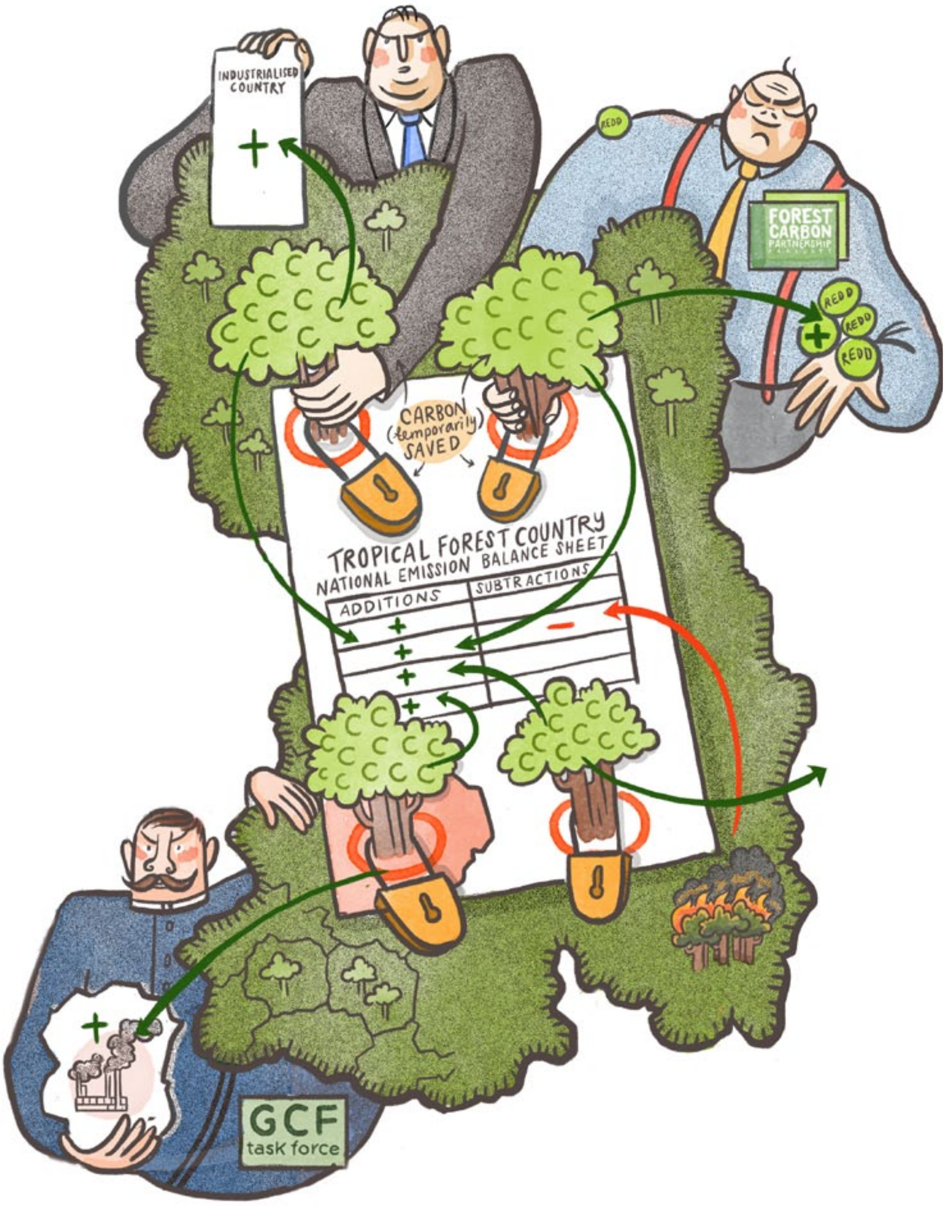
Carbon Trading
Briefing Note

Who takes the credit?

REDD+ in a post-2020 UN climate agreement



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This briefing note addresses the risks that could arise if Reduced Emissions from Deforestation and forest Degradation (REDD+) were to be included in an international climate agreement. Specifically, it looks at 'double-counting', where two countries claim the same emission reduction.

