Panama Forest Protocol for Offset Credits of the Climate Action Reserve V1.0
Workgroup Meeting 6: Permanence

May 18, 2023

Introducción

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Housekeeping

- Workgroup members have the opportunity to actively participate throughout the meeting
  - Ask that you keep yourselves muted unless / until would like to speak
- We will ask and take questions throughout the session
  - Please use the raise your hand function
- All other attendees/observers are in listen-only mode
- Observers are free to submit questions in the question box
- We will follow up via email to answer any questions not addressed during the meeting
- The slides and a recording of the presentation will be posted online

Agenda

1. Presentations
2. Process Overview
3. Key Considerations for Eligibility
    1. Recap of Social Safeguards and Additionality
    2. Permanence
4. Questions, comments, and next steps

Development process

PANAMA FOREST PROTOCOL FOR OFFSET CREDITS

Workgroup Members

Organization (Alphabetical)	Name
Asociación Nacional de Técnicos Forestales de Panamá - ANTEFORP	Jose Angel Rojas Gamboa
BAM	Juan Carlos Flores Del Castillo
Bioforestal Innovación Sustentable	Jesus Morales
BRET CONSULTORES	Teresa Tattersfield
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Earthshot Labs	Andrew Coates
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Fac. Ciencias Agropecuarias - Universidad de Panamá	Dimas Arcia
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Geo Forestal, S.A	Jacobo Melamed
Instituto Nacional de Investigaciones Forestales Agrícolas y Pecuarias	Geronimo Quiñonez Barraza
MiAmbiente	Verónica González
Ministry of the Environment, the Fight Against Climate Change, Quebec	Philippe Gregoire
Panama Teak & Forestry Inc	Itzel Ivon Rodriguez
South Pole	Maria Fernanda Buitrago Acevedo
Terra Global Capital	Gregory C. Ives
Universidad Tecnológica de Panama	Carlos Espinosa Peña
Wetlands International	Andrés Fraiz
World Resources Institute (WRI)	René Ibarra

Protocol Development Overview

- **GOAL**: To create a robust Panama Forest Protocol that provides best practices for GHG accounting to generate Climate Reserve Tonnes (CRTs)

- Ensure high quality carbon credits that guarantee the environmental and social integrity of the project.
- Align the protocol with the laws and regulations of Panama.
- Incentivize activities that increase carbon sequestration in the forestry sector.
- Generate co-benefits (social and environmental).
- Leverage lessons learned from the Reserve's US and Mexico Forest protocols
- Solicit and incorporate expert stakeholder feedback.

Timeline

Steps	Details	Feb	March	Apr	May	Jun	Jul	Aug	Sep	Oct
Formation of the Working Group	kick-off meeting									
	Submit the SOI: February 10, 2023									
Workgroup	Meeting 1: Eligibility - Activities		2							
	Meeting 2: Land Tenure		15							
	Meeting 3: Activities			5						
	Meeting4 : Environmental Safeguards			19						
	Meeting 5: Social Safeguards & Additionality				4					
	Meeting 6: Permanence				**18**					
	Meeting 7: Quantification + MRV					8?				
	Meeting 8: Land tenure/pending topics					26?				
Draft Protocol Development										
Work Group Review										
Public Comment Period	Public Comment Period									
	Review of comments and update of the protocol									
Approval by the Board of Directors of the Reserve	October 2023									4

Workgroup Process and Expectations

CAR/Process:

- Manage the protocol development process
- Hold ~8 workgroup meetings
- Reserve staff identify and solicit feedback on specific protocol criteria
  - **Specific questions for WG will be highlighted in red**
- Reserve staff will share the draft protocol with WG
- Revise protocol based on feedback

WG/Expectations:

- Attend all (~8) workgroup sessions
- Be active participants: provide input and ask questions on protocol concepts and language
- After meetings, share additional input and expertise as needed
- Review draft protocol and provide written feedback to Reserve staff
- Be constructive, collaborative, and productive

Recap Social Safeguards + Additionality

PROTOCOL DEVELOPMENT CONSIDERATIONS

Recap Social Safeguards

In order to ensure all provides provide social benefits, projects must:

