

## Forest Carbon Partnership Facility (FCPF)

### Working Group on the Methodological and Pricing Approach for the Carbon Fund of the FCPF

#### Summary of the first WG conference call on January 11, 2012

##### **Attendees:**

José Carlos Fernandez (Mexico); Resham Dangi (Nepal); John Goedschalk (Suriname), Aviva Gulley (Australia), Daniel Haas and Martin Schröder (Germany); Duncan Marsh and Jeff Fiedler (The Nature Conservancy); Andrew Hedges (Private Sector); Joshua Lichtenstein (BIC); Mark Roberts (EIA); Soikan Meitiaki (IPs); Benoît Bosquet, Ken Andrasko, Marco Van der Linden, Neeta Hooda, Alex Lotsch, Leonel Iglesias, Manelle Ait Sahlia, and Rajesh Koirala (FMT).

##### **Discussion Summary:**

##### **A. Brief background of the Working Group**

The tenth meeting of the Participants Committee (PC10) in Berlin in October 2011 established a Working Group (WG) on the methodological and pricing approach for the Carbon Fund of the FCPF. The WG consists of 9 members, as follow: 3 REDD Country Participants (Mexico, Nepal and Suriname); 3 financial contributors (Australia, Germany and Norway sharing one seat, and The Nature Conservancy); 1 indigenous peoples and other forest dwellers observer; 1 private sector observer; and 1 civil society observer (BIC).

At the ensuing second meeting of the Carbon Fund (CF2), in Berlin, participants drafted the terms of reference (ToR) for the WG and requested the FMT would finalize the ToR and send them to the PC for approval on a no-objection basis. The FMT sent the ToR to the PC and the ToR were approved on November 15, 2011.

**Selection of co-chairs:** It was agreed that the conference participants would select 2 co-chairs – 1 from REDD Country Participants and 1 from financial contributors – and send the names to the FMT by January 20, 2012.

**Facilitation:** The FMT proposed the need for services of independent facilitators for the WG to handle logistics of the WG so that FMT can concentrate on substance, mainly for 2 reasons: a) neutrality; and b) the resource constraint within the FMT.

Two major reactions to this were: 1) It is helpful to have a facilitator that would liaise with FMT and participants, prepare documents and communicate with Participants before the meeting to build their capacity; and 2) since the mandate given to the WG is narrow and a limited number of meetings are to be organized, the FMT should be able to handle both logistics and substance.

It was therefore agreed that FMT would manage the logistics for next call scheduled for February 9, 2012, and the topic would be revisited on the second conference call.

Since some participants in the call are based in the field and calls are not reliable, all documents or issues that are going to be discussed need to be communicated via email with enough of a lead time prior to each call. In particular, the FMT should ensure that it takes the views of Indigenous Peoples into account.

## **B. Guiding Principles of Methodological Framework: Scope of work, and deliverables of the WG**

**Methodological Framework:** The purpose of the methodological framework was discussed, namely to produce a set of brief guiding principles for the major elements outlined by the FMT's WG issues note of December 20, 2011, totaling about 5 pages. The methodological framework would allow: a) comparison across ER Programs which come from different countries and consist of different activities, and of how they meet the required characteristics and standards; b) consistency in the determination of the quantity of emission reductions expected from the ER Programs; and c) provide guidance to the countries in the preparation of ER Programs (e.g., what methods and issues they need to focus on, what is expected by the Carbon Fund, etc.).

It was urged that the FMT should lead this substantial work, draft documents and circulate them to WG members for their feedback and guidance.

**Readiness Package:** An R-Package is a requirement before any ER Program from a country can enter into the Carbon Fund. It has to be submitted and assessed by the FCPF PC. The Carbon Fund could set a minimum standard for entry in the Carbon Fund, such that an ER Program will build on a country's R-Package, but the CF assessment of ER programs will likely include additional criteria. The R-Package and the Carbon Fund methodological framework and pricing approach are complementary processes.

