Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD)

Norway welcomes the opportunity to submit views on the architecture of a mechanism for reducing emissions from deforestation and forest degradation in developing countries.

1. Introduction

The increase in global mean temperature has to be limited to a maximum of 2 °C compared to pre-industrial level in order to achieve the ultimate objective of the UNFCCC. Today emissions from deforestation and forest degradation in developing countries according to the IPCC constitute about 17% of global greenhouse gas emissions. Without agreement on an effective REDD regime for developing countries in Copenhagen we believe it will be impossible to reach the 2 °C stabilization goal. REDD, moreover, has considerable biodiversity and sustainable development benefits, and has great opportunity to be a cost effective mitigation lever.

In order to reach the ultimate objective of the Convention, it is important to keep in mind that mitigation actions need to be carried out in all sectors and all countries. It is therefore essential that REDD activities in developing countries are additional to, and not a substitute for, deep cuts in developed countries' emissions, or other mitigation actions in developing countries.

Mitigation efforts to reduce emissions from deforestation and forest degradation, and efforts to conserve and enhance carbon stocks in forests, should be regarded as an important and integrated part of a worldwide low-emission development path. Hence, a REDD regime should be related to the overall national appropriate mitigation actions (NAMAs) by developing countries (with reference to paragraph 1(b) in BAP). In order to establish effective national REDD strategies developing countries need to implement national mitigation actions for all sectors, including an institutional framework for the establishment of systematic national inventories for emissions and removals. However, several elements of a mechanism for REDD have quite distinct features that call for separate deliberation, such as how to address carbon leakages and permanence, determine standards for measuring, reporting and verification and for setting reference levels, and the involvement of indigenous peoples and local communities.

In this submission we have outlined what we believe are the core elements of a REDD regime. Not all aspects of these elements need to be agreed upon at COP 15 in Copenhagen. Much of the technical guidelines, definitions, eligibility criteria etc will have to be developed and implemented after COP 15. In Annex 1 to this submission we have outlined issues that we believe should be agreed upon in Copenhagen.

2. Phased approach

An effective REDD regime should be results-based and incentives driven. To achieve this, it must include a reliable framework and capacity for monitoring, reporting and verification (MRV) of forest related emissions and removals, as well as a robust, predictable and sustainable system for mobilizing adequate financial resources from developed countries.

Due to the diverse capabilities of developing countries and expected speed of development, it is proposed that the REDD regime for organisational reasons should be structured into three

different phases. It should begin with a readiness planning phase, followed by a phase focused on the implementation of policies and measures while also establishing and being rewarded for results based on proxies for emissions reductions. It should end up with a phase where quantified emission reductions and enhanced removals are credited in a solely performance based mechanism.

For each phase, the commitments of the participating developing countries would grow, financial incentives would increase, and the sources of finance would evolve, while pre specified eligibility criteria, including requirements for measuring, reporting and verification, would become more demanding.

The timing of transition between phases would vary with a country's readiness, and REDD countries could be able to skip a given phase, provided they meet the eligibility criteria for the next phase. However, MRV for greenhouse gas inventories should advance progressively with phase transfers, and should be upwardly compatible with a future framework that could encompass all elements of forestry, as well as agriculture and other land uses.

In order for REDD countries to be properly incentivized and the rules of the mechanism to be clear from the start, it would be crucial to agree on the key elements of all three phases up front. This should include agreement on the incentive structure, eligibility criteria, MRV requirements, institutional framework, and the basis for results based compensation.

The first phase would include the development of a national REDD strategy and institutional strengthening – including the establishment of an initial capability to monitor forest cover and changes in carbon stocks – as well as demonstration activities. These activities could be supported by voluntary contributions, such as those administrated through the World Bank hosted FCPF, the UN REDD Programme and bilateral arrangements. For this first phase of a REDD regime the need for funding is limited compared to the following phases. Hence, voluntary contributions may be sufficient and the international bodies selected could be authorized under a REDD mechanism to function as trusts for available funding until tailored national or international financing facilities are in place. Norway will actively contribute to prepare a detailed proposal aiming to ensure cooperation and sufficiency of resources.

