

CARBON MECHANISMS REVIEW

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Opportunity versus Odyssey

The Future of Forestry Projects in the Carbon Market

Stabilising the CDM

A Workshop Report

Content

July – September 2013



4 **Designing the Residual Market**

Options to Stabilise the CDM

7 **The CDM: Glue for the Global Carbon Market?**

The Challenge of New Offsetting Systems

Focus Forest Protection

11 **Can Forestry Projects Play a Role in the Carbon Market?**

Market-based REDD+:

13 **Put past Mistakes Behind Us or Negotiate Holistic Pilot Phase?**

Arguing the Point

18 **Should Market-Based, Sub-national REDD+ Activities Be Allowed?**

24 **Failure or Successful Testing Ground?**

India's Experience with CDM and REDD+

30 **CDM Reform Falls Victim to Russian Blockade**

33 **Ambitious Standards Are Key**

Status Report on New Market Mechanisms Following Negotiations in Bonn

editorial

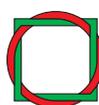
Dear reader!

This issue of Carbon Mechanisms Review shines the spotlight on forestry projects and the carbon market. With the current CDM and JI mechanisms, restrictions on afforestation and reforestation projects and their exclusion from the EU Emissions Trading Scheme make this something of a niche topic. At the same time the debate on Reducing Emissions from Deforestation and Forest Degradation (REDD) repeatedly questions the role that private actors might play in this regard. We asked two acknowledged experts for their professional input on both these topics: Kristin Gerber from Germanwatch and Joachim Schnurr from GFA Consulting Group argue the pros and cons of introducing sub-national, project-type REDD activities, and the risks and opportunities they bring. This is followed by a piece from GIZ on experience with CDM forestry projects in India.

In practice, the issues of market mechanisms and forest protection are debated separately with the climate change community. The Carbon Mechanisms Review has chosen to bring them together in a single, in-depth focus, making for a much longer issue than usual. Apart from the main focus, the Review takes up other topical issues of interest to the carbon market community: We report on a workshop that discussed ways of stabilising the CDM and look at the potential role of the CDM as a standard-setter in an increasingly fragmented carbon market. We then conclude with an analysis of the results from the Climate Change Conference held in Bonn last June.

On behalf of the Carbon Mechanisms Review team, I wish you an interesting and informative read.

Christof Arens



Wuppertal Institute
for Climate, Environment
and Energy

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Designing the Residual Market

Options to stabilise the CDM

by Wolfgang Sterk, Lukas Hermwille

The CDM is currently ailing due to extremely low certificate prices resulting from imbalanced supply and demand. Against this backdrop, the German Environment Ministry, in cooperation with the Wuppertal Institute, hosted an expert discussion session to identify ways to stabilise the carbon market.



On the secondary market, the price for CERs hovers around 50 Eurocent per tonne, which in most cases covers neither the costs of emissions monitoring and verification, nor those of CER issuance. One particular outcome is reduced capacity among almost all market players. Another is the risk that projects with no other sources of revenue apart from the CDM will have to be stopped. This could ultimately result in huge quantities of greenhouse gases being released, most notably in the form of emissions of highly climate-damaging HFCs, N₂O and methane.

In a recent Vivid Economics study on market stabilisation, the imbalance on the CDM market is described thus: Some 2.4 Gt of CERs and ERUs were issued by the end of the first Kyoto commitment period, but only 1.4 Gt may actually be used, leaving an anticipated excess of about 1 Gt. In the second Kyoto commitment period, demand from the EU Emissions Trading Scheme (ETS) is expected to be around 580 Mt, while that from the EU's 'effort-sharing decision' is seen at 750 Mt. Add to this an estimated 190 Mt from the Australian emissions trading scheme – if it survives the general elections in September. This all amounts to a grand total of 1.5 Gt on the demand side. Potential supply up to 2020 is seen at around 5 Gt.

A recent Wuppertal Institute analysis of potential rescue measures (see box on page 6) concludes, however, that of the many theoretical options available, only few could achieve short-term price stabilisation. If these options are to be implemented, far greater political will is needed than is currently forthcoming.

The participants in the expert discussion sessions thus concluded that for the time being, it is only possible to work on the basis of a residual market. This market could be designed using public funds. The industrialised countries have agreed to increase their climate finance to USD 100 billion by 2020. Hence, one option would be to finance projects whereby, instead of counting CERs towards achieving emissions targets, these would be retired and the funding expended would be counted towards climate finance commitments.

The participants also discussed which components of the CDM should be maintained as a matter of urgency. To this end, all participants thought that host countries' capacities should be given priority to enable project development and the measurement, reporting and verification of emission reductions. Many participants assigned the CDM Executive Board's methodology development instrument and the associated UNFCCC support a key role – especially as regards further development of innovative approaches like the Programmes of Activities (PoAs) and standardised baselines (SBLs).

Session participants analysed various options for structuring the foreseen residual market. Targeted use of the funds for a limited number of projects was identified as the preferred alternative to across-the-board support.

Two approaches were proposed. Firstly, to prevent the stoppage of projects which would have no other source of revenue apart from CERs, CERs from those projects should be bought up (these include nitric acid and HFC projects). However, this would only be seen as a short-term emergency initiative designed to prevent what would otherwise be the release of significant amounts of greenhouse gases. In the medium term, these emissions ought to be transferred to a regulated instrument outside the carbon market – in the case of HFCs, within the framework of the Montreal Protocol. In addition, importance would be placed on preventing the stoppage of projects without allowing the operators further windfall revenue. Only the actual abatement costs would be financed in this approach.

The second model would support new 'good' projects in order to boost the expertise of project developers and consultants in the host countries. To identify 'good' projects, a list of criteria needs to be drawn up. These could include:

- The projects' additionality
- The co-benefits achieved with the projects
- Their contribution to transformative effects in the host country
- Their integration into sectoral/national strategies.

As a starting point, existing criteria could be applied such as the CDM Gold Standard or the Belgian Tender sustainability criteria.



In addition, innovative approaches such as standardised baselines (SBLs) and Programmes of Activities (PoAs) should be promoted, including with a view to the transition to new (sectoral) market mechanisms. The expertise already available within the UNFCCC should be used to enhance these approaches.

Support for new projects should not only focus on the characteristics of the project concerned, but also on the host country. While no support is needed for certain emerging economies that are already on the way to establishing their own emissions trading schemes, other countries – especially LDCs – are in urgent need of help. Because the expertise gathered there would otherwise be lost, the support provided should focus on projects conducted in such countries. Where appropriate, support could include projects conducted in countries that have a certain amount of capacity but where only individual projects have been carried out so far and where the CDM knowledge had not yet been transferred to other areas of application.

The institutional structure, rules and procedures established by the UNFCCC should be used and maintained in order to counteract a 'race to the bottom' regarding quality arising from continuation of centralised standard-setting by the CDM.

Further information:

The Vivid Economics study can be viewed here:
<http://www.vivideconomics.com/index.php/publications/the-market-impact-of-a-cdm-capacity-fund>

The Ecofys/Climatekos discussion paper commissioned by KfW and which was also used in the workshop is available for download at: <http://www.ecofys.com/en/publication/cdm-market-support-study/>

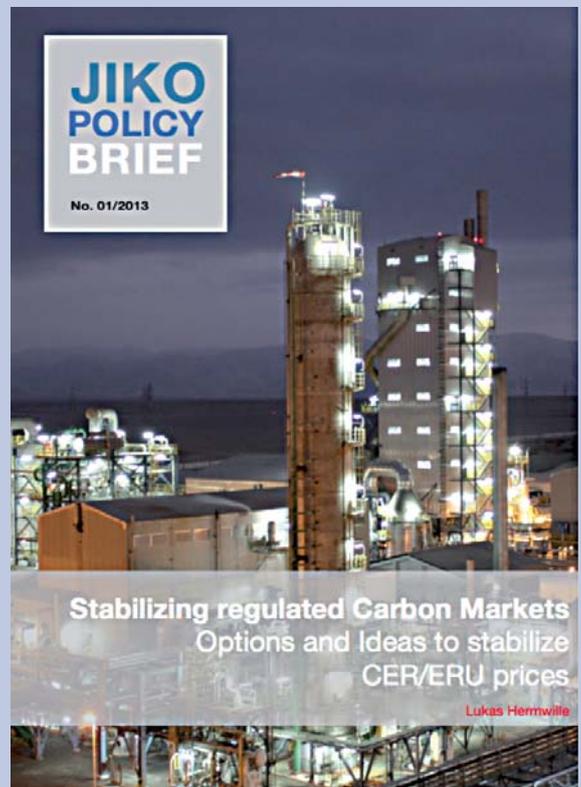
Options and Ideas to Stabilise the CDM: Analysis and Evaluation

In efforts to level out the imbalance in supply and demand on the international carbon market, two fundamental approaches are possible: An artificial reduction in supply, and an increase in demand. Proposals abound for both. These range from raising climate change targets to creating a central certificates bank to (short-term) stoppage of certificate issuance.

The Wuppertal Institute has systematically analysed some 14 proposals and used three criteria to evaluate whether they have the potential to stabilise the carbon market. Can the instrument influence supply and demand in the necessary time-frame and magnitude? Does it send a positive message for the future of the carbon market? And finally, are the measures acceptable to both policymakers and market players?

Only three of the options analysed are seen to promise any significant impact on the carbon market, but even these have their limitations. Increasing the climate change targets for industrialised countries would send out a strong message and would no doubt rekindle market players' trust in the future of the market. That this instrument might be implemented is highly unlikely, however. Discounting of certificates appears more acceptable: In reality, it amounts to no more than an increase in emission reduction targets. A third option would be to use international climate finance – say from the Green Climate Fund (GCF) – to buy up excess certificates. But here again, it is questionable whether mobilising the necessary billions involved is at all politically practicable. In addition, the GCF's mandate to support transformative projects would seem incompatible with an across-the-board purchase of all excess CDM-generated certificates.

The study can be downloaded at:
www.jiko-bmu.de/1290



The CDM: Glue for the Global Carbon Market?

The Challenge of New Offsetting Systems

Wolfgang Sterk, Aki Kachi, Dennis Tänzler

While the CDM dominated the global carbon market until recently, new alternative mechanisms are being developed by several jurisdictions. This may potentially lead to a fragmentation of the carbon market and result in problems of environmental integrity and economic efficiency. Adelphi and the Wuppertal Institute have analysed the emerging systems in Australia, California, and Japan on behalf of the Federal German Environment Agency (UBA). The findings were discussed at a project workshop hosted by the UBA and at a side event at the recent intersessional in Bonn. This article summarises some of the main issues that were discussed.

