

**Policy Updates** April 2011 to January 2012

## Rise and spread of national and sub-national forest carbon schemes

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International climate change negotiations at COP17 in Durban, December 2011 saw further developments on the proposed [REDD+](#) mechanism to reduce forest-based emissions and enhance forest carbon sinks. A binding international REDD+ agreement and a larger climate change agreement will likely be many years in the making. In the meantime, countries and states or provinces within countries have initiated their own forest-related emission reduction and offsetting schemes within the last year.

Developed countries and states with emission reduction targets such as Australia, California (USA), Quebec (Canada), UK, Japan and South Korea are allowing domestic polluters to use forest carbon offsets, and are setting up domestic forest carbon offsetting standards and/or supporting forest offset projects in developing countries. Developing countries like China, India and Ecuador are launching their own forest carbon sequestration or protection programs independent of or in advance of agreement on a REDD+ mechanism under the [UNFCCC](#). This brief provides an update on national and international REDD+ and other forest carbon policies from April 2011 to January 2012. Please see [FCA Brief No. 2](#) for an earlier global policy review up to March 2011.

### International Schemes and Proposals

#### **A brief respite for the Kyoto Protocol**

The international climate change agreement, the [Kyoto Protocol](#) set emissions reduction (ER) targets for more than 30 developed countries during the first commitment period 2008-12. It included specific forest-related mitigation activities for different groups of countries. For developing countries, carbon sequestration through afforestation and reforestation (AR) projects could be credited and sold to developed countries to meet their ER targets.

Developing countries have been calling for a second Kyoto commitment period with a new round of targets for developed countries. The Durban summit in December 2011 finally managed to [agree on a second commitment period](#) starting in 2013 and ending in 2017 or 2020. However, only some European countries committed to targets and most of the other major developed countries announced that they would not take part. A major point of contention is that the Protocol does not commit developing countries like China and India with large populations and rapidly rising economies to emission cuts. Please [click here](#) to download the draft decision CMP.7 AWG-KP.

In the final moments at Durban, all countries [agreed to negotiate a universal legal agreement](#) by 2015 under which all countries are to reduce their emissions in the long run. The agreement is expected to come into force in 2020 and will replace the Kyoto Protocol. In the meantime, developing countries can continue to generate and sell approved AR credits during the second Kyoto commitment period.

## REDD+ developments under the UNFCCC

REDD+ (Reducing Emissions from Deforestation and Forest Degradation and other forest mitigation activities) discussions moved further ahead in UNFCCC's COP 17 at Durban in December 2012 with negotiations focusing on MRV, safeguards, reference levels and financing. The [final decision](#)



Photo by UN Climate Change

[regarding safeguards](#) stipulated that countries with forests should report on how the safeguards referred to in Appendix I to decision 1/CP.16 are being addressed and respected throughout the implementation of the activities. Non-governmental organizations [criticized the decision](#) for not requiring reporting on success or failure, and not defining penalties for violation of safeguards. REDD+ without a credible system of safeguards and strong rules for protecting indigenous people, local communities and biodiversity may not attract sufficient funding.

Discussions on [Reference emission levels \(REL\) and Reference levels \(RL\)](#) at COP 17 focused on consideration of historical deforestation, projections, and national circumstances. There was not much change from the previous draft. Countries can still choose to use RELs or RLs and develop the same based on national circumstances. Sub-national REL and/or RL can be elaborated as an interim measure while moving towards a national REL and/or RL. Parties were invited to submit information and rationale on the development of their forest RELs and/or forest RLs in accordance with guidelines.

The COP 17 meeting [postponed the decision on REDD+ financing mechanisms](#) to next year though there were discussions over market-based mechanism vs. non market-based mechanisms and the inclusion of offsets. It was discussed that [both market and non-market approaches may be appropriate](#) depending on the country's circumstances. Major funding sources identified were the [Green Climate Fund, foreign aid/grants and carbon markets](#) and year 2011 ended with more questions to be answered at the next COP 18 meeting.