The risk of double-counting in a post-2020 UN climate agreement

So far, only the world's historically industrialised countries have adopted binding emission reduction commitments under the UN. The risk that emission reductions from avoided forest loss could be double-counted would arise if all countries took on emission reduction commitments – tropical forested countries which include REDD+ in their post-2020 targets may legitimately expect both financial support for results in reducing emissions from forest loss, and to count this towards their own mitigation effort. However, if the countries providing the financial support also intend to count the REDD+ credits towards their own targets, the same reduction would in effect be claimed twice: meaning that actual emissions of greenhouse gases could be more than the amounts reported to the UN. Whether countries from the global South will adopt and report on such commitments under a new UN climate agreement remains a point of contention.

There is a long history of 'credit swapping'. Countries which did not have a target to reduce emissions under the Kyoto Protocol were able to sell claimed emissions reductions through the Kyoto Protocol's Clean Development Mechanism (CDM) to those countries which had a target. The purchasing country added the CDM reduction it had bought (the offset credit) to their emissions balance sheet as *its own* reduction. Because the country in which the emissions reduction took place was under no obligation to submit a comparable emissions balance sheet to the UN, there was little risk of double-counting.

However, if there is agreement that both industrialised and tropical forested countries should quantify the limit of their emissions, *and* tropical forested countries wish to sell emissions reductions in the form of offset credits, the risk of double-counting increases. Tropical forested countries would have a choice. They could *either* sell the emissions reductions and deduct them from their own balance sheet – permitting the purchasing country to count the reduction as its own – *or* 'keep them' and count the reduction towards their own contribution.

This briefing explores the issue of double-counting in relation to REDD+ under a new UN climate agreement. However, it should not be understood as an endorsement of REDD+, as there is much evidence that tradable REDD+ credits are not beneficial for forests, the people who live in them, or the climate.[1]

Various decisions and documents relating to the United Nations Framework Convention on Climate Change (UNFCCC)[2] refer to the need for accounting rules under the next UN climate agreement to define which country may claim an emissions reduction, when there is more than one possible claimant. This is crucial, especially in light of the suggestion that a new UN climate agreement could both allow international trading of REDD+ credits and ask forested countries in the global South to make quantified pledges to reduce emissions from deforestation. Without accounting rules forbidding such double-counting, both industrialised and tropical forested countries might count the reduction in their reports to the UNFCCC.

If such double-counting of reductions from emissions caused by forest loss were to occur, overall emissions would be higher than indicated by the reports submitted to the UNFCCC. This would further undermine already inadequate efforts to limit global average temperature rise to below 2°C.

> *'Avoiding double counting of emission reductions is a key policy concern to Parties to the United Nations Framework Convention on Climate Change (UNFCCC). If emission reductions are double counted, actual global greenhouse gas (GHG) emissions could be higher than the sum of what individual countries report. As a result, countries could appear to meet established mitigation pledges, while total emissions exceed these levels.'*[3]

How REDD+ will be funded after 2020, and who can count emission reductions from avoiding forest loss, is likely to be decided at the 21st Conference of the Parties in Paris (COP21).

There are two main possibilities:

- REDD+ can be funded through international climate finance or public funds.
- REDD+ becomes a trading mechanism, funded through the sale of offset credits.

If tropical forested countries cannot agree to industrialised countries taking the credits for their REDD+ emissions reductions, they ought not agree to REDD+ being funded by an international trading mechanism.

Box 1: A short history of REDD+ in the UN's climate negotiations

When the Kyoto Protocol was first agreed in 1997, it included various 'flexible mechanisms' to allow countries to avoid making emissions reductions domestically. Among these mechanisms were schemes to allow emissions reductions made in one country to be sold to another, as offsets, through the CDM or Joint Implementation.

Offsets which claimed to reduce emissions from forest loss were excluded from these flexible mechanisms for a number of reasons,[4] including the fact that accounting for carbon emissions at a project level would allow deforestation to take place in another forested area in that country.

At the 2005 COP in Montreal, the Coalition of Rainforest Nations wanted the issue to be reconsidered. They proposed accounting for forest carbon emissions at the national level, which they claimed would overcome the project-level accounting problem. However, the proposal did not address other inconsistencies and obstacles, such as the fact that storage of carbon in forests is only temporary, whereas carbon emissions from fossil fuel deposits are permanent.

