

Governor's Climate and Forest Taskforce (GCF)  
Membros no Brasil: Acre, Amapá, Amazonas e Mato Grosso  
3 de novembro de 2010

WORKSHOP :  
SUBNATIONAL REDD+ FRAMEWORKS

*\* Held by GCF. Jointly organized by Amazonas (Ceclima/SDS), ICV and IDESAM, at Hotel da Vinci, in Manaus, on November 3rd 2010.*

The Governor's Climate and Forests Task Force (GCF) has established, at its Aceh meeting (May 2010), 4 tasks to be performed this year, being the first the preparation of a report on Subnational Frameworks for REDD+. The preliminary version of this report was presented at the Santarém meeting (September 2010). Such version contains a set of recommendations, as well as questions which still remain open, awaiting contributions from GCF member States/Provinces and from civil society organizations.

The members of this groups have been participating actively in the discussion processes which aim to define REDD+ structures in Brazil, both at the Federal and State levels. At the Federal level, one of the key processes that took place in 2010 was the negotiations concerning Proposed Legislation #5586/2009, which aimed to establish the national system for reduction of emissions from deforestation and degradation, conservation, sustainable forest management, management and enhancement of forest carbon stocks (REDD+). In parallel, the Ministry of Environment gathered representatives from various civil society organizations, and also members of public and governmental institutions (including representatives of GCF States) in 3 working groups, which aimed to propose recommendations regarding the future of a national REDD+ regime which were taken into consideration in the last version of Proposed Legislation #5586/2009.

A great portion of the Brazilian GCF member States has taken an active role in such initiatives, linking it to the development of their own programs and systems (as indicated by the GCF database).

14 PARTICIPANTS: representatives from the Amazon States of Mato Grosso (Maurício Philipp), Acre (Eugênio Pantoja and Public Attorney Rodrigo Neves) and Amazonas (Natalie Unterstell, Rodrigo Freire and Juliana Peixoto) have attended the workshop. Also, specialists from various civil society organizations were invited and could participate: IPAM (Osvaldo Stella), TNC (Fernanda Carvalho), FAS (Thais Megid), IDESAM (Mariano Cenamo, Pedro Soares and Mariana Pavan), ICV (Laurent Micol and Alice Thuault). IMAZON was unable to participate, but it has sent commentaries in advance regarding the proposed discussion topics. Representatives from other States could not attend due to agenda constraints.

CHATAM HOUSE RULE - "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed".<sup>1</sup>

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<sup>1</sup> [http://www.chathamhouse.org.uk/about/chathamhouserule\\_translations/](http://www.chathamhouse.org.uk/about/chathamhouserule_translations/)

The Chatham House rule also consists in allowing that persons speak individually, without representing the position of their respective institutions, which facilitates the free debate and the building of a common understanding.

REFERENCE DOCUMENTS. The discussion was based upon the reflexions and options presented in the following reference documents:

- **GCF Task 1 Report: GCF Design Recommendations for Subnational REDD Frameworks**, prepared by the GCF Secretariat, also available in Portuguese as: *Relatório GCF Tarefa 1: Recomendações de projeto do GCF para Estruturas Subnacionais*;

- **An Integrated REDD Offset Program (IREDD) for Nesting Projects under Jurisdictional Accounting**, annex of the abovementioned document, prepared by Terra Global Capital

- **A Nested Approach to REDD+: Structuring effective and transparent inventive mechanisms for REDD+ implementation at multiple scales**, a study prepared by TNC e Baker & McKenzie.

-Article **“The ‘Nested Approach’ to REDD+:How Could it Be Implemented?”**, authored by Lucio Pedroni, Manuel Estrada and Mariano Cenamo

## 1. POINTS IN COMMON

The workshop aimed to build common understanding and approach key aspects related to the construction of State REDD+ systems. Due to the short duration of the workshop (not enough to discuss such deep issues), the main focus was to define a few points of common understanding among the group on the elements and strategies applicable to an integrated system of national and subnational REDD+ activities. Therefore, the participants have defined a few points of agreements on the discussed issues, which are:

- There is a need to promote REDD+ structures in the Amazon States which allow governments to make REDD+ programs and projects viable, regardless of their nature (governmental or non-governmental). Such programs and projects must have the possibility to operate based on donation and/or compensation systems originated from other subnational and national systems.
- The *nested approach*<sup>2</sup> is adequate fundamentally to countries which do not yet possess MRV capacity, or, more specifically, do not have the conditions to perform national accounting of the carbon credit generating units, as well as of the projects which generate them, as an interim measure until national implementation. In the case of Brazil, such approach can be considered as a strategy for integrating different scales (national and subnational). That does not mean that the States do not have the conditions mentioned above, with both processes happening simultaneously.

