CFP Consolidated Comments
On Costa Rica's Draft ER-PD

The FCPF Carbon Fund Participants congratulate Costa Rica on the preparation of a sound first draft of the ER-PD. We note the hard work that has gone into planning for a potential ER-Program, and into the preparation of the associated document. Overall, the documentation is comprehensive and in most parts great commitment to the process is visible. The TAP Assessment was helpful, and we agree with the findings of this review. We strongly encourage Costa Rica to address the sections of the ER-PD that have been identified by the TAP as not currently compliant with the MF. In particular, we wish to highlight the following areas:

Base period: The preliminary FREL includes a reference period of 1996-2009. The Methodological Framework states The end-date for the Reference Period is the most recent date prior to 2013 for which forest-cover data is available to enable IPCC Approach 3. An alternative end-date could be allowed only with convincing justification. The start-date for the Reference Period is about 10 years before the end-date. An alternative start-date could be allowed only with convincing justification. The TAP indicates that the proposed start and end dates do not meet the Methodological Framework, as there is available forest-cover data for 2011 and 2013. The TAP therefore proposes a reference period of 2001-2011/13 where net emissions are more stable compared to the emissions from 1987-2013 where there are significant fluxes in deforestation emissions. (We note that the 2011 date is most consistent with the Methodological Framework guidance.) Costa Rica's preliminary proposed FREL is higher than emissions between 2001-2011/2013, with emissions above the FREL only occurring from 1998-2000. The use of a longer reference period for Costa Rica translates into a higher reference value.

Reference Level: We note that it is expected the FREL will be updated to be more consistent with the FREL submitted to the UNFCCC and with the national GHG inventory. As noted above the FREL is constantly above the net emissions/removals from 2001 onward, which appears to contradict Criterion 13 of the Methodological Framework. Comments on the base period and on degradation are relevant to the construction of the Reference level.

Degradation: The ER-PD notes that emissions from degradation is likely significant, yet these emissions have not been included in the FREL. This is inconsistent with the requirements of the Methodological Framework. We also note that carbon stock enhancement is an important part of the program; carbon stock enhancement is basically the reverse of the degradation coin. Without accounting for degradation there is a risk that increases in carbon stock are offset by degradation, but only increases are accounted for. As the TAP notes, forest fires and the resulting degradation are also a potential issue. We agree with the TAP's recommendation that Costa Rica needs to take early steps in order to detect (or conservatively estimate, using proxy data) the impact of degradation on the emission factors used in the calculation of the emissions from deforestation and to delimit the areas affected by degradation. According to the TAP, proxy data on degradation of forests, based on percent canopy cover, are available for certain years.

Definitions: A more clear explanation of the term “new forests” would be helpful, as well as an understanding of how new forests relate to forest management, which has not been included in the program. The definition of “natural forest” used in the ER-P should also be clarified.

Reversals: We recognize the TAP assessment’s suggestion to clearly define the term “reversal” is important. CFPs are willing to consider Costa Rica’s decision to exclude from the calculation of the reference level, and in subsequent accounting, emissions and removals associated with natural disturbances from large-scale impacts. Costa Rica has experienced major losses of forests due to volcanic activities and flooding from 1986-2013, and has adequately described the rational and methodology behind the exclusions of emissions from natural disturbances. It is however important to note that the Methodological Framework of the Carbon Fund does not address non-anthropogenic emissions and removals explicitly and only identifies IPCC methodology to calculate estimates. We would appreciate further TAP guidance on how the proposed approach relatesUNFCCC decisions on natural disturbances provide guidance in this case, and we would expect to see clear information on an approach consistent with this best practice, and with JNR guidance.

Leakage: Though we agree with the TAP’s assessment that domestic leakage is not an issue given the national scale of the ER-P, we note that risks related to international leakage have not been identified.