Participants discussed the role of the R-Package. Some suggested it could be taken as determinant in price setting. But others said to keep R-Package discussion separate, even though it is a major REDD+ Readiness milestone, and consider the R-Package more generally as one element in determining the quality of an ER Program.

**Social and environmental benefits:** A question was asked about the difference between inherent social and environmental benefits, and additional benefits beyond carbon, for the methodological framework in the FMT's WG issues note. The original Issues Note for the CF includes environmental and social benefits as key characteristics for ER Programs. Hence these are the inherent social and environmental benefits that at a minimum have to be met by ER program. However, additional social and environmental benefits (like ecosystem services or values) could be included in ER Programs, which go beyond these minimum requirements for those countries that want to focus on specific social or environmental benefits or issues.

**Timing:** Some WG members urged the WG to complete all tasks by PC11 in late March 2012, as opposed to PC12 in June 2012, which was originally envisioned. Other members said the PC should have sufficient time to review the WG's products, and that there should be a 30-day public comments period. It was agreed that accelerating the calls in order to complete work by PC11 is possible but would depend on the pace of drafting of documents.

**Deliverables:** Participants expressed confidence in the FMT's capacity to produce relevant documents, and to put a questions to participants where necessary, , instead of taking positions. Another request was for the FMT to avoid producing lengthy documents.

**Technical Advisory Panels:** Since the WG is not a legal body, TAPs should be established as per the Resolution adopted by CF2, which asks the FMT to engage the services of TAPs to provide technical inputs into the WG's deliberations. The WG can request, via the FMT, that TAPs be set up to address

any issues that arise. Some potential topics for TAP work that came up during the call included the following:

- ❖ Are there different methodologies or levels of rigor needed for Tranche A and Tranche B?
- ❖ How can the R-Package inform the methodological and pricing framework?
- ❖ Compare methodological and pricing approaches adopted by different carbon initiatives, and recommend options to the WG.
- ❖ Could opportunity or implementation costs for REDD+ on the ground be used to help set the prices paid to ER Programs?

**REDD design forum:** The FMT used the opportunity of the call to note that it is considering convening an occasional forum for exchanging lessons and ideas on issues on REDD+, especially as they relate to performance-based payments for REDD+. Most participants agreed this could be helpful, though some cautioned not to duplicate the role of REDD+ Partnership. It was suggested that when issues are potentially broad and the audience is large, those issues should be addressed by the REDD+ Partnership, but if the issues are narrow and very specific to the Carbon Fund, then it is fine to conduct such interactions.

### **C. Policy guidance on pricing methodologies:**

**Outcomes and Pricing:** Participants commented on outcomes of the Proposed Valuation and Pricing Approach on the FMT's WG issues note. All participants agreed that the outcomes proposed by FMT are good. Suggestions were made to accommodate diversity, include other social and environmental risks, and consider carbon as the primary criterion for pricing. Some participants suggested incorporating a biodiversity premium component, and that the price should cover actual implementation costs, and be high enough to control deforestation. This last point, it was agreed, requires further discussion.

### **D. Next steps**

- ❖ The FMT prepared this summary report of the first call. It will also be posted on the FCPF web site under:
- ❖ <http://www.forestcarbonpartnership.org/fcp/node/370> on the Methodological and Pricing Approach for the Carbon Fund of the FCPF.
- ❖ Participants will select 2 co-chairs, 1 from financial contributors and 1 from REDD Country Participants – and send to FMT by January 20, 2012.
- ❖ The next call will be held on February 9, 2012 (assuming WG members are available), as proposed initially by the FMT. Timing for the subsequent calls will be determined by the progress made on substantive work.
- ❖ The FMT will draft background documents and circulate them to the participants by February 1.
- ❖ The FMT will manage the logistics of next call (February 9), and the topic of independent facilitation services will be revisited during the call.