<sup>2</sup> The term “Nested approach” was translated to Portuguese as “abordagem integrada” [integrated approach], replacing the term “abordagem aninhada”. In the original proposal, the “nested approach” is an implementation strategy that starts at the subnational level, whilst the national government does not possess enough capacity to manage a system, and evolves until the formation of a national system. In the case of Brazil, we consider the approach as an integration among different scales, which evolve independently, but according to a common set of rules.

**Comment [ERN1]:** COMMENT FROM ALICE THUALT (ICV): I did not understand this.

**Comment [ERN2]:** COMMENT FROM ALICE THUALT (ICV): This sentence does not make much sense. I think it is better to remove it.

- There are various pilot initiatives under way in Brazil, at various states of design and implementation. Despite the fact that a few of them are already trading credits in voluntary markets, the absence of clear regulations concerning these activities generates uncertainty to possible investors.
- Given this scenario, a national regulation that provides for the integration of subnational initiatives (both at the regional and project levels) is necessary. This would ensure the integrity of the system, making initiatives at different scales follow the same logic and strategy for reducing emissions.

Within the GCF, it is necessary to consider the various financing options for REDD+ activities. One of the widely discussed options is the implementation of activities that generate credits for carbon markets, either voluntary or future mandatory markets. Therefore, the REDD+ structures, at the State level, must provide for the possibility of performance-based offsets, either through the generation of carbon credits or not.

- An important aspect is that the subnational REDD+ structures must integrate the generation of offsets, developing it in accordance with the evolution of the national position and acceptance of the practice.
- There are different versions for that an “integrated approach” (as we prefer to call the “nested approach”) would be, such as: stock-flow, systems linking States (GCF), programs for specific categories of land use (such as indigenous lands) integrated into a national strategy, among others.

#### Stock-flow proposal

- One of the proposals gaining traction in Brazil is the stock-flow approach. This proposal aims to create a system in which both the reduction of emissions in threatened forest areas (flow) and forest conservation actions in areas not immediately threatened (stock) are rewarded through the allocation of credits.
- An design option for such allocation system would be to base it on the annual reduction of emissions, generated by PRODES<sup>3</sup>, which would be considered the ceiling of credits generated by the country in a given year. From this basis, there could be an internal negotiation on the allocation according to the participation of each State in the reduction of deforestation and the amount of remaining forest stocks. In such case, each State could define their own proposals for allocating such credits within their respective territories.

#### Possibilities for internal allocation within States

- One of the possibilities is the allocation for different areas, which can be made based on different assumptions. One is the division by land type, in which each category would receive a part of such allocations (private lands, indigenous lands, state lands etc). Such approach could also allow a certain amount to be destined to projects, thus not inhibiting pilot activities by

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<sup>3</sup> Translation note: PRODES is the name of the system by which the Brazilian National Institute for Space Research (INPE) monitors and calculates deforestation in the Amazon on an annual basis.

actors who are already able to start such activities at an early stage, or who have the intention to access the voluntary market.

- Another possibility would be to model such allocation, thus spatializing the areas under direct deforestation menace (“flow” areas) and those which are not under immediate deforestation pressure (“stock areas”).

- Independently of the adopted approach, it is necessary to ensure that the allocation system benefits the ones who are really responsible for reducing emissions and conserving the forest in various areas, such as indigenous peoples and traditional communities.

## **2. ISSUES DISCUSSED**

The following key aspects for building State REDD+ systems were discussed:

### **i. INTEGRATION OF EMISSIONS REDUCTIONS ACCOUNTING AMONG PROJECT, STATE AND NATIONAL LEVELS**

#### **Questão (a) - How to define a baseline for the generation of REDD+ credits?**

“Current Thinking”

The GCF and Terra papers make a distinction between reference emissions level (or baseline) and reference level (or baseline) for the generation of credits, being the crediting baseline below the reference baseline.

