



The Mexico Forest Project Protocol Workgroup

Meeting 8 Meeting Notes April 07, 2011	Meeting was held at the office of CONAFOR in Coyoacan, DF- Mexico
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The meeting was held on April 7th, 2011 at CONAFOR's offices in Coyoacan, Mexico. The meeting started at approximately 9:30 am and concluded at 2:00 pm.

In attendance: John Nickerson (Climate Action Reserve), Cecilia Simon (Climate Action Reserve), Ruben de la Sierra (ASERCA), Christoph Neitzel (Academic, UNAM), Yougha Von Laer (South Pole Carbon), Pablo Quiroga (Natura), Carlos Perez (SAO)

Remote: Robert Youngs (Climate Action Reserve), David Ross (Sierra Gorda), Raúl Espinoza (Conafor), M. Isabel Ramirez (UNAM, Morelia), Carly Hernandez (University of Colorado), Naomi Swickard (VCS), Gabriela Guerrero (Conafor), Kjell Kühne, MaryKate Hanlon (New Forests), Mario Vazquez (COCEF/BECC)

Meeting Summary:

The meeting consisted of updates from the various subcommittees since the last workgroup meeting in March and discussions of next steps. There was a presentation from Gary Dodge of the Forest Stewardship Council (FSC) regarding social and environmental safeguards, costs, group certifications and monitoring schedules. Presentations were also provided from the following subcommittees:

- Permanence (Yougha Von Laer, Christoph Neitzel, Carmen Jimenez, Alejandra Cors, Juan Carlos Carrillo, Robert Youngs)
- Aggregation (Cecilia Simon, David Ross, Pablo Quiroga, Leticia Espinosa)
- Environmental and Social Safeguards (Ivan Hernandez, Gmelina Ramirez, Elsa Esquivel, Kjell Kuhne, Claudia Mendez)
- Baselines and Leakage (Alfredo Cisneros, Kjell Kuhne, Cheri Sugal, Steven de Gryze, Yves Paiz)
- Jurisdictional accounting/Nested Projects (Yves Paiz, Michelle Passero, Naomi Swickard, Julie Teel, Brian Shillinglaw, Danae Azuara, Cheri Sugal, Rosa Maria Vidal, Pablo Quiroga)

The meeting began with introductions from participants, and a general discussion of workgroup progress to date. There was an update on the USAID Request for Application (RFA) grant application process, and CAR's involvement to date with other parties in the

sector. There was a discussion of work and meetings with the Consejo Civil and the CTC-REDD group, and possible collaboration efforts. The status of AB-32 was discussed including potential timelines and set-backs.

Permanence

Cecilia Simon gave a presentation on work done in the permanence subcommittee; it is available on the Mexico Forest page of the Climate Action Reserve website. The presentation focused on rationales for permanence, the realities and implications of perpetuity, and the different options that have been reviewed and discussed to address issues of permanence including: temporary/rental credits, buffer pools, and equivalence-based crediting such as social cost of carbon models, and ton-year accounting.

Issues with temporary/rental credits were discussed, including lowered prices, questions about liability for reversals, added complexity of contracts, and lack of a mature market to appropriately value and use such a rental credit system. Potentially when the compliance market is more mature a rental credit system could be more viable. Buffer pools were discussed, highlighting the applicability for unavoidable reversals, such as wind, fire, insect, etc. whose risk ratings are easier to identify. The use of buffer pools for avoidable reversals was discussed. The use of buffer pools for avoidable reversals is not supported by the Reserve due to the incentive such a buffer pool would provide to realize non-carbon values (timber, land use change, etc). Additionally, there are many difficulties with applying objective indicators at a project level for avoidable reversal risk (to determine their potential buffer pool contribution). Social Cost of Carbon concepts were discussed, including the complexities and issues related to developing damage functions and choosing discount rates. Models are based on economic assumptions that are evolving, and curves are highly dependent on the discount rate chosen. In addition, the concepts are complex to explain to stakeholders and the general public and result in similar curves that are produced by different ton-year accounting models.

