



AUSTRALIA

Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

Submission to the AWG-LCA, AWG-KP and SBSTA

This submission provides Australia's initial proposal on a forest carbon market mechanism. This proposal suggests a comprehensive approach to the inclusion of emissions from the forest sector in developing countries in the post-2012 agreement. It is intended as an early contribution to the negotiations to stimulate discussions in the UNFCCC. It will be further developed in the coming months to elaborate particular aspects and to reflect the progress of negotiations. To this end, Australia welcomes views from other Parties.

Australia has previously outlined the importance of including reducing emissions from deforestation and forest degradation in developing countries (REDD) in a post-2012 agreement. Deforestation accounts for approximately 18 per cent of global greenhouse gas emissions, with around 13 million hectares of the world's forests being cleared each year. REDD can and should make a significant and cost effective contribution to the global mitigation of climate change. Australia is implementing strong domestic policies in order to play our full part in setting the world on a path to stabilise greenhouse gas concentrations at 450 parts per million or lower. To achieve this or any similar objective, REDD must be part of the solution.

Australia's proposal for a forest carbon market mechanism includes REDD, reforestation and afforestation in developing countries. Like REDD, afforestation and reforestation should be comprehensively and effectively included in a post-2012 agreement. This expanded scope increases the mitigation potential of the mechanism and also increases the range of Parties who might participate.

The proposal is underpinned by a number of principles. It is designed to be effective and efficient in its contribution to the mitigation of climate change. It is also intended to be simple and accessible by developing country Parties, while remaining robust and credible. To the extent possible, it aims for consistency with other sectors. The mechanism has

been designed to ensure environmental integrity, and to not create perverse outcomes, including for biodiversity. The forest carbon market mechanism also takes account of the principles of common but differentiated responsibilities and respective capabilities, whereby all Parties should protect the climate system and developed country Parties should take the lead.

The forest carbon market mechanism will generate credits from anthropogenic reductions in emissions from deforestation and forest degradation, and anthropogenic increases in removals from afforestation and reforestation. A market based approach is ultimately required to leverage financing and investment on the scale needed to address forest emissions.

Under the forest carbon market mechanism, host Parties will undertake to reduce emissions and increase removals from forests relative to a national forest emissions level. National forests emissions levels would be best agreed by the Conference of Parties, based on expert advice. Credits would be generated for reductions from this agreed forest emissions level. Credits from this mechanism should be fully fungible with other credits under the UNFCCC.

As with any international market mechanism, assurance requirements will be necessary to foster investor certainty and confidence. These requirements will include institutional and methodological prerequisites, together with robust carbon accounting and monitoring systems. Recognising there will be a transition period for many host Parties before they will be able to participate in a market, significant support for market readiness capacity building will need to be provided, including through non-market arrangements.

Australia has proposed that participation by Parties in the forest carbon market mechanism be voluntary. The mechanism would be supported by national systems, administered by Parties (these can, in turn, support sub-national approaches). The mechanism's integrity, investor confidence and effectiveness of national approaches will be most effectively supported through the involvement of all relevant stakeholders, including the private sector, non-government organisations, international organisations and local and Indigenous communities.

More details on Australia's proposal for a forest carbon market mechanism, including a summary, can be found in [Attachment A](#).

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Attachment A

Australia's proposal for a forest carbon market mechanism

Summary:

Scope

Emissions reductions and removals from the forest sector in developing countries. This includes: deforestation and forest degradation (REDD), afforestation and reforestation. Allow for broader inclusion of the land sector in the future.

Principles

Underpinned by the principles of effectiveness, efficiency, simplicity, environmental integrity, consistency and fairness.

Scale

National level approach, which can support sub-national approaches.

Participation

Voluntary by both developing and developed country Parties.

Form

A market based mechanism.

Institutional and methodological prerequisites, together with robust carbon accounting and monitoring systems, agreed under the UNFCCC, required to provide market confidence.

Financing

Host Parties will receive tradeable credits for emissions reductions and removals relative to a national forest emissions level, agreed by the COP.

Support for market readiness capacity building will be provided, including through non-market arrangements.

Scope

The post-2012 agreement should include a forest carbon market mechanism that assists developing countries reduce anthropogenic emissions from deforestation and forest degradation, and increase anthropogenic removals from afforestation and reforestation.

The design of the mechanism should support an eventual move towards the full inclusion of the land sector, including agriculture, in market based approaches in the UNFCCC, once Parties are confident that technical and institutional measures can be put in place to support this.

Principles

Effective:

To ensure the forest carbon market mechanism effectively contributes to the global mitigation effort and to increase market confidence in credits, transparent performance specifications or capabilities will be necessary (both methodological and institutional). The mechanism will facilitate broad participation and be designed to avoid perverse outcomes, including for biodiversity. Emissions reduction benefits from the forest carbon mechanism will be maximised by the active inclusions of local and Indigenous communities in host Party activities.

Efficient:

An efficient forest carbon market mechanism will be supported by robust information to ensure market confidence, and designed so as to minimise transaction costs and barriers to entry. The mechanism will need to maximise the emissions reductions achieved.