During the first Kyoto commitment period, the Clean Development Mechanism (CDM) emerged to be the global currency for emissions trading. The recent report by the High-Level Panel on the CDM Policy Dialogue advocates that the CDM should continue to provide the “glue” for the international carbon market by working with emerging systems and trying to harmonise approaches for market-based climate finance.

However, the CDM has not been without its critics, who have raised questions with regard to the additionality of projects, the mechanism’s bureaucracy and transaction costs, and the majority of projects being concentrated in a few, primarily emerging economy countries. Efforts to reform the CDM are underway. At the same time, the global carbon market faces a prospect of fragmentation as other domestic

and international offset systems are developed by various jurisdictions.

Prominent examples include Japan’s development of a Joint Crediting Mechanism / Bilateral Offset Credit Mechanism (JCM/BOCM) and the development of offset protocols in the framework of the emission trading systems (ETS) that are being established by California and Québec. Australia is also developing its own domestic offset mechanism in addition to allowing the use of various Kyoto units from the CDM, Joint Implementation (JI), and Land Use, Land-Use Change and Forestry (LULUCF) in its domestic ETS that is supposed to start in 2014.

The design of new offset systems can be construed as a reaction to the perceived failings of the CDM. An evaluation of their characteristics may therefore contribute to discussions on how to reform the CDM to help continue its “glue” role in international carbon markets. A new paper by adelphi and the Wuppertal Institute therefore explores perceived issues with the CDM as reflected in statements on CDM reform from the mentioned jurisdictions and the decisions they took when establishing their own systems. The analysis and discussions in Bonn led to the following hypotheses and conclusions:

Moving towards greater standardisation may enhance the CDM’s chances of acceptance in emerging emission trading systems and in existing systems.

In the offset systems studied, all three jurisdictions explicitly reject the project-by-project approach to



additionality that the CDM has taken so far. Instead, they all promote an ex-ante additionality assessment for entire classes of projects and consider this to be not only more efficient and cost-effective but also more “objective”, implying a higher degree of environmental integrity. California decided not to accept the CDM in its ETS citing concerns about its environmental integrity. In addition to the countries analysed here, concern about the CDM’s integrity has also fre-

quently been voiced in the EU, to date by far the largest CDM buyer.

With the concept of standardised baselines, it may be possible to increase the efficiency of the CDM while ensuring environmental integrity. This is the common objective of the four jurisdictions which are currently the main potential buyers of offset credits, the EU and the three jurisdictions considered in the study. Bearing this in mind, it may be worth considering explicitly labelling CERs from projects using standardised baselines. Even though the CDM has undergone substantial reform and further reforms are being discussed, existing controversial projects will continue to generate CER for years. For the different jurisdictions, it may be politically easier to assert the inclusion of a specific acceptable CDM project standard, such as standardised baselines, rather than to define detailed use-restrictions.

Monitoring and issuance may also be considered for standardisation.

The three jurisdictions’ criticism of the CDM also extends to monitoring and issuance. Japanese experts in particular criticise the high degree of uncertainty on how many CERs will eventually be issued. The Japanese JCM/BOCM therefore attempts to also standardise monitoring by providing approved monitoring report spread sheets where project participants would only need to input the monitored values. The scheme will also try to provide and use conservative default values as much as possible, including manufacturers’ specifications or statistics. Monitoring training programmes for verifiers in California and Australia reflect similar trends.

Standardisation takes substantial effort. Without external support, standardisation may be beyond the capacity of most developing countries.

While standardisation may lower overall transaction costs in the system, it also frontloads transaction costs and shifts them from project participants to those who develop the standardised metrics. For their development, substantial data gathering is necessary to distinguish activities that are additional to

those that are common practice as well as to set robust baselines. Standardised approaches also require regular reviews and updating to account for technological developments.

These efforts will presumably require a substantial amount of public sector support, as the data gathering will likely offer little commercial incentive without the concrete prospect of a registered methodology and offsets sales. The experience of Australia, California, and Japan underlines this argument as in all three jurisdictions the public sector needed to invest significant effort to establish the data basis necessary to standardise baselines and performance standards.

Such effort is probably beyond the capacity of most developing countries. To realise the promise of standardisation in the CDM and a better distribution of projects, substantial support would therefore need to be provided by the CDM Executive Board and donor countries.

While the transaction costs of an individual offset scheme may be lower than those of the CDM, a multitude of standards from different schemes may overburden host countries.

One of the arguments put forward in favour of new schemes is that the CDM in its current form has very high transaction costs while new schemes are supposedly going to lower costs through increased standardisation. However, a further proliferation of parallel schemes will raise issues of double counting, so coordination will be necessary. In addition, having multiple schemes may lead to a proliferation of transaction costs, especially for the governments involved who would have to operate multiple schemes in parallel instead of one single international standard. This would place the greatest burden on least developed and other poor countries, which are already struggling with the current CDM/UNFCCC system. Governments may of course opt to use only one out of various mechanisms that may be available, but then the question may be posed to what extent the

development of new schemes would pay off for those who develop them.

Reducing Emissions from Deforestation and Degradation (REDD+) may address the reservation against forestry projects without being incorporated in the CDM.

Forests, land use, and sinks have always been a controversial issue in the CDM. Current rules only allow afforestation and reforestation projects, but even those are not accepted in the EU ETS due to fundamental concerns about the integrity and permanence of forestry projects. They are also excluded in Australia, but mostly due to the higher complexity and associated liability issues of temporary and long-term CERs, rather than environmental integrity concerns.

By contrast, all three schemes analysed in the study include forestry in their scope. California has not only approved two forest offset protocols, sectoral forestry initiatives on avoiding deforestation may also become the first types of credits from outside North America to be eligible in the state's system. While Australia does not accept forestry CERs, it has decided to accept Removal Units from land use, land-use change and forestry activities under Article 3.3 and 3.4 of the Kyoto Protocol. This underlines its focus on forestry and land use issues, which is also a point of departure from the European perspective.

One key point of the controversy is whether or not it is appropriate to address forestry on a project basis. A resolution may therefore be possible through a sector-based approach as is foreseen in REDD+ (cp. cover feature in this issue).

Has the CDM-Reform gone far enough?

The CDM has made great strides in addressing the criticism that has been raised in the past. One workshop participant noted that all of the reform asks the EU raised in 2008 have been achieved. However, the process has been slow and new demands have emerged, for example regarding net mitigation benefits. Concerns were raised that further CDM reform



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may not proceed quickly enough to maintain its role as the central mechanism.

The CDM has functioned as “open source” methodology developer and de facto standard-setter, but this role may disappear.

Looking at the emerging systems in detail it becomes apparent that their approaches and methodologies often borrow from the CDM. They have essentially used the CDM as “open source” material and added some modifications. The CDM’s bottom-up approach has therefore to a great extent facilitated the development of top-down systems. However, the centre of innovation is increasingly shifting away from the CDM as other schemes are able to move faster than the multilateral system.

If the CDM fades away, as seems currently likely, its role as methodology developer and de facto standard setter may disappear and approaches may increas-

ingly diverge. This raises questions with regard to environmental integrity, especially if different approaches are supposed to be equally eligible for compliance with international obligations without an assessment of quality at the international level.

The results from the workshop and side event will be further elaborated by the project team to feed into the conclusions and recommendations in the final report from the project, which is expected to be published in autumn.

Further information:

The discussion paper “The CDM as Glue for the International Carbon Market?” by adelphi and the Wuppertal Institute on behalf of the Federal German Environment Agency can be downloaded at:

http://www.dehst.de/SharedDocs/Downloads/EN/Publications/discussion_paper_glue_CDM.pdf?__blob=publicationFile

Focus Forest Protection

Can Forestry Projects Play a Role in the Carbon Market?

Forests and especially tropical rainforests play a key role in the carbon cycle and in climate change mitigation. According to estimates, some 20 percent of greenhouse gas emissions are caused by deforestation and forest degradation. Forest protection was introduced to the UN Framework Convention on Climate Change in 2005. And under the Bali Action Plan of 2007, the “Reducing Emissions from Deforestation and Degradation” (REDD) mechanism is designed to provide for results-based compensation payments to developing countries if they can show proof that they have reduced emissions caused by deforestation and forest degradation.

The two basic principles of reduction of deforestation and reducing forest degradation have since been supplemented by other approaches: The REDD+ mechanism takes in the conservation and enhancement of CO₂ stocks in forests, and also sustainable forest management. In addition to results-based finance, REDD+ also contains measures for effective forest protection policy, including cross-sectoral land use planning, issuance of land rights, and incentive programmes for sustainable resource management and governance reform.

To date, the carbon market has only generated marginal finance for REDD+ activities. The World Bank Report on Mapping Carbon Pricing Initiatives from May 2013 speaks of an unchanged result of 7 MtCO_{2e} in 2011 and 2012. The Bloomberg Report “Maneuvering the Mosaic – State of the Voluntary Carbon Markets 2013” paints a similar picture. The voluntary market, in which forest projects play a de facto significant

role among possible project types, naturally brings only modest results when it comes to quantities. The prices paid for certificates in 2013 (USD 7 or 8 – and more recently USD 5 in Norway) illustrate a rough pricing level that stems from small quantities and lack of demand. Looking to the future, the Californian Cap and Trade Programme promises take-up capacity of up to 80 MtCO_{2e} in the period to 2020.

In the first-ever compliance carbon market for forestry projects, the CDM market, a comparatively sober picture emerges. Only a few CDM forestry projects have been registered so far. This was and still is due not just to the lack of demand for certificates, but also the obstacles involved in the process. Thus, the contributions already made to climate change mitigation and those expected to be made are minimal. By way of contrast, it must be remembered that global annual emissions of around 3,000 MtCO_{2e}¹ caused by deforestation will result in complete deforestation within a generation in some countries and regions.

This situation is in stark contrast to an underlying scepticism that REDD+ activities could be implemented to the extent necessary by the countries concerned or by means of climate finance investment on the part of industrialised countries alone. In theory, the carbon market could be an important source of funding. Despite what up to now have been marginal finance amounts, this alone is reason enough for further efforts to bring together market finance and REDD+.

¹ Harris, N., S. Brown, S. C. Hagen, A. Baccini, R. Houghton, Progress toward a consensus on carbon emission from tropical deforestation, Winrock International & Woods Hole Research Center, November 2012



However, this option has attracted much criticism right from the outset. Apart from objections expressed by market opponents, whose position has somewhat weakened since the first CDM debate about 15 years ago, there are a range of technical problems which by their very nature should be treated as solvable problems. These involve the issues of ensuring permanence in carbon sequestration, preventing leakage and establishing good governance at both national and multilateral level.