Ton-year accounting was discussed in detail, in particular the Bern carbon cycle model (used to calculate GWPs) and explanations on the amount of time that a pulse of CO₂ emissions remains in the atmosphere and how it is taken up back into the terrestrial biosphere and the oceans. Ton-year accounting is a way to establish a time-valued equivalence factor for carbon dioxide emissions based on this curve and the persistence of CO₂ in the atmosphere. Taking the area under the curve one can determine the 'ton-year' value for each year across the x-axis, which provides a way to value the carbon held out of the atmosphere over different potential time periods. This method necessitates putting a finite end date on the curve in order to develop equivalencies. A 100-year period has been proposed as a number that is sufficiently conservative and politically manageable. Using the 100-year approach, the area under the curve (integral), sums to 46 ton-years over the 100-year time frame. Two ton-year *accounting* methods were discussed, namely the Moura-Costa and Lashof methods, which propose different ways of determining the creditable amount of ton-years if a project has a reversal prior to the end of the 100-year (46 ton-year) window. The Lashof method in particular takes the difference of the integral over 100 years (46 ton years) and the integral of the window from when reversal takes place to the end of the 100 year period. For example, an assumed release of carbon in year 50 results in an integral of 28 ton-years (TY). The credit for this 50 year sequestration is then the difference between the two integrals: $46 \text{ TY} - 28 \text{ TY} = 17 \text{ TY}$. That is, the benefit of carbon sequestered from

the atmosphere for 50 years is equivalent to 17 ton-years out of total possible of 46, and the longer the carbon is held out of the atmosphere, the more the activity is credited.

The two accounting methods and their associated crediting pathways were discussed in further detail. The Moura-Costa accounting method may be more attractive to project developers, as it credits more ton-years earlier, but the Lashof method may be preferable for purposes of conservativeness and consistency with policies of permanence established with the domestic protocol. Both methods provide relatively low percentages on an annual basis, but sum over longer time periods to larger amounts. One idea to address this issue (and give real economic incentives at the outset of the project) is an ex-ante style crediting approach. (Note: This is not crediting reductions that have not happened yet, but rather paying up front a larger number of credits that have already been achieved using the ton-year accounting method that provides a value for the portion of permanence achieved.) In this way, a project could sign a 30 year contract in year 1, which would allow credits to be issued based on the ton-years for year 1-30, in the first year. The liability for premature reversal (before the 30 years) would rest with the aggregator. This method is also attractive in that it provides an incentive for a second 30 year contract to be signed (i.e. renewed) in year 31, because the land-owner would receive another batch of ex-ante credits for year 31-60, and the ton-year rate would be higher due to the difference in integrals from the Lashof method. There was a discussion of the possibility of re-signing a 30 year contract every year, or every time there is a verification or a desk audit, which would allow for higher permanence crediting rates.

In the US forest protocol, projects are able to be credited the full amount because they sign long term contracts (100 years) and forest owners have contractual liability for reversals. The method for crediting in Mexico is structured around the fact that contracts can be signed for maximum of 30 years. To be clear, an ex-ante system would not be crediting future emissions reductions or removals that have not happened yet, but would rather be crediting removals that have already occurred, but that are discounted based on the permanence equivalency methods outlined above.

There was a discussion of the economics of these methods; that is, using the financial model, and comparing the financial incentives for forest clearing and harvest versus carbon revenue, and coming up with concrete numbers that can be presented to potential project participants. Further economic comparison of the crediting and revenue impacts of the Moura-Costa method versus the Lashof method was discussed as an action item. There was a discussion of ensuring that carbon revenues contribute to sustainable development in the communities. There was discussion of buffer pools as well as the reasoning behind the liability resting with aggregators during the 30-year contract period. Reconciling unavoidable reversals (covered by buffer pool) and avoidable reversal (ton-year discounted) was discussed, particularly the idea of contributing less to the unavoidable reversal buffer pool in situations where ton-year accounting is being used.

Next Steps

- Further review of Moura-Costa to determine if the method could be justified in terms of the policy framework of 100-year permanence
- Integrate ton-year accounting into financial model

- Take into account workgroup comments on the model and incorporate them
- Review TNC's economic model and incorporate any variables obtained from this model into the developing financial model

Environmental and Social Safeguards

There was a discussion of various environmental and social safeguard options, particularly the Forest Stewardship Council (FSC) standard and the standards being developed by Consejo Civil and the CTC –REDD group in Mexico.

Gary Dodge from FSC gave a presentation on the FSC standards, including FSC's current role in forest certifications, and the background of FSC's decision to not get directly involved in certifying carbon credits as part of the existing FSC standard. FSC currently deals with certification primarily in areas where timber management for sustainable harvest is the focus. The FSC standards are comprised of many different indicators and criteria, and the ways they account for these different criteria is somewhat different than other standards. In particular, FSC certification entails that the entire suite of requirements are met. That is, it is not a "net" or aggregate evaluation where failure of some requirements can be made up or offset by compliance with other requirements; it is an all-or-nothing type approach.

