



The Mexico Forest Project Protocol Workgroup

Meeting 9 Meeting Notes May 19, 2011	Meeting was held at the office of Pronatura in Mexico City, DF- Mexico
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The meeting was held on May 19th, 2011 at Pronatura's offices in Mexico City, Mexico. The meeting started at approximately 9:30 am and concluded at 1:00 pm.

In attendance: John Nickerson (Climate Action Reserve), Cecilia Simon (Climate Action Reserve), Christoph Neitzel (Academic, UNAM), Ruben de la Sierra (ASERCA), Pedro Morales (Baker & Mackenzie), Pablo Quiroga (Natura), Federico Lage (Natura), Danae Azuara (EDF)

Remote: Robert Youngs (Climate Action Reserve), Rosario Peyrot, Michelle Passero (The Nature Conservancy) Yves Paiz (The Nature Conservancy), Jeffrey Hayward (Rainforest Alliance), Francisco Chapela (Rainforest Alliance), Juan Carlos Carrillo (Centro Mexicano de Derecho Ambiental), Raúl Espinoza Bretado (CONAFOR)

Meeting Summary:

The meeting consisted of updates from the various subcommittees since the last workgroup meeting in March and discussions of next steps. Presentations were provided from the following subcommittees:

- Baselines and Leakage (Alfredo Cisneros, Kjell Kuhne, Cheri Sugal, Steven de Gryze, Yves Paiz)
- 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)
- Jurisdictional accounting/Nested Projects (Yves Paiz, Michelle Passero, Naomi Swickard, Julie Teel, Brian Shillinglaw, Danae Azuara, Cheri Sugal, Rosa Maria Vidal, Pablo Quiroga)
- MRV (Michelle Passero, Danae Azuara, Pablo Quiroga, Rubén de la Sierra, TBD)

The meeting began with introductions from participants, and a general discussion of workgroup progress to date. There was an update on work done in various subcommittees including recent meetings with Consejo Civil.

Baseline and Leakage

John Nickerson gave a presentation on work from the baseline and leakage subcommittee. The presentation is available on the Climate Action Reserve website, on the Mexico Forest page. There was a discussion of the general thinking around the definition of a project and what types of activities it can include. Essentially a project can consist of various different types of activities, such as improved forest management, reforestation, and avoided deforestation, and the project will be delineated based on the ownership (an ejido group, a private owner, etc.). That is, a project need not be only one type of the above activities, but rather can consist of various management activities under one ownership structure. Within the project, each of these activities (e.g. avoided deforestation, IFM, etc.) would need its own baseline analysis.

The first step for developing baseline(s) for a given project is to develop an inventory. The inventory will then be stratified into the various landscapes/land uses (e.g. primary forest, secondary forest, agriculture). The inventories for different land uses would not all need to be performed in the same way – some would require greater intensity, others less intensity (based on variability in the landscape). The next step after developing the inventory is to apply a standardized risk assessment or analysis. There is work being done with Natura Proyectos Ambientales regarding approaches to a standardized risk assessment. Essentially, a trend analysis broken down by region can be developed based on historical deforestation (over the last ten years). A region can be defined as a subnational area, within a state and likely broken down by eco-regions within each state (approximately 5 per state).

There are two options on how to go about developing a risk trend analysis here. One is using remote sensing data and changes in forest cover and then applying emissions factors for the forest cover changes to arrive at the carbon stocks. A second way would be using data from Conafor, INE and INEGI, that is based on ground level inventory data taken across Mexico. There are permanent plots across the country and inventory measurements that can be used to show changes in forest cover over an 8 year period. The plots look most promising, as they show the actual change in stocks, rather than simply change detection, which would require the use of factors to arrive at the carbon storage changes. Remote sensing only shows changes in forest cover, not stocking and sequestration.

Developing the historical trend is the first step in coming up with a baseline, and it will need to be calibrated at a project level. However, the goal is to develop a very standardized starting point for baseline analysis that is efficient, involves minimal analysis and/or potential for justification or gaming at the project level, and is conservative.