This issue of *Carbon Mechanisms Review* shines the spotlight on REDD+:

- Kundan Burnwal of GIZ in New Delhi reports both on experience with the CDM in India, and on REDD+ activities implemented there since 2007. With six of the 15 forestry projects registered under the CDM, India is the leading Kyoto Protocol Party when it comes to using this option. The effort involved in using the CDM for forestry sector projects and the marginal quantities generated with those projects so far – due both to the general saturation of the compliance market and the exclusion of offsetting certificates from the biggest market, meaning the EU ETS – also explains the growing hopes regarding REDD+ in India.
- The ‘for and against’ debate featured in this issue focuses on market opportunities for REDD+ activities. The argument against is put forward by Kristin Gerber from Germanwatch, while the ‘pro-market’ standpoint is argued by Joachim Schnurr of GfA. While both authors make full use of the ideal-typical pros and cons in their argumentation, they generally agree on the current limitations and difficulties involved in the REDD+ approach. The debate thus sheds light on what are in the main parallel activities which could help solve the ‘technical’ problems that currently hinder REDD+. No agreement is evident, however, as regards the role of market players and the function assigned to emission certificates. Achieving consensus on this count was not, however, the aim of the debate.
- To have any chance in the market, the main question that must be answered is what requirements REDD+ must stipulate for the market to play any useful role in certificate trading. But then, by way

of contrast, the market must ask whether REDD+ can create the necessary conditions to allow certificate trading to function free of any uncertainties beyond its own scope of responsibility. The question also has to be raised as to whether the two sides can meet each other's requirements in the foreseeable future. Against this backdrop, Thomas Forth addresses the issue of a market-based, holistic pilot project option for REDD+. Taking up the key problem areas involved in REDD+, Forth looks at a possible convergence of

market player standpoints with the requirements of proponents of a qualitative REDD+ approach. He then concludes with an overview of the benefits to be had from and the conditions for implementation of such pilot projects. This approach is seen more as a catalytic supplement to expanded REDD+ measures and not as something distinct from existing individual projects or programmes of activities.

Market-based REDD+

Put Past Mistakes Behind Us or Negotiate Holistic Pilot Phase?

by Thomas Forth

This introduction to the focus on forestry projects and the CDM takes the opportunity to list the 'technical' problems involved with REDD+ and assess the start-up chances for a REDD+ carbon market. It builds on a Wuppertal Institute policy paper issued in early 2012 entitled "Ready for the Market? Assessing Prerequisites for Market-Based REDD+ Activities". Its authors – Christof Arens, Nico Kreibich and Wolfgang Sterk – came to the conclusion that a REDD+ carbon market is unlikely before 2020, and only then if conditions were favourable. They assign this to the poor development status of three REDD+ 'building blocks' (technical readiness, institutional and legal readiness, and policy readiness) identified in their study. In terms of market readiness, a range of development steps are needed whose progress would be reliant on available but as yet lacking experience – with existing emissions trading schemes, for example. The obvious conclusion, therefore, is that REDD+ is not yet mature enough to support pilot projects.

Little has happened in this regard in the past two years and no real change can be expected in the future if the issue of developing market-based mechanisms for REDD+ objectives is to be taken up in earnest and debated from a market acceptance perspective. But even if this is discussed in detail under the auspices of the UNFCCC, the deciding factor will not be the agreed instrument, but rather the actual implementation of

adequate structures and processes at national and supra-national levels – in other words, the requirements prescribed for good governance. The resulting long-term development opportunities for REDD+ and the question as to when enough REDD+ states will have reached a critical mass to allow the introduction of international certificate trading under REDD+ are inevitable. Yet this possibly disappointing timeframe for market players is not only inevitable, it is also insignificant. But it will only remain insignificant if, with market involvement, progress is made in including market activities at an early stage in REDD+ development instead of putting this off until some distant future date.

Other points discussed in this article take account of the following:

- The difficulties REDD+ activities stand to face on the market would also arise if REDD+ activities are financed by other means.
- The question of certificate reliability is just one problem arising from the quality of the measure involved. If in the event of alternative financing these problems are not discussed because the money is gone but the certificates are still available, the environmental integrity issue does not disappear.

- Shifting the problem from the context of certificate generation to certificate usage must, however, be 'hedged'. The necessary processes would be enhanced forms of results-based financing, setting aside a portion of the certificates, methodological discounts and the use in a purely compliance-based scheme for forestry projects that acknowledges sectoral loss-compensation rules.
- REDD+ involves using the market and emissions trading to sequester carbon emissions to support the achievement of the 2° C target. Co-benefits also arise from these projects. If additional co-benefits are to be achieved, then the necessary funding must be made available to allow the scheme to be developed.

Technical requirements for REDD+ projects

These findings do not, however, detract from the key challenges concerning the 'technical' problems of permanence, leakage and governance associated with forestry projects. Drawing on a recent, in-house discussion paper by the Foundation for the Future of the Carbon Market (Stiftung Zukunft des Kohlenstoffmarkets), and in whose drafting the KfW bank played an instrumental role, these central technical problems are outlined as follows.

1. Permanence

Carbon sequestration in forestry projects is not permanent. However, the sequestration achieved over a longer forest management-related timeframe or in the course of a natural cycle is desirable and the benefits of these effects are critical to climate change policy. Certificates for this sequestration period should thus be issued for an appropriate, definite timeframe. The question remains, however, as to how to treat sequestration in respect of premature losses no matter what their effects. What matters is when they occur. Premature losses can be seen both as a reversal during the project life-cycle and also thereafter should non-permanence be the result. Loss during a crediting period is less problematic in that it is slightly more obvious than if the measure is no longer monitored. Adequate measurement, reporting and verification (MRV) processes must, however, take in both phases if certificates are to be traded.

A solution to the permanence problem has yet to be found. Rules under the CDM (temporary certificates) or on the voluntary market (pool-building to provide a common safeguard against undesired carbon release under the Voluntary Carbon Standard, VCS) have no qualitative value compared with the problems of leakage and governance. When developing the REDD+ approach, rules must be drawn up for both sectoral and national levels. The lack of suitable proposals for such rules is due in part to the poor focus placed on market-related issues in the REDD+ approach.

2. Leakage

In the REDD+ mechanism, leakage is defined as an event in which one area of forest is successfully protected at the cost of another area being destroyed. Leakage in the land-use sector is in principle no different to leakage in other project categories, but it is subject to more critical debate. Compared to other industry sectors, forestry is perceived as a far more national (or regional), homogeneous system in which the overall storage capacity is the decisive factor and not the isolated activities.

Regional transfer effects can be identified by means of leakage belts around project areas, while detecting broader geographical transfers is more difficult. Against this backdrop, discounts were introduced, for example, in the VCS. Leakage forms such as market leakage (say, via price increases for timber) and international leakage (beyond national borders) are extremely difficult to identify. These consequences are also seen in other product areas and reduction sectors.

The leakage problem has resulted in greater focus being placed on national and sectoral approaches rather than project activities themselves. However, leaving the project level could remove the direct incentive for engagement from the private sector. Rules governing private sector participation are needed, and these can only be laid down as part of national and sectoral-level requirements.

3. Governance

REDD+ is directly linked with land-use rights and thus affects both the local residents in and, where appropriate, the indigenous peoples of rural areas. The associated debate takes in is-

sues such as how REDD programmes not only benefit but also harm this group of people and how their rights can be upheld. Other interest groups associated with REDD+ projects include local governments and administrations, civil society organisations and the private sector.

Apart from certificates, REDD+ projects mostly have no substantial income sources to provide funding and are thus largely protection-aimed and have no significant revenue from sustainable timber sales. Exceptions include ecotourism and non-timber products which have only limited finance potential.

The REDD+ programme primarily targets the drivers of deforestation. These are either local interest groups or businesses in the forestry and farming sector. Commercial deforestation activities are usually countered by a tightening of prevailing regulatory measures. Nonetheless, only limited success has been achieved to date due to the challenges posed by governance issues in the partner countries and the comparably low incentive signals being sent from the carbon market. Whether market or support-related measures, these deficits can only be remedied to a limited extent at regulatory level.

Market player interests not necessarily contradictory

In addition to the 'technical' problems faced, there is also the question of how and to what extent these problems overlap with market player interests. The conditions under which REDD+ might be financially attractive for carbon market players can be analysed on the basis of the following three criteria:

Securing usability of certificates to meet reduction targets

A separate counting system is preferable to using certificates in existing emission reduction schemes. Separate schemes can be established by means of sector-related activities which are conducted by market players both in their own countries and in others. This would require a national or bilateral commitment framework, and interfaces already exist with the UNFCCC framework and the debate on Spectrum of Commitments, NAMAs and NMM. In the light of national and bilateral

Integration into national policy: the JNR approach

REDD+ projects must be made credible to show that they actually achieve real and lasting emission reductions. Conservative reference scenarios, certificate buffers and methodologies which identify and document transfer effects should be used to ensure that the positive impact altered land-use has on the climate is correctly illustrated. In cases where projects generate emission certificates and national payments are the goal, the various calculation and accounting systems must be consolidated in order to avoid double counting and double payment. National and project-level reference scenarios must be compared and harmonised in terms of the methodologies used. Registers are needed to document emission reductions achieved at both project and national level. The VCS JNR Initiative has created methodological tools which are designed to enable projects to be integrated into environmental policy as part of national REDD+ implementation efforts. For further information on this topic, see: <http://www.v-c-s.org/JNRI>

governance requirements, a non-UN solution is more or less unthinkable. This does not necessarily rule out individual projects that cannot yet be classified under a compliance system – in reality, this is already the case with the Jurisdictional and Nested REDD+ (JNR) approach, see box. JNR involves REDD+ measures which are included in the development and implementation of a robust framework for counting carbon sequestration and release at both national and regional level, and which are integrated into national policy (see 'Arguing the Point' elsewhere in this issue). For example, Norway has this year agreed to finance several pilot projects in cooperation with Brazil, Costa Rica, Peru and the Democratic Republic of Congo.

Robust structures and processes which, given wise implementation of the measures concerned, guarantee quality assurance and target achievement

Private actors participating in REDD+ activities require a high level of reliability. This includes the generation of tradable cer-

tificates, an international, legally binding MRV system at project and national level, and the integration or clear positioning of the measures concerned in a sectoral or national policy for REDD+ and associated land-use forms to significantly reduce the risk for private actors and provide planning certainty in the implementation of the measures concerned.