Free, Prior and informed consent	• Discuss required protocol topics in the General Congress prior to having a vote to approve the project and project developer • Have a vote to approve the project • Comply with Law No. 37 regulating FPIC
Notification, Participation and Documentation	• Describe how assemblies are announced • Have spaces for participation • Ensure that the Resolutions are made publicly available (typically published on the Comarca websites)
Project governance	• Identify a project coordinator to represent the community with the verifiers and the Reserve

- Example of a comarca Resolution and/or links to the comarca website where Resolutions are published
- Are there similar processes for collective lands not included in comarcas?

Recap and Additionality

A forest project is considered additional if it would not have been implemented without carbon market incentives.

- Forest Project must comply with the following :

Legal requirement test

Performance standard test

- Agroforestry/Silvopastoral Systems and Small Urban Forests pass automatically due to inherent risks to forest cover
- Reforestation passes automatically per definition
- Large Urban Forests require historical canopy cover trendline
- Restoration has specific tool

- Review of the Restoration PED tool and related studies on risks of deforestation or degradation in Panama
- Studies on deforestation in mangrove forests in Panama

Performance Standard Test: Improved Forest Management Activity Areas

- Evaluate the forest carbon stocks at risk of being harvested in the baseline scenario compared to project scenario that implements management activities to increase and maintain carbon stocks over the project life
  - Use the Forest Management Programs and laws that regulate the permitted harvested volume to determine the baseline scenario

- **Forest Management Programs (FMP):** Are documents approved by MiAMBIENTE that allow the harvesting of wood
  - **For commercial PMFs:** RESOLUCIÓN No. AG-0613-2009
    - **Harvest intensity:** The harvest intensity by species should be calculated taking as starting point the Minimum Harvest Diameter and the Harvest Cycle and that no more should be harvested than the forest grows.
    - Clarification: Allows harvest up to 100% of the annual growth?
    - Clarification: In general, only the classes of commercial species are included (not due to the legislation but by the decision of the forest owner to maximize yield)?
    - Is it possible to update FMPs and harvest volumes if growth is higher than estimated?
    - Are there commercial FMPs within the comarcas?
- **For primary forests:** are only two trees per hectare per year allowed to be harvested?
    - How is it established if it is a primary forest? Is there a register or map of all primary forests?

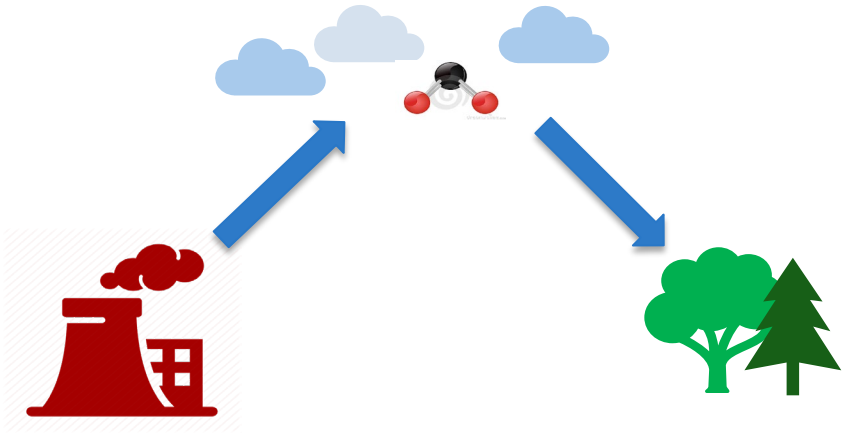
Permanence

PROTOCOL DEVELOPMENT CONSIDERATIONS

Permanence

Forest Projects must meet the permanence standards:

- The climate benefit of the project must be "permanent," which is defined by a 100-year period for Forest Projects.
- A CRT credit is issued for each ton of CO2e that is removed from the atmosphere for a 100-year period.