At the 2007 COP in Bali, REDD became a key element in the Bali Roadmap, the action plan for negotiating a new climate regime by the end of 2009. In late 2008, REDD was changed to REDD+ to include activities aimed at 'enhancing carbon stocks, sustainable forest management and forest conservation'. Significant sums have already been expended on supporting initiatives and 'readiness activities' at the local, national and international level to prepare countries for REDD+. One such initiative is the World Bank's Forest Carbon Partnership Facility (FCPF), launched at the Bali COP, with the aim of creating markets for forest carbon.[5] The negotiations for a new UN climate agreement dragged on beyond the end of 2009, and the 2010 Cancun Agreements at COP16 in Mexico referred to REDD+ as an approach to 'slow, halt and reverse forest cover and carbon loss'.[6] One of the decisions postponed at the Cancun COP was the question of how REDD+ would be funded. In December 2013, COP19 adopted the Warsaw Framework on REDD+,[7] which outlines REDD+ as a performance-based mechanism where payments would be linked to verified evidence that emissions from forest loss had been reduced.

Box 2: Double-counting scenarios

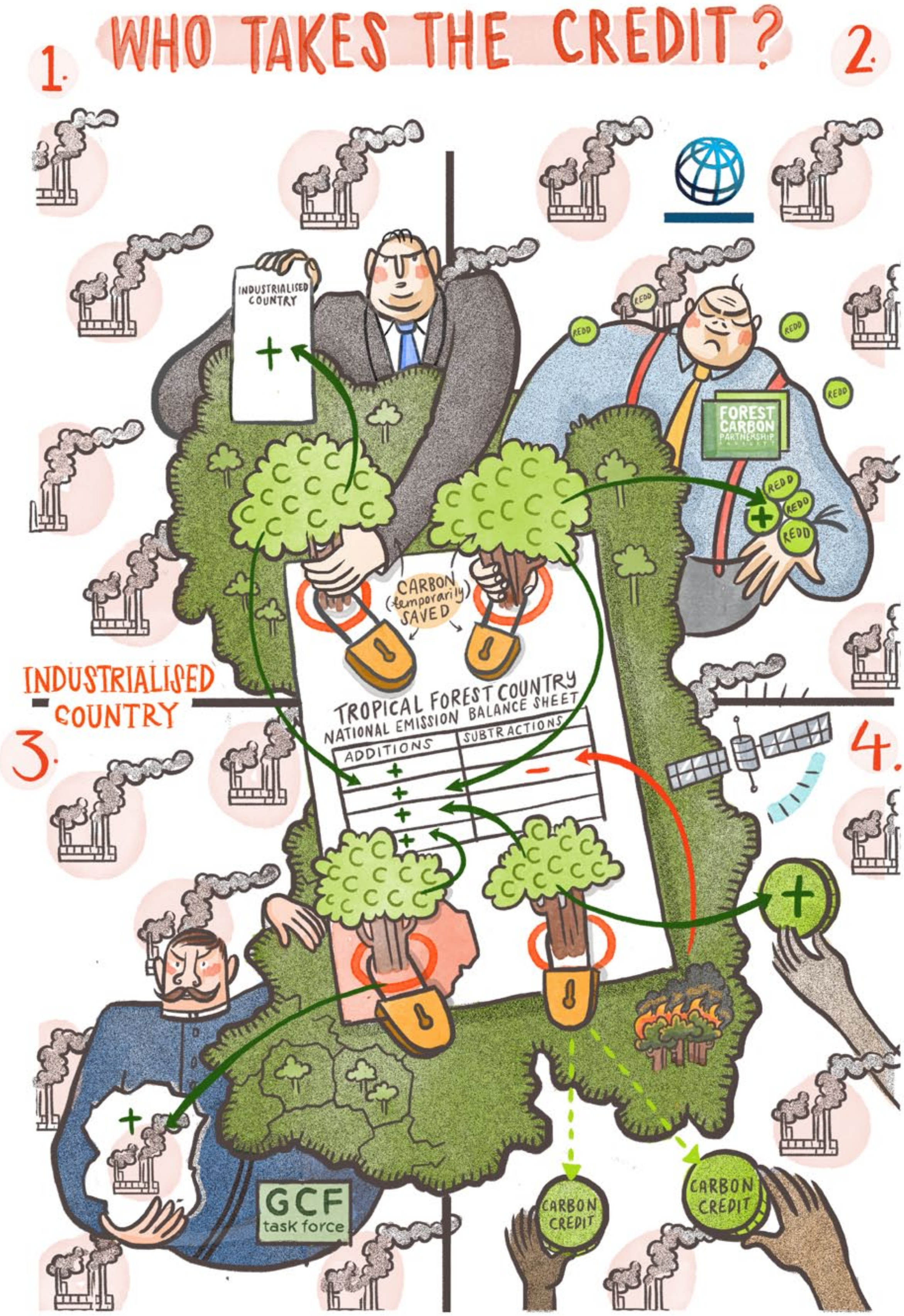
Here are four possible scenarios in which a tropical forested country, which had no emissions budget under the Kyoto Protocol, commits to reporting on a quantitative emission limit (including a reduction of emissions from forest loss) as part of a post-2020 climate agreement.