There was a discussion of the potential overlaps that may exist between carbon verification and FSC certification, and where cost savings may be realized. Certification schedules, group certifications and Small or Low Impact Managed Forest (SLIMF) auditing regimes were discussed. There is a certain amount of flexibility that is built into the FSC program around auditing regimes and schedules, which allows for certifier discretion and professional judgment as related to risk. Internal monitoring by group managers is one way to minimize certification costs, that is, the higher the rigor and integrity of internal monitoring (typically done by professional foresters), the lower the intensity of the monitoring performed by the certification body (CB) may be, thereby lowering certification costs. Both small and large landholders may be involved in a group certification, but their auditing regimes may be different for the different participants (higher for larger landholdings).

FSC certificates are valid for 5 years, the first year is a full audit. In the following four years there are partial audits, for only certain requirements, and in the fifth year a full audit is performed again. These partial audits often do not require an on the ground assessment, particularly for small landholders (large land-holders need to have on the ground audits every year). The risk based square root function for auditing frequency was discussed, that is, of the total number landholders in a group, the square root of that number need to be verified on the ground annually. (E.g. if 64 members in the group, only 8 need to be visited annually). If harvesting is less frequent, then the CB can implement a less frequent sampling regime, based on their assessment of risk.

There were some questions on other services associated with forest ecosystems and FSC's involvement, such as wetlands, biodiversity, eco-system services, etc. The response was that currently FSC focuses on certification for the purposes of forest products such as timber/wood and other non-timber forest products such as mushrooms, deer meat, etc. (not ecosystem services). Certifying co-benefits was discussed, and challenges due to lack of market mechanisms. Benefits such as creating local

employment and precluding introduction of exotics were discussed in the context of the CAR protocol. FSC defines plantations in a very specific way, that is, if native species are planted in a way that mimics natural native forests then these are not classified as plantations. On the other hand, if a native forest is cleared, and in its place exotic species are planted, this would *not* meet FSC requirements. However, in the case where the existing land use was agropastoral, or cleared forest that is currently fallow or grassland, conversion to actively managed timber forest with exotic species can be permitted, particularly in cases where other native species are managed on the property as well. This is dependent upon when the land conversion happened. If it was before 1994, it can be certified. If not, certification is only possible in certain situations such as when ownership has changed in the interim. Leakage was discussed, noting that internal leakage can be addressed by FSC, but not external leakage.

There was further discussion of applicability of FSC standards to small landholdings in Mexico that do not involve wood production. This may be particularly important to reforestation areas that require management in order for the land to return to highly productive forest. As far as avoided deforestation projects that are not engaging in active harvesting, and require a low-level of forest management generally, the certification regime for these lands may be less intensive (and less costly) due to low risk assigned by the CB, particularly under a group certification.

John Nickerson discussed work being done to determine potential prices for certification for different forest types, project types, degree of organization, internal auditing, forest size, location, management structure, group certificate structure, etc. that is being done by Scientific Certification Systems. When this matrix is complete it should help give a better idea of the financial viability and appropriateness of using the FSC certification standard to cover environmental and social safeguards in the context of the CAR protocol.

There was a discussion of work being done in the subcommittee as related to CTC-REDD and the social environmental safeguards being developed by the Consejo Civil. Work is being done to analyze the REDD+ standards developed by Brazilian NGOs as well as the FSC standard and develop a national Mexican standard. Some general thoughts in the Consejo Civil are that FSC was developed for projects engaged in more traditional timber harvest practices and use of forest products, and was not designed with a REDD context in mind. In this sense, it may be worth developing a Mexico-REDD-centric standard that can capture all the appropriate requirements and leave out any redundancies, or aspects outside of a REDD+ scope. Some knowledge can be gained from experience in the SAO project in Oaxaca related to environmental and social safeguards. The criteria would be a stand-alone standard, with clear and verifiable requirements that would be used by carbon verifiers, like a check list, to assess and verify compliance with the environmental and social safeguards.

The possibility of allowing for the use of multiple possible standards was discussed. That is, several options could be given in the protocol and it would be left up to the project developer to decide which standard is appropriate for them. For example, larger landholders engaged in traditional timber harvest may use FSC, while smaller landholders may use other standards. The idea is possible, particularly if it is determined that more than one available standard meets all the requirements that the working group wants to see. Before such an option could be built into the protocol, more research needs to be done into the various standards to see where gaps exist, what is covered

and what is not. There was a general discussion of the ongoing leadership role of Consejo Civil within the Environmental and Social Safeguard subcommittee.