Integration of activities in an overarching system which addresses the specific problems associated with REDD+ activities

The ongoing, systematic carbon leakage problems must be minimised by means of sectoral and/or national compensation rules and similarly-targeted REDD+ policies in other countries. Apart from the national MRV scheme, the robustness of the structures and processes in a given country must meet a comparable international standard which is regularly monitored and verified. This process must also be made transparent for market players and the rules must apply *ex ante*.

Additional REDD+ problems encountered by market players

Other problem areas which could influence acceptance of specific measures must be tackled in a holistic context. This primarily involves integrating local people in the safeguarding of the environment in which they live, and reducing deforestation pressures in REDD+ areas. Such activities can occur by means of national development plans in which local and regional administrations support both the measures involved in and the overarching development aims of REDD+ activities. Another option would be to use other carbon market mechanisms that can lessen the pressures of deforestation, similar to the use of PoAs in the CDM to address end-use energy efficiency via sustainable cooking and local non-biomass dependent, decentralised energy supply.

The threshold for bottom-up development is extremely high with this approach. Isolated activities which do not address the issues outlined above, and

in which solutions are neither analysed nor tested, will not achieve the desired outcome. And when it comes to using pilot projects to tackle this all-encompassing issue, the threshold is only lower because special conditions can be agreed for a specific territorial area or a certain timeframe and where the ultimate aim is to learn from experience. A pilot project model could be used both to spark decisive processes in the host country and to implement necessary measures. But in the final analysis this approach cannot 'hedge' the carbon leakage problem; it can merely trigger processes to further its exposure. The real obstacle faced in such an approach is identifying the host countries and encouraging and equipping them to limit the underlying REDD+ problems (carbon leakage and permanence) by means of improved governance.

REDD+ pilot phase from 2020 onwards

The experience gathered with existing emission trading schemes has been modest to say the least. While the EU ETS, fraught with scepticism, did not allow for experience with such approaches, the opposite is true of US attitudes. Thus, the experience gained with REDD+ under the Californian Cap and Trade Programme will be observed and analysed with great interest.

In the light of the existing deficits, market readiness will not be achieved in the foreseeable future. Even 2020 would appear questionable unless significant progress is made and the political will needed either already exists or can readily emerge, both in REDD+ states and in at least a group of states who are willing to provide funding and/or buy certificates. Insights into the exhaustibility of climate finance sources could boost this willingness. Apart from countable reductions, the only noteworthy chances of involving the private sector are seen with REDD+.

Hence the question arises as to whether a phased involvement in a separate REDD+ market at an early

juncture and with participation by market players is feasible – in other words, whether processes can be introduced to allow a pilot phase. Given both the difficulties with and peculiarities of forestry projects, these certificates must not be allowed to flow into the existing carbon market. Notions such as those already put forward by the German Advisory Council on Global Change (WGBU) could be readdressed and used as a basis for this approach.

Use of a separate market as an interim solution calls for a fund (see JIKO Policy Paper, p. 33) which could subsequently be replaced by a separate reduction commitment scheme. This option has potential given the Spectrum of Commitments debate currently under discussion in climate change negotiations. A separate system would allow deadlines to be applied by which certificates must be used. It would also enable pooling to mitigate the various risks involved in ensuring permanence, preventing leakage and establishing governance. But of even greater importance in attempts to make REDD+ market-ready are the advantages listed in the section headed “The Way Forward”, in the above referenced JIKO Policy Paper:

1. Activities launched in the very near future could be used in a subsequent REDD+ market (prompt-start analogy with limited banking, but with predetermined requirements to prevent unnecessary risk at project level).
2. Learning effects of a REDD+ project lifecycle and the function of a REDD+ market that is not linked to the carbon market, so that no negative spillovers ensue.
3. The sectoral, national and international framework can be enhanced without the risk of obstacles at project-level or, conversely, without stipulations on project implementation constraining framework requirements.
4. REDD+ countries would be integrated as part of a cooperation model which acts as a mutual catalyser and helps to exceed the minimum threshold of a global REDD+ market.



5. Provision can be made for adapting and enhancing of REDD+ instruments and the REDD+ market by the use of attendant monitoring and evaluation processes at the outset.

One fundamental principle of the pilot phase is not to establish an artificial, isolated learning and experience phase, but to spark a process which gradually introduces the market to REDD+ reality. The issue of critical mass participation by countries cannot, however, be circumvented in the pilot phase. Against this backdrop, the development and coordination of a REDD+ pilot phase is seen as a possibility within the current decade. If the regulatory policy is put in place earlier than expected, measures could be implemented and certificates counted at a later date given that the necessary governance structures exist. The private sector can hardly be expected to bear the risk should the establishment of governance structures fail.

Further information:

The JIKO Policy Paper on REDD+ can be downloaded at www.jiko-bmu.de/1208

Arguing the Point:

Should Market-based, Sub-national REDD+ Activities Be Allowed?

Kristin Gerber (Germanwatch) and Joachim Schnurr (GFA Consulting Group) outline the pros and cons.



Joachim Schnurr

In the next few years, REDD+ projects will offer virtually the only opportunity for developing countries to participate in the global carbon market. Protecting the forests involves more than mere climate change mitigation: When it comes to biodiversity conservation and protecting the habitats of indigenous peoples, REDD+ projects can contribute more than other climate project types. For decades, it has been acknowledged that finance for such protective measures cannot be adequately provided by the countries concerned, nor can development projects make them sustainable. Carbon finance, be it through private investment or public funds, can supply much-needed funding at short notice to enable implementation of activities to halt or at least slow down increasing forest degradation and its significant contribution to climate change.

The integrity of the REDD+ approach has been the subject of debate for many years, giving rise to the suspicion that the key aim is to postpone the inclusion of forestry protection measures in any new international climate change agreement. But in the meantime, forest degradation grows apace. One of the main arguments against individual REDD+ projects is the leakage debate, which argues that the only way to prevent the transfer of or accurately map

forest-damaging activities is to implement national REDD+ programmes. This is not the case, however, because new remote sensing technologies and traditional forest inventory processes are now being used to develop monitoring systems and methodologies which can both document and calculate such leakage effects.

The key reason behind the need to develop and implement individual REDD+ projects in the near future is that currently, only few forest-rich countries are able to reduce their emissions by means of national REDD+ programmes and that this will be the case for the time being. The necessary basic conditions are lacking: A sufficiently accurate database is needed to identify national reference emission levels, and both monitoring capacities and international requirements for the use of Benefit Sharing and Distribution mechanisms (BSD) in the countries concerned are less than adequate.

Carefully (participatively) planned REDD+ projects that meet the highest quality standards could, however, be implemented on an ad hoc basis in these countries. Projects that focus first and foremost on high-risk biodiversity hotspots are particularly meaningful and necessary. Plus, successfully implemented REDD+ activities have a key function in that they serve as beacon projects: By providing practical exam-

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worked as a tropical and sub-tropical forestry specialist in various international development cooperation organisations from 1989 to 2000. He then moved to GFA Consulting Group in Hamburg where he established the new climate change department and was also a founding manager and co-owner of GFA ENVEST GmbH. He took over as head of GFA Consulting Group's Climate and Energy Competence Centre earlier this year.

ples (which are far more useful than strategy plans), they enhance decision-makers' knowledge in the countries concerned as to REDD+ processes and the challenges and opportunities they bring. A comparison of individual projects involving a range of REDD+ measures – such as improved grazing management, the avoidance of unsustainable shifting cultivation or targeted forest protection activities, enable planning and preparation for effective national REDD+ strategies at a later date.

Kristin Gerber, Germanwatch

REDD+ should not be financed via the compliance carbon market in the foreseeable future. Nor should payments follow solely on the basis of carbon emission reductions.

A finance mechanism which focuses solely on reducing CO₂ emissions, as is the case with the sale of emission certificates on the mandatory carbon market, cannot meet all associated requirements. This is because reductions achieved via REDD+ activities could then be traded in the form of emission reduction certificates. Large emitters in industrialised countries (such as suppliers of fossil-fuel generated energy) could buy these certificates and use them to meet their own emission reduction targets.

The integration of REDD+ into the compliance market would thus enable industrial enterprises to continue their environment-damaging activities unchanged rather than making a concerted effort to avoid greenhouse gas emissions. This neither reduces global emissions nor does it force the causes of climate change to quickly adapt their development efforts towards achieving carbon neutrality (known as the 'lock-in' effect). As a result, the 'polluter pays' principle would be abandoned and any global climate change agreement would become null and void.

Also, with a finance mechanism of this type, biodiversity conservation and the promotion of rural development would at best be side-effects because the

market tends to follow the logic of economic efficiency rather than championing high quality, effective products.

In addition, the low, fluctuating prices for certificates on the carbon market provide little or no incentive for industry to pursue alternative, innovative activities to reduce emissions and achieve energy efficiency. What is more, REDD+ certificates – which in some cases are even cheaper – would lead to a further drop in prices.

Also, forestry-based climate change activities conducted in developing countries should be implemented at national level to prevent deforestation being simply transferred to carbon-poorer areas (in-country or cross-border leakage). The key is for emissions to be reduced where they occur.

Joachim Schnurr

The requirement for REDD+ activities to be implemented at national or even regional level is not in itself wrong. But as already mentioned, many countries lack the necessary conditions and will no doubt do so for the foreseeable future. Why not let forest-rich countries such as the Democratic Republic of Congo implement individual projects on an ad hoc basis, and then let these activities pave the way for REDD+ implementation at national level? REDD+ has already sparked expectations of short-term revenue opportunities in a number of countries – be it via the carbon market or payments from public funds. These expectations have given rise to the establishment of structures and capacities which will likely disappear as quickly as they emerged if short-term project success, and with it the expected revenue, fails to materialise.

Time is of the essence and the conditions to allow the successful combination of both models – individual REDD+ projects and a national REDD+ approach – have been in place for quite some time. The 'jurisdictional approach' provides for the implementation of various REDD+ activities within a de-



Kristin Gerber, Germanwatch

joined the climate change section of Germanwatch, a Berlin-based NGO, in 2008, where she was initially responsible for the collaborative project on Mainstreaming Climate Risks and Opportunities in the Finance Sector. She took over as a forestry specialist in 2010. In this part of her work, Gerber focuses on the international and national policymaking processes concerning REDD+ and draws up policy-related recommendations and strategies.



defined administrative area (a state, province or district), and also allows the ‘nesting’ of isolated projects in a regional approach. The ‘Draft Jurisdictional and Nested REDD+ Requirements’ (JNR) methodology was developed as part of the Verified Carbon Standard (VCS), and uses different scenarios to provide a flexible solution to the problem of certificate issuance for individual projects.