1 A tropical forested country reports to the UN that emissions from deforestation have been reduced during the relevant reporting period. The tropical forested country sells REDD+ credits (worth one tonne of carbon dioxide equivalent (CO2e) per credit) to an industrialised country (or companies in an industrialised country), which also reports on its emissions limits to the UN. The industrialised country includes the reduction it bought from the tropical forested country in its UN emissions balance sheet, but the tropical forested country does not deduct the reduction from its own balance sheet. When they send their progress reports to the UNFCCC, both countries claim the same reduction.

2 A tropical forested country reports to the UN that emissions from deforestation have been reduced during the relevant reporting period. A forested province within the tropical forested country sells REDD+ credits to the World Bank Carbon Fund. If the Carbon Fund then sells the credits to a country that counts them on their UN emissions balance sheet, the reductions will be double-counted if the tropical forested country does not deduct an equivalent number of emission units from its balance sheet.[8]

3 A tropical forested country reports emission reductions from forest loss in its national UN emissions balance sheet. One or more provinces or other sub-national jurisdictions with forest cover in the tropical forested country are also part of an initiative on REDD+ between sub-national jurisdictions from tropical forested and industrialised countries. The so-called 'governors' initiative' has been developed outside the UNFCCC, but the jurisdictions are covered under the national emission commitments in both the tropical forested and industrialised countries. As part of the governors' initiative, the forested province in the tropical forested country makes an agreement to sell REDD+ credits to companies in the industrialised country. The industrialised country includes the companies' emissions reports (including the purchased REDD+ credits) in its UN emissions balance sheet. Even though the trading of the REDD+ credit happened outside the UNFCCC, the reduction could be counted by both the tropical forested country and the industrialised country.

4 A tropical forested country reports emission reductions from forest loss in its national UN emissions balance sheet. The country proposes mainly using satellite images showing forest cover to calculate REDD+ reductions. Several private-sector REDD+ projects[9] take place in the tropical forested country, but the country does not keep track of how many exist, how many REDD+ credits these private-sector projects sell, or to whom they are sold (probably in an international voluntary market). Therefore it does not deduct emission reductions equivalent to the private REDD+ credit sales from its balance sheet. The buyer of the REDD+ credits from the voluntary market thus claims the same REDD+ emissions reductions that the tropical country is also claiming. Such double-claiming would not affect industrialised country reporting to the UN because the sale was in a voluntary market not linked to the UN climate agreement. Buyers of the REDD+ credit in the voluntary carbon market, however, may feel cheated if they pay for emission reductions that the tropical forest country also includes in its emission balance sheet it sends to the UN.


WHO TAKES THE CREDIT?
1.
2.
3.
4.
INDUSTRIALISED COUNTRY
INDUSTRIALISED COUNTRY
FOREST CARBON PARTNERSHIP
REDD
CARBON (temporarily) SAVED
TROPICAL FOREST COUNTRY
NATIONAL EMISSION BALANCE SHEET
ADDITIONS
SUBTRACTIONS
GCF task force
CARBON CREDIT
CARBON CREDIT

Box 3: How double-counting was dealt with under the Kyoto Protocol and beyond

Under the Kyoto Protocol, only industrialised countries adopted targets to reduce emissions, and there were three trading mechanisms they could use to buy emission reductions from other countries instead of making the reductions at home. Each mechanism had accounting rules to avoid double-counting:[10]

- Each country with an emissions target under the Kyoto Protocol was allocated emission units called 'Assigned Amount Units' (AAUs),[11] equivalent to the volume of emissions the country was allowed. If AAUs were traded between countries with emissions budgets, the UN transaction log reported the transfer and ensured that the unit sold by country A was deducted from country A's budget before it was added to the emissions budget of the buyer, country B.

