



AUSTRALIA

Reducing emissions from deforestation and forest degradation in developing countries (REDD)

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

This submission provides further Australian views on reducing emissions from deforestation and forest degradation in developing countries (REDD).

Deforestation accounts for almost 20 per cent of global greenhouse gas emissions, with around 13 million hectares of the world's forests being cleared each year. REDD can make a significant contribution to the global mitigation of climate change and should be included in a post 2012 climate change outcome. Recent modelling by Australia indicates that the inclusion of REDD and other forest-related activities in a post 2012 global climate change outcome could reduce global mitigation costs by 20-25 per cent.

REDD was not included in the first commitment period of the Kyoto Protocol because there was not sufficient technical expertise to ensure that emissions reductions from deforestation were genuine. Parties concluded at the Tokyo REDD workshop (25-27 June 2008) that the technical and methodological expertise now exists to deal with REDD and that there is no technical impediment to the inclusion of REDD. The challenge is for Parties to find solutions to policy challenges and ensure REDD is included in a post 2012 outcome on climate change.

There is currently no dedicated agenda item for detailed discussion on REDD policy in the UNFCCC negotiations. The AWG-LCA should provide a forum for this discussion, with negotiations on methodological issues proceeding concurrently in SBSTA.

A REDD mechanism will need to be structured in such a way as to promote equity, environmental effectiveness and economic efficiency. It must provide incentives for broad participation by relevant developing countries, but also encourage the participation of developed countries and the private sector—crucial funding sources for REDD.

Any mechanism established to facilitate REDD will need to be flexible to accommodate different national circumstances (including rates of deforestation, and institutional arrangements). Participation should be voluntary and respect national sovereignty. It should not penalise those Parties that are taking action on REDD now or will do so prior to 2013.

A priority should be placed on achieving emissions reductions from deforestation and forest degradation, whilst maximising its many co-benefits. Co-benefits include biodiversity conservation, air, soil and water pollution reduction and the improvement of rights of indigenous and forest dependent peoples.

Parties should, where relevant, consider information and lessons learnt in other international fora, including the Convention on Biological Diversity, the United Nations Forum on Forests, the Food and Agriculture Organization and the International Tropical Timber Organization.

Robust methodologies will be required to support policy approaches and show that REDD is real, measurable, permanent, additional and independently verifiable. The necessary carbon monitoring technologies exist to support a market based mechanism for REDD that can accurately monitor permanence and leakage. Accounting methodologies need to be agreed for REDD baselines and emissions reductions. National sustainable forest management frameworks will be required to support REDD.

Approaches to deal with REDD will need to be broadly consistent with those for reporting emissions and removals from the land-use, land-use change and forestry (LULUCF) sector. Depending on the policy approach that is adopted to address REDD, some differences may be required, for example on baselines or different methods to manage permanence for REDD as opposed to afforestation and reforestation activities.

Australia believes REDD is best achieved through a market based mechanism established under the UNFCCC as part of a post 2012 outcome on climate change. A market based mechanism will provide incentives for REDD, and will leverage private capital to mobilise investment on the scale that will be needed to effectively and efficiently deal with REDD. Currently, the UNFCCC supports the application of market based instruments to mitigate greenhouse gas emissions through its Kyoto Protocol. REDD should be treated in the same way as other sources and sinks, including afforestation and reforestation, that are included in existing market based mechanisms.

A phased approach may be warranted until a REDD market matures. In the first phase, support for readiness and capacity building for Parties to participate in REDD markets can be provided (and is being provided now) through bilateral support (for example Australia's International Forest Carbon Initiative) or funds (for example the World Bank's Forest Carbon Partnership Facility and Forest Investment Program). But the objective should be to transition to a market based mechanism with the full and independent participation of all relevant Parties.

More details on Australia's views on policy, technical and methodological REDD issues can be found in Attachment A. Lessons learned from our joint demonstration activities with the Government of Indonesia can be found at Attachment B.

Attachment A

Policy, technical and methodological approaches to REDD

Institutional and policy frameworks for REDD

It is not appropriate for the UNFCCC to mandate specific national institutional and policy frameworks for individual Parties. Parties to the UNFCCC should instead develop institutional and policy prerequisites that must be met for Parties to participate in REDD.