Developing countries that have demonstrated national commitment to REDD strategy development should be entitled to phase one funding. The threshold for being eligible in this first phase should be set low in order to promote broad participation. The incentives for countries to enter the first phase would mainly be the potential rewards in later phases, both as regards future financial compensation for REDD results and domestic benefits like sustainable development, biodiversity conservation, ecosystem services, and adaptation benefits.

The second phase, requires implementation of national policies and measures for REDD. This should include, *inter alia,* institution- and capability building, development of legal frameworks and law enforcement capabilities, land tenure and forest governance reforms, investments in alternative livelihoods, and the further development of required MRV institutions and capabilities.

The funding for these activities must be results based, sufficient and predictable over time, and based on an internationally binding finance instrument, for instance through a financial mechanism as proposed by Norway on auctions of allowances.

Eligibility for funding under this second phase should be based on a demonstrated national commitment to REDD strategy implementation. Such REDD strategies should include a demonstrated commitment to transparent, rules based forest governance, as well as inclusive, transparent, multistakeholder REDD consultations, including indigenous peoples and local communities, in overall strategy development and implementation.

The access to funding should be based on performances, including measurable, reportable and verifiable (MRV) indicators on for example the implementation of policies and measures and institution- and capability building. In order to stimulate early action, some funding would need to be disbursed up-front, based on countries´ spending plans and stated commitments, with delivery being verified *post hoc*.

As countries' phase two efforts are intensified, the main portion of their funding could be based on results derived from proxy data on reduced emission and enhanced removals from forest activities, as well as conservation of forests (e.g. reduction in area deforested). There is a need to further develop the details of such indicators – including satisfactory provisions for MRV – as the basis for this kind of result-based funding. The basis should, however, be the most recent IPCC guidelines for greenhouse gas inventories.

It is difficult to assess the level of compensation for REDD activities required under the second phase. One analysis suggests 2 billion USD annually, increasing to 10 billion USD annually over the next 5-6 years. Whatever level of funding agreed upon, it will be essential to ensure sufficient funding to enable maximum progress up-front, and predictability regarding longer term financing. Both are key to properly incentivize fast and determined action on the part of REDD countries.

In *the third phase* of the REDD regime developing countries should be compensated solely based on reduced emissions and enhanced removals relative to an agreed reference level for future emissions. Phase three REDD compensation should not be earned for emission reductions or enhanced removals achieved during phase two, but crediting for the results of the continuations of policies and measures initiated in the second phase should be allowed.

In order to be eligible to participate under the third phase developing countries must have implemented an operational national forest GHG inventory based on measured, reported and verified data according to agreed rules, see section four below. Further, an agreed global reference level as well as country specific reference levels, both endorsed by parties under the UNFCCC, has to be established, see section five below.

To be effective the compensation for measured, reported and verified, reduced emissions and enhanced removals would need to equal at least the sum of countries' opportunity-, transaction-, and implementation-related costs.

It is difficult to determine the amount of finance needed for the third phase, as it would depend both on costs, pricing, and the quantity of mitigation potential realized. According to McKinsey & Company (2009) a mitigation potential of 4 billion tones of CO_2 from REDD activities could be realized by 2020, most of it at an opportunity cost of below 5 USD per ton, and about 1,5 billion tones from afforestation, reforestation and sustainable forest management, at opportunity costs of under 15 USD per ton. Actual costs would depend on the

magnitude of transaction and mitigation costs, and the prices paid would depend on the pricing mechanism.

In order to ensure up-scaled and sustainable financial resources, the financial mechanism in the third phase must mobilize financial resources both from private and public sectors. Hence, linkages to the carbon-marked would be necessary. However, Norway believes it is required to design the financial mechanism for the third phase in such a way that the risk of market flooding and price volatility is reduced.

The compensations for reduced emissions and enhanced removals under the third phase should be adjusted as the host countries gradually take greater responsibility for the carbon stored in their forests. The sunset closure for the third phase would occur individually when the participating countries are ready to accept quantified emission reduction commitments under the Convention.