Essentially, an inventory is taken at the project level, and then a factor or percentage is applied to those stocks based on the risk trend for that eco-region. This way you can make an *initial* assumption that this is the deforestation or degradation trend for the project area, then determine – through additional analysis – if that historical trend will likely continue at the project level as modeled, or whether it needs to be adjusted. This can be done by looking at the drivers/causes of deforestation and then either 1) use econometric modeling at the regional level that looks at the drivers and determines what the trend would be from that point on (how to adjust the risk trend) or 2) do the analysis without the econometric modeling, based on what the most important drivers in the

region are, and then test the applicability of those drivers at the project level. Inputs to these adjustment methods could be gathered and assessed through questionnaires at the project level.

The baseline analysis be projected 30 years into the future. Because multiple different management types (e.g. reforestation, IFM) may be present in one project, a baseline will have to be developed that incorporates them all, and defines the business as usual level of deforestation and sequestration. From pre-project forest management plans at the ownership level, future sequestration can be also be modeled into the baseline analysis. Some work being done with Steven Degryze is focusing on the use of a comparison landscape that is set aside and used to make the baseline dynamic. That is, adjusting the baseline based on the set aside comparison landscape, and any changes that take place on it over the 30 year time frame. A potential issue with this is that comparison landscapes may be treated/managed differently if they are known to be used as comparison landscapes (similarly to the way monumented forest plots are sometimes treated/managed differently in inventory projects over the long term).

There was a broader discussion of what national inventory data can be used as the starting point for the risk trend analysis. The Conafor data and inventory methodology was discussed, and particularly the idea of being able to reconcile easily with national measurements.

Federico gave a presentation on concepts related to econometric modeling. The basic idea is to extrapolate out certain unknown future behaviors based on data points that we do know at the present. An analysis of the pertinent deforestation drivers must be performed to form future scenarios with the econometric model. Spatial analysis is very important, as is the relationship that certain drivers have with one another. The inputs to the econometric models (and eventually the geo-referenced data) can be based on mathematical inputs as well as qualitative variables from on-site analysis. The idea is to have the project level inputs simple enough for laymen to understand and use and robust enough to give an accurate picture of potential future deforestation.

There was a discussion of what the inputs to the model would be, what factors on a project level would be incorporated and how, and what kind of questions might go into project questionnaires.

Next Steps

- Draft the territorial baseline idea and share with the group
- Figure out the next steps after the draft is completed, (eg. Proposal from Natura)
- 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

Environmental and Social Safeguards

There was a discussion of work being done by the subcommittee and the recent meeting with Consejo Civil regarding environmental and social safeguard standards. There was an overview of the work and thinking done to date, the review of existing standards such

as FSC, CCB, Gold Standard. The different potential indicators to be used (and their verifiability) for the different standards were discussed.

It was noted that existing standards often focus on forest projects and timber extraction, and are not necessarily applicable to carbon projects. The standard developed by Brazilian NGOs was discussed as well as the move toward developing a Mexico based stand-alone set of environmental and social safeguard principles. There was discussion of work being done in Chiapas and by the REDD Offset Working Group (ROW) and the possibility of using CCB there.

The last subcommittee meeting was held on 5/17 at the offices of Consejo Civil in Mexico City. The thinking coming out of that meeting was to not use any existing standard, but rather to develop a standard specifically for purposes in Mexico, using the environmental and social safeguard language that came out of the Cancun process as a starting point. There are 5 main points from the Cancun agreements. Each one was discussed and fleshed out by the subcommittee to develop a comprehensive list. It is available on the Climate Action Reserve website on the Mexico Forest page. Sergio Madrid, Juan Carlos Carrillo, Lucia Madrid, Sara Cuervo, Ivan Zuñiga, Pablo Quiroga, Claudia Mendez from Rainforest Alliance, Leticia Espinosa from Pronatura and a several people from Conafor were instrumental in developing the principles. There was a discussion of the recent workshop in Mexico City with Conafor and the World Bank regarding safeguards and the SESA Assessment. The subcommittee will review the results of the workshop to assure that they are on the same page.