Australia proposes that participating Parties would need to demonstrate:

- i. that REDD emissions reductions are real, measurable, permanent, additional and independently verifiable;
- ii. implementation of a national forest carbon monitoring and accounting systems that provides robust, reliable, timely and transparent monitoring of changes in forest and carbon stocks, permanence and leakage;
- iii. implementation of national and/or sub-national level policy, governance, enforcement and regulatory frameworks that are capable of ensuring that action to address REDD is real and sustained;
- iv. implementation of national systems that ensure that income derived from REDD is directed in such a way as to ensure that benefits are maximised (for example that the local communities involved in REDD receive real benefits from their contribution to reducing greenhouse gas emissions); and
- v. consultations and engagement of forest dependent communities.

At the international level, it will be necessary to establish a mechanism to administer REDD under the UNFCCC.

Leakage, permanence and additionality

In the negotiations on a future REDD mechanism, Parties will need to consider issues such as permanence, additionality and leakage. These issues should be considered with the broader activity of the UNFCCC and Kyoto Protocol in mind. It may not be appropriate for onerous requirements to be imposed for REDD where they are not imposed in other comparable areas.

In a REDD mechanism, risk management strategies will need to be in place to deal with leakage, permanence and additionality when and if they occur. One way to deal with these issues is to withhold a percentage of credits, which could be released if leakage does not occur and if permanence and additionality are ensured. Provision of incentives can also be structured in such a way as to provide a long term performance-based revenue stream. Another way to address these issues is to apply penalties if leakage occurs or if REDD activities are not permanent or additional—this could be difficult to administer and also deter or reduce incentives for action on REDD.

Broad incentives to address REDD will need to be provided to encourage action. If Parties are to prevent leakage and ensure additionality and permanence of REDD activities these incentives should discourage leakage by at least equating to the opportunity costs of not deforesting.

Leakage can occur within or across national boundaries. Leakage is best addressed through prevention, rather than penalties when it occurs. National systems for REDD will enable intra-national leakage to be managed. A REDD mechanism should encourage broad participation by developing countries to assist reduce the risk of, and manage, international leakage.

Technical and Methodological Approaches for REDD

Carbon accounting and monitoring

Robust carbon accounting and monitoring methodologies will be required to support policy approaches and show that REDD is real, measurable, permanent, additional and independently verifiable. The necessary carbon monitoring technologies exist to support a market based mechanism for REDD that can accurately monitor permanence and leakage. Accounting methodologies need to be agreed for REDD baselines and emissions reductions.

It is not appropriate for the UNFCCC to mandate specific frameworks for individual Parties. The UNFCCC should instead develop independently verifiable minimum performance specifications that must be met for Parties to participate in REDD. These should be developed in the context of national sustainable forest management systems. Establishing robust national systems to meet these performance specifications will place a burden on developing countries—capacity building should be provided to assist countries in their efforts.

Carbon monitoring and accounting systems must provide robust, timely and transparent information to give certainty that emission reductions from forest activities are credible and genuine. It may be appropriate for specific performance specifications for REDD to be developed by the IPCC, based on its existing advice. To this end, SBSTA should request the IPCC to report on the applicability of its existing advice to REDD and make a request on further methodological guidance that might be needed.

Performance specifications for REDD should specify that systems:

- i. are national level and spatially explicit;
- ii. are real time (or near real time);
- iii. covers border to border of a country;
- iv. are certain, transparent and continuous in the areas of data acquisition, processing emissions estimation and accounting;
- v. include an assessment of forest degradation to the extent possible; and
- vi. have the capacity to assess permanence, leakage and additionality.

The development of a global carbon monitoring system through the UNFCCC may assist deal with issues such as leakage and could inform a comprehensive global approach to capacity building.

Baselines

Credible and robust baseline calculation can assist to identify leakage, permanence and additionality. Leakage, permanence and additionality can all be identified at the sub-national level through robust national carbon accounting and monitoring systems. They can be identified at the international level through broad adoption of these national-level carbon accounting and monitoring systems and communication of monitoring results between Parties (including through a global carbon monitoring system).