Ensuring the Permanence of Accredited GHG Removals

The Reserve requires Forest Projects to ensure that the carbon associated with credited GHG removals remains **stored for at least 100 years.** The protocol establishes multiple procedures to ensure that credited GHG removals meet permanence obligations:

1. A legal contract, known as a **Project Implementation Agreement**, signed by the Forest Owner and the Reserve, that establishes the obligations of each party in the event of a reversal.
2. In the case of Comarcas and collective lands, a **Resolution with a formal commitment approved by the Comarca** to maintain credited carbon stocks for a period of 100 years aligned with their Comarca or collective land processes and legal standards.
3. An insurance mechanism, known as the **Buffer Pool**, based on the project's risk profile.
4. An **incentive approach that redistributes the dividends from the buffer pool** to projects that demonstrate continued compliance and maintenance of sequestered carbon stocks over time.

Section 3: Project Implementation Agreement (PIA)

The Project Implementation Agreement (PIA) is the contractual agreement between the Forest Owner and the Reserve:

- The PIA establishes the Forest Owner's obligations to comply with the protocol's requirements.

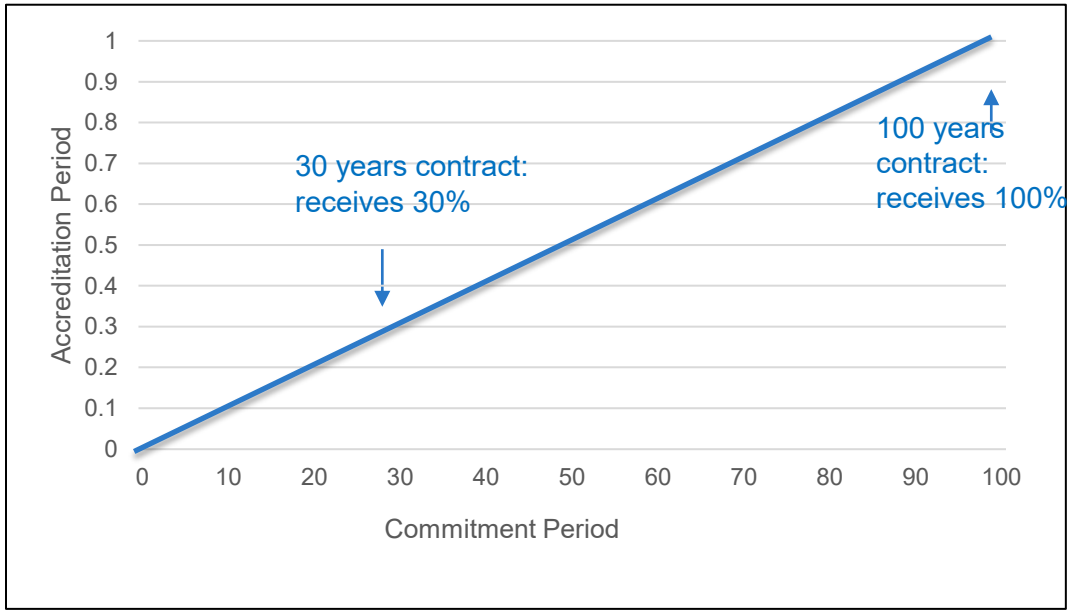
- The Forest Owner can define the commitment period between 30 and 100 years.
  - The PIA can be renewed annually
  - The number of credits is stipulated according to the commitment period length.

- What is the process to record before a Public Notary?
- Could the PIAs be registered with the Public Registry and/or ANATI?