The basic principles that were developed at the Consejo Civil meeting were discussed as well as next steps, namely, comparing those principles developed to existing standards to see if there are any gaps, and then addressing these. At that point draft of the essential principles can be developed, as well as the criteria and the indicators for each one.

There was an extended discussion of the environmental and social standards and Michelle Passero brought up some concerns related to enforcement of the principles, particularly if the protocol (and its safeguard requirements) are potentially included in a regulatory scheme in California. Namely, what would be the consequences if a project did not meet one or more of the indicators during the life of the project? What would happen to credits already issued? When would the criteria be assessed? At the beginning or throughout the life of the project? Would non-compliance with certain indicators (potentially assessed at different times) have different consequences depending on the indicator, or would they all be the same? Who does the enforcing and who determines the consequences?

Incorporating these types of questions and implications into the development of the environmental and social safeguard criteria will be very important. Some general thinking around enforcement is that it would be similar to that of the domestic protocol. That is, periodic verifications would take place that assess the criteria, and credit issuance could be suspended until the safeguards are met.

Next Steps

- Develop context/framework for enforcement (how they would work in a compliance protocol)

- Follow up with group in end of June
- The group will also explore environmental and social safeguards at the jurisdictional level for potential crediting at the jurisdiction level
- Have a draft soon

Aggregation Subcommittee

Cecilia Simon gave a presentation to the workgroup regarding work done by the aggregation subcommittee and comments on the aggregation draft. The presentation is available on the Climate Action Reserve website on the Mexico forest page. The draft was received by Climate Action Reserve policy staff and attorneys, and there have been subsequent discussions about the content. An overview of the thinking to date was given, namely that the approach used in the US protocol for liability (all resting on the landowner and running with the land, based on 100-year contract with CAR) is not viable in Mexico due to laws on land tenure and contracts. So the thinking is to shift the liability for avoidable reversals to the aggregator. That is, a contract would be executed between CAR and the aggregator.

Some of the primary comments from the draft were discussed. Namely, the allowance of city, county or state agencies to act as aggregators will likely be removed. That is, aggregators will need to be either non-profit or for-profit private entities. Also, the forest owner is no longer required to have an account on the Reserve software. That is, the aggregator will have the account and the credits will be issued directly to their account and there will be a system in the Reserve software that ensures transparency (who the credits belong to and fair benefit sharing). All credits are serialized and the serial number will identify the forest owner and the aggregator.

Contracts can have a flexible time period that doesn't exceed 30 years for communities/ejidos, and is not shorter than 10 years. Contracts will be made available to the public for transparency reasons. The contract must also be clear and explicit that the transaction is for the environmental service of carbon sequestration and does not constitute a property transfer. The "not a transfer of possession of trees" requirement was removed, because it is possible for this to be part of an aggregator-forest owner contract. The aggregator-CAR contract can last more than 30 years. An aggregator can be a private entity that manages many different projects with different landowners. Or an aggregator can also manage one project only, and the aggregator can be the forest owner.

There was some discussion of the 10 year minimum, and how a 10 year project minimum might affect a baseline analysis. The baseline trend analysis would likely have to be adjusted, making it less likely that project participants would want to get involved for 10 years only. There was also of a discussion of making the minimum commitment longer than 10 years. It was also discussed that it should probably be consistent with the baseline analysis of 30 years.

There was a discussion of the Centro Mexicano para la Filantropia (Cemefi) and certification of social responsibility and financial stability of non-profit organizations, but some question still remains about how *for-profit* companies may be certified. For non-profits, certain terms/requirements will likely have to be added to the Cemefi standard to meet CAR's needs. There are ongoing discussions with Cemefi about how that could happen and what the costs might be.

Pedro Morales gave a presentation on the aggregation ideas and the potential for aggregators wanting to participate and assume the liability associated with carbon projects, especially in areas where risk is high. Flexible mechanisms may be necessary to not preclude aggregator participation in some cases. A key point to keep in mind is that local aggregators will have knowledge and understanding of risk levels and nuances of forest management practices in the parts of Mexico where they are working. But where risks are high, a flexible mechanism may still be necessary. It was noted that there are “many Mexicos” in terms of land management, enforcement, corruption, etc. and it is important to keep this in mind when developing the rules, and what types of flexibility might be necessary to incentivize aggregator/developer participation.

