

Germany's Submission on Methodological Framework for the FCPF Carbon Fund
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Due date: 20 th December

Overarching comments on work approach:

- Germany underlines the objective of a prompt start based on a robust but not overly complex methodological approach.
- We see the “Issue Papers” as evolving into guidance that specifies the Guiding Principles approved at PC 12 (June 2012). The final step from these Issue Papers to the actual Methodological Framework must not become too big. This is considered essential for the drafting process of the Issue papers since a less target-oriented approach may easily require additional expert interventions at later stages which could further delay implementation.

Issue Paper 1: General Approach for MF

- Q1/Q2: We strongly recommend maintaining a broader framework of principles and guidance¹. The development of too detailed methodologies should be avoided. However, the MF may provide more criteria and technical guidance for some elements than for others. Guidance will not be capable to assure answers to all eventual cases and design aspects encountered in the individual ER Programs. Case by case approvals of proposed methodological approaches applied in the programs will remain crucial.
- Thus we see the opportunity for an efficient balance between a package of generally applicable principles and complementary guidelines on one hand, and a case-specific description of the approach applied in the respective ER programme on the other hand. We consider that such an approach is appropriate also in view of the controlled number of first ER programs to be financed in the near future.

Issue Paper 2 Reference Levels

- Reference Level / Programme: In consistency with overall carbon accounting, the pools, gases and emissions sources considered shall be indicated in the program documentation for the Reference level / baseline scenario as well as the ER program scenario.
- Methodological approaches applied in the program need to be transparently documented and independently reviewed.

Q1 – Historic RL and Q5 (update)

- Programs may use the average historical deforestation rate of a ten year period (eg. 2000-2010) and optionally update it every five years by the actual average deforestation rate of the last five years (Amazon Fund approach).
- The complete deforestation assessments at different points of time (over e.g. 10 years) are typically a technical challenge. Usually it will need 3 complete assessments in order to arrive at average baseline data. Therefore some flexibility around exact timing for the assessments will be needed.
- Updates should occur every 5 year if there are major developments impacting the RL assumptions.

Q2 - Subnational ER Programs:

- A national Reference Level needs to be in place in order to allow for credibility and consistency checks with subnational Reference Levels. Consistency between national and subnational approaches (e.g. inclusion of comparable forest types) is needed in order to ensure that (national) RL data applied adequately represent subnational

¹ We view the “Guiding Principles” as a key element of a standard and criteria approach. Thus, the yet to be elaborated guidelines (based on issue papers) could add further criteria where needed and include concrete indicators as applicable and feasible. This would result in an approach e.g. similar to JI under the Kyoto Protocol)

conditions (see e.g. VCS methodologies). Otherwise loopholes may emerge. The same applies to national approaches which focus on specific land use and forest categories exclusively. Wherever national data is used, it needs to be demonstrated that subnational or strata specific conditions are reflected by them.

- “Positive list” approach for VCS: Guidance provided by the VCS-Jurisdictional Approach (JNR) is considered to be appropriate for meeting CF standards.

Q3 – National circumstances and Q6 – Crediting level

- If applicable, historic reference levels should be adjusted downwards based on national contributions e.g. due to impacts of overarching policies (“crediting level”). Hence a crediting level would be lower than the reference level / baseline. The difference between RL and crediting level would reflect a national / non-FCPF contribution to the program. It remains to be analysed if corresponding emission reductions may serve e.g. for buffer purposes.
- Using a dynamic baseline which can be updated every 5 years, seems to be a reasonable approach (manageable and simple).

Q4 – Geospatial information

- It does not seem possible that e.g. deforestation rates and carbon densities are estimated without geospatial information. If the question relates to the actually available imagery, then it should be decided case by case, if the data available is sufficient and sufficiently reliable to replace geospatial data..

Q7 – Additionality

- Activities beyond “crediting level” should be per se additional. No separate additionality assessment for each ER Program needed. Activities in the ER Program should be focused on a reduction of deforestation and degradation, including through measures focussing on sustainable development relevant to drivers.

Issue Paper 3: MRV design

The MF will need to include indications on scope:

- Pools: Applicability of the MF for all carbon pools (above-ground biomass, belowground biomass, dead wood, litter and soil carbon) – unless it is demonstrated that it is conservative to neglect them.
- Sources and gases: Any significant sources (sinks are optional) of carbon dioxide(CO₂), nitrous oxide (N₂O) and methane (CH₄) that are reasonably attributable to program activity shall be accounted for.

Q1 - Stepwise Approach to reducing Uncertainty

- Assessments of uncertainties need to be complete. This includes, transparent documentation of uncertainty in all steps and all data sources used (i.e. inventory data, remote sensing data, modelling assumptions; all carbon pools)
- Relevant steps are:
 - 1 – Uncertainty in Baseline/RL Estimates.
 - 2 – Uncertainty Ex-Post in the With-Program Scenario,
 - 3 – Total Error in REDD Program Activity.
 - 4 – Implications for Accounting
- The MF shall live up to international best practices in regard to the acceptable level of uncertainties in the underlying assessments, e.g. on carbon stock changes.
- Commonly a precision level of +/- 10-20 % is applied and a confidence interval (CI) of 90-95 % (e.g. by VCS).
- Review should be undertaken by the TAP/REDD Design Forum in respect to costs/efficiency and implications of allowing lower ends of these confidence intervals and/or precision levels in the Carbon Fund.