Accounting Ton/Year and the Emission of CRTs

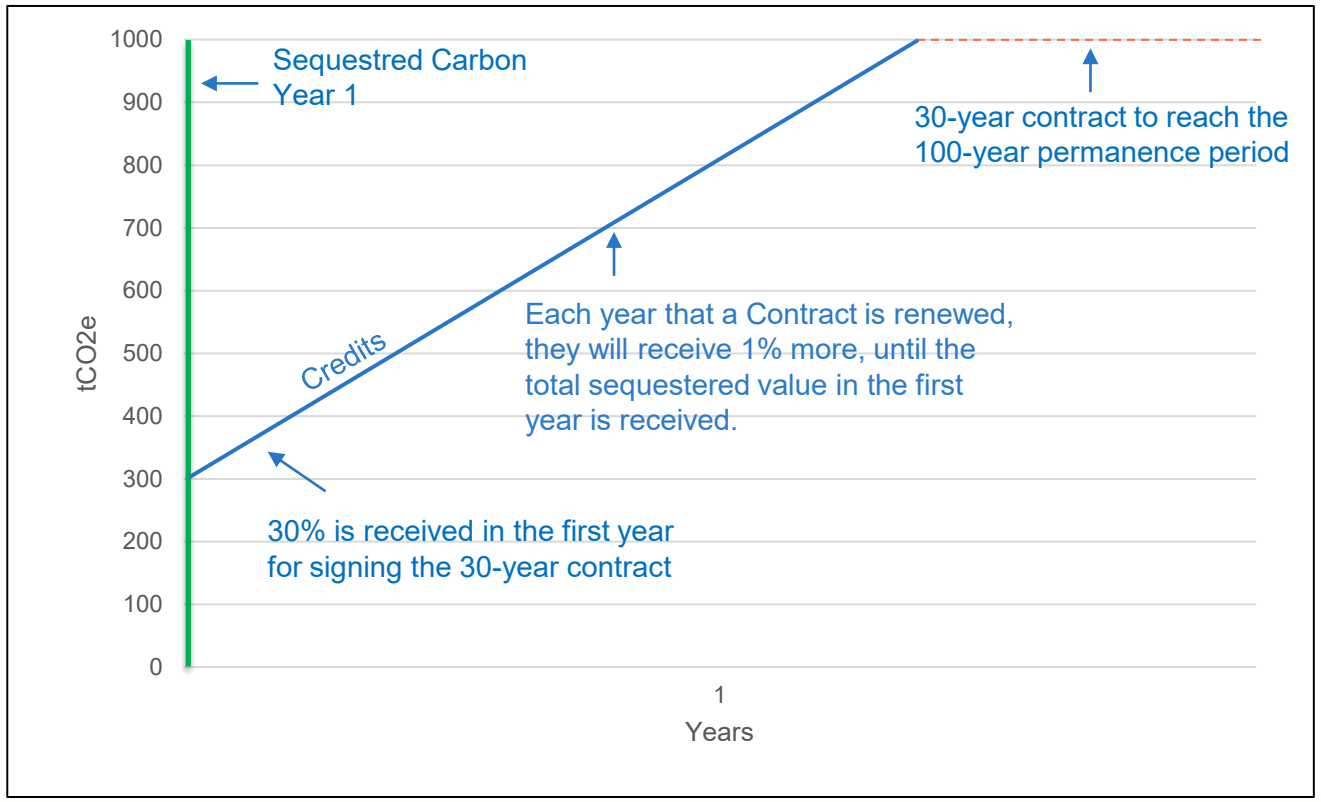
Time commitment periods less than 100 years will receive a fraction of the total credit:

- Protocol uses ton/year accounting to ensure permanence
- For each additional ton of CO2e, the crediting will be equivalent to the portion of the commitment period relative to the 100-year permanence period