Scenario I: The development of a regional baseline for an entire area of jurisdiction. Individual projects must apply this regional baseline. Emission reductions are calculated at project level and the associated amount of certificates is issued to the project itself.

Scenario II: Baseline development and monitoring occur for the entire area of jurisdiction. Emission reductions are calculated at jurisdiction level. Certificates may also be issued directly to successful individual projects.

Scenario III: All activities are conducted exclusively at the level of the next highest level of jurisdiction. This is the entity to which the certificates are issued if the project meets its goals. Distribution of revenue accrued from the project occurs within the area of jurisdiction via an internal BSD system, meaning no direct certificate issuance to individual projects.

The economic risk increases for nested projects with increasing dependence on success at jurisdiction level (Scenario III): Even if a project is successful, it may not receive certificates because no emission reductions were achieved at the next-highest level of jurisdiction or because the BSD mechanism was not transparent enough to provide for adequate participation in overall success. Thus, the much-needed private investment in REDD+ can only be secured if, when structuring its REDD+ policy, a country decides in favour of the more flexible Scenarios I or II. In all cases, the jurisdictional approach ensures the necessary environmental integrity by applying either a national or a regional baseline.

It would be wrong at this juncture to bring in the long and drawn-out ‘indulgence debate’. The compliance market for offset certificates from CDM, JI or REDD+ projects has been laid to rest for the time being, and as no dramatic policy changes are expected at international level in the period up to 2020, it can be expected to remain that way for the foreseeable future. Opportunities for qualitative REDD+ projects are seen in the voluntary carbon market and in their integration into national activities financed either from international or bilateral public funds. As recent reports on trends in the voluntary market have

shown, high-quality REDD+ projects are highly popular with buyers and attract top prices far in excess of those currently paid for CERs/ERUs. Hence, it would make no sense at all to flood the compliance market with cheap REDD certificates. What would make sense, however, is public financing of national REDD+ activities through institutions like Norway's International Climate and Forest Initiative, from which 'nested' projects could also benefit. There can be no arguments against this kind of approach.

Kristin Gerber, Germanwatch:

There is little to be said against gradual implementation of REDD+ activities, first at local or sub-national level and later at national level. This is the fundamental idea behind REDD+ and it has been introduced accordingly over the past few years in the form of sub-national demonstration projects.

It must be remembered, however, that if REDD+ is to contribute to climate change mitigation, it must not be allowed to hover at local level. Emissions caused by deforestation harm the climate at every level they occur, and REDD+ activities must be used to address the drivers of deforestation and to reduce them. These drivers are not some locally occurring event: They have their roots in national and international interests in specific resources. If an area is taken out of use, the associated interests are transferred to another that contains the lucrative resources involved (land and timber). Sub-national approaches are suited neither to reducing greenhouse gases in the longer term nor to protecting tropical forests. Local REDD+ activities conserve only a snapshot of a precious part of the complex forest ecosystem. This can be likened to a zoo protecting certain animal species from extinction. There are no arguments against such engagement.

However, REDD+ has the potential to revolutionise generic nature conservation approaches and can play a significant role in transforming the entire land-use sector. Reforming this sector will take a lot of patience, time and, of course, money. It goes without saying

that the scarce public funding available will not be enough to tackle this mammoth task. Private investment in REDD+ measures are the key, but the carbon market is not a reliable means to this end. Carbon markets have one great deficit in the eyes of private investors: The prices achieved from the sale of emissions certificates are not stable and thus pose far too high a risk given the investment amounts involved. One innovative approach is to use the revenue from certificate auctions or from carbon taxation to finance REDD+ activities, as Germany does, for example, when financing its International Climate Initiative.

Great potential lies in private finance provided by means of public-private partnerships (PPPs), which can be used to leverage sustainable investment. The associated risks and benefits are split between a public institution and a commercial enterprise, with the necessary loans being agreed. Used in connection with REDD+ activities, PPPs could serve long-term, large-scale REDD+ strategies and measures at country level. That is the direction that things must take – REDD+ as just one strategy to prepare the land-use sector for the challenges ahead and to introduce the reforms needed to make it sustainable.

Joachim Schnurr

There is one point of consensus here. Now is a good time for local projects which, once the necessary conditions are in place, can subsequently be integrated into national and sub-national systems. The drivers of deforestation differ greatly, both within a given country and from country to country. In one specific case, the key role is assigned to subsistence farming (usually shifting cultivation) which is no longer sustainable in light of population growth and increasing resource scarcity. In another region or country, it could involve the financial interests of the timber industry in exploiting untouched, valuable natural forests. In most cases, participatively planned projects have the potential to allow a more targeted (and thus faster) response to local events and requirements. They can also serve accurate identification of



Meng Zhenbiao/UNFCCC Photo Contest

leakage effects (as mentioned earlier) and should thus be considered in project design. Successful REDD+ projects do have a role in climate change mitigation. They can involve activities which provide long-term protection for hundreds of thousands of hectares of forest. When aggregated, that all adds up to a significant contribution towards mitigating climate change.

One thing all REDD+ activities have in common is that they need money if they are to target deforestation drivers. Enter the aforementioned potential revolution that REDD+ and its associated costs will spark in generic nature conservation. While this is certainly desirable, it is unrealistic. Given the billions invested over the decades in development cooperation activities involving nature conservation and land-use projects, and with no significant improvements to speak of (Africa being a prime example), and in the face of new challenges thrown up by global climate change, it would be foolish to assume that the 'climate change mitigation' banner could mobilise funding in an amount that could result in total transformation of the land-use sector in developing and transition countries. There is one point that must, however, be acknowledged: The plan will not work without private sector involvement. So where else can REDD+ funding be found? There are basically four possible financing mechanisms to choose from:

(a) **The Direct Market:** The integration of forestry project-generated emission reduction certificates into compliance markets. In the coming years, opportunities will emerge for certificates from individual projects (say, in Australia, China or New Zealand) and from regional and sub-national programmes (e.g. California), and there is a good chance of mobilising private investment for REDD+ activities.

(b) **Market Linkage:** Revenue from the auctioning of emission allowances is used to finance climate change activities (such as the International Climate Initiative (ICI) and the German Climate Technology Initiative (DKTI)). Private funds flow indirectly into, for example, the REDD+ sector. This model can only work, however, if high prices on the carbon market guarantee high levels of revenue. Luckily, when developing its ICI, the German Environment Ministry had the foresight not only to promote national REDD+ activities (for example by supporting the creation of the necessary conditions at national level), but also to finance activities that can serve as demonstration projects.

(c) **Voluntary Funding:** Certificates are not used to meet compliance requirements. For years, private buyers have paid high prices for certificates from high-quality forestry projects on the voluntary market – a market which is far better suited to individual projects with which the buyers can readily identify.

(d) **Public Funding:** Herein lies the greatest potential for REDD+ finance. Public funds like the World Bank's Forest Carbon Partnership Facility (FCPF) and the Green Climate Fund (GCF) focus on national and sub-national REDD+ programmes for implementation as part of sectoral approaches such as NAMAs. But in the near future, individual projects will also play an extremely important role in that they can be used to test the technical and financial feasibility of potential activities, and can also serve as demonstration projects. And as mentioned earlier, 'nested' projects implemented as part of a jurisdictional approach are highly suited to PPP activities, meaning for co-financing from the private sector.

There is thus a strong argument in favour of developing and implementing individual REDD+ projects alongside national and regional REDD+ programmes in the coming years. An across the board exclusion makes no sense, nor would it help in solving the urgent problem of protecting the world's forests.

Kristin Gerber, Germanwatch

Excluding individual REDD+ projects is not the way forward, but there is more to it than that. Such projects can only serve climate change mitigation if they are part of a bigger 'master plan'. REDD+ projects can only really contribute to forest conservation if the countries concerned have national carbon neutral strategies in place and, more importantly, national plans for the land-use sector and deforestation abatement. Individual projects developed in isolation from each other will only shift the causes of deforestation elsewhere.

One aspect that both sides agree on is that projects must be planned and implemented as participative activities. Effective REDD+ measures that target the drivers of deforestation serve climate change mitigation, but they are reliant on private sector investment.

What is more, the opportunities regarding the private sector's role in REDD+ must be enhanced and perhaps even completely redefined. To date, the debate on this issue has not gone far enough: It focuses too much on the 'functions' of the project developer, project implementer and project financier, and it has only one aim – to generate tradable emission reduction certificates. This can only lead to stale mate, both in terms of climate change and the necessary investment.

Also, the private sector is usually seen as a relatively contained landscape comprising international project developers, some NGOs, banks, investors and emission certificate traders. Little attention is paid to private sector players in developing countries who are involved in deforestation and / or forest degradation in some way or other. In the narrowest sense, this means businesses in the forestry and farming sector: Forestry management businesses, sawmills, timber traders, agricultural

businesses (including livestock farming), and the associated downstream processing industries. In a broader sense, the drivers of deforestation also take in the entire small-holding and subsistence farming and forestry industry.

With state regulation, promotion, subvention, tighter legislation and sanctions, it would be possible to steer things in such a way as to reduce emissions from private-sector forestry and farming. Examples might include mandatory certification and control of forestry activities with parallel financing (assuming costs in the amount of X percent), curbing illegal logging (which undercuts and often 'destroys' the legal timber trade), stopping agricultural expansion in forest areas with parallel promotion of productivity (such as with affordable loans), and promoting businesses which either set aside or refrain from developing part of their forest-covered land (payments for services to the environment).

Experience has shown that there are businesses in developing countries who are interested in reducing their deforestation and forest degradation footprint. In the main, this interest is based not so much on climate change mitigation but on company image, export opportunities, cost-saving measures, long-term viability, energy efficiency, the use of new technologies, modernisation, and so on. While the incentive and the goal might differ, the resulting impact could well be the same (less deforestation and less forest degradation). This potential must be exploited given that the aim of REDD+ is (also) to achieve sustainable, socially acceptable, economically viable income opportunities. These can only be created if the public and private sectors work hand in hand.

What is needed, therefore, is a vision and strategies that go a long way to making that vision reality. REDD+ must thus play its role in reforming the land-use sector and in meeting climate change commitment targets. To give up now and label the measures needed in the land-use sector as unrealistic is risky. Adopting a 'business as usual' approach is simply not an option.

Failure or Successful Testing Ground?