## REDD+ partnership continues to meet

As of December 31<sup>st</sup> 2011 there were 73 partner countries under the [REDD+ Partnership](#) and 13 of them are from the Asian region. Several [meetings and workshops](#) were held during 2011 to discuss several key issues including finance, MRV, REL/RLs and safeguards. A [voluntary REDD+ database \(VRD\)](#) of REDD+ finances as reported to the REDD+ Partnership was launched in July 2011. The partnership's [2011-2012 work program](#) being implemented at present has five major components – facilitating readiness activities, demonstration activities, results-based actions, the scaling up of finance and actions, and transparency.

## National and Subnational Schemes: Asia-relevant

### Forest carbon trading and first GHG caps in China

In 2011 China launched a [pilot forest carbon trading program](#) for voluntary offsetting of GHG emissions. The program was formulated by Huadong Forestry Exchange and China Green Carbon

Foundation. Offset project standards have been formulated by China Green Carbon Foundation and further regulations and policies have to be defined. Chinese companies are now purchasing credits and the first overseas enquiries have been made.

Forest-related mitigation is to play an important role in China's commitment to reduce its GHG emissions – both in the voluntary ER targets it has set itself and in [any future legally binding ER agreement](#) it signs for post-2020. China is currently the world's biggest carbon emitter and is [about to launch its first caps](#) on GHG emissions across two provinces and five cities.

### **South Korean plans for GHG reductions and forest carbon offsetting**

In 2009, the South Korean government announced a voluntary [emissions cut of 30 percent](#) by 2020. They planned to launch a [national carbon trading scheme](#) (including forestry offsets) in 2013 to stimulate corporate efforts to reduce emissions and meet this goal. However launch of the scheme has been postponed to 2015 due to stiff resistance from corporations. The government will also implement a [greenhouse gas and energy target management system](#) starting in 2012 where the nation's 458 heaviest corporate polluters are assigned obligatory emissions and energy consumption reduction targets.



Photo by Anuradha Vanniarachchy

Similar to Japan, South Korea seeks to secure cost-effective carbon offsets through partnerships with its Asian neighbours. South Korea is [setting up the Asian Forest Cooperation Organization](#) (AFoCO) with headquarters in Seoul in 2013 to prevent deforestation and forest degradation in Asia and access Asian forest carbon credits.

### **Japan tests the feasibility of a Bilateral Carbon Offset Mechanism**

Through its [Verified Emissions Reduction \(J-VER\) scheme](#) established in 2008, Japan allows domestic emitters to use offsets from approved domestic forestry projects including sustainable forest management and afforestation.

Now the government of Japan is preparing the [Bilateral Carbon Offset Mechanism \(BCOM\)](#) program to reduce emissions by establishing energy management and forest protection projects with Japanese companies in developing countries. [Several BCOM feasibility study projects](#) have been launched including REDD projects. BCOM is set to start in 2013 and run in about 28 countries. Negotiations are currently ongoing in five countries.

### **Growing sandalwood for carbon credits in Maharashtra, India**

The State of Maharashtra in India announced plans to create a [tree credits scheme](#) to promote planting and growing of sandalwood trees for at least five years. The sandalwood is to be harvested after about 15 years to meet market demand. GHG emitting bodies will have to purchase Tree Credit Certificates (TCC) created from this scheme in order to offset their emissions. The proposed scheme needs to pay attention to the issue of permanence of the carbon sequestered along with other international standards and requirements.

## Governors' Climate and Forests Task Force focuses on four tasks

The Governors' Climate and Forests (GCF) task force held several meetings during 2011. It was decided to continue GCF's activities under four segments called tasks at its [annual meeting held in September, 2011](#). The tasks are sub-national



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REDD+ framework, financing for REDD+ activities, GCF REDD+ knowledge database, and Communications, outreach & stakeholder involvement.

A [sub-national REDD+ framework](#) was available as of October, 2011 and a final document was to be finalized by December, 2011. The [GCF Fund](#) aims to raise USD 5.5 million by December 31<sup>st</sup>, 2012. The [GCF Knowledge Database](#) prototype was undergoing internal review as of October-November, 2011.