Accounting Ton/Year and Emission of CRTs

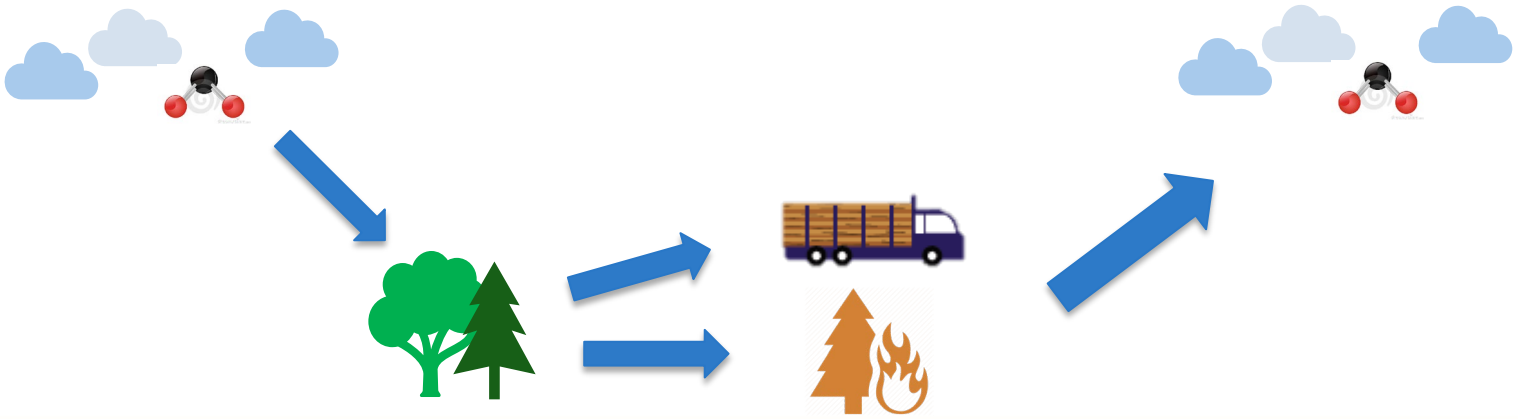
Tons secured in a short-term period will have additional annual emissions over time, which is an additional incentive to achieve long-term permanence:



This process is repeated each year when additional carbon is sequestered.

Reversals

- Any reversal needs to be compensated for if they affect the contractually secured CRTs.
- There are two types of reversal:
  - Avoidable
  - Unavoidable



Unavoidable Reversal

An Unavoidable Reversal is one that is not caused by the negligence or premeditation of a Forest Owner, for example, natural events such as fires and pests.

To compensate:

- A Forest Project contributes an amount of CRTs to a Buffer Pool each year that credits are issued.
- The Reserve manages the Buffer Pool and will retire an amount of CRTs equal to the number of tons affected by an unavoidable reversal.

Buffer Pool

- Contributions to the Buffer pool are determined through a **project-specific risk assessment**.
- Forest Projects also receive an **economic incentive** to protect against reversals, based on an expected flow of future credits. As projects demonstrate continued compliance, a percentage of their contribution to the Buffer Pool may be redistributed to the Forest Owner over time based on the ton-year value of project-specific credits in the Buffer Pool.
- The Reserve adaptively manages the Buffer Pool, including its dividends, based on an ongoing assessment of programmatic risk and the health of the Buffer Pool.

Project Contribution to the Buffer Pool

Risk Category	Contribution		
	Private Lands	Public Ownership	Collective Lands
Financial Failure	6% o 8%	4% o 6%	4% o 6%
Illegal Forest Biomass Removal *	2% o 4%	2% o 4%	2% o 4%
Conversion	4% o 8%	4% o 6%	4% o 6%
Over Harvesting**	0% o 4%	0% o 4%	0% o 4%
Social	2%	2%	4% o 6%
Political***	2%	4%	2%
Wildfire, Disease, or Insect Outbreak****	4% o 6%	4% o 6%	4% o 6%
Other Catastrophic Events	8%	8%	8%

*Calculated based on implementation of forest management program and/or international forest certification programs.
** Calculated based on the inclusion AA of MFM.
*** Calculated based on World Governance Indicators (https://info.worldbank.org/governance/wgi/Home/Reports)
**** Calculated based on the implementation of fire risk reduction works in your project area

$$\textit{Rerversal Risk Rating} = 100\% - [(1 - FinancialFailure\%) \times (1 - IllegalForestBiomassRemoval\%) \times (1 - Conversion\%) \times (1 - OverHarvesting\%) \times (1 - Social\ Risk\%) \times (1 - Political\ Risk\%) \times (1 - Wildfire\ /\ Disease/InsectOutbreak\%) \times (1 - OtherCatastrophicEvents\%)]$$

Redistribution of Contributions to the Buffer Pool

- Forest Projects receive an **economic incentive for** protecting against reversals based on redistributions of contributions to the Buffer Pool or dividends from the Buffer Pool.
  - As projects demonstrate continued compliance, a percentage of their contribution to the Buffer Pool may be redistributed over time based on the tonne-year value of the project's credits in the Buffer Pool.