Simple:

To provide an effective contribution to the global mitigation effort, the forest carbon market mechanism must be simple and accessible by host Parties. A balance between rigour and transparency will be required to ensure market credibility, and confidence and simplicity to facilitate participation. To ensure this balance, significant capacity building will be required to facilitate host Party participation from 2013 where possible, noting there will be a transition period for many host Parties before they will be ready to participate in a market.

Environmental Integrity:

The forest carbon market mechanism is designed to deliver genuine emissions reductions from the forest sector and avoid perverse outcomes, including on biodiversity conservation, and air, soil and water quality. Opportunities to complement existing multilateral environmental agreements will also be pursued.

Consistent:

Treatment of forest carbon in developing countries must be integrated with the broader global mitigation effort, and to the extent possible, should be consistent with and comparable to treatment of emissions from other sectors.

Fair:

The forest carbon market mechanism is designed to take account of the principles of common but differentiated responsibilities and respective capabilities, whereby all Parties should protect the climate system and developed country Parties should take the lead.

Scale

The forest carbon market mechanism is a national level approach, which can support sub-national implementation (individual forest carbon activities would be nested into this national approach). This approach respects national sovereignty. National systems need to be effective and efficient, increasing transparency and consistency of reporting. A national level approach ensures that deforestation activities do not simply shift within a country's borders, having no real emissions reduction benefit. It also addresses permanence by ensuring national forest carbon stocks are maintained or increased on an ongoing basis.

Parties may choose not to participate in the forest carbon market mechanism, instead continuing/participating in project based afforestation and reforestation activities through the Clean Development Mechanism (CDM).

Participation

Participation by Parties in the forest carbon market mechanism will be voluntary (by both developing and developed countries). Recognising there will be a transition period for many host Parties before they will be able to participate in a market, significant support for market readiness capacity building will need to be provided, including through non-market arrangements. The mechanism's integrity, investor confidence and effectiveness of national approaches will be most effectively supported through the involvement of all relevant stakeholders, including the private sector, non-government organisations, international organisations and local and Indigenous communities. Crediting arrangements will generate sufficient financial incentives to encourage broad participation at both the international and national level.

Form

Market mechanisms are one means of achieving climate change mitigation objectives. Currently, the UNFCCC supports the application of market based instruments to mitigate greenhouse gas emissions through its Kyoto Protocol. Afforestation and reforestation are included under the CDM, but REDD is excluded. The forest carbon market mechanism builds on the CDM's arrangements for afforestation and reforestation.

Reducing emissions and increasing sequestration from forests is best achieved through a market based mechanism as part of a post-2012 agreement. Emissions reductions from the forest sector in developing countries offer one of the most cost-effective opportunities for reducing global emissions in the short-term. While public financing from developed countries will play a role, ultimately carbon markets are the only mechanism capable of mobilising investment on the scale needed to support and provide incentives for these emission reductions.

A market based approach is the most efficient and effective means of achieving our global climate change mitigation objectives. It could support developing countries in meeting their stated national climate change and sustainable development objectives.

Forest carbon credits should be fully fungible in the international carbon markets of the post-2012 agreement.

Emissions levels and crediting

Host Parties that elect to participate will undertake efforts to reduce emissions and increase removals from forests relative to an agreed national forest emissions level. Reductions in emissions and increases in removals relative to this level will generate tradeable forest carbon credits. This could fulfil a measurable, reportable and verifiable (MRV) action in accordance with the Bali Action Plan.

The national forest emissions level will be agreed by the COP. This emissions level will be agreed for host Parties prior to each commitment period¹, based on information provided by host Parties and independent expert advice as to whether the emissions level meets agreed criteria.

The emission level will be set using a holistic approach that incorporates historical emissions data, information about pre-existing emissions reduction measures, population growth, drivers of deforestation, policies

¹ Depending on the form of the post-2012 climate change agreement this may need to be revised.

and measures, national circumstances and respective capabilities. The emissions level will be a conservative projection of future anthropogenic net emissions derived using the above information.

The national forest emissions level will be calculated so as to provide incentives for countries to take action now, and to not reward Parties for any increase in emissions before the forest carbon market mechanism commences operation. A holistic approach to calculating the emissions level will underpin the environmental integrity of the mechanism, ensuring it is credible and robust. This approach also facilitates participation by a broad range of Parties with varying historical circumstances.

Host Parties will be able to generate forest carbon credits for verified anthropogenic reductions of emissions from this national forest emissions level. Verified credits will be issued to host Parties at the end of each commitment period (for that commitment period). However, if they wish to obtain credits more frequently, host Parties could elect to do so. More frequent crediting would require fulfilment of MRV requirements for that period before credits could be generated. To encourage sub-national activities and participation by the private sector, Parties would establish national systems to devolve credits.

Host Parties will be responsible for maintaining national forest carbon stocks and achieving associated anthropogenic emissions reductions and removals. If, and while, a host Party's anthropogenic emissions exceed the agreed emissions level, credits cannot be generated and the host Party may be suspended from participating in the forest carbon market mechanism. National systems will include provisions to support sub-national and private activities if, and whilst, a host Party is suspended from participating in the mechanism.