## California launches its Cap and Trade Program

In October 2011, California's Air Resources Board [formally adopted](#) the state's greenhouse cap-and-trade program which is set to start in January 2012. The [enforceable compliance obligation](#) will start in 2013. The cap and trade program is one of the measures to be taken under the Global Warming Solutions Act of 2006 (also known as AB 32) which aims to reduce the state's greenhouse gas emissions to 1990 levels by the year 2020. The Program expects to deliver 20% of the emissions reductions needed to meet the goal.

The scheme permits polluters to buy verified carbon offsets to [cover up to 8%](#) of their emissions. Analysts predict a demand of about 221 million offsets over the next 8 years. Eligible offsets can come from approved project types including domestic and possibly international forestry projects. Regulators would focus on local projects at the start and [demand for international carbon offsets](#) is unlikely to emerge before 2015.

Earlier in 2011, the cap and trade program was challenged through a lawsuit stating that [CARB had failed to adequately examine alternatives](#) to meeting the state's climate goals. The lawsuit was cleared by the courts following an [expanded environmental impact analysis](#) submitted by the State.

## National and Subnational Schemes: outside Asia

### Forestry activities continue under the New Zealand ETS

The [New Zealand Emissions Trading Scheme](#) (ETS) along with a generally positive outlook for wood and wood fibre demand has helped drive an [upturn in levels of tree planting](#) in the last year. The New Zealand ETS enables its domestic forest sector to engage in national and international carbon markets, both as regulated emitters and as offsetters. The Ministry of Agriculture and Forestry has published [important dates and deadlines](#) related to forestry in the New Zealand ETS.

### Quebec prepares its new cap and trade program

The Province of Quebec in Canada will [adopt a cap and trade system](#) for reducing emissions, effective January 2012. The first year will be a trial year and capping and reduction of emissions will

officially begin in January 2013. Forestry offsets are expected to be included. Quebec and the State of California in the USA as members of the Western Climate Initiative will be part of the same regional cap-and-trade system. They aim to reduce GHG emissions to 15% below 2005 levels by 2020.

### **Australia launches the Carbon Farming Initiative (CFI)**



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In August 2011, the [Australian government](#) approved the [Carbon Farming Initiative \(CFI\)](#) which regulates the creation and trade of carbon credits from farmland and forestry projects that polluters can use to meet mandatory emission reductions targets. CFI [entered into operation](#) in December 2011. This is a precursor of the government's plans to price carbon emissions from mid-2012.

Eligible projects involve establishment and management of permanent native forests on cleared or partially cleared land. The methodology was developed in consultation with industry and the farming community and

assessed by the independent Domestic Offsets Integrity Committee. Projects that adversely impact water availability, biodiversity conservation, employment, local communities or access to land for agriculture will be excluded. The methodology, supporting tools and information is available at [www.climatechange.gov.au/cfi](http://www.climatechange.gov.au/cfi)

### **Forging of a new climate alliance “North America 2050”**

A group of U.S. states and Canadian provinces recently formed the [North America 2050 Initiative \(NA 2050\)](#) to reduce GHG emissions without necessarily adopting cap-and-trade programs.

The group states four objectives:

1. Coordinate efforts to design, promote and implement effective and cost-effective policies;
2. Advocate for the most appropriate roles for federal, state, and provincial governments;
3. Achieve meaningful emission reductions; and
4. Demonstrate the economic and job creation benefits of policies.

One of the working groups envisions is the Sequestration Working Group that will explore regulatory, technical and policy issues surrounding carbon capture and sequestration.

### **The UK launches its Woodland Carbon Code**

The [UK government](#) launched the [Woodland Carbon Code](#), a voluntary standard that certifies woodland creation projects in the UK. Following a trial period, the code was officially launched in July 2011. Each project is registered with the Forestry Commission and validated by a third party organisation certified by the UK Accreditation Service.