India's Experience with CDM and REDD+

Kundan Burnwal, GIZ India

India ratified the Kyoto Protocol in 2005 and since then has grown into the world's second largest market for CDM after China. India's experience with CDM can be seen as an overall success, despite the justified criticism. The Indian government approved more than 2,800 projects until 2012 of which about 40% were registered by the UNFCCC, representing an investment of over USD 30 billion.

India had upheld since the beginning of CDM that Land Use, Land Use Change and Forestry (LULUCF) programmes in India will be able to sequester five million tonnes of carbon per year, accounting for about 10% of sequestrations from such projects all over the world². Yet afforestation and reforestation CDM activities (CDM A/R) failed when compared to both other CDM sectors and voluntary carbon markets, which provide the main foothold for forest carbon projects. AR CDM activities have a share of 0.65% of the total projects registered globally as of May 1, 2013. India has registered 1254 CDM projects of which only eight belong to the AR Activities, comprising a share of 0.64%.

Though AR CDM projects have intrinsic sustainable development benefits, they were hugely criticised and did not gain support of the market due to various reasons like long and tedious bureaucratic process, complicated methodological requirements and issuance of temporary credits, lack of credit buyers as the EU does not buy Forestry CERs, difficulty in

establishing land eligibility, and additionality and complex monitoring requirements amongst others. In terms of the credits actually generated or issued so far, the picture is even worse with only two projects (UNFCCC ref. no. 2241 & 4531) from India witnessing issuance only at the end of the first commitment period with issuance success of 77% and 227% respectively (UNEP Risoe).

AR CDM projects in India have been proposed by a diverse group of people which includes research institutes, marginal farmers, farmers' cooperatives, large pulp and paper companies/industries, international programs, NGOs and State Governments. Support for developing these projects has come in various forms such as, inter alia, finance, capacity building, support from the state forest departments through providing planting material and data, and a buyback arrangement for the pulpwood produced by industries. Despite the complex system, India was ready to develop more forests, as India has vast stretches of land degraded by agriculture, development, and pollution, plus remote and uncultivable lands, all of which could be planted with trees. Also India has robust conservation policies requiring that trees are replanted after being removed. Moreover, project developers, farmers and forest dependent communities realised that they could economically benefit by planting and preserving trees since the CDM created situations in which a standing tree made more business sense than a felled tree. It has been widely accepted



that there is an urgent need to simplify CDM procedures to allow the private sector to contribute more effectively (Saigal et al. 2002). In India, with around 70 million tribal and 200 million non-tribal rural people depending on forest resources for their subsistence needs, climate change will have an impact on their livelihoods.³

Lessons learnt from these projects include

- a) proper stakeholder consultation and engagement should be carried out in order to ensure the different participants are aware of their role and responsibilities;
- b) baseline estimation, additionality and land eligibility need to be clearly established to reduce the gestation period of validation and registration. Providing proof of when the land was actually reforested has been a challenge as many developing countries have little historical data on land use and satellite imagery may not be available for the year 1990;
- c) Data availability is a critical issue;

- d) Institutes like the Indian Council of Forestry Research and Education (ICFRE) and Forest Survey of India (FSI) should play a major role in providing technical support in terms of proving additionality and land eligibility;
- e) interest of the farmers or communities participating in the project needs to be kept unharmed in order to ensure the project witnesses issuance. This will require continuous capacity building of the stakeholders in the project.

Voluntary standards eased or resolved some challenging issues such as land eligibility and permanence, while they made other requirements such as risk assessments more rigorous in response to market demands. VCS, ACR and CarbonFix require only 10 years back reference and Plan Vivo does not specify any time period.

Some consider CDM AR a failure, whereas others consider it as a learning curve and testing ground, developing and streamlining rigorous methods, drawing up effective forest management and monitoring

Voluntary Forestry Standards

Verified Carbon Standard (VCS):

is the world's most widely used voluntary greenhouse gas (GHG) reduction program and relies on four basic quality assurance elements to secure its place as the leader in the global carbon market. These quality assurance elements include a) global best practices; b) robust GHG accounting in specific project scenarios; c) independent auditing of all projects; and d) a transparent registry system ensures credits are unique and fully traceable online. VCS is among the most widely used Agriculture, Forestry and Other Land Use sector (AFOLU) standard in the industry.

American Carbon Registry (ACR):

It publishes standards, methodologies, protocols and tools for greenhouse gas (GHG) accounting, which are all based on International Standards Organization (ISO) 14064 and sound scientific practice. ACR provides a robust and secure electronic registry system for Members to transparently register offset projects as well as transfer and retire serialized project-based verified emission reductions (VERs), branded as Emission Reduction Tons ("ERTs"). American Carbon Registry generally accepts methodologies and tools published by the Clean Development Mechanism (CDM) and ACR-reviewed and approved methodologies from other programs to the extent that they comply with ACR's Standards.

CarbonFix Standard (CFS):

is a standard that sets a quality benchmark for worldwide climate forestation projects. It was developed in 2007 with experts in the fields of forestry, climate change and development aid sectors. The standard combines criteria on sustainable forest management and CO₂-fixation. It consists of three parts: Terms, Criteria & Methodology, and Procedures - whereby the core of the standard are the requirements described under the section 'Criteria & Methodology'.

plans and assessing economic, social and environmental considerations. In due course of time, VCS and REDD+ gained more and more the centre stage of discussions in India.

India's shift towards REDD+

Since 2007, Reducing Emissions from Deforestation and Forest Degradation (REDD) has been negotiated under the auspices of the UNFCCC. India advocates a more comprehensive approach to REDD which is termed as 'REDD+' which goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

India's national strategy aims at greening one third of the country's land area by bringing it under forest cover, through afforestation of wastelands and degraded forest areas and improving forest ecosystem services that flow to the local communities. Initiatives like Green India Mission (GIM) under the Prime Minister's National Action Plan on Climate Change and the National Afforestation Programme (NAP) along with programmes in sectors like agriculture and rural development target five million hectares of new forest cover and five million hectares of improved forest cover. These initiatives will rope in village administration for implementation by directly allocating funds to these Gram Sabhas (village local bodies) instead of routing it through the forest departments concerned. This would result in achieving an annual CO₂ sequestration of 50 to 60 million tonnes by 2020. These Gram Sabhas will be provided technical and managerial support from the Forest Departments and their capacities will be built.⁴

The Green India Mission is also viewed as an institutional mechanism to promote the country's REDD+ aspiration⁵. For coordination and guidance at the national level, the Government of India has established a REDD+ Cell in the Ministry of Environment and Forests (MoEF) to liaise with UNFCCC, as well as other scientific and expert organizations at both the national and the international level. The REDD+ Cell will support designing and formulating national and sub-national REDD+ strategies and provide technical advice to appropriate national authorities on MRV protocols and fair benefit sharing mechanisms in

⁴ http://articles.economicstimes.indiatimes.com/2011-03-26/news/29192404_1_jairam-ramesh-green-in-dia-mission-monitoring

⁵ National Mission for a green India, Ministry of Environment and Forests, Government of India, June 2010

forestry sector. The majority of the activities under the mission promises good potential to qualify under the international mechanism of REDD+. Forest Survey of India acts as the lead institution for national forest carbon stock accounting and coordinating with institutions working on forestry and remote sensing.

The national REDD+ cell will engage with State Forest Departments (SFDs) to collect, process and manage all relevant information and data relating to Forest Conservation Act (FCA). It will also help MoEF and its affiliated agencies in mobilising and disbursement of resources and participate in the deliberations of the UNFCCC on REDD+. To ensure transparency in MRV related issues, the REDD+ cell can develop provisions for involving and engaging local communities, civil society, and others after being trained by Forest Survey of India and the forest departments on various aspects of the MRV process. The REDD+ cell may develop a set of indicators for ecosystem services to adequately address the issue of safeguards: policy and legal instruments in the form of Joint Forest Management (JFM) programmes, provisions under the Forest Rights Act 2006, Biological Diversity Act 2002, etc., aim at safeguarding and ensuring the rights of tribal and forest dwellers while enabling the local communities to be key players in local level governance of natural resources. JFMCs has been recently integrated into local administration such as Gram Sabhas or Panchayati Raj Institutions in order to deal with issues related to tenurial security, silvicultural development, lack of legal back up and market access. The Indian Forest Rights Act empowers Gram Sabhas with the responsibility to set up institutions to see that the individual and community forest rights are strengthened.

India's Pilot REDD Initiatives

The first attempt in developing a REDD+ pilot in India was made in 2011 by Community Forestry International in East Khasi Hills District of the State of Meghalaya, India. This area witnessed a loss of forest cover exceeding 5% per year from 2000 to 2010 as a



result of agricultural expansion, mining, and settlements. The project 'Umiyam Sub-watershed REDD Project' covers 8379 ha consisting of dense forest and open degraded forest. It targets 64 forest dependent communities and traditional institutions that manage and control community forests on behalf of forest dwellers in the region.

The project seeks to support indigenous communities to conserve good forest and restore degraded forests through assisted natural regeneration and afforestation activities as well as to develop new income generating activities that address poverty and help control local drivers of deforestation. Further aims include

- building community capacity;
- providing technical support for resource management and climate resilient farming systems;
- empowering and capitalising women administered micro-finance institutions;
- conserving rare, endemic, and endangered species found in the area;
- improving watershed hydrology.

Plan Vivo

is a framework for supporting communities to manage their natural resources more sustainably, with a view to generating climate, livelihood and ecosystem benefits. Participants are rural smallholders and communities dependent on natural resources for livelihoods. Plan Vivo project design is community-led. Communities decide which land use activities (e.g. woodlots, agroforestry, forest conservation) will best address threats to local ecosystems and are of interest and value to them. Eligible activities are afforestation and agroforestry, REDD+.

FPIC

Free prior and informed consent' (FPIC), is the principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands they customarily own, occupy or otherwise use. FPIC implies informed, non-coercive negotiations between investors, companies or governments and indigenous peoples prior to the development and establishment of oil palm estates, timber plantations or other enterprises on their customary lands.

The project follows the FPIC guidelines and Plan Vivo standards ensuring maximum control and benefiting participating communities (see box). It envisages avoiding the emission of about 13761 mtCO₂. The project receives support from Macarthur Foundation and Ford Foundation, while the Waterloo Foundation is expected to support cost of capacity building, establishing baseline and MRV, and preparing PDD and validation. The emerging REDD project is further facilitating community forest boundary mapping, the formulation of long term conservation and management plans, and the initiation of forest restoration activities.