Host Parties should not be responsible for non-anthropogenic emissions, and methodologies for the forest carbon mechanism will reflect this.

To promote market confidence, host Parties will meet institutional and MRV prerequisites (including national carbon accounting and monitoring). These prerequisites will support the full fungibility (and permanence) of forest carbon credits in the international carbon market. Therefore, once a Party meets institutional and MRV prerequisites, the assumption is that they are acting consistently with the requirements of the forest carbon market mechanism. Significant capacity building will be required to assist host Parties become market ready.

National carbon monitoring and assessment systems will be needed to support the development of national forest emissions levels and monitor performance, permanence, and leakage. National systems should:

- be national level and spatially explicit;
- be real time (or near real time);
- cover border to border of a country;
- be certain, transparent and continuous in the areas of data acquisition, processing emissions estimation and accounting;
and
- include an assessment of forest degradation.

Market confidence measures could include participation in an international “confidence buffer”. The “confidence buffer” is an international pool of credits that can be used as a last resort to make up forest carbon credits when a major anthropogenic event results in non-permanence. Purchasers of any credits that have been lost will be issued with replacement credits from the “confidence buffer”. Each host Party would contribute a pre-agreed percentage of their generated credits to the “confidence buffer” for each commitment period. Initially, this percentage would be uniform for host Parties. However, in subsequent commitment periods this percentage could decrease for a Party if, for example, that Party has maintained their forest carbon stock and not drawn on the “confidence buffer”.

Permanence, leakage and additionality

The forest carbon market mechanism will address permanence, leakage and additionality to ensure market confidence and environmental integrity, while maintaining simplicity and minimising transaction costs.

Permanence in the forest carbon market mechanism applies to the overall national forest carbon stock level, not to individual forest stands. As discussed above, once host Parties meet institutional and MRV prerequisites, the assumption is that forest carbon credits are permanent. If forest carbon stocks are not maintained, this will be reflected in the calculation of credits relative to the national forest emissions level. In the event of a major non-permanence event, the “confidence buffer” will be drawn on to make good the lost forest carbon.

Intra-national leakage is minimised by taking a national approach, as any displacement of emissions from one area to another within the national boundary is reflected in the national forest emissions level. The forest carbon market mechanism has been designed to encourage broad participation and therefore minimise international leakage.

In the forest carbon market mechanism, additionality can be addressed at the national level. The national forest emissions level will be calculated so that credits are issued only for emissions reduction activities that are additional to pre-existing emissions reduction measures. These calculations will be made so as to provide incentives for countries to take immediate action and to not reward Parties for any increase in emissions before the forest carbon market mechanism commences operation.

Financing

A market based approach is required to mobilise investment on the scale that will be needed to effectively and efficiently deal with forest emissions, by creating access to capital from carbon markets.

Significant readiness and capacity building will also be required to enable developing country Parties to participate in a forest carbon market mechanism. This will include assistance for carbon monitoring and accounting, policy development and institutional capacity building. Support for this readiness and capacity building will be provided through non-market arrangements in the short-term. Any capacity building provided to support emissions reduction activities in the forest sector should be well coordinated between donors and other relevant actors. Financing required to facilitate participation in the forest carbon mechanism will be part of the broader discussions on financing for the post-2012 agreement.

Prerequisites for participation

It is not necessary, and thus not appropriate, for the post-2012 outcome to mandate specific national institutional frameworks for individual Parties. The outcome will, however, need to make provision for the development of independently verifiable technical, methodological and institutional performance specifications that must be met for host Parties to participate in the forest carbon market mechanism. These prerequisites must be clear and predetermined so that participating Parties have certainty while engaging in market readiness. These should include national carbon monitoring and assessment systems, national sustainable forest management frameworks and institutions to administer crediting arrangements and should be consistent with national sustainable development strategies.

Establishing national systems to meet these performance specifications will require significant and coordinated capacity building to assist developing countries in their efforts.

International institutional arrangements

International governance and institutional arrangements for the forest carbon market mechanism will merit careful consideration. In light of Parties' experiences to date in implementing the market based mechanisms, it will be important to ensure arrangements are transparent, rigorous, efficient, effective and accountable, but also that they are not overly burdensome. Every effort should be made to minimise administrative costs.

The technical nature of many of the decisions associated with the mechanism suggests that a specialist body may need to be established to undertake certain technical aspects of, and processes associated with, the forest carbon market mechanism and make recommendations to the COP. The COP will make the ultimate decision. This body could be given responsibility for making the following assessments, in line with criteria and guidance established by the COP:

- assess on a technical basis whether the national forest emissions levels meet the agreed criteria;
- verifying emissions (both methodologies for estimation and national reports);
- issuing credits;
- renegotiating emissions levels; and
- administering the “confidence buffer”.

Compliance and dispute settlement provisions relating to the forest carbon market mechanism will also need to be considered.