

# Status of the CAR Forest Protocol Working Group with Regards to the Key Questions in Nested REDD Policy Design Document Prepared by New Forests

New Forests drafted a set of key questions that should be considered in developing policies of Nested REDD activities. This document is intended to summarize the direction in the CAR Forest Protocol Working Group with regards to the key questions raised in the New Forests' document. The section headings are aligned with the section headings in the New Forests.

## **Crediting Issuance Generally**

Current direction/assumptions of CAR working group with regards to the general issues in the New Forests document:

1. Nested projects will be an important/dominant aspect of crediting due to the ability of nested projects to:
  - a. Ensure environmental and social safeguards are achieved where credited activities occur.
  - b. Ensure additionality at the level of credited activities.
  - c. Provide a strong basis for determination of revenue distributions.
  - d. Assign responsibility for permanence obligations to the actors within nested projects.

The workgroup has been working on developing criteria for each of these issues identified above.

While not discussed at great length, the development of accounting frameworks, development of infrastructure, and negotiations with linking bodies that allow determination of reference levels and crediting baselines conceptually serve as eligibility criteria for a jurisdiction to allow nested projects to participate.

The workgroup has not discussed policy issues related to how jurisdictions could account for

## **Baselines**

Current direction/assumptions of CAR working group with regards to the baseline issues in the New Forests Key Questions document:

Baselines (reference levels and crediting baselines) will be defined and developed for each jurisdiction (likely each participating state) based on negotiations agreements

between jurisdictions and California and the jurisdiction's ability to account for jurisdiction emissions.

The CAR working group has focused on methodologies to define baselines for nested avoided deforestation projects to assist in the additionality determination for nested projects. Subsequent to developing methodologies for avoided deforestation at the nested project level, the working group will focus on baseline methodologies for afforestation/reforestation and sustainable forest management.

## **Risk Mitigation**

The CAR working group is limited to risk mitigation options that can be addressed through the management of project credits. Therefore, options (c), (d) and (e) in the New Forests document under Risk Mitigation are beyond the scope of our working group. While this issue has had limited discussion within the CAR working group, a couple of options that will be considered include:

1. *A "risk management" reserve of credits.* Nested project-level activities (and jurisdictions, if jurisdictions are credited directly as well) must contribute a percentage of credits into a "risk management" reserve operated by the Registry. Neither nested projects nor jurisdictions are issued credits if, in a given year, the jurisdiction as a whole fails to achieve emissions reductions as measured against the relevant baseline. Instead, both governmental and private-sector projects are partially compensated with marketable credits from the nested REDD risk mitigation reserve.
  - a. In the event that the jurisdiction as a whole fails to achieve sectoral emissions reductions for several years running, disbursements from the risk management reserve would cease, as would all crediting until the jurisdiction returns to successful emissions reductions and covers any reversals that occurred.
2. *A varying leakage discount.* Given the important role jurisdiction accounting plays as a measure of leakage associated with nested project activities, nested project credits within jurisdictions that are in good standing with regards to emissions levels relative to a crediting baseline and any credited emissions should not be discounted for leakage estimates, since it is essentially be measured at the jurisdiction. Where jurisdictions experience a reversal, this could be the result of a leakage of project activities in which case project crediting should be discounted to address the probability of leakage. The level of discount should be proportional to the size of the reversal. This will enable projects to continue monitoring existing credits and receive additional credits minus any leakage discount even while a jurisdiction may have experienced a reversal.

## **Additionality**

Current direction/assumptions of CAR working group with regards to the Additionality issues in the New Forests document:

The CAR working group has focused on crediting at the nested project level. Additionality will be determined based on the relationship of nested project stocks to a nested project baseline that is based on a standardized methodology for determining business as usual and includes provisions for addressing legal and financial considerations.

## **Permanence**

Current direction/assumptions of CAR working group with regards to the Permanence issues above:

Nested projects bear the responsibility for maintaining permanence for credited activities. Atmospheric integrity is met by defining permanence as maintaining the carbon stocks out of the atmosphere for 100 years. However, the working group is investigating a strategy of crediting for proportional permanence with a mechanism that would compensate reversals should a reversal occur based on the proportion of time remaining for the credit to meet the permanence definition. The strategy involves the investment of a portion of the projects credits into a trust account that would provide an incentive for ongoing successful monitoring and verification. The invested credits, or funds from sale of the credits, provide the basis for compensation in the event of a reversal. This strategy mentioned above is being tested with the development of a financial model at this time.

The working group has identified the issue related to the effects of jurisdiction failure on projects but has not focused on the issue in terms of developing solutions. This issue will likely be taken up in the same effort that negotiates jurisdiction reference levels and crediting baselines.

## **Measurement, reporting & verification**

Current direction/assumptions of CAR working group with regards to the Measurement, reporting, and verification issues within the New Forests document:

The working group has briefly discussed MRV at the jurisdiction level being based on quantification conducted by CONAFOR through incorporation of its national forest inventory system. Details about monitoring frequency, reporting, and verification have not been discussed and would likely be resolved within the negotiations between jurisdictions and California.

MRV at the nested project level has been contemplated by the CAR working group and the concepts exist in draft form within the draft aggregation document.

The issue of forest definition is being considered within the bounds of environmental safeguards.

## **Legal**

Current direction/assumptions of CAR working group with regards to the Legal issues above:

Legal issues between jurisdictions have not been discussed within the CAR working group. Such agreements will likely take place during negotiations to develop jurisdiction reference levels and crediting baselines, etc.

With the focus on nested projects, the working group has been considering contractual relationships with NGOs, who would function as project aggregators in Mexico. These NGOs have familiarity with issues of land tenure and are in a better position to understand the risks of engaging in forest activities than CAR will and must be willing to take on project liability for a given period of time, which is currently being considered as 30 years due to limitations in Mexican law with regards to the length of time contracts can exist with ejidos. Following the 30 –year contract with the NGOs, the working group is focusing on a strategy for securing permanence that is based on setting up a trust account that serves both as an endowment for successful long-term monitoring and verification as well as a pool that can be relied on in the event of a project reversal, as described above in the permanence section.

The working group is establishing some eligibility standards for aggregators improve success of the program.

## **Environmental and Social Safeguards**

Current direction/assumptions of CAR working group with regards to the Environmental and Social issues in the New Forests document:

The CAR working group has focused on application of standards at the point of activity, i.e. nested projects. The strategy to date has been to review existing standards (CCBA, Plan VIVO, Gold Standard, CAR Natural Forest Management, FSC) to draw upon experience. The review identifies the themes each standard addresses and whether the theme is presented in verifiable terms. The working group is considering the feasibility of reliance upon a developed standard, complete with its own internal monitor and verification language, as a means of addressing environmental and social safeguards at the nested project level.