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To	:	Barbara Bamberger, Office of Climate Change, California Air Resources Board
From	:	Fauna & Flora International (FFI)
subject	:	Comments on proposal for inclusion of sub-national RED within AB32
Date	:	20 August 2010

Fauna & Flora International (FFI) is pleased to provide the following comments in regards to the California Air Resources Board (ARB) proposal for inclusion of sub-national RED as an approved offset category under the AB 32 legislation.

The term 'sub-national entity' has been used to describe States or Provinces that might seek to reduce deforestation in order to earn credits under the scheme.

Crediting baseline
The current proposed crediting baseline approach (including ARB presentation: *"current staff thinking: reference level and crediting baseline example"*) significantly increases the risk of participation in the scheme. Under the crediting baseline proposal, a sub-national entity could go to great effort and expense to reduce its deforestation rate, and despite its best efforts, still fall short of the crediting baseline. The sub-national entity would receive no financial compensation, making it less likely to meet its crediting baseline in the next crediting period. Such a situation could reduce participation rates in the scheme, if sub-national entities feared they could not meet these (somewhat stringent) targets, or if they pulled out after failing to meet their crediting baseline after the first crediting period. It could also generate negative sentiment on behalf of host sub-national entities that participated but failed to meet the crediting baseline, as the entity could effectively be financially penalised from participating in the scheme.

Should some form of discount be required to account for uncertainty, a modest discount factor applied to all emission reductions would be more appropriate than the threshold crediting period, as it would reward all successful efforts to reduce deforestation, and reduce risk of participation of the scheme. We also note that such considerations are inherent in the 'buffer stocks' approach used in voluntary schemes, such as the VCS.

Reference level
A focus on reference levels based only on historical deforestation trends may preclude sub-national entities that are in the early stages of deforestation, but have a high risk of deforestation in the future (It should also be noted that these are likely to be sub-national entities where avoiding deforestation might have the greatest impact, from both a carbon and biodiversity perspective.) Reliance on historical deforestation trends may also result in unreliable or unrealistic indications of future deforestation for sub-national entities that have experienced unique historical events influencing deforestation, such as conflict, political regime change, economic reform etc.

Modelled baselines are often cited as the solution to these problems, however they are often extremely complex to develop, and may be very difficult to verify at the sub-national level. It should also be noted that some draft methodologies (currently undergoing review) under the VCS have proposed that projects may use one of a number of methods for baseline (reference level) modelling, in accordance with criteria that specify the most appropriate modelling approach based on project-specific characteristics.

We also recommend that credits be explicitly awarded for avoided *planned deforestation* in sub-national entities. Planned (i.e. Government endorsed) deforestation is easier to forecast, as it typically involves deforestation within a specified geographic area, which in many cases would be

defined in a Government spatial plan. To calculate the *rate* of planned deforestation within this specified area, sub-national entities should have the option to use a historical rate from an analogous 'reference area' or sub-national entity in the same country. It would be the responsibility of the sub-national entity to demonstrate how the reference area provides a suitable analogue for its own predicted deforestation rate. This approach is currently prescribed in a number of draft methodologies under the Voluntary Carbon Standard (VCS) at the project level; it is highly likely that this could also be applied to work at the sub-national level. To prevent 'gaming' (i.e. the Government allocating area available for deforestation, simply to create additionality), the planned deforestation area could be defined retrospectively (i.e. based on the sub-national entity's official spatial plan or zonation system from a year such as 2007).

Explicitly including crediting for avoided *planned* deforestation may provide a more feasible, short-term option for sub-national entities with historically low deforestation rates and/or where modelling unplanned deforestation reference levels may be unduly complex. Avoided *unplanned* deforestation could then be included in such sub-national entities at a later date, at which point one would hope the methodologies for development of modelled baselines might have evolved substantially.

Focus on avoided deforestation
The proposal to initially focus on crediting of avoided deforestation and exclude degradation has the potential to create some definitional issues, particularly in relation to cases of gradual rather than abrupt forest loss.