- For matters of transparency and clarity, it is considered useful to define uncertainty requirements (e.g. min. precision level / standard error and CI as far as applicable) for the most relevant sub-steps included to the above indicated uncertainty assessment for baseline and program scenario (compare no.1 & no. 2 above).
- If the maximum uncertainty, which is documented in the ER Program Document, is not exceeded, then no deduction should result. Where uncertainty exceeds the precision level at the given confidence interval then the deduction shall be equal to the amount that the uncertainty exceeds the allowable level. Thus, in all cases excess in uncertainty could be compensated through discounts.
- It shall be possible to apply conservative estimates and defaults instead of uncertainties (e.g. if uncertainties for defaults are not known), provided that they are based on verifiable literature sources or expert judgment. In this case the uncertainty is assumed to be zero.
- The above described approach of discounts for uncertainties could also reflect the logic of Tier Levels as applied by IPCC. Lower Tiers would lead to higher discounts. Incentives to move towards higher Tier levels would emerge automatically.

Q2: Consistency with national system:

- The ER Program monitoring system should be consistent with the national system. Appropriate criteria to assess this consistency could be a) same methodologies (combination of inventory and remote sensing, same inventory frequency, same uncertainty calculations), d) same definitions for stratification of forest types. Other than that, consistency should be assessed on a case by case basis.

Q3 – Cost effectiveness and capacities

- Countries should be allowed to use a monitoring system including adequate remote sensing approaches, integrating high resolution imagery and radar where appropriate. This should lead to accurate activity data on changes among vegetation classes, which may be combined with (default) values of Emission Factors.

Q4 – Non-carbon monitoring

See Issue Paper 6

Q5 – Community monitoring

- Existing FCPF work on Community monitoring should be integrated into the Methodological Framework as far as feasible.

Q6 – Independent Verification

- Independent verification is important for the overall integrity of the approach. Eligible verifiers could be proposed by country and accepted by CF.

Q7 – Registries

- Compare KfW/FCPF publication on national Registries (on FCPF website).
- It is underlined that registries can be built along the implementation and should not hold back program progress. Crosschecks on double counting (e.g. with other national measures or VER projects) and ER transfers to the CF can be carried out without a fully operational trade-registry.

Issue Paper 4: Displacement, Reversals, Sustainability

Q1-3 - Leakage/Displacement

- Q1: The same semi standardized approach should be chosen such as for general carbon accounting (principles and additional guidance on one hand plus case by case review and approval on the other hand). See standard discount approaches according to leakage risk categories, e.g. VCS.
- Q2: Geographic extent: Leakage assessment depends on size of program areas and mobility of drivers. That would need to be assessed (including an analysis of cross-border leakage/drivers) and assumptions will need to be made, which could then be

monitored, possibly also through sampling approaches. ER Program design needs to address significant sources for leakage. There should be a buffer to address any domestic displacement of emissions.

- **Q3: Leakage discount:** The amount of ERs to be withheld due to leakage risk and transferred to that buffer should be determined and indicated in the ER Program Document and assessed during the review of the program and subsequent ERPA negotiation. There could be default values for low, medium and high-risk ER-Programs with definitions for each risk category of both local and national leakage as part of all key REDD+ activities. Expert evaluation (TAP) could support this risk assessment on a case-by-case basis. At first sight, global leakage look-up tables seem to exceed FCPF capacities.

Q4-7 Permanence/Reversals

- Non-Permanence is here understood as the potential reversal a) during program implementation as well as b) beyond implementation up to the end of the project lifetime, respectively up to 100y.²
- In general, permanence should be promoted via the design of sustainable ER-Programs, including through synergies with adaptation (increase forest resilience), stakeholder participation and benefit-sharing. A minimum program lifetime of > 25 years would increase sustainability.
- ERs generated under the CF may not necessarily lead to fully fledged (fungible) carbon credits but may remain limited in their validity, due to their inherently higher non-permanence risk (as compared to fossil carbon).
- Due to the priority of a prompt start of REDD piloting, ERs with a limited permanence approach are considered to be acceptable in the initial phase of the Carbon Fund. However, fungible credits are key expectations of market participants. Thus, in order to increase the likelihood of fungibility, wider solutions to permanence beyond ERPA timeframes are considered to be required (on a mid to long term basis).
- If permanence and fungibility with non-land use credits is to be achieved, a conservative and simplistic buffer approach could be applied: a flat rate buffer for all risks related to reversals, non-permanence and displacement (e.g. 50%, if deemed sufficient). The ERs transferred to that buffer will be retired and not compensated for, not even after 2020. The flat rate should be high enough to cover all risks with a conservative approach.
- In any case, there should be a buffer for each ER-Program to address (anthropogenic) reversals during the phase of implementation (and ERPA validity).
- Part of the buffer may be released successively over time in accordance with reducing reversal risk.
- Insurance approaches are considered difficult to achieve.

- ² Basis for the 100 y is the GWP of CO₂.