



**United Nations Framework Convention on Climate Change**

## **Submission of Views**

26th Session of SBSTA, Agenda Item #5

*Reducing Emissions from Deforestation in Developing Countries:  
Approaches to Stimulate Action*

**Submitted Jointly by:**

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## **1. Mandate**

The Twenty-Sixth Session of the Subsidiary Body for Scientific and Technological Advice (SBSTA) of the United Nations Convention on Climate Change (UNFCCC) invited Parties to submit to the Secretariat, by 15 August 2007, their views on issues related to further steps under the Convention related to reducing emissions from deforestation in developing countries: approaches to stimulate action. The SBSTA also requested that the Secretariat compile these submissions for its consideration at its Twenty-Seventh Session.

## **2. Introduction**

Deforestation often entails two distinct scenarios: the first involves the reduction or disappearance of forest cover often accompanied by land-use change; the second involves the degradation of forests wherein carbon stocks are reduced per unit of area without necessarily the disappearance of forest cover. Both scenarios result in greenhouse gas (GHG) emissions.

GHG emissions from deforestation in developing countries may today contribute approximately 20% of the world's carbon dioxide (CO<sub>2</sub>) emissions. Large-scale deforestation has been occurring for several centuries with the balance shifting from developed to developing countries. In general, deforestation has not carried a long-lasting correlation with economic development. However, as rural incomes rise, rates of deforestation tend to decrease over time.

Along with the objectives of the Convention, therefore, a system of policy approaches and positive incentives to reduce emissions from deforestation should concurrently raise living standards within rural populations and be designed to support significant social, environmental and economic objectives associated with development. Further, such a system should also be designed to assist developing countries seeking to either conserve or expand forest cover.

Opportunities to reduce deforestation are often lost forever. The IPCC's 4<sup>th</sup> Assessment Report estimates that around 5.8 GtCO<sub>2</sub> is released annually into the atmosphere from global deforestation<sup>1</sup>. Therefore, without prompt action to reduce emissions from deforestation, almost 30 GtCO<sub>2</sub> may be released into the atmosphere between 2008 and 2012.

Substantial and sustainable resources must be mobilized in order for mechanisms to reduce emissions from deforestation to be effective. There are several viable options to mobilize the necessary resources. For example, the UNFCCC recently projected that global carbon emission markets may exceed \$100 billion per year over the coming two decades<sup>2</sup>.

There is general dissatisfaction amongst many developing countries with the present draft Decision resulting from SBSTA-26 for consideration at COP-13. A decision at COP-13 should outline a roadmap for the Parties to implement immediate action to address emissions from deforestation by requesting the Parties to:

- a) mobilize sufficient resources to support necessary policy approaches and positive incentives,
- b) catalyze key phases of readiness and pilots that urgently refine and scale up implementation,
- c) develop methodological guidelines to support 'credit for early action' from 2008-2012 along with expanded activities within international agreements on climate change taking effect after 2012.

## **3. Mobilizing Necessary Resources**

Recent research for the *Stern Review on the Economics of Climate Change*<sup>3</sup> has estimated \$5-\$15 billion per year is required to reduce emissions from deforestation by 50% globally. Further, the IPCC's 4<sup>th</sup> Assessment Report estimates that reducing emissions from deforestation by 50% could save 1.6 billion tons of CO<sub>2</sub> annually at cost under \$20/t CO<sub>2</sub>e<sup>4</sup>. In the context of policy formulation, it may be useful to consider the middle of this range as a starting point, \$10 billion per year, and/or a carbon price around \$20/tCO<sub>2</sub>e.

In summary, there are a number of options available to mobilize financial resources at this scale, provided there is sufficient political will. Designed to support a flexible basket of policy approaches and positive incentives, the options outlined below may be considered individually, in various combinations, and/or over differing timeframes. Therefore, for illustrative purposes, in order to finance emissions reductions from deforestation of around 50%, the Parties could:

- **Compliance Markets:** Deepen Annex-B targets by around 9%.<sup>5</sup>
- **Inter-sectoral Linkages:** Introduce a voluntary user-fee on emissions from air transport within Annex-1 countries of around \$22/ton.<sup>6</sup>
- **Emissions Compliance Fees:** Auction Annex-B emissions allowances in a post-2012 framework and allocate around \$0.30/tCO<sub>2</sub>e from the proceeds.<sup>7</sup>
- **Tax on Oil Consumption:** Apply an additional tax of \$0.30 per barrel of oil equivalent consumed in the EU and US.<sup>8</sup>
- **Energy Subsidies:** Reduce distorting energy subsidies within industrialized countries by around 12.5%.<sup>9</sup>
- **Additional ODA:** Increase Official Development Assistance (ODA) by 12.5%.<sup>10</sup>
- **Voluntary Markets:** Expand voluntary emissions markets by 100 times to be used exclusively for this purpose.<sup>11</sup>

To be effective, any alternative revenue streams must be transparent, predictable, sustainable and sufficient. Within the context of the UNFCCC, financing reduced emissions from deforestation through deeper cuts within industrialized nations is the most viable option and likely the most synergistic. However, other options may be considered to finance related activities operating exclusively within the Convention.

Presently, most developing countries struggle to adequately address the drivers of deforestation because of insufficient domestic resources and overly cumbersome requirements from international agencies. Further, effective implementation will be unlikely without confidence that the opportunity costs associated with forgone land-use activities will be replaced.

Considering the failures of many past international efforts to mobilize sufficient resources to address global challenges, including the ongoing failure to finance implementation of the *Millennium Development Goals*, it is important to critically assess the viability of 'commitments' to mobilize resources before developing countries broadly implement approaches to reduce emissions from deforestation in developing countries.

#### **4. Key Implementation Phases**

As developing countries consider approaches and incentives to reduce emissions from deforestation, a decision at COP-13 should outline a framework of future phases to facilitate action by developing countries that voluntarily wish to participate in: *Action Today, Activity 2008-2012, and post-2012.*

- a) **Phase 1: Action Today:** Before most developing countries can reduce emissions from deforestation, they must undertake a process of analysis, evaluation, piloting and implementation. The ‘readiness & pilots’ phase will have serious implications for the scale and effectiveness of any future activities and must be carefully managed and appropriately resourced.

1. *Readiness & Pilots:*

- i. *Analyze:* drivers of deforestation; data for land use change activity and related carbon stocks; reporting methods; economic implications, including opportunity costs; etc.
  - ii. *Evaluate:* previous and ongoing policies and initiatives; institutional and legal requirements; future options; potential reductions; etc.
  - iii. *Pilot:* market & non-market initiatives; variable scale under a ‘national accounting’ approach, including programmatic, sub-national and project implementation; institutional and legal programs and policies, etc.
  - iv. *Implement:* re-analyze, re-evaluate, re-pilot (as required) and scale-up.
2. *Coordinating International Efforts:* The UNFCCC may consider inviting interested multilateral, bilateral and international agencies, via the UNFCCC Secretariat, to coordinate programs and initiatives for efficiency, consistency and to avoid redundancy. Inconsistent programs between agencies will complicate developing country participation and the effectiveness of related actions.
3. *Funding & Resources:* It is estimated that ‘readiness activities’ may require between \$1-\$5 million per developing country and effective ‘pilot activities’ up to \$1- \$3 billion per year. Therefore such efforts should be undertaken in cooperation with a range of stakeholders, including the private sector. Voluntary initiatives to support such efforts, like the World Bank’s *Forest Carbon Partnership Facility*, should be commended and supported.

- b) **Phase 2: Activity from 2008-2012:** Significant action to reduce emissions from deforestation is too important to wait until after 2012. Therefore, frameworks to encourage emission reductions from deforestation must be developed, facilitated and initiated immediately after Bali.

Activities under the Convention can facilitate development of approaches for implementation at the national, sub-national, local and project scales. While 2008-2012 activity should not be credited for compliance under the Kyoto Protocol’s First Commitment Period, there can be significant learning-by-doing from activities under the Convention during this timeframe.

1. *Methodological Guidance:* The UNFCCC has approved methodological standards to deal with forestry, including deforestation, under a national accounting system – the 2003 IPCC Good Practice Guidance for Land Use, Land Use Change and Forestry (2003 IPCC GPGs).

- i. *National Accounting:* Under the relevant decisions for the UNFCCC Parties, both Annex-1 and developing countries are required to report on forest activities using approved IPCC GPG. Under the Kyoto Protocol, Annex-B countries can use the 2003 IPCC GPG, in the context of the relevant decisions of the Parties, to generate tradable credits from reduced emissions from deforestation within their countries while developing countries presently cannot. For many developing countries, it is important to note the 2003 IPCC GPG allows ‘unmanaged’ forests to be excluded from national accounting systems. Therefore, the 2003 IPCC GPG methodology could also be applied for developing countries considering a National Approach.

To stimulate early action, specific methodological guidelines should be included in the COP-13 decision to assist developing countries seeking a voluntary national approach to reduce emissions from deforestation:

1. emissions from deforestation should be estimated using the most recently agreed reporting guidelines (2003 IPCC GPG);
  2. emission reductions from deforestation should be real, demonstrable, transparent and verifiable and the assessment should be results based;
  3. a national approach should assess emission reductions from deforestation on a conservative basis relative to a national emissions reference level;
  4. a national reference level should be determined using activity data over a reference period that is as long as possible, but not shorter than five years;
  5. a national emissions reference level for deforestation should be based on historical emissions from deforestation and should take into account national circumstances including a developmental adjustment factor;
  6. emission reductions from deforestation relative to a national emissions reference level may encompass sub-national and project approaches for implementation;
  7. incentives should be in the form of a payment proportional to the amount by which the emissions for a year within an assessment period are below the reference emissions level;
  8. methods to address performance risks should be encouraged and could include use of reserve ratios, trust arrangements, risk pooling, etc.;
  9. application of these guidelines should be subject to an independent peer review following the existing precedent for LULUCF reporting for Annex-B Parties.
- ii. *Sub-National, Local and Project Implementation:* Sub-national, local and project-level activities are presently being applied by many Parties under the Convention (protected areas, national parks, sustainable forest management, state-led initiatives, etc.) and should be encouraged and expanded. Under a ‘National Approach,’ the implementation of policy approaches and positive incentives to reduce emissions from deforestation will be primarily undertaken as project, local and sub-national action. Therefore, it is important for the Parties to share experiences and lessons learned related to these activities.

To be clear, the Parties rejected ‘project only’ methodologies to account for reduced emissions from deforestation for the Kyoto Protocol primarily due to serious methodological concerns related to additionality, permanence and leakage. These methodological impediments remain. Therefore, it is considered unlikely that the UNFCCC will accept methodologies to allow project-based activities in isolation to be directly applicable as off-sets for carbon emissions markets.

Further, project-based methodologies could subsequently increase transactional costs, reduce flexibility of implementation, and erode international competitiveness for participating countries. Notwithstanding, based upon national circumstance, some developing countries may prefer to implement local and project-only approaches. Such efforts should be encouraged and greater resources could be mobilized under the Convention.

2. *Credit for Early Action:* To facilitate early action and mobilize private capital, the Parties could utilize the above listed methodological guidelines to create a system of *credits for reduced emissions from deforestation and degradation* (CRED) accounted for on a national basis during 2008-2012 and creditable within post-2012 frameworks. This would require agreement by the Subsidiary Body for Implementation (SBI) with any necessary additional methodological work to be undertaken by SBSTA.
  - i. *Fungibility:* pre-2012 CRED units should be fungible against AAU units to be issued in post-2012 frameworks;
  - ii. *Volume Caps:* pre-2012 CREDs could be capped in volume to manage the supply accumulated before the post-2012 frameworks come into effect;
  - iii. *Allocation:* Parties wishing to participate could apply for an allocation of pre-2012 CREDs (sellers and purchasers) in order to assist in the formulation of practical cap volumes;
  - iv. *Deeper Targets:* Annex-1 Parties could agree to accept deeper targets than would otherwise be accepted by an amount equal to the volume of pre-2012 CREDs earned.
3. *Funding the Gap Years:* It is likely that several resource options will be required to fund efforts pre-2012. A decision at COP-13 must outline a framework and timetable that transparently mobilizes sufficient resources throughout this timeframe, possibly using differing funding sources applied during the three phases. For example:
  - i. *Readiness Activities* could utilize dedicated multilateral ODA. Such activities need urgent funding today.
  - ii. *Pilots* could utilize ODA to start and then transition to funds from inter-sectoral linkages (such as a voluntary tax on international airline emissions in Annex-1 countries) or implementation of a pre-2012 CRED market over the intermediate term.
  - iii. *National Approaches* could start by utilizing funds from inter-sectoral linkages during early years and then transition to facilitate participation by the private sector via a pre-2012 CRED market.

c) **Phase 3: Future International Climate Change Agreements (post-2012):**

Reducing emissions from deforestation – along with related issues such as conservation, afforestation/reforestation and sustainable forestry management – must become important elements of any future international agreements on climate change post-2012.

1. *Mobilizing Resources at Appropriate Scale:* Reducing emissions from deforestation will not be easy nor will it come cheaply. According to recent analysis, the Parties must consider generating \$10-\$15 billion per year to stimulate a meaningful global reduction of emissions from deforestation in developing countries. Financing reduced emissions from deforestation through deeper cuts within industrialized nations is the most viable option and likely the most synergistic. However, other options may be considered to finance related activities.
2. *Supply & Demand:* When considering cap-and-trade market instruments, leadership by Annex-B Parties in the form of deeper targets that are truly additional must precede the introduction of a new supply of carbon offsets from reduced emissions for deforestation in developing countries. A new instrument for CREDs cannot simply compete with, and lower market prices for, actions taken under the Clean Development Mechanism (CDM). Annex-B Parties should agree to accept deeper targets than would otherwise be accepted by an amount equal to the projected volume of CREDs earned from 2008-2012 plus those earned through end of the 2<sup>nd</sup> commitment period (or other successive international agreement on climate change.)
3. *Flexible Basket of Instruments:* In light of differing national circumstances amongst developing countries seeking to reduce emissions from deforestation, the Parties must implement a ‘flexible basket’ of instruments that support sustainable development. Further, additional complementary instruments should be designed to accommodate developing nations with historically low rates of deforestation, those seeking to stabilize remaining forest cover and those seeking to increase afforestation/reforestation programs.
4. *Coordinating International Instruments:* To reach the necessary scale, activities to reduce emissions from deforestation in developing countries should be encouraged and accommodated within relevant instruments operating in the different Annex-1 Parties, including domestic, regional or international emissions markets. Further, efforts to standardize carbon pricing between markets should be encouraged by the Parties.
5. *Methodological Standardization:* To facilitate international cooperation in reducing emissions from deforestation in developing countries, Annex-1 Parties must seek to standardize the methodological regulations applicable to developing country participation, including domestic, regional or international emissions markets.
6. *Sustainable Forestry Management (SFM):* Many developing countries may be able to control deforestation and degradation through the implementation of sustainable forestry management practices. However, the standards imposed by the international community to achieve SFM are very high. Complying with SFM standards requires a significant increase in financial resources. Serious consideration should thus be given to provide adequate incentives to promote the broad implementation of SFM practices as this has been shown to be an effective approach to controlling deforestation in developing countries.
7. *Other International Agreements:* The Parties should request the UNFCCC Secretariat to promote synergies between existing conventions, treaties and international agreements with special attention given to reducing emissions from deforestation in developing countries.

## 5. Views on the conclusion of the 2-Year SBSTA process and beyond

COP-13 should request the SBSTA and SBI to report back on issues related to methodology and implementation at COP-15 with recommendations for the establishment of a mechanism to facilitate emissions reductions from deforestation in developing countries, including how to account for related emissions reductions achieved from 2008-2012 within any future international agreements on climate change taking effect after 2012.

- a) **Methodological Guidance:** To facilitate emission reductions from deforestation during 2008-2012 and beyond, the Parties must develop methodological guidance that would facilitate rapid implementation of incentive frameworks. SBSTA should carry out work related to Items 1 – 8 below, including a workshop between sessions, and report back at SBSTA-29. SBSTA could report back related to Items 9-10 below to SBSTA-31 including recommendations to COP-15.
1. National emissions reference levels
  2. Agreed emissions reduction reference scenarios
  3. Measurement, reporting and verification procedures
  4. Forest classifications and stratifications, including improved measurement of forest degradation
  5. Conservativeness and Accuracy (2003 IPCC GPG: Tier 1, Tier 2, Tier 3)
  6. Incentive frameworks, including annual and inter-annual accounting methods
  7. Independent review process
  8. Instruments to address performance risk
  9. Instruments to address forest conservation/stabilization
  10. National circumstances and developmental differences (Development Adjustment Factor)
- b) **Guidance for Implementation:** All bodies established under the COP or the COP/MOP should consider the part to be played by reduced emissions from deforestation, forest conservation and stabilization of forest carbon stocks within future frameworks for action on climate change that take effect after 2012. To facilitate emission reductions from deforestation during 2008-2012 and beyond, the Parties must develop means to facilitate rapid implementation of carbon-based incentive frameworks. SBI should carry out work related to Items 1 – 2 below and report back at SBSTA-31 with recommendations to COP-15.
1. The possibilities for mobilizing the necessary resources set out above, and any additional options, to support the three phases outlined herein;
  2. A draft decision for consideration by COP-15 that would enable credits for verified emissions reductions achieved before 2012 to be used to meet future commitments;

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NOTES:

<sup>1</sup> IPCC Fourth Assessment Report, Working Group 3, Chapter 9, Executive Summary.

<sup>2</sup> <http://unfccc.int/meetings/dialogue/items/4048.php>. See paragraph 17.

<sup>3</sup> The Stern Review on the Economics of Climate Change; Presentation by Sir Nick Stern to the United Nations: <http://www.un.org/ga/president/61/follow-up/climatechange/programme.shtml>

<sup>4</sup> IPCC Fourth Assessment Report, Working Group 3, Chapter 9, Executive Summary.

<sup>5</sup> According to the UNFCCC, Annex 1 Countries emitted 18.4 billion tons of GHG in 1990 (without LULUCF). Further, the IPCC's 4<sup>th</sup> Assessment Report estimates that reducing emissions from deforestation by 50% could save 1.6 billion tons of CO<sub>2</sub> annually at cost under \$20/t CO<sub>2</sub>e. In general terms, if Annex-B targets were deepened by around 9%, such a policy could generate around \$10 billion per year.

<sup>6</sup> In 2005, the UNFCCC estimated that international emissions for Annex-1 countries from air transport industries in 2002 was 202 MtCO<sub>2</sub>e plus approximately 235 MtCO<sub>2</sub>e in additional nationally-based emissions – with a steep emissions increase over the past decade. . In general terms, if Annex-1 international air transport CO<sub>2</sub> emissions were taxed around \$49 per ton or total emissions taxed around \$22 per ton, this could generate around \$10 billion per year.

<sup>7</sup> In the First Commitment Period, industrialized countries received their emissions allowances for free. As an incentive to keep allocations low, Parties could be required to buy emissions allowances with the proceeds used to finance additional mitigation activities. In general terms, assume targets are at least 12% below 1990 for the second commitment period, if allowances were sold or auctioned, an allocation around \$0.30 per ton CO<sub>2</sub>e for each Annex-B emissions allowance during the second commitment period could provide around \$10 billion per year.

<sup>8</sup> The United States and the European Union consume about 35 billion barrels of oil per year. For example, Costa Rica has led the world by taxing fossil fuels and using these funds to successfully promote sustainable forestry. In general terms, if the European Union and the United States applied a new tax of \$0.30 per barrel of oil (equivalent to \$0.015 per gallon or \$0.004 per liter of gas), such a policy could generate around \$10 billion per year.

<sup>9</sup> The IEA estimates that world energy subsidies were still \$250 billion in 2005 (\$80 billion in the OECD countries), with total subsidies to oil products amounting to \$90 billion. In general terms, OECD countries could reduce distorting energy subsidies by 12.5%; such a policy could generate around \$10 billion per year.

<sup>10</sup> In 2003, Annex-1 Countries had a combined GDP of \$28 trillion, while contributing around \$79 billion in Overseas Development Aid (ODA = 0.28% of GDP.) While the governments of industrialized nations have committed within the United Nations to increase ODA to 0.7% of GDP, they have fallen short by over \$100 billion per year. In general terms, Annex-1 Countries could dedicate a 12.5% increase in ODA and generate an additional \$10 billion per year (while still falling short of their ODA commitments by over 50%.)

<sup>11</sup> Voluntary offset markets transactions totaled \$91 million in 2006, but this is expected to double in size next year. However, the main motive for companies to trade in the voluntary markets is to enhance their image of environmental stewardship and corporate social responsibility. Companies in the United States, which lacks mandatory limits on the gases, made up 68 percent of the unregulated carbon market's customers. Source: State of the Voluntary Markets 2007 -- Picking up Steam, authored by the Ecosystem Marketplace.