- Joint Implementation (JI)[12] offset projects take place in countries with an emissions target. If credits from a JI offset project were sold, the country in which the JI project took place had to cancel the equivalent number of AAUs from its budget. Double-counting could occur if those AAUs had not been deducted from the balance sheet of the country selling the JI credit.

- Double-counting by both the seller and the purchasing country could not occur under the CDM, as projects could only be implemented in countries with no emission target and hence no obligation to submit reports to the UN.

- Even voluntary carbon markets have established rules to avoid some forms of double-counting. The Verified Carbon Standard (VCS) is a certification scheme used by carbon offset projects that sell credits in the voluntary carbon market. The VCS certifies offset projects located in regions where provincial governments have set emission limits for some industrial sectors and where regional carbon trading schemes are in operation, such as California. Before VCS issues credits to an offset project in a sector also covered by the emissions limit, the offset project has to show that, similar to the JI accounting rules of the Kyoto Protocol, the respective number of emission units has been cancelled from the region's emissions budget. Only when the offset project has demonstrated that units have been deducted from the regional emissions budget does VCS issue the credits to the voluntary offset project.[13]

Endnotes

1. See e.g. Fern (2015) Fighting fossil fuels first: making EU climate policy work for people and forests. http://www.fern.org/sites/fern.org/files/Fighting%20Fossil%20Fuel.pdf ; WRM (2015) REDD. A collection of conflicts, contradictions and lies, http://wrm.org.uy/books-and-briefings/redd-a-collection-of-conflicts-contradictions-and-lies/; Civil society submission to the UNFCCC on financing REDD+ of March 2012. http://www.fern.org/publications/ngo-statements/civil-society-submission-unfccc-financing-redd
2. See references in endnote 1 above.
3. Schneider L, Kollmus A, Lazarus M (2014) Avoiding the risk of double counting emission reductions under the UNFCCC. Stockholm Envinoment Institute Working Paper, p 20.
4. Concerns included the belief that large variations in accounting for reduced emissions from avoided deforestation would undermine the environmental integrity of the Kyoto Protocol, given the irresolvable issues of leakage, non-permanence of the storage of carbon in vegetation and soil, and the impossibility of verifying that reductions were additional to what would have happened without the offset project. Land-use activities in the CDM were restricted to afforestation/reforestation, with the issuing of temporary credits to recognise the non-permanent nature of carbon storage in trees.
5. World Bank Press Release, 11 December 2007: Forest Carbon Partnership Facility launched at Bali Climate Meeting. http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21582088~pagePK:34370~piPK:34424~theSitePK:4607,00.html; see also Fern and Forest Peoples Programme (2014) Implement in haste, repent at leisure. A call for rethinking the World Bank's Carbon Fund. http://www.fern.org/sites/fern.org/files/Implement%20in%20haste.pdf
6. http://unfccc.int/resource/docs/2010/cop16/eng/07a01.pdf
7. http://unfccc.int/resource/docs/2013/cop19/eng/10a01.pdf
8. There could also be a double-counting of efforts (though not of emission reduction claims) if the industrialised country donor counts Carbon Fund contributions as a contribution to its 'climate finance' while the tropical forest country includes the REDD+ reductions into its emissions balance sheet for the UN. Even more double-counting of financial contributions would occur if the World Bank Forest Investment Programme (FIP) funded the activities that generate the REDD+ credits the World Bank Carbon Fund, and then buys from the tropical forest country participant. If a country is a donor to the FIP as well as to the Carbon Fund, the country will pay twice for the same REDD+ credit, and possibly count both these financial contributions to the REDD+ credit as 'climate finance'.
9. The projects could also generate tradable credits from reducing the use of biomass/fuelwood by distributing efficient cooking stoves, and the reduction in use of fuelwood would be reflected in the seller country's emissions balance sheet while the private-sector offset project would sell its carbon credits based on the same claim of reduction of fuelwood.
10. It is possible that some double-counting has occurred even under the present Kyoto Protocol rules, for example where Clean Development Mechanism or Joint Implementation bioenergy projects sold credits to a country with a Kyