Response to the Carbon Fund MF draft from Environmental Defense Fund

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1. Chapeau - Environmental Integrity

We are in agreement the whole portfolio should "achieve net emission reductions across the portfolio" as noted in the chapeau. **EDF defines "net emission reductions" to be aggregate emissions are below the historic baselines of countries participating in the Carbon Fund (CF).** CF should track potential aggregate emissions reductions (ERs) from its portfolio as it adds programs/projects and should adjust program/project selection and total number of ERs to be purchased accordingly.

Related and not noted in the methodological framework (MF) at the moment, the CF tranche that is purchasing ERs to be retired immediately should be used to purchase the ERs of high-forest low-deforestation countries (HFLDs) in addition to ERs from programs generating actual "reductions." **No ERs from HFLD countries should be purchased from the CF tranche with financing to purchase fungible ERs for compliance markets so as to maximize the credibility of that set of emission reduction units.**

2. Carbon Accounting and Reference Levels – Indicator 13.2

EDF sees the weaknesses and strengths of both Option 1 and Option 2. We consider Option 1 to be constrictive to REDD+ countries as it does not allow them to potentially fully realize the necessary crediting to adequately finance a program. With Option 2, we see the ability for countries to find the correct reference level using rigorous and equivalent assumptions. However, we see in Option 2 potential for "gaming" and the inflation of baselines through the use of questionable assumptions.

EDF suggests putting together the best features of each option through the integration into Option 2 of the "emissions threshold" and "average rate of deforestation in developing countries (.43%)"as a reference level cap from Option 1. HFLD countries would use the lower of: a) their own adjusted RL based on documented and transparent assumption, or b) the average rate of deforestation in developing countries (.43%). The process of developing and reviewing the reference level is what should be the focus, but by capping the reference level at the average deforestation rate there is an upper limit on adjustments to the reference level that reflects the principle intended in Option 1. **Finally, we suggest setting the emissions threshold at the average between the historic and adjusted reference levels (option A or B from above).** By integrating the best components of Option 1 and 2, we believe you can control for gaming of RLs, include an incentive for maintaining a low rate of emissions, and still provide an economically interesting incentive for HFLD countries to participate.

3. **Accounting for Displacement (Leakage)**

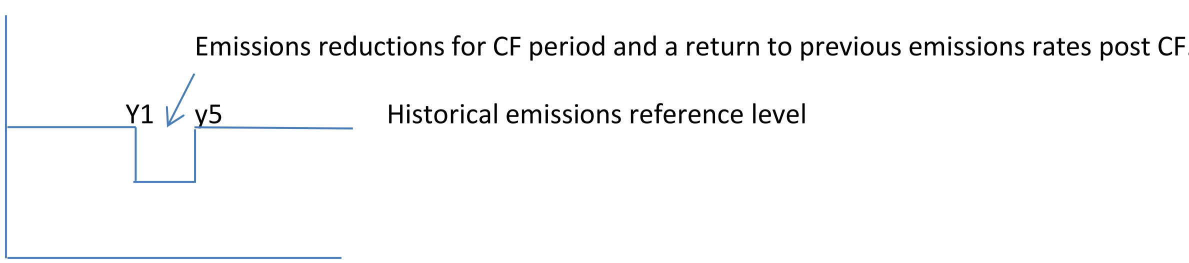
We support the emphasis in Criterion 17 on program design to mitigate emissions from displacement. To the extent this cannot be fully done, Criterion 18 then proposes that there should be a procedure to assess any emissions increases from displacement but does not indicate what this procedure should be. This is a challenging issue to measure or model in practice. As an input to the Fund's considerations, we attached a proposed practical and conservative methodology for estimating potential net leakage, accounting for mitigation efforts, based on changes in the "effective" production area in a jurisdiction. A version of this proposal is being incorporated into the next version of the VCS Jurisdictional and Nested REDD+ Standard.

4. **Account Element 4: Permanence**

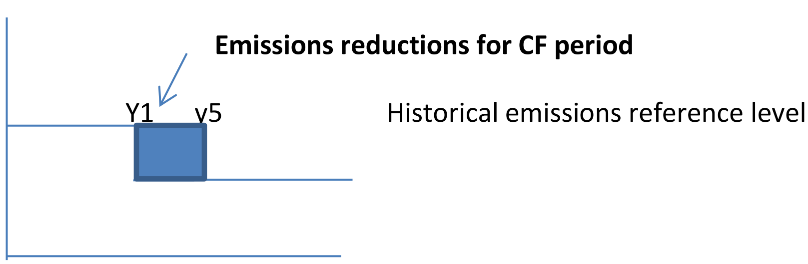
While potential reversals or permanence issues are important, those can be mitigated through the design of programs and projects addressing the fundamental drivers of the deforestation in the jurisdiction. ***The MF should not preoccupy itself with trying to define explicitly a formula or process for considering permanence or reversals ex post an emissions reduction purchase agreement (ERPA).*** Understanding the drivers and investing in activities that address those drivers-- for example, by creating forest protection incentives while at the same time clarifying land tenure and improving agricultural productivity --will ensure permanence and reduce the chance of reversals.

Additionally, EDF sees a misconception between the "stock" of forest carbon and "flow" of emissions from forest carbon that is characterized by the below graphs. An ERPA is not a REDD+ "project" where the permanence of the "stock" is being paid for, but rather emissions reductions that become permanent when they are below historic levels in the program period.

Situation A:



Situation B



Addressing fundamental drivers, such as providing fuel wood substitutes and creating alternative non-deforesting livelihood opportunities, makes it unlikely that Situation B will occur even if the REDD program is abandoned. Additionally, we are not talking about specific project areas where one specific forest was the focus of the program, but a larger jurisdiction. This means the risk of reversals of emissions reductions in one region can be balanced by emissions reductions in other parts of the jurisdiction. Situation A could occur if a new REDD+ financing source did not appear post 2020. However, even returning to historic emissions level would still generate permanent reductions given the decrease during the CF program period. In Situation B and the ideal result, the structural changes are made through the program and emissions levels maintain the new lower emissions rate. The ERPA worked and payments are not needed unless further emissions reductions are required.

EDF is concerned that the Carbon Fund will continue to treat forest carbon and its emissions differently than fossil fuel emissions. Fossil fuel emissions programs do not consider the permanence of the carbon "stock". Discussions around permanence often require inordinate amounts of time and resources. EDF believes that this time and resources would be better spent on the reference level processes and ensuring those are done correctly.

5. Reversals – Indicator 21.2

EDF suggests deleting this indicator because any "reversals" will be noted during the reporting at the end of the crediting period. While it is important to understand why a reversal took place, reporting them during a crediting period is unwieldy and may not matter when considering the whole jurisdictional area at the end of the period. Any reversals would be addressed by the buffer or insurance mechanism already explained at the time of crediting (or debiting) at the appropriate time.

6. Benefit-Sharing Plan – Timing – Indicator 27

EDF likes the framing of what should be in the Benefit Sharing plan in Indicator 28.1. However, we are worried that its very important content will not be adequately prepared with Indicator 27's language of "to the extent known at the time." Without good benefit-sharing arrangements no ERPA will deliver the desired results, so having it "more" advanced rather than "less" advanced is important. EDF suggests language similar to, "… 28.1; **that has been agreed to in principle by relevant stakeholders at time of submission."**