The GCF paper proposes two options for establishing this baseline (item II.B.1, pp 10-13): i) a baseline set 50% below the reference level, besides the requirement for maintaining a minimum amount of carbon stocks; ii) use the reference level during the first commitment period, with a possible revision of the baseline afterwards.

The Terra paper criticizes the application of a minimum of reductions before the system can generate credits and proposes the adoption of a standard discount to all reductions, be it at the State of project level. Only a portion of such reductions would be eligible for generating offset credits, regardless of a minimum reduction level being achieved (item 5, section 1.3, p. 20, and section 2.3, pp. 33-34).

The paper which discusses the Nested Approach (Pedroni, Porrua and Cenamo) states that in countries which choose to start with subnational levels, the reference level for emissions must be established by means of space-time projections of historic emissions from deforestation, using previously approved methodologies and during a period of 10 years. Among other recommendations, one can emphasize the need to revise the projections after that period. When a country adopts a national reference level, the subnational baseline that has been validated and registered remains valid until the period scheduled for its review, when the national government ensures coherence between the national and the existing subnational level. In the case of national emissions reference level, developing countries probably will have to establish historical reference levels, which then will be adjusted to different circumstances in order to establish the reference for performance-based incentives. In the beginning of each commitment period, the countries would negotiate a national reference level, taking into account the average emissions from the

previous period. Furthermore, at the beginning of each commitment period, the gross deforestation reduction targets must be more ambitious than in the previous period<sup>4</sup>.

On the other hand, the discussions regarding the legal basis for REDD (at the Federal and State levels) in Brazil have been discussing the establishment of a percentage of the total emissions reductions that could generate carbon credits, without this being an uniform discount applicable to projects.

The TNC paper does not address directly this issue.

#### **“Our recommendations”**

From the assessment of the abovementioned options, we consider plausible the following hypotheses:

1. The country would have a national baseline.
- 2 - State baselines must be structured in a way as to integrate with the national baseline
- 3 – Each State would have a registry system, associated to the activities being performed in its respective territory.
- 4 – We propose not to have a *crediting baseline*, but a specification of the percentage of the emissions reductions which could become tradable credits. Therefore, the credits would be issued only after verification. An example which we find interesting is the case of the Proposed Legislation 5586/2009<sup>5</sup> which provides for the establishment of a percentage over the total of achieved reductions that will generate offset credits.

#### **Questao (b) - How to structure a registry system for the emissions reductions in order to assure the integration of carbon accounting among the project/program, state and national levels?**

#### **“Current Thinking”**

The TNC paper proposes a step by step approach to establish this integrated accounting (section Carbon Accounting, pp. 12-16): i) establish a national reference level; ii) divide the national territory in reference regions (which can be states) and establish a reference level for each region, making the sum of the parts equal to the national reference level; iii) establish the reference level for each project and express it as a percentage from the total reference level for the region/state (exceptions: when a given project considers carbon sources or sinks which are not accounted for in the national system, such as, for example, degradation or reforestation, only the portion related to the regional/state reference level will be considered); iv) establish a protocol for nesting,

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<sup>4</sup> In case of unplanned deforestation. In case of planned deforestation, the targets may vary from a period to another, and may even be increased, depending on national circumstances.

<sup>5</sup> In the case of the National Proposed Legislation, the REDD units (U-REDD) are distributed after a political negotiation at the federal level bearing in mind the stock and flow approach. The reduction certificates (C-REDD, or offset credits) represent a portion of the reduction of emissions for offsets, that is, are not part of the NAMAS and not part of the Brazilian target. A board (committee) shall establish which will be the proportion of C-REDD per federal entity.

detailing the methods to define and revise the reference levels, monitor emissions, assess leakage and permanence.

The Terra paper discusses in more detail some technical aspects related to carbon accounting (section 2.3, pp 28-36): principles for quantifying emissions reductions and for establishing reference levels, space and time delimitations, how to handle historical deforestation rates and other factors which influence the reference level, measurement of carbon stocks, and the establishment of geographically explicit reference levels.

The GCF paper does not address this question (mentions the Terra paper).

The preliminary versions of the National and State proposed REDD+ legislations in Brazil provide for an integrated accounting for emissions reductions, but do not mention explicitly the need for time and sectoral coherence of such emissions reductions. For example, the National Proposed Legislation proposes the allocation of reductions of emissions from deforestation of a given year to projects which will be developed in the subsequent years, allowing even the inclusion of deforestation and degradation reduction actions. This proposal differs from the nested approach as it is understood in the TNC and Terra papers.

The paper on Nested Approach (Pedroni, Porrua and Cenamo) states that a registry system for approved initiatives, reference emissions levels, monitoring and carbon trading reports would facilitate the implementation of a “nested approach”, given that it allows transparency in carbon accounting, avoiding therefore double accounting of national and subnational emissions reductions. The registry for subnational activities would include their space and time delimitations, emissions reference levels and verified emissions reductions and carbon credits, therefore assuring a consistent and adequate process for the definition of subnational reference levels and avoiding double accounting.

#### “Our recommendations”

- For all and any crediting option, the state accounting must be integrated and in accordance with national accounting.

- According to what was discussed in the workshop, emissions reductions accounting must be integrated among the national, state and project/program levels, in order to avoid double accounting and ensure the system’s integrity.

- Building on this assumption, we understand that, in the case of Brazil, it is ideal to have a national registry system which performs accounting at the Federal level in integration with subnational registries. This could allow the elimination of sectoral coherence for emissions reductions, because the integrity would be assured from top to bottom.

- In case of absence of a national system, the States could establish “preliminary registries” (similar to the State of Acre), which could integrate with a future national REDD+ system.

\*One of the most important questions discussed in the workshop was “how to integrate accounting without integrating methodology?”. One of the proposals is exactly to eliminate

**Comment [ERN3]:** COMMENT FROM MARIANA PAVAN (IDESAM): Laurent, could you please clarify that?

**Comment [ERN4]:** COMMENT FROM LAURENT MICOL (ICV): This sentence reflects the following understanding: We will establish a national accounting and will only consider reductions of emissions observed by PRODES, and then we will apply the reductions achieved by the States and projects using criteria which are independent from time, sectoral and spatial coherence. That is, I will be able to allocate reductions of emissions from Mato Grosso in 2010 to a project for reducing emissions in national forests in Pará from 2011 til 2030.

We add that our understanding (ICV) is that the “nested approach”, as it is established by the literature, requires this space, time and sectoral coherence. This coherence assures that the reductions of a given project are part of the total reductions verified in the larger territory in the same period. The Mato Grosso Proposed Legislation follows on that idea.

methodologies (definition of a baseline etc) in order to provide the States with a larger set of options to develop their systems (i.e., minimum requirements, programs and projects).

**Comment [ERN5]:** COMMENT BY NATALIE UNTERSTELL (AMAZONAS): Should the argument be expanded?

One of the questions raised was to know if the registry system should include forest degradation projects. The common point is that these activities will be accounted for in a second period, after the consolidation of methods and methodologies for their calculation.

**Comment [ERN6]:** COMMENT BY ALICE THUAULT (ICV): What does this mean? "Common understanding?"

\* One of the discussed proposals for allocating "units" and "credits" was the approach adopted in Proposed Legislation 5586/2009. The proposal establishes that reductions are to be measured in the Amazon biome, allowing thus the internal negotiation of a stock-flow mechanism, based for the measuring and reporting on the PRODES and/or the targets contained in the National Plan on Climate Change. For that, a structure for "registry and accounting" would be created and a board (non-governmental) would oversee the allocation of U-REDD and C-REDD.

### **Questao (c) - Who would manage the emissions reductions registry at the national and state levels?**

#### **"Current Thinking"**

The GCF paper points to the operational challenge of developing and implementing a registry system for reducing emissions for the GCF members (item 3, section II.B, p. 16) and suggests, in the same way as the Terra paper (item 4, section 1.3, pp. 17-18) that existing registry infrastructures at the international level may be used (v.g., Markit)

The Nested Approach and TNC papers do not address this issue directly. The Nested Approach paper states only that such registry must be within national or international institutions.

#### **"Our recommendations"**

There were no advances in terms of recommendations for specific institutional arrangements for managing a unique registry system, beyond that they should be made official by the Federal government (national registry) and by State governments (state registries).

In a proposal for stock-flow, the integration level among the states must be substantial. However, specific arrangements regarding the institutional framework of the system were not discussed.

Another important issue to take into account related to the phase of the process in which the registry would operate. The possibility of a pre-register was discussed, in which the project would indicate the development of a given activity, which could involve also the emission of a letter of non-objection to the project, thus providing assurance for its development and implementation.

\*Some issues were discussed in which a consensus was not possible. Some of such questions are:

In the case of Brazil, a significant portion of the forest carbon stocks is found in federal lands (see annex: GCF DATABASE table, 2010). How to treat federal lands within state registries integrated to national accounting? There should be a discount from stock-flow approach regarding the participation of federal lands? How would such measure affect State accounting? Which incentives (negative and positive) would there be for States with large portions of federal lands?

ii. GENERATION OF REDD+ CREDIT FOR OFFSETS

**(a) Which actions could be eligible for generating offset credits?**

**“Current Thinking”**

The Terra Global Capital paper argues that only projects could generate offset credits, and government programs should have other sources of funds. It defines projects according to the following characteristics: spatially delimited, clearly defined land tenure, proponent responsible for managing the area, demonstrated causal relation between the project actions and verified emission reductions (pp 13-15).

The GCF / Task Group 1 paper indirectly addresses this question in section II.A about the “pathways” for issuing credits (crediting pathway) (pp 6-9). It presents three major options: i) sectoral REDD+ credits issued by the state/country based on state/country performance in relation to a state/national baseline; ii) REDD+ credits issued by the buyer country and attributed directly to the state/country generating the REDD+ actions and their resulting performance; or iii) REDD+ credits issued by a system in the buyer country and attributed directly to REDD+ credits “nested” in the accounting strategy in the state/country. The paper recommends allowing the possibility of these 3 pathways, keeping thus the possibility of the state/country itself issuing the credits and managing internally the investment in different REDD+ actions and sharing of benefits, which seems to be the preferred option in the long run.

The TNC paper considers that countries, subnational governments and projects should be eligible to receive REDD+ credits (p. 8). It proposes that carbon accounting is managed at the country level, but that emissions reductions are issued directly and attributed to countries or subnational governments by an international organ called “REDD+ Authority”. The national government would also have a designed organ which would verify and validate the reduction of emissions from subnational activities (p. 30).

The Nested Approach paper states that the emissions reductions carbon credits generated at the subnational level would be issued directly to the participants of subnational activities registered before a specialized organ of the UNFCCC, according to methodologies, procedures and rules agreed by the Parties of the REDD+ mechanism. The subnational REDD+ initiatives would receive credits even if the host country had adopted a system for national implementation. In such case, the national governments would receive the credits for emissions reductions generated by forests which are not included in subnational initiatives.

The preliminary versions of the National and State Proposed REDD+ Legislations for the moment provide for the issuance of REDD+ Certificates and their allocation (or the allocation of the funds obtained from them) by the States to REDD+ programs and projects. That does not necessarily mean the issuance of a REDD+ credit.

**“Our recommendations”**

As it was made explicit, within the stock-flow proposal, there is space for the development of projects. An alternative would be the determination, by the State, of the percentage of the allocation destined to the projects; through the registry and approval based on previously defined criteria, the credits would be attributed to these projects.

These projects must use existing methodologies or new methodologies, given that they are approved for use in the registry, which probably will be defined by state/national governments.

**(b) What is the “pathway” for issuing credits (crediting pathway)?**

The State government would be responsible for issuing tradable credits. Such credits will be issued only when the previously established (by the States) requirements are fulfilled.

**RISK MANAGEMENT IN AN INTEGRATED APPROACH**

One of the concerns raised by the participants related to the mechanism is the need to have the project performance detached from the country performance, so that projects which have achieved their targets are not “punished” in the case of non-performance by the country. This also aims to ensure that the market is attracted to these projects, thus turning such investments less risky. However, it is hard to detach what has been effectively achieved through national, state or project efforts. In this scenario, a registry capable of tracking adequately the origin of the generated credits is essential.

Uma das preocupações levantadas pelos participantes em relação ao mecanismo é a necessidade de termos o desempenho do projeto desvinculado da performance do país, para que os projetos que atingiram suas metas não sejam “punidos” no caso de não-performance do país. Isto também visa garantir a atração do mercado a estes projetos, tornando assim estes investimentos menos arriscados. Porém, é difícil desvincular o que foi feito efetivamente devido a esforços nacionais, estaduais ou por projetos. Neste cenário, torna-se fundamental a existência de um registro que tenha a capacidade de rastrear adequadamente a origem dos créditos gerados.