Carbon sequestration resulting from projects certified to the Code will, in common with other woodland creation, [contribute directly to the UK's national targets](#) for reducing emissions. The Code does not link to regulatory carbon 'offsetting' schemes (e.g. the EU Emissions Trading Scheme) and

does not generate internationally tradable carbon credits linked to the compliance or voluntary markets.

### **Brazil revises its forestry code and fails to use its Amazon Fund**

Brazil's senate [passed legislation](#) in December 2011 which made changes to the forestry code reducing the amount of forest preserves farmers are required to keep when opening up new land and providing an amnesty for small land owners who illegally cleared forest before July 2008. Environmental groups raised concerns that forgiving past deforestation sends an adverse signal and that the provisions of the bill would make it difficult for Brazil to meet its forest protection and GHG reduction targets. Under a compromise, property owners and small farmers are required to replant some past deforested land (24 million hectares) with trees or pay a fine.

Brazil has so far received \$466 million into the Amazon Fund for forest protection, but has only managed to use \$39 million on 23 sustainable growth projects. Failure to identify projects and use the resources is blamed on the bureaucratic processes adopted by BNDES, the fund manager. The year 2012 began with [Reuters](#) reporting that donors were unhappy with Brazil's slow pace in identifying new projects and putting to use their contributions. Potential donors are discouraged and new commitments have dropped.

### **Ecuador receives sufficient pledges to kickstart its Yasuni ITT Initiative**

Ecuador [launched the Yasuni initiative in mid-2010](#) to avoid developing the oilfields in Yasuni National Park in exchange for annual international donations. The initiative would help avoid the emissions of around 410 million tCO<sub>2</sub>e, and preserve the area's rich biodiversity and its indigenous tribes.

Donors backed off from the initiative at one point following fears of it setting off a cascade of similar "avoided emissions" plans becoming part of climate change treaty negotiations. Judging that there were not many similar cases, Germany and other donors are back on board and pledges totaling more than the targeted \$100 million were received by end of 2011. The Ecuadorian government will now move forward with the Yasuni ITT Initiative. It has now set a new goal of securing \$291 million in contributions in both 2012 and 2013 to keep the initiative going.

### **Guyana struggles to implement REDD and receive payment**

In November 2009, Guyana signed a USD 250 million [agreement with Norway to protect the forest](#) and limit greenhouse gas emissions. The Norwegian government has [deposited US\\$70 million in forest carbon payments](#) into the [Guyana REDD Investment Fund \(GRIF\)](#) and Guyana outlined a plan over a two-year period to utilise the fund to implement a number of projects. However the year 2011 also ended with the country struggling to get projects off the ground and receive some of the substantial financing promised.

### **Mexico forges REDD links**

[Mexico signed a MoU with Indonesia](#) in August 2011 on sustainable forest management and enforcing REDD+ policy as well as several other forestry issues. The Climate Action Reserve released the [Mexico Forest Protocol](#) for public comment. The protocol is aligned with Mexico's emerging REDD program and California's cap-and-trade program.

## Global Voluntary Market Standards

Over the last year, the global voluntary market standards saw a growth in approved methodologies, project types covered, registered projects and issuance of verified credits. REDD credits were the dominant type traded in the [voluntary forest carbon market](#) in 2011 with AR credits seeing a decline and IFM credits seeing a steady and modest growth.

The [Verified Carbon Standard \(VCS\)](#) approved several forest carbon methodologies (REDD, IFM) during 2011 and the American Carbon Registry (ACR) [approved its first REDD methodology](#) in April, 2011. The Chinese [Panda Standard](#) posted a new bamboo afforestation methodology for public consultation and [AFOLU specifications](#) during 2011.

Please see the [Standards and Verification](#) page for detailed updates on standards, methodologies, approved projects and credits issued. During the last years there were attempts to develop approaches to nest project and other sub-national level initiatives into national REDD+ accounting frameworks. VCS is currently working on a [jurisdictional and nested REDD initiative \(JNRI\)](#).

## Future Updates

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