Next Steps

- Evaluate FSC costs based on completed matrices from SCS
- A workshop will take place on May 17th with the Consejo Civil to start working on a Mexican draft for social and environmental safeguards.
- The group will also explore environmental and social safeguards at the jurisdictional level for potential crediting at the jurisdiction level
- Have a draft soon

Baseline and Leakage

John Nickerson gave a presentation on deforestation driver analysis and work from the baseline and leakage subcommittee. The presentation is available on the Mexico Forest page of the Climate Action Reserve website. There was a discussion of work done around the deforestation model from INE and some on-the-ground data from the Monarch Reserve in Michoacán. There has been some success with this model, but some of this work has been stalled, and developing a national model may be difficult. Recent work with Terra Global Capital was discussed, in particular work related to development of deforestation driver analyses at the project level.

Cecilia presented some thoughts on the subject, including the different drivers at the project level and how to go about determining the metrics. Instead of having a baseline developed for each activity, the idea is to have one baseline for an entire area or polygon that takes into account the various activities present. The main steps in the process would be 1) calculating the inventory in the entire polygon (carbon stocks present). 2) Determine what portion of the inventory is at risk for deforestation in the next 20 years, through a formula that standardizes risk and thus forms a baseline. The different drivers, and their effects were discussed in detail. The methodologies for different drivers and land uses still need to be developed. Plantation and exotic species were discussed in terms of baseline and inventories. Carbon stock could increase in these types of management schemes, but the safeguards group will likely need to address these issues. These types of baseline modeling would likely only apply to communities, ejidos and individual non-industrial landowners, not industrial lands managed for timber harvest, 3) Determine the territorial baseline for the entire polygon

Kjell brought up the subject of different risk levels and the difference between a deforestation risk and a baseline. There was a discussion of leakage outside of the forest sector associated with demographic migration from forest communities to urban areas, and associated higher emissions levels.

Next Steps

- Develop standardized method for deforestation driver analysis on project area
- Develop formula to assign values to risks of deforestation and calculate effect on project area

- Consider any additional requirements
- Find definitions for each deforestation driver. It would be good to translate them to Spanish.
- Follow up with Subcommittees ideas and Terra Global's presentation.
- Explore alternative mechanisms for leakage assessments and leakage values. It is necessary to amplify the leakage sources available, evaluate its mitigation potential, evaluate standardized data available and reevaluate the leakage factor.
- Develop standardized leakage formulas
- Identify available data to develop standardized solutions to baseline development if possible and explore other alternatives if not.
- Continue to work on the concept of territorial baseline

Aggregation Subcommittee

John Nickerson gave a presentation to the workgroup regarding work done by the aggregation subcommittee and comments on the aggregation draft. There was a discussion of working and talking with potential aggregators to see if the proposed rules seem viable, particularly ideas related to liability resting with aggregator. Cecilia discussed potential certifications and evaluations for potential aggregator organizations to assure that the aggregators are stable and responsible organizations and to avoid cases of irresponsible practices in contracts and project activities between aggregators and communities/ejidos. Cecilia went over some discussions being had with the Centro Mexicano para la Filantropia (CEMEFI) and the 10 indicators available for evaluation of potential aggregator organizations. Five indicators are mandatory, and the other five are related to financial stability, time in operation, etc. The certification is not prohibitively expensive, is renewed annually, and will likely work well for potential NGO aggregators. For non-NGO aggregators, there is another standard called Empresas Socialmente Responsables, which has about 100 indicators, but is more focused on financial responsibility than social responsibility. CAR can work with these groups to develop a standard that will work for the purposes of the protocol. There was also a discussion of aggregators paying into an insurance type mechanism to cover their liability for reversals.

Next Steps

- Continuing work on the outlying issues identified (particularly aggregator dissolution).
- Receiving comments from associates at CAR.
- Continued refinement of aggregation draft.
- Translate draft to Spanish
- Investigate with CEMEFI and ESR about indicators for corporations
- Revise PIA
- Prepare questionnaire for potential aggregators to solicit feedback on viability of liability management.

Jurisdictional Accounting and Nested Projects

John gave a brief presentation on some work being done by the subcommittee and reconciling different project types (Improved Forest Management, Avoided

Deforestation, and Reforestation) as well as reconciling within jurisdictional and country boundaries. There was also a discussion of MRV and certain aspects from the US Forest protocol that can be incorporated. There were some technical difficulties with getting Michelle Passero connected to the workgroup call, and it was determined that further work would be done in the subcommittee after this meeting.

Next Steps

- Develop nesting and MRV paper and analysis
- Develop matrix comparing different nested options
- Submit to workgroup for review and discussion

The next workgroup meeting is tentatively planned for May 19th, 2011.