There was some discussion of how Areas Naturales Protegidas (ANP) are used in Mexico and how they might be used in the same way that conservation easements are used under the US protocol – to assure protection of stocks and lower risks (and buffer risk ratings) in carbon accounting. While some illegal logging does still occur in ANPs, the rate is lower. In addition, carbon revenue was discussed as a way to potentially subsidize and/or add revenue streams and foment conservation programs like ANPs.

There was another discussion of the buyer liability provisions under ARB and how this might play out with Mexico projects and with aggregators. There was discussion of a meeting with Juan Carlos and Pedro Morales to talk about these issues.

Next Steps

- Continuing work on the outlying issues identified (particularly aggregator dissolution and “for-profit” accreditation).
- Meeting with CONANP
- Continued refinement of aggregation draft.
- Revise PIA

Permanence

John led a discussion on permanence and the financial model. Some of the assumptions and values from using the ton-year accounting approach were plugged into the financial model that was developed, and the results were discussed by the group. Different inputs to the model were tested, such as growth rates, on site carbon stocks, harvest rates, buffer pool contributions, inventory and project development costs, and verification frequencies, verification and monitoring costs, etc. These models were then compared with crediting rates based on a 100-year project life versus a 30-year project life using ton-year accounting (due to the 30-year maximum term of community/ejido contracts).

Credits available under the different scenarios and different project lengths based on ton-year accounting were discussed at length. Due to the many discounts in crediting, it can be difficult for projects to pencil out when all the development and verification costs are considered. There was a discussion of potentially having matching funds from the Mexican government, or from USAID to help with capacity building to help alleviate some of these of front costs for project developers and/or forest owners and make wide spread implementation of carbon projects more viable financially. It was noted that USAID funds are slated for capacity building more so than project level development. Peace Corp volunteers were also identified as a potential way to help with capacity

building and it was suggested that a meeting be set up with the Peace Corp director in Mexico.

Ton-year accounting was discussed and the issues of 30-year permanence and potential incongruence with current 100-year permanence requirements in the US protocol. Areas Naturales Protegidas (ANP) were again discussed in this context. That is, is there a potential for the terms of a state backed ANP agreement (similar to a conservation easement) to go beyond a 30-year time period, and perhaps go to 100 years or longer? If so this could be another approach to permanence.

There was further discussion of making projects economically viable and ideas about economies of scale with projects. It was noted that when thinking about prices and crediting we should also take into account how revenues might be shared in communities. That is, if the carbon payment are somewhat low and then have to be shared among 100 community members, it could make projects even more difficult to pencil out.

Next Steps

- Review ton-year accounting scenarios in financial model and discuss further
- Take into account workgroup comments on the model and incorporate them
- Further investigate ANP potential
- Review TNC's economic model and incorporate any variables obtained from this model into the developing financial model

Jurisdictional Accounting & MRV

There was discussion of jurisdictional accounting and Monitoring, Reporting and Verification (MRV) and the organization of the subcommittees within the workgroup. The CTC has recently set up 5 groups: capacity building, finance, public policy, participation & transparency, and MRV. There was a discussion of establishing an MRV subcommittee. Michelle and Yves volunteered to work together on developing thinking for the MRV group initially. Leakage in the context of MRV was discussed at length. There was discussion of the [GOF-C-GOLD REDD Sourcebook](#) as a useful tool for looking at MRV. How MRV might be handled at the project level as well as at the jurisdiction level was discussed. Naomi Swickard from VCS has some information on how they have been looking at MRV. The next step is to follow up with Naomi and circulate that information

Because projects under the protocol will likely have the ability to include all project types (sequestration and avoided emissions) it was noted that at the jurisdiction level, MRV will need to cover stock changes in terms of growth and sequestration, not just emissions/deforestation.

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 planned for July 14, 2011