GIZ India with the support of German Federal Ministry for the Environment (BMU), has also been involved in the Forest Carbon sector in India by developing 2 AR CDM projects {UNFCCC Ref no. 8283 (registered) and 9549 (pending publication)} and a pilot REDD+ PIN in the state of Madhya Pradesh. The project is entitled 'Chhindwara REDD Plus Demonstration

Project, Madhya Pradesh' and implemented by the State Forest Development Authority. It seeks to set up a REDD+ demonstration project in the largest forest district of Madhya Pradesh with a wide range of diverse ecological and socio-economic conditions. This area is marked by the presence of large population including local tribes (viz. Korku, Bharia, Mariya, Gond comprising, more than 50% of the population) living close to forests with varying degree of forest dependencies, extensive settled and unsettled land tenure claims under the Forests Rights Act, and long history of deforestation and degradation as also of conservation and sound forest management.

The primary objective of the project is to help develop mechanisms for implementation of REDD+ for cost-efficient reduction of emissions and enhancement of carbon sinks in forests in the economic environment of tropical developing countries. Another prime objective is capacity building of the local communities and forest officials in the state.

A comprehensive plan supplemented by micro plans at Joint Forest Management Committee (JFMC) level for REDD+ pilot in the state shall be an outcome of the project which can then be used for preparing similar plans for other parts of the state, and the country, if possible. The project identifies regions in the district under five categories, namely

- a) deforestation reduction zone;
- b) forest degradation control zone;
- c) conservation zone;
- d) enhancement of carbon stock zone including agroforestry and plantations within forests; and
- e) Sustainable Forest Management zone,

Each of these zones will be studied intensively to decipher the causal factors such as dependence of the local communities on forest for various activities like fuel wood collection, NTFP collection, unregulated livestock grazing, agriculture, illegal mining, etc. The REDD+ PIN has been submitted to the State Forest Department of Madhya Pradesh.



This initiative at present is developing maps for the project area under different categories mentioned above. The project is a pilot and requires regular capacity building for different stakeholders. The next step will be to develop a baseline of the forest carbon stock in the proposed project area. Community engagement and capacity building was a major hurdle. The project idea note will be submitted to Plan Vivo for recognition.

There are other initiatives, as far as planting is concerned, which are being discussed. In November 2012, the state of Maharashtra announced its plans to promote sandalwood plantation under the state initiative called 'Tree Credits' encouraging farmers and landholders to grow sandalwood trees because of their high ability to capture carbon, and its high market/commercial value. This scheme will soon be launched by the Forest Department of the State, after receiving clearance from State Cabinet and Legislative Assembly, where Tree Credit Certificates (TCC) similar to carbon credits will be issued to farmers

which will be bought by individuals and polluting companies to reduce their carbon footprint as a social business model ⁶.

Carbon sequestration, controlling forest degradation and poverty alleviation has to go hand-in-hand considering that India has a huge population which depends on forests for subsistence livelihood. Thus, the strategy needs to focus on reducing the dependence on forests by creating alternative livelihood opportunities for such a population. This can be achieved by linking REDD+ initiatives and alternative livelihood improvement activities in the future by chalking out the benefit sharing mechanism to overcome the livelihood-related challenges in REDD+ and to conserve the degrading forest cover.

⁶ Forest Carbon Asia Brief No.4, April 2011 to January 2012

CDM Reform Falls Victim to Russian Blockade

by Wolfgang Sterk

The Conference of the Parties to the Kyoto Protocol had requested the Subsidiary Body for Implementation (SBI) to draw up a list of possible amendments to the CDM modalities and procedures (M&P). However, the SBI meeting in Bonn last June was completely blocked by Russia and other states. Following the contentious outcome of the Doha Conference, they had called for a debate on the UNFCCC decision-making process to be included in the Bonn agenda, but this was rejected by other parties. As a result, all that was left was a workshop on CDM reform which had been planned as a separate event, independent of the SBI agenda. This issue of Carbon Mechanisms Review summarises the issues discussed at that workshop.

By way of introduction, a panel discussion highlighted the fact that the CDM has been in a constant state of reform. Almost all reforms demanded by the European Union (EU) in 2008 have now been implemented. However, new requirements have since evolved. For example, that the flexible mechanisms should not only be used for offsetting activities, but to make a net contribution to climate change mitigation. There is also the risk of fragmentation due to the emergence of new schemes (see Linking article).

The workshop focused on three main issues:

- The CDM project lifecycle and methodologies
- Governance
- DOE accreditation

While opportunities for reform were discussed, no firm requirements were agreed. Uncertainty was also expressed as to whether the necessary political will to enact reform actually exists. Apart from Brazil, none of the large emerging economies was present at the workshop. Brazil took the standpoint that the only real area in need of reform involved the emission reduction targets of the industrialised nations.

Project Lifecycle and Methodologies

A range of issues were discussed concerning the CDM project lifecycle and methodologies. With regard to the length of the crediting periods, it was proposed to move away from the existing general approach by making them dependent on project type. The proposers' reasoning was that in some cases, the actual lifecycle of facilities deviates greatly from the current allowable crediting period length. The discussion also took in the concept of applying the concept of materiality to validation and PoAs, as up to now it has only been used in verification.

In respect of PoAs, some participants suggested that the rules be further simplified. For example, with regard to the monitoring process and that of including CPAs. DOE liability was also addressed.

On the subject of standardised baselines (SBLs), it was noted that further analysis was needed in connection with their revision. There was a heated debate on making the use of approved SBLs mandatory.



While some saw this as a way to improve a project's environmental integrity, others preferred to allow project participants an element of flexibility. Consideration was also given to combining validation for SBL projects with the first verification phase. Workshop attendees also pointed to the increased responsibility assigned to DNAs in relation to SBL activities and the associated capacity issues.

When it came to additionality, the general consensus was that the work performed in relation to current practice, 'first of its kind' and technology penetration should continue. Participants also discussed whether CER revenue should be included in the additionality test and how project types should be treated if these have only marginal influence on economic efficiency. A number of people proposed excluding certain project types from the CDM altogether. This would apply for projects whose additionality is questionable, such as large-scale hydropower and infrastructure projects (see CMR 01/2013).

The treatment of host country climate change policies (E+/E-) when determining additionality was also addressed. In its previous meeting, the CDM Executive Board had decided that these will not be taken into account for the first seven years following their implementation. However, during the workshop, the

question arose as to whether the CDM has provided an adverse incentive to refrain from implementing new policy.

Finally, workshop participants proposed that controversial project types such as HFC, N₂O and coal activities should be excluded from the CDM. There was general agreement as regards HFC and N₂O projects, although objections were raised at the idea of excluding coal.

On the issue of stakeholder consultation and the contribution projects make to sustainable development, the age-old standpoints were again put forward. Non-government organisations pointed to the fact that several CDM projects were linked to a breach of human rights, and that in many cases, stakeholder consultation did not really take place. Host country representatives insisted that these were issues of national sovereignty and could not be regulated by international agreement.

Governance

With regard to governance, many expressed what has already been said on several occasions in the past: That the Executive Board should restrict its work



IISD/Earth Negotiations Bulletin

to strategic and general policy issues. How it interacts with its supporting bodies must be more clearly defined.

Board composition attracted both criticism and suggestions. Some proposed making the Chair and Deputy Chair full-time positions. And there were calls for the nomination process to be made more transparent – up to now it has taken place behind the closed doors of the individual country groups. In addition, the suggestion was made to appoint private industry and civil society representatives to the Board.

In another proposal, calls were made to do away with differentiating between ‘full’ and ‘alternate’ members, or to introduce a maximum period of tenure. Up to now, tenureship has often been extended by people switching between full and alternate membership. Representation of women and men on the Board must also be better balanced.

The role of the DNAs in project approval and implementation must be defined more clearly. In particular, the minimal content and period of validity of the Letter of Approval must be prescribed. Workshop par-

ticipants also recommended establishing a procedure for withdrawing project approvals.

DOE Accreditation

In the case of accreditation, participants discussed the idea of defining only very general principles for the CDM modalities and procedures in the future and deleting more detailed entries from the existing version to give the Executive Board greater decision-making freedom. They also looked at the liability rules that apply should significant deficits arise in the work performed by the DOEs. Proposals included differentiating between the reasons for those deficits (negligence or fraud) and the consequences that ensue,

making liability risk quantifiable, and creating reserve pools and other options to compensate for over-issuance of CERs.

CDM Reform Still a Mere Dream?

Many had hoped that M&P reform could be agreed in the lead up to the Warsaw meeting. That now appears questionable given that the SBI in Bonn was blocked. The SBI will now have to complete three-and-a-half weeks’ work in one-and-a-half when it meets in Warsaw. How much time will be afforded to CDM reform remains to be seen. The workshop only explored topics at this stage and no clear way forward emerged. Actual negotiations are still to take place.

Further information:

Workshop presentations and summary of the proceedings are available at: https://unfccc.int/meetings/bonn_jun_2013/workshop/7674.php

Ambitious Standards Are Key

Status Report on new Market-Based Mechanism Following Negotiations in Bonn

by Frank Wolke, German Emissions Trading Authority

The phrase ‘new market-based mechanisms’ has been heard among the jargon at UNFCCC climate change conferences for a number of years. And while the international debate on finalising these new approaches is long and drawn-out, it is moving forward – albeit slowly and in small steps. Looking at the developments in recent years, it is evident that opinions differ at international level. It all began with rather vague notions of differing approaches, and has since developed into clear standpoints between the countries involved. That will certainly help in future negotiations.

The launching pad and arena for further development came in the form of the Bali Action Plan of December 2007 (Decision 1/CP.13 para. 1.b v), with which the procedure for considering different approaches, including market-based opportunities to expand national and international activities to mitigate climate change, was enhanced (see Decision 1/CP.16 para. 80). In Durban at the end of 2011, the need for standards to ensure real, sustainable, additional and verified emission reductions was stressed (see Decision 2/CP.17 para. 79 ff) and a two-step negotiation procedure introduced for a general framework for various approaches (FVA) and a new market-based mechanism (NMM) supervised by the COP.

Separating the Systems

The subsequent development showed that this division could not be upheld due to overlapping on a range of issues. In a technical paper drafted by the UNFCCC following the climate change conference in Bonn in 2012, a summary of the existing input from the COP showed a number of similarities concerning FVA and NMM issues. Of particular urgency are the questions of net reduction effects from measures and thus their level of ambition and compatibility with the 2° Celsius target, and also the degree of control by the COP after taking account of MRV standards, the suitable aims and the (reliable) usability of available credits. These issues have been hotly debated ever since. The relationship between FVA and NMM remains unclear, especially as to whether FVA provides the overall framework and NMM is potentially a sub-component, or whether they should be seen as two entirely separate systems.