Redistribution of Contributions to the Buffer Pool

- Redistributions and tonne-year value:
  - **Each year that one tCO2e is kept out of the atmosphere provides an atmospheric benefit of approximately 1%** relative to the atmospheric benefit produced by one tCO2e kept out of the atmosphere for 100 years.
  - As tCO2e are kept out of the atmosphere over time, **the portion of credits that have already provided an atmospheric benefit changes from being "at risk of reversal" to "not at risk of reversal".**
  - The principle of tonne-year accounting is applied to the long-term management of the Buffer Pool, **such that the contributions made are redistributed over time as dividends as the credits change from being at risk to not being at risk of reversal.**

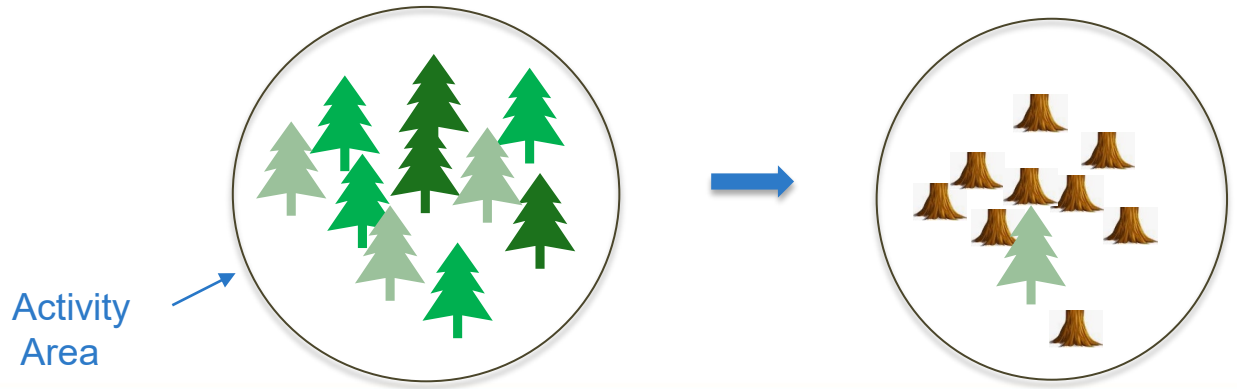
Redistribution of Buffer Pool Contribution: Example

	Reporting Period	1	2	3	4	5	6	Description
A	Annual Credits Issued per year	1000	1000	1000	1000	1000	1000	CRTs issued for RP_n
D	Buffer Pool Annual Contribution (BPC)	350	350	350	350	350	350	Buffer Pool contribution for RP_n
F	**Net BP Contribution (after dividends)**	350	700	1,050	1,400	1,750	2,027	Sum of Buffer Pool contribution minus periodic dividends
I	**Dividends Distributions: 6 years**	0	0	0	0	0	74	Periodic dividends distributions every 6 years based on the realized tonne-year value of Buffer Pool contributions form $RP_{n=1}$ hasta $H_{y=6}$

Avoidable Reversal

An Avoidable Reversal is any reversal that is due to the Forest Owner's gross negligence or willful intent, for example harvesting, urban developments, or harm to the Activity Area, that reduces carbon stocks more than the total tons secured and emitted as credits.

- Not covered by the Buffer Pool
- The Forest Owner is responsible for removing a number of CRTs equal to the number of tons affected by the avoidable reversal.



SUMMARY AND NEXT STEPS

Timeline of protocol development

Next steps

- ***For Interested Stakeholders:***
  - Still can submit Local Engagement Form
  - Email interest to sign up for updates as an observer
  - Email us feedback anytime
- ***For Reserve:***
  - Compile summary notes on discussion
  - Post recording, notes, and presentation to the webpage
  - Start drafting protocol with workgroup considerations
  - Prepare for next workgroup meeting: June 8th?
  - Set meeting for sub-committee on land tenure/clarification of carbon ownership
- ***For Workgroup:***
  - Email feedback on today's discussion by May 26th
  - Look out for invitation for next meeting: June 8th

QUESTIONS OR COMMENTS?

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