Credibility of baselines will be critical to the success of a market based approach. In order to be credible, baselines should take into account national circumstances and be designed to avoid the risk of perverse incentives. In order to be robust and effective, any approach to developing baselines will need to take into account an appropriately

long time series of deforestation, emissions trends and carbon stock data (or selection of a sufficient number of base years) and climatic variability.

It is possible to calculate baselines on a purely historical basis. In order to ensure broad participation of countries in a REDD mechanism, it may be more appropriate for historical baselines to take national circumstances into account. The more recent the period used for the baseline, the more accurate data is likely to be. Another approach to baselines is for the REDD baseline to be the lowest level of deforestation and forest degradation that a country would like to achieve. Incentives can then be provided compared to business as usual. Baselines can also be negotiated. There may be potential for baselines that take a hybrid approach.

Emissions reductions should be measured against national baselines. Sub-national baseline approaches can also be developed, particularly since these baselines can provide critical inputs into the national baseline.

Leakage

Leakage can be identified at the sub-national level using 'Approach 3' IPCC methodologies (subsequent carbon accounting may be Tier 2 or 3) for national-level carbon monitoring systems. At the international level it can be identified through broad adoption of these national-level carbon monitoring systems and communication of monitoring results between Parties.

Leakage can also be monitored by the inclusion of reporting under the Convention for harvested wood products by Annex I countries that identifies imports from both Annex I and developing countries. This reporting is considered separate to any possible accounting rules for harvested wood products in a future international agreement and should not prejudice discussions in the relevant negotiations. Forest certification can also aid in the monitoring of leakage.

Definitions

Definitions for REDD should be consistent, both within REDD and with those developed for LULUCF and in the broader UNFCCC context. The development of definitions should build on existing work and should be pragmatic: they should focus on the 'material' and not let the 'perfect' (complete inclusiveness) defeat the 'good' (addressing most of REDD).

Workplan for REDD negotiations

REDD should be negotiated concurrently in the AWG-LCA and SBSTA. Policy discussions should be made in the AWG-LCA and methodological discussions in SBSTA.

Negotiating REDD in both the AWG-LCA and SBSTA will increase the negotiating obligations of Parties. Meetings in both bodies should be scheduled so as they do not clash with each other. The number of meetings should also be limited so as the combined meetings in the AWG-LCA and SBSTA together constitute a reasonable negotiating load.

Policy outcomes should drive methodological work, and that this should be reflected in the workplans for both the AWG-LCA and SBSTA.

Parties may require more time to discuss REDD. An additional workshop would provide an opportunity for further discussions. These discussions should focus on outstanding policy and technical issues, such as leakage, permanence and additionality.

Australia understands that this workshop would put pressure on the resources of some Parties, and reiterates willingness to consider options for supporting this workshop.

Issues should be divided between the AWG-LCA and SBSTA as outlined below.

Policy issues to be considered by the AWG-LCA

The following issues are policy issues and should be considered by the AWG-LCA:

- i. provision of positive incentives and financing options for REDD;
 - (a) Market based
 - (b) Non market based
 - (c) Combination of market and non market based approaches
- ii. means to address leakage;
- iii. means to ensure additionality;
- iv. means to address permanence;
- v. early action for REDD;
- vi. how issues such as forest conservation, sustainable management of forests, and enhancement of forest carbon stocks link to REDD;
- vii. national and sub-national approaches;
- viii. means to encourage capacity building requirements for REDD;
- ix. participation of local communities and indigenous peoples;
and
- x. promotion of co-benefits.

Technical and methodological issues to be considered by SBSTA

The following issues are methodological issues and should be considered by SBSTA:

- i. estimation and monitoring;
- ii. baselines (reference emissions levels);
- iii. means to identify and monitor leakage;
- iv. means to monitor permanence and identify non-permanence;
- v. lessons learned from demonstration activities;
- vi. identification of capacity building needs;
- vii. financial implications for implementing methodological approaches;
- viii. institutional implications for implementing methodological approaches;
- ix. comparability and transparency in assessment of carbon stocks;
- x. implications of methodological approaches for indigenous people and local communities;
- xi. implications of definitions for REDD;
- xii. means to deal with uncertainty of estimates; and
- xiii. effectiveness of actions.