3. Scope

A post 2012 REDD regime should be broad in order to include all forest countries, regardless of where they are on the so-called forest transition curve. This regime should include reduced emissions from deforestation and forest degradation as well as the promotion of forest conservation, stock enhancement and sustainable management of existing forests. Such a broad scope will incentivize the optimal utilization of all mitigation levers, and reduce the risk of carbon leakage at national level.

Furthermore, Norway believes that a future REDD regime should encompass afforestation and reforestation, currently included as eligible activities under the CDM in the Kyoto Protocol for the first commitment period. Such an extension of the scope of the REDD regime could reduce the risk of carbon leakage and contribute to the protection of natural forests, while realising added mitigation potential. It is, however, important to establish means to avoid adverse impacts of alien invasive species on afforestated land similar to the existing rules for afforestation and reforestation under the CDM. It is also crucial to include safeguards against the conversion of natural forests to plantation forests. The existing safeguards concerning potential environmental and social impacts of afforestation and reforestation under the CDM could form the basis for integration of A/R in an expanded REDD-mechanism.

We believe, moreover, that managed non-forested peatland, and over time the entire AFOLU sector, should be included in a future REDD regime, provided that reference levels can be agreed by Parties and that countries can establish greenhouse gas inventories based on agreed rules for monitoring, reporting and verification.

4. Monitoring, reporting and verification

A robust system for monitoring, reporting and verification of emissions and removals from forest activities must be included for all participating developing countries. Such a stringent MRV system for GHG inventories is a key criteria for the long term viability of REDD as a climate change mitigation measure and should be similar to the existing requirements for Annex I countries.

Norway recognizes that such precision will require time to develop and significant investments in methodology development and capacity building. In this regard it is essential

that adequate financial resources are made available both for developing countries and at the international level.

The level of ambition and an incentive structure for gradual improvements of MRV-systems over time must be established from the outset. MRV standards should be based on the most recent IPCC guidelines for greenhouse gas inventories. These guidelines allow countries to gradually improve their inventories following the so-called tiered approach. Hence, the quality of any given country's MRV capabilities would be expected to improve over time. Financial compensation should reward increased scope and precision of MRV: The better and more comprehensive the MRV, the higher the financial compensation received for a given result.

Norway believes a monitoring system for REDD should be based on the same broad and flexible definition of forests as in the Marrakesh Accord. Concerns have been raised over the inclusion of industrial plantations in the definition of forests, as this could lead to the conversion of natural forest into plantations. In our view, this concern is not best addressed by excluding plantations from the forest definition. A well designed monitoring system should reduce or eliminate any incentives for such conversions for carbon purposes, This should be specified in the treaty text.

Similarly, Norway finds it unnecessary to establish specific definitions of forest degradation and activities that lead to enhancement of carbon stocks in forests as long as countries have established a nation-wide forest GHG inventory. In such a comprehensive inventory system all these activities would be covered by monitoring requirements established for "*forests remaining as forests*" in the IPCC good practice guidance. However, during the development phase of such a holistic inventory, interim rules and modalities may be needed to avoid perverse incentives, inter alia for converting natural forests to plantations.

In Norway's view, reporting on results under a REDD mechanism should be an annual exercise. Annual reporting will allow annual results-based payments, thereby creating a close link between performance and incentive. Furthermore, annual reporting will require permanent monitoring and reporting capacity, which would facilitate the maintenance of stable and gradually evolving institutions in the participating countries.

A verification mechanism for GHG inventories under REDD should be as rigorous as the existing regime used in reviewing annual GHG inventories of Annex I countries. Using this regime as model has an important capacity building aspect too, by bringing experts from both developed and developing countries together through the review process. Furthermore, we believe the review process should be facilitated by a REDD MRV technical panel operating under the auspices of the UNFCCC-secretariat. This will require additional financial resources and a concerted effort to expand the roster of experts and approved verifiers for REDD-activities.