The debates held so far have shown that some Parties see FVA as more of a door opener through which to integrate their own reduction approaches into a UNFCCC-based calculation system. While this would bring transparency, it would not meet international content requirements in the same way as a COP-designed and monitored market-based mechanism would do. Other states, especially those in the EU, are in favour of an instrument with international moni-



toring and prescription of specific governance and MRV rules. Thus, the existing project approach used in CDM and JI should be further developed to allow sector-related consideration with greater integration and formulation by the implementing countries of their own reduction targets.

The ensuing mutual blockade of the negotiations in Doha at the end of 2012 led (at least) to further agreement on the FVA and NMM issues that must be further clarified in future working programmes and workshops. The components contained in the decision documents vary, however. While for FVA they cover the more general aspects of objective, scope of application, criteria for and technical rules on preventing double counting, and drawing up institutional rules (see Decision 1/CP.18, para. 46), the list of topics for NMM is far more specific. Here, governance structures must be developed to allow monitoring by the COP, as must MRV standards, criteria for the development of ambitious reduction targets, rules on tracing emission certificates, the promotion of sustainable development, the provision of incentives for private sector participation and the rapid launch of the mechanism itself (for more detail see Decision 1/CP.18, para. 51). Finally, a working programme for the development of non-market-based mechanisms and approaches (NMBM, see Decision 1/COP.18, para. 47) was also envisaged (see Carbon Mechanisms Review 01/2013).

No agreement was reached in Doha 2012 regarding a sectoral reference in NMM, as called for by the EU. The EU had stressed this aspect largely as a result of experience gained with the CDM: The project approach runs the risk of allowing cherry picking and of emissions being transferred within a given sector but with no actual reduction effect. By way of contrast, other states have reservations as to whether this can be

sufficiently well implemented and also as to the incentive effects achieved with sector-based targets and thus refuse to give up on a project-based approach. Both these approaches were taken up in the Doha decision on NMM without any further evaluation.

Bonn 2013: Dividing up the Doha Mandate

Luckily, the agenda dispute in Bonn in June 2013 (see CDM Reform article elsewhere in this issue) had no impact on the debates on FVA, NMM and NMBM. The talks on non-market-based approaches were less controversial because many Parties were unsure as to how this issue should be treated in relation to FVA and NMM. Non-market-based activities such as technology transfer, adaptation and financing have been adequately covered in various other negotiation fora, so that any further treatment would tend to fragment the discussion rather than help towards making progress. As a result, the conclusions merely formulate questions regarding the role of non-market-based approaches.

With regard to NMM and FVA, the Doha mandate was confirmed (modalities and procedures for NMM or the drafting of a framework for FVA for presentation at COP19 in Warsaw in November 2013). At the same time, the lists of NMM and FVA topics from Doha were revisited and further sub-divided according to the various points covered. Some of these topics fall equally under both FVA and NMM:

- The respective role in a UNFCCC context, including in relation to other reduction activities and the necessary international requirements
- The question of general calculation rules and standards
- The problems of double counting and environmental integrity (which will become all the more problematical the more differing measures are implemented to cover the same areas)

The NMM catalogue of criteria contains additional, more detailed issues:

- The role of the COP, meaning how the COP should implement the monitoring activities highlighted in earlier decisions

- Possible incentives for (fundamentally voluntary) participation of (developing) countries
- MRV requirements
- Possible sectors and how NMM can be used to foster reduction activities at sectoral and project level
- Requirements for the development of targets and the issuance and tracking of certificates
- A definition of the supplementarity principle, meaning the maximum amount of NMM certificates that can be counted towards a country's own ambitious targets)
- Using NMM to promote sustainable development
- Incentives for private sector participation
- Criteria for a prompt-start NMM launch
- Ensuring good governance in the implementation of the instrument and determining the role of implementing countries

Parties have until the end of September 2013 to submit their proposals to the UNFCCC who will then draw up the relevant points in a synthesis paper for use in workshops which will take place prior to the Warsaw conference.

Conclusion

For the NMM and FVA to be successful, appropriate and ambitious standards are needed. For these to be in place, and to secure the instruments' environmental integrity, a solution must be found to the double counting dilemma and a tonne of carbon emission reductions must be calculated in the same way worldwide. Standard setting and MRV systems are by no means trivial issues given the lack of a UNFCCC negotiation mandate governing this type of reporting for developing countries. Thus, the separation of NMM and FVA could be overcome if agreement can be reached on this key point. This could be made a focal point in the upcoming negotiations.

The scepticism that abounds among the developing countries with regard to market-based approaches in the face of currently dwindling emissions trading prices shows that the development of NMM and FVA cannot be separated from the debate on a new climate change agreement. Market-based

incentives can only provide long-term investment incentives if they are part of a new, appropriately ambitious agreement. It is thus to be welcomed that Great Britain has spoken out in favour of an EU target which aims to reduce emissions by 50 percent by 2030 and includes market-based approaches (even though the British link this to the reduction commitments of other countries).

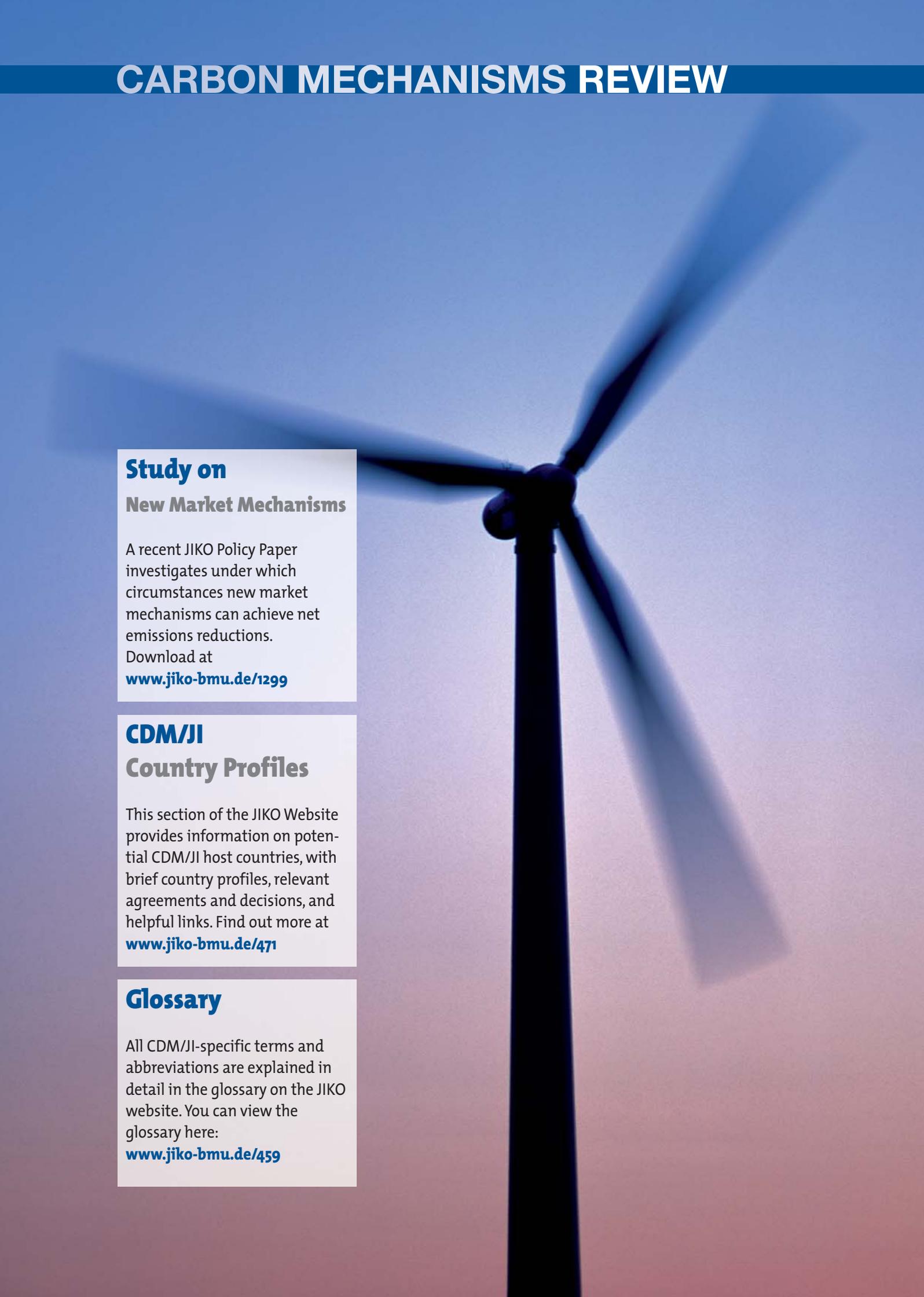
However, the ongoing negotiations on NMM and FVA show that, irrespective of the outcomes of the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP), Parties are willing to enhance both the technical and the administrative requirements to provide for a market-based approach should one be needed. Drawing on the experience gained with the CDM, it should be possible to establish a COP-monitored market-based mechanism by 2020. A prompt start with a range of demonstration projects would help to apply the envisaged procedures and provide a learning platform.

By way of contrast, it would not be necessary to take account of carbon credits in the current period given that the targets remain so low, the market is saturated with emission reduction certificates and project-generated carbon credits remain in place. Instead, start-up finance is needed for pilot projects which, due to the absence of a market, must largely be implemented using public funds. And for the NMM approach to be adopted, FVA proponents must also open the door to the idea of Parties' own reduction mechanisms being taken into account. Ambitious, harmonised standards are the key to parallel implementation and subsequent convergence of the NMM and FVA approaches. The work done in Warsaw can pave the way.

Further information:

All UNFCCC decisions referred to in the above can be viewed at: <http://unfccc.int/documentation/decisions/items/3597.php>

CARBON MECHANISMS REVIEW



Study on

New Market Mechanisms

A recent JIKO Policy Paper investigates under which circumstances new market mechanisms can achieve net emissions reductions.

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CDM/JI

Country Profiles

This section of the JIKO Website provides information on potential CDM/JI host countries, with brief country profiles, relevant agreements and decisions, and helpful links. Find out more at

www.jiko-bmu.de/471

Glossary

All CDM/JI-specific terms and abbreviations are explained in detail in the glossary on the JIKO website. You can view the glossary here:

www.jiko-bmu.de/459