answer is yes, and they would like to increase their work and communication with Conafor; John has been helping to facilitate this. Julie and John agreed to further their work with Conafor and address the ARB regulation, California, and increasing Mexico’s chances of recognition under the program. Juan Carlos discussed some of the contacts in Campeche and Chiapas. There was also a discussion of expanding the existing Monitoring, Reporting and Verification (MRV), incorporating additional academic institutions and defining likely and practical options for technical areas and MRVs. There were comments related to ideas that, to preclude free riders, one should develop international standards – at least general ones – that apply across all states. The response focused on the idea that early action or early mover states can lead the way and then other states can follow, creating a “race to the top” to develop high quality standards that will qualify.

Jurisdictional Accounting & Reconciliation Subcommittee

John gave a presentation on harmonizing and nesting projects with jurisdictions and identified some of the difficult questions particularly with political issues related to crediting. A priority will be to identify what the workgroup is able to affect in this arena; that is, what issues are technical that can be addressed, and what issues are political and potentially beyond the scope of CAR and the work group. Some action items outlined were developing a justification for the nested project approach, and demonstrating the carbon accounting mechanics of nested projects to the jurisdictions. There is also a need to concretely identify the

methods for calculating the sharing of benefits. There was some discussion of how jurisdictions will be defined (e.g. states, other jurisdictions such as combined states). Political issues were identified with non-state jurisdictional approaches. In terms of the methods for accounting for leakage, how jurisdictional estimates are developed will inform project level accounting and revenue sharing. Basing jurisdictional estimates on forest cover is not difficult; the difficult part is assessing leakage, and values of different forest types. Monitoring on both a state and project level presents a challenge. Most communities do not currently have the capacity, so what are the steps to move forward? There was a discussion of training and capacity building in the communities, as well as developing carbon estimates on a per hectare level, e.g. 100 hectares of pine = approximately X number of credits, etc. A more complete list of action items for the subcommittee is available on the Reserve's website.

Permanence Subcommittee

A presentation from the permanence subcommittee was given on the use of a trust fund system (fidecomiso). It is available on the Reserve's website. There was a discussion of the pros and cons of two potential systems: a straight forward "fund" and a trust fund. The benefits of the fund include lower cost, but come with less certainty, while the trust fund typically provides increased certainty but with higher costs. Trust funds generally have a 50 year limit, which can be renewed if both parties are in agreement. Some variables to consider include carbon price, interest rates, attorney fees, annual fees, transaction costs, taxes, time limits, operational costs, percentage of contribution from forest owner, etc.

There was some discussion of whether a trust fund would be in charge of doing some of the financial risk analysis, fire risk analysis, etc. Different variables would need to be determined/ assessed by both aggregator and forest owner. Aggregator would likely evaluate risk at each project level to determine the charge/cost to each project proponent. Juan Carlos made a comment about clearly defining these parameters to ensure adherence to principles of fair markets and social equity so that there is no abuse of the system that hurts individual forest owners. Some concerns were raised that carbon revenue might not be enough to sustain projects over time, and the idea that projects could combine other revenue streams (e.g. ecotourism). There was a discussion of adding a requirement or incentive to the protocol such that projects must have other financial assurances or revenue streams built in. There was an extended discussion of prices and costs for different parties and making sure that projects are cost effective, thereby increasing their viability and permanence.

Aggregation Subcommittee

David Ross gave a presentation to the workgroup regarding aggregation rules. There was some further discussion of what would happen in the event that an

aggregator disbands. That is, can an individual project at that point become “independent”? Can they join up with another aggregator? What would be the restrictions, etc? There was a recommendation that a project will be temporarily suspended, and will have 36 months to reenter the program or the project will be terminated. There was a discussion of what penalties will exist for an aggregator if it disbands, and what clauses can be put into agreements to enforce this.

The group discussed the importance of having all representatives of the community or ejido signing the documents. An example was given that after 15 years an aggregator disbands and one of the forest owners under the aggregation decides to end the contract or not to renew the program, and decides to cut the trees. What would happen to those credits already issued, and their associated permanence? This brought up a discussion of the importance of taking care in approving aggregators, and the eligibility rules for aggregator accounts. The risk can be minimized, but there are still reversal risks. These credits would need to be made whole, potentially through a buffer pool. There was also a discussion of insurance mechanisms to cover retirements to make up for reversals. These insurance mechanisms are somewhat theoretical at this point and practical experience is needed. There was an idea related to the Reserve’s buffer pool covering only *unavoidable* reversals, while the risk of intentional reversals falls with the aggregator. There was a discussion about the potential use of MAPFRE.

The limit of 2,500 hectares per forest owner under an aggregation scheme was discussed. The subcommittee outlined the thoughts behind the 2,500 limit, and risks that aggregators or developers might seek out only larger projects, and leave out smaller landholders. The need to incentivize entry of smaller landholders was identified. There were ideas around not having a size limit for ejido forest owners, but keeping the size limit for private non-communal landholders.

There was a discussion of the benefits of aggregation in the US protocol, namely lowered monitoring costs. Questions were raised about whether ejidos would have to be aggregated. Likely some ejidos have the capacity to not be aggregated, while others do not. If the ejido has the required level of organization and capacity, they can be the account holders. A point was made that the governing framework of “communities” and “ejidos” are different. Issues regarding the different property owner types in Mexico are also being evaluated by the permanence subcommittee.

There was a discussion of the various risk factors and risk evaluations. There were questions of whether CAR would perform its own risk evaluation, which would then be confirmed by the verifier. John suggested that there needs to be a way to standardize the risk factors, which could then be calibrated on a project level. There was a discussion of adjusting the risk factors based on: presence/relationship with NGOs, trust funds with communities/ejidos; level of

organization and self governance within the community/ejido; presence of businesses in the community/ejido; land use rules called out in internal community/ejido rules; presence of an Ecological Community Order; intangible value of land; current land uses in practice; integrated fire management; fire risk tendency, etc.

Baseline and Leakage Subcommittee

There was a discussion of how an established baseline will look, if it will be steady or declining, and how to calibrate it for project specific factors. There was discussion of what can be standardized and what cannot, with an emphasis on trying to avoid the burden of completing a unique risk assessment for every project. The difference between variables and indicators/drivers was discussed. The group must decide what works and what doesn't from the model and move on from there. The model may only provide a reference level, but it is useful. Cheri and Steven from Terra Global Capital gave a presentation on summarizing deforestation drivers. Some aspects covered included: immediate cause vs. underlying cause, spatial proxies, and the Deforestation Risk Index (DRI) which combines various factors into one. Once determined, the idea is to identify and then mitigate those risks, which is relevant to the baseline discussion as well as the leakage risk assessment. The current US protocol uses a standardized approach with a flow chart to assess leakage risk. In Mexico there are ideas around a phased approach. The idea is to focus on the most straightforward drivers and to create a robust and simple way to determine them. The plan is to: (1) create a comprehensive driver list; (2) determine which factors are covered in the model and add any factors that are not; (3) investigate the potential risks; (4) group together the factors with high and low mitigation potentials. The three main groups identified were agricultural expansion, wood extraction, and infrastructure extension. The relationship between these agents, the outcomes and the mitigation potential needs to be explored, with the goal of developing a flow chart similar to the one in figure 6.3 (page 44 of FPP 3.2). The definitions of the driver groups will need to be explored. Although they are currently broken out into groups or buckets, in reality they are all interconnected and the DRI process must keep in mind the realities of how these drivers play out in the real world.

Social/Environmental Safeguards Subcommittee

John Nickerson gave an overview of the work of the subcommittee. The work had been focusing on working off of the Gold Standard metrics, and more recently they have been looking at the other metrics in greater detail (Plan Vivo, CCBA, FSC, REDD+). They have created a matrix to outline what aspects are covered by which programs, and where overlaps exist. The thinking is that CAR should not need to create its own standard if an appropriate one already exists where processes can be reasonably harmonized. An important criterion for evaluating the standards is which standards have general guidance vs. a

verifiable standard. CAR is seeking a standard that provides clear guidance (not ambiguous) and is verifiable and enforceable.

Robert Hrubes gave a presentation on the Forest Stewardship Council (FSC) program and standards. It is available on the Climate Action Reserve website. The presentation gave an overview of the history and design of the FSC and outlined the 3 chambers (environmental, social and economic). There was a discussion of the 10 primary principles as well as the development and application of regional standards under FSC certification.

The group certification programs under FSC, as well as the program for small or low-intensity managed forests (SLIMFs) were also discussed in addition to the rationale for the lower monitoring and reporting frequency associated with each. Under group certification, for each period, a site visit is performed on approximately the square root of the total number of projects (e.g. a group of 50 forests would have about 7 to 9 site visits) which are then switched at subsequent years. This can lower the costs by about 1/5. The square root method is generally accepted, but can change based on specifics (e.g. if a group is very heterogeneous, then more site visits might be required). There was also a discussion related to the rules of destitution in instances of non-conformance: If incidents are related to individual groups, then only those groups are ejected, if they are systemic to the group certification, then the entire group may be removed. The data gathering and indicator evaluation process was discussed, along with the process for addressing Corrective Action Requests (CARs).

Servicios Ambientales de Oaxaca (SAO)

Carlos M. Pérez González gave a presentation on a project in Oaxaca managed by SAO. It is available on the Climate Action Reserve website. The presentation focused on some on-the-ground considerations for forest carbon projects in Mexico including communication with local community leaders and agricultural authorities. There was a discussion of focusing on local ejido/community level assemblies first, developing agreements and building capacity, and then moving on to larger inter-community agreements to cover larger corridors. There was a focus on technical training, general education, and internal rulemaking (e.g. regarding construction) in the communities. There was some discussion of the possibility of adding a requirement to the protocol that an ejido must have a defined process regarding how the project will operate, how funds will be distributed, etc. on the ground level.

The next workgroup meeting is tentatively planned for January 24, 2011.