Attachment B

A practical case study: the Kalimantan demonstration activity

As called for in Bali, the international community must act now to undertake activities to address deforestation in developing countries and to establish the necessary systems and financial mechanisms to ensure long term emission reductions. Australia is doing so through the International Forest Carbon Initiative.

In this Attachment, Australia provides some initial lessons learned drawn from our experience working with Indonesia through the Indonesia – Australia Forest Carbon Partnership. The Partnership operates in three key areas: strategic policy dialogue on climate change, increasing Indonesia's carbon accounting capacity and identifying and implementing incentive-based demonstration activities.

Indonesia and Australia are currently working on a demonstration activity in the carbon rich peatland forests of Central Kalimantan—the Kalimantan Forests and Climate Partnership (KFCP). This Partnership is the first, large-scale demonstration activity of its kind in Indonesia. It will trial an innovative, market-oriented approach to financing and implementing measures to reduce emissions from deforestation and forest degradation in Central Kalimantan, Indonesia. Australia has committed \$30 million to establish the KFCP.

Selecting a location for a demonstration activity

In order to respect national sovereignty, and ensure support for a demonstration activity, the national government of the host country must be consulted on and agree the location of demonstration activities. In addition sub-national levels of government and local communities should also be consulted. The availability of experienced partners (such as other donors, academic institutions, national and international non-government organisations and private organisations already working in the area) is an important consideration in site selection.

It is also advisable to ensure that spatial planning for the location is adequate and that forest carbon rights are enforceable. Demonstration activities are best selected based on scientific considerations, potential to generate lessons on key themes (such as methodologies, payment mechanisms, land tenure issues) and calculations of potential emissions savings, rather than on purely political considerations. However, political considerations must also be taken into account to ensure adequate support from the host country government and stakeholders.

The KFCP will be located in degraded and partially degraded peat swamp forest in Central Kalimantan. These forests contain very high carbon stocks, mostly in below-ground biomass. The exposed peat degrades rapidly particularly where drainage has caused drying of the upper soil and makes them fire-prone. Land clearing and fires in Indonesia's peatlands are a major source of global greenhouse gas emissions. Thus, halting or reversing deforestation and degradation offers a large potential for emission reductions, not only in the demonstration area, but throughout the peatlands of the region.

The site for the KFCP is a single peat dome of around 100,000 hectares. Water flows outward from the dome into the surrounding rivers, so the hydrology dictates a 'whole of dome' (or whole-of-ecosystem) approach to managing and conserving the peat swamp forest. Similarly, ecological criteria may (or may not) favour a whole ecosystem approach to reducing emissions from deforestation and forest degradation (REDD) in other forest types. Clearly, site-specific biophysical characteristics are of key importance in designing REDD interventions.

Identification of drivers of deforestation and forest degradation

The causes of deforestation and forest degradation that need to be addressed through specific interventions or strategies in a REDD demonstration activity are often quite site-specific and cannot necessarily be predicted in sufficient detail from national-level data and models of drivers. Site-specific causes and their effects vary according to bio-physical conditions, social and economic factors in the local context and beyond it, and the history of forest exploitation in and around the site. Historical averages or trends may not be a reliable guide if they are overwhelmed by rare natural or anthropogenic disturbance.

If more general drivers of deforestation and forest degradation—such as illegal logging or agricultural expansion—are of interest, then sites and approaches for REDD demonstrations could also be selected with such drivers in mind.

For the KFCP, the current condition of forests and the levels of greenhouse gas emissions are predominantly caused by a unique historical event—the Mega Rice Project—that created a large but relatively brief burst of deforestation, forest degradation, and consequent greenhouse gas emissions. Historical averages or trends before that event are of little use in understanding the current state of the forest in areas directly affected by the Mega Rice Project, though

they do help explain the condition of some residual forest patches that were logged before and after the Mega Rice Project.

Addressing specific drivers

Interventions can be grouped into two categories: those that address site-specific causes through direct mitigation measures and those that address more widespread or systematic causes through policy measures. Some threats need to be tackled in both ways.