5. Reference levels

Setting reference levels is among the most crucial elements of a REDD mechanism. If the reference level is set too high, one may risk paying for 'hot air', i.e. emissions that would not have happened even in the absence of incentives. If the reference level is set too low, the incentives for action could be reduced. Hence, there is a need to establish a robust methodology for setting reference levels that ensures additionality both at national and global

level compared to business as usual conditions, and at the same time properly incentivizes developing countries to participate in the REDD mechanism.

The methodology should be simple and flexible, and take into account the differences between countries with high deforestation rates, and countries with high forest cover and low deforestation rate. It should also allow for inclusion of other country specific conditions. Methodology for setting reference levels should be employed for degradation and stock enhancement, as well as for afforestation and reforestation. Procedures and regulations for the latter, however, would need to include explicit assurances against the conversion of natural forests to forest plantations being compensated through the regime.

National reference levels could be determined through a process taking as its starting point a formula based on objective, measurable and verifiable inputs, such as historical emission and removal rates, forest cover, and measures of GNP/capita. An expert body so mandated could propose final reference levels based on the outcome of such a standardized process, appropriately adjusted to reflect national circumstances and other relevant input such as expected future emission and removal trends for the Parties considered. Recommendations from the expert body could then be submitted to the COP or an appropriately mandated representative body for final determination.

The reference levels should be updated at regular intervals.

A global reference level should be established. This would serve two purposes: first, it would ensure global additionality, i.e., that 'hot air' is avoided on a global as well as on a national level; second, it would help induce collective discipline into country specific reference level negotiations, in the sense that increases in baseline given to one country, would necessarily lead to decreases for one or more other countries. A global reference level would thus both facilitate the environmental integrity of the mechanism, and incentivize a collaborative approach to global REDD efforts.

6. Permanence and leakages

A performance-based REDD regime must focus on the national level in order to reduce the risk of leakage of emissions within the country, as well as the risk for non-permanence. Such a national approach would necessitate a monitoring system that covers all forests in the country. However, some countries may have difficulties in achieving such a comprehensive geographical coverage overnight. Explicitly time-limited transitional solutions during the first phase of the REDD mechanism may be needed to help such countries in developing national approaches. Such transitional solutions must, however, address the risk for intra-national leakages.

International leakages, however, could only be satisfactorily addressed through global participation in the regime. The REDD regime should address this problem, even if it may be difficult. By aiming at a REDD regime that will incentivize participation from all developing countries, the risk for international leakages would be minimized. In the initial phase of a post-2012 REDD regime, still with a limited number of developing countries taking part, it may be necessary to consider other approaches to address international leakages, for example through introducing an 'international leakage discount factor'.

The permanence issue could only be fully addressed when the forest sector in all countries, both in developing and developed countries, is subject to quantified emission reduction

commitments. Norway believes, however, that it will be necessary to look into possible interim solutions to reduce the consequences of non-permanence, due to both man-made and natural disturbances. Such solutions could include insurance arrangements, as well as a temporary setting aside of REDD revenues.

7. Biodiversity

According to the Millenium Ecosystem Assessment, forests, particularly those in the tropics, provide habitat for half or more of the world´s plant and animal species. This biodiversity is essential for the continued health and functioning of forest ecosystems, and it underlies the many ecosystem services that forests provide. Extensive biodiversity loss has been one result of the shrinking of the world´s forests. It is Norway´s view that a REDD regime should be recognized as a potential breakthrough for the conservation of tropical forest biodiversity.

By expanding the scope of REDD to include conservation and enhancement of carbon stock, the potential benefits for biodiversity may be further enhanced, inter alia by promoting restoration of degraded forest habitats. If afforestation and reforestation (A/R) activities are also included in a future REDD-mechanism, biodiversity benefits could arise from incentives to regenerate forests in previously deforested areas and increased connectivity between forest habitats.

It must be recognized however, that certain safeguards are needed to avoid or reduce the risk of adverse impacts on biodiversity resulting from a broad REDD mechanism including enhancement and A/R. Such concerns are mainly linked to the conversion of natural forests to plantation forests and the potential use of alien invasive species in plantations. Given the importance of tropical forests for the maintenance of biodiversity and critical ecosystem services, Norway will support the establishment of safeguards and procedures to facilitate synergies between REDD and biodiversity conservation. In this regard, the findings of the Ad Hoc Technical Expert Group on Biodiversity and Climate Change (AHTEG, convened under the Convention on Biological Diversity (CBD) may provide valuable information and guidance.