Program measures, drivers: In general, the measures outlined seem appropriate, and there is a good assessment of the drivers. However as the TAP notes the linkage between the identified measures, the priority intervention areas, and the drivers of deforestation and degradation is not fully clear. And some measures are extremely general (eg "contribute to the consolidation of SINAC's PA system”). To understand what will be done, how these measures will address the drivers, and how they will have an impact beyond existing policies, actions, and approaches, more detail would be very helpful.

MRV: The TAP assessment highlights Costa Rica’s difficulties in executing the national inventory and issues with data sharing which is problematic when estimating the FREL and MRV in general. The proposal for the MRV system is preliminary and only generally defines the required tasks; it is noted that efforts require financial, technical and capacity building support. Institutional roles and responsibilities on monitoring, estimation, and reporting are not defined. Given the importance of MRV, we suggest emphasis is placed on this issue.

Double counting: We agree Costa Rica will need to clarify how it will address potential issues related to double counting. The TAP highlighted a specific instance where there is potential for double counting related to the national activities financed by the Environmental Services Payment Program and the emission reduction achieved under that program. Costa Rica has formally expressed their intention to transfer emissions reductions achieved under this program to the Carbon Fund. Should there be voluntary market projects operational during the Term of the ERPA, similar considerations would apply. There are also several NAMAs underway, as well as a domestic carbon market. Costa Rica also notes that they may wish to use Emissions Reductions achieved under the ER-P towards a Nationally Determined Contribution. We note that unless explicit permission to count these ERs were granted by the Trustee after consultation and approval by the CFPs, this would be considered double reporting, and potentially even double counting of units purchased by Tranche A. We also note that the lack of a clear structure for a transaction registry does present a risk of double counting (see below).

Registry: Since many of these tonnes are already being sold/transferred to internal/external buyers under the national voluntary carbon program, a harmonized national carbon registry or data management system is needed. The existing registries/databases described do not cover all requisites, or cannot be used for accounting purposes. This will need to be resolved, or a 3rd party registry selected.

Buffer: Additional details are needed on how the nationally-managed buffer would be designed and managed. We note that the buffer will also rely on a functional transaction registry. Using pre-ERPA ERs (2010-2012) for a buffer mechanism does not, in our understanding, constitute a mechanism that is "substantially equivalent" to the proposed buffer in the MF as the Methodological Framework considers only ERs generated during the Term of the ERPA . (See also note on program term below.) We note that refinements to the reference level and estimated emissions, and to program design, may affect the ultimate calculation of the appropriate buffer size.

Safeguards, benefit sharing, non-carbon benefits: We will look forward to further detail in the final document on monitoring of safeguards, the dissemination of the ER-PD, information on non-carbon benefits, and other related information to stakeholders in Costa Rica, and the finalization of consultations. We also look forward to seeing the World Bank due diligence on safeguards.

Transfer of title: We appreciate the TAP's assessment on the feasibility of transfer of title. Additional information on the legal basis for defining "emission reduction" would be appreciated, as this is linked to the ability to transfer title to ERs.

In addition, CFPs wish to highlight the following issues, which fall outside the TAP's mandate:

Program term: The ER-PD includes the assumption that the Carbon Fund will recognize results achieved as early as 2010. CFPs wish to stress that it is likely this interpretation of the program term would not be approved.

Criteria to be met at later stages: A number of criteria must be met by ERPA signature, or by validation. Based on the limited information provided, it appears a significant amount of work may be needed to meet these criteria. Additional information on the current status of progress would be helpful in understanding how close these criteria are to being met.

Financing plan: More detailed information on the financial viability of the program would be welcome (including if there has been support from other sources and a reflection on the current willingness-to-pay articulated by CFPs of up to $5/t). CFPs would also appreciate additional information on the proposed World Bank loan mentioned in the draft ER-PD.

Additional comments: Individual CFPs have additional substantive comments of a more minor nature, as well as questions of clarification. If these would be of use to Costa Rica in refining the next version of the ER-PD, we would be happy to send them separately.