We understand the reasons the ARB might wish to focus on deforestation in the first instance, and then consider degradation at a later date. The complexities of accounting and monitoring forest degradation are well known, and largely relate to the ability to monitor the removal of individual or small groups of trees. It follows that the problem of monitoring degradation is related to the resolution of remotely sensed imagery. By all accounts, it seems likely that sub-national and national entities should be able to implement forest monitoring systems capable of quantifying deforestation (although it should be noted that the process of implementation of such monitoring systems is extremely technical and may take some time).

However, we also note that there are technological advances in the remote sensing field that are rapidly evolving, and there is increasing promise in the ability to detect degradation at reasonable cost. We consider this a significant point, because in our experience, gradual deforestation processes are often far more commonplace than cases of abrupt (unplanned) deforestation. In Box 1 below we provide a more elaborated example of degradation / gradual deforestation as a process, and key considerations implicit in carbon accounting.

Given the significant contribution of degradation to deforestation, we therefore suggest that credits from avoided degradation also be considered early-on under the AB32. This could be achieved by allowing consideration of degradation either on a project basis, and/or by allowing sub-national entities to voluntarily opt to incorporate forest degradation within their reference emission levels (and then generate credits from it), providing they can demonstrate that their monitoring system is sophisticated enough to detect degradation.

Box 1: The significance of gradual deforestation phases and credit accounting

The current UNFCCC definition of deforestation is 'the direct human-induced conversion of forested land to non-forested land', and 'forest' is defined by specific thresholds for canopy cover, tree height and minimum area. Thus, deforestation technically occurs when the forest transitions below a specified forest canopy (or height or area) threshold. To explain the implications around the definition of deforestation relative to degradation, we provide an example of a typical pathway to deforestation below (The example assumes the sub-national entity's forest definition has forest canopy cover threshold of 20%). The pathway to deforestation might involve:

Phase 1: Degradation due to legal commercial logging of high value timber - forest canopy cover is reduced from 90 to 65%; followed by:
Phase 2: Degradation due to illegal logging for remaining commercial timber following opening of roads for legal timber production - forest canopy cover is reduced from 65 to 40%; followed by:
Phase 3: Degradation due to illegal logging for low value construction timber - forest canopy cover is reduced from 40 to 25%; followed by:
Phase 4: Deforestation due to fire - forest canopy cover is reduced from 25 to 5%; followed by: Establishment of agriculture.

We can see from this example that degradation might be considered the first phase of the deforestation process. If credits are provided only for avoided deforestation, credits would be awarded for the land use transition between phase 3 and 4/5, which is the point at which the forest canopy cover transitioned below the minimum threshold (in this case, 20%). However, most of the forest carbon stock is likely to have been emitted during phase 1, 2 and 3.

Focussing on deforestation in the absence of degradation may create incentives for countries to maintain degraded forests, but it may provide little incentive to maintain pristine or high carbon storing forests. This is because the actual carbon loss when a forest falls below its canopy cover/height/area threshold may be quite low.

Leakage
We suggest that it might be appropriate to consider accounting for leakage separately for planned and unplanned deforestation.

Leakage due to **planned deforestation** could be handled through spatial planning processes. By optimising their spatial planning processes, sub-national entities could better target under-utilised non-forest lands that are suitable for agricultural and plantation development, instead of forest land. Leakage could be considered virtually non-existent if all forest areas targeted for planned conversion were redirected (through spatial planning) to other sites of suitable non-forest land.

We note that there are some limitations to this approach, for example it assumes there is sufficient non-forest land available and suitable for agricultural and plantation development. However, for the most part, we believe that spatial planning is likely to provide a potential solution to the leakage issue. To demonstrate compliance, an independent evaluation of the sub-national entity's spatial planning scheme could be conducted. A leakage discount factor could be applied if the case of non-compliant sub-national entities.

In considering leakage due to **unplanned deforestation** – we believe there is no 'silver bullet' to address this issue. The (technically) illegal deforestation activities of local people living in and near the forest are driven by issues of poverty, tenure uncertainty, corruption, indigenous peoples rights, lack of education about the consequences of deforestation, and a plethora of other issues. We believe that the ability to address leakage from unplanned deforestation is very much a site-specific issue, and it will require an intimate understanding of the drivers of deforestation impacting on a specific site. We suggest that while REDD carbon trade might ultimately occur at a national level, there will always be a need for site-specific, project level consultations with the people living closest to the forest - to determine their relationship to the forest, and how it impacts their livelihood.