8. Indigenous peoples and local communities

An effective participation of indigenous peoples and local communities in a future REDD mechanism is of utmost importance for successful REDD-implementation. Whilst indigenous peoples and local communities are potentially significant beneficiaries of a REDD mechanism, it might also have adverse effects such as loss of access to land and other natural resources. Examples of opportunities include potentially increased resource flows to poor rural areas and improved forest governance.

A REDD mechanism should recognize the role and contribution of indigenous peoples and local communities and establish an effective procedure to secure free, prior and informed consultation for those effected by national REDD actions. This procedure should include an analysis of the socio-economic impacts on indigenous people. Adequate funding and other provisions necessary to enable their effective participation should be ensured.

The participation of indigenous peoples and local communities should also be secured through the eligibility criteria for funding under the second phase of the REDD mechanism, see section two above. Participating countries should demonstrate national commitments to

implement REDD strategies, including transparent and rules based forest governance and the involvement of multiple stakeholders, including indigenous peoples and local communities.

9. Institutional framework

In Copenhagen we should aim at establishing an institutional framework related to the different functions of a REDD mechanism. The institutional framework should be related to existing institutions under the UNFCCC as well as new institutional framework established as part of the Copenhagen agreement.

The institutional arrangement for REDD should be flexible in order to effectively serve all the different phases of the REDD regime. For both the general and the REDD-specific institutions, it would be crucial to make distinction between those institutions that are permanent (for example those filling MRV-related functions) and those that are designed to handle time-limited tasks.

Based on these principles an institutional framework for REDD could include the following elements:

- *A political function* including:
  - eligibility for transition between phases.
  - countries´ eligibility for funding based on expert advice;
  - countries' compensation based on agreed criteria and expert advice;
- *A financial trustee function,* both to collect funds, maintain them, and disburse them, according to appropriate safeguards.
- *An MRV review and verification function*
- *An expert advice function,* to give objective and facts based expert advice to various processes, including, but not necessarily limited to, the issues of reference level setting, countries' progress in meeting commitments and corresponding advice on levels of compensation.

Not all functions require new organizations. Use of existing structures with new mandates should remain an option.

10. Further process

Close to the next meeting of AWG-LCA in June, Norway will send a concrete proposal with elements to a Copenhagen agreement on REDD. This text will be based on the substantive elements of this April submission.

ANNEX 1

Elements for a REDD mechanism which should be addressed in the Copenhagen agreement

The timeframe up to COP 15 in Copenhagen do not allow for the elaboration on and development of all the detailed rules and modalities related to a post-2012 REDD mechanism. Hence, the agreement in Copenhagen should focus on the overall framework. The technical details, including e.g. MRV guidelines as well as the details of designing eligibility criteria and reference setting methodology should be adopted through separate COP decisions after COP 15.

The following elements must be addressed in the Copenhagen agreement:

- The main principles for the REDD mechanism
- The overall scope of the REDD mechanism, including the definition of which forest and land-use activities that are eligible to be covered by the mechanism
- The establishment of a phased approach, including the overall eligibility criteria for the three phases.
- A mandate for the Conference of the Parties to develop the details of designing eligibility criteria for adoption at COP 17.
- The establishment of a funding mechanism. The first phase should be operative from 2010.
- A mandate for the Conference of the Parties to develop guidelines for the MRV of emissions and removals from the AFOLU sector, based on the most recent IPCC guideline for GHG inventories, for adoption at COP 17.
- The main principles for establishing national and global reference levels, as well as a mandate for the Conference of the Parties to supplement and expand methodologies and procedures for the establishment of reference levels, for adoption at COP 17.
- The main principles and guidelines for the involvement of indigenous peoples and local communities
- Safeguard to protect biodiversity
- The overall institutional framework for a REDD mechanism.