For example in the KFCP, a direct, site-specific mitigation measure is canal-blocking to restore the hydrology of a peat dome that is suffering degradation from having been drained. Coordinated action by government agencies and others can address pervasive threats, such as preventing and suppressing illegal logging. Where small canals have been dug to illegally extract timber from the peat swamp forests, the two interventions (canal-blocking and prevention of illegal logging) need to work together.

Establishing national carbon accounting and monitoring systems

National carbon accounting and monitoring systems need to account for land use change both within and outside forest estates. This means that multiple agencies and all levels of government may need to provide inputs on a whole of government basis.

National carbon accounting and monitoring systems need to build on existing expertise and systems. They also must be designed to fit and serve national circumstances whilst satisfying international rules (that are yet to be designed for REDD) and meet market requirements. There is no 'one size fits all system' that can be imported from one country to another: each country needs to design their own system. For example, Indonesia possesses a great deal of technical expertise in the areas of remote sensing, geographic information systems, inventory taking and modelling. National systems should be developed in such a way as to build on the expertise of host countries.

Australia's approach has been to provide scientific, technical and analytical support for Indonesia's efforts to develop their own national carbon accounting and monitoring system. Australia is offering advice and assistance to Indonesia as they develop a blueprint on what the functions and performance characteristics should be for their system.

Australia is also offering Indonesia access to sources of data and specialist capability from around the world which Australia is brokering through its partnerships with key countries (such as Japan),

international bodies (including the Global Earth Observation System Of Systems) and private organisations (such as the Clinton Climate Initiative). This is the model of partnership which Australia has with countries like Indonesia and China in developing their new generation forest monitoring and carbon accounting on which excellent progress has been made.

Leakage and demonstration activities

Leakage can be addressed locally in the area immediately surrounding the REDD activity, within a larger region such as a landscape or district, and nationally. To address leakage, the KFCP will trial investing locally in sustainable livelihoods that reduce dependence on the use of canals, fire, and land clearing. At a regional level the REDD activity will be implemented within a much larger development planning area covered by national and provincial spatial plans incorporating restrictions on forest conversion. At the national level, it will be designed to fit with national policies and frameworks. The National Carbon Accounting System for Indonesia will be able to identify leakage that may occur at local, regional and national levels.

Legal rights to forest carbon

Genuine and enforceable legal rights to forest carbon are fundamental to the success of a REDD demonstration activity. Rights can be established through a variety of systems, including carbon rights, land tenure arrangements or ownership of forest resources.

The KFCP is approaching this in the context of Indonesian forestry law, which grants or recognises particular types of forest use rights to landowners, forest-dependent communities, private companies, and other entities. This approach has the advantage of building on existing, well understood systems within a recognised legal framework (which is also the basis for the Indonesia's emerging policy on REDD).

Identification of capacity-building needs

The identification of capacity-building needs is best done in close consultation with the host country, at all levels of government.

In a remote area in a developing country, such as where KFCP will be implemented, local capacity is often severely limited. Conversely, local partners with strong ties to the land, such as indigenous community-based organisations, may play a key role in gaining acceptance for REDD, in applying local knowledge, and in ensuring sustainability beyond the initial stages of project development. Local organisations

may be best placed to deliver the necessary capacity-building at a grassroots level, but they in turn are likely to need technical and managerial support.

Sharing of lessons learned from demonstration activities

Because REDD policy development is in its early stages internationally, the sharing of lessons learned will contribute greatly to the progress of REDD. It will be important that all countries share their experiences. Australia encourages other countries to also provide lessons learned from demonstration activities and REDD activities more broadly (such as capacity building efforts or analytical work) to the UNFCCC.

Learning during the design and testing of an innovative approach such as REDD is bound to be uneven and somewhat unpredictable. It is important to establish good communications from an early stage within the design team, with key partners, and with a broader set of stakeholders that will eventually be needed to support and sustain the activity (what can be called the 'REDD constituency').

At the beginning of a REDD activity, understanding among key stakeholders of climate change and the role forests play in the carbon cycle is likely to be limited. Therefore, education and outreach about REDD is important from an early stage of the design, leading to a communications strategy to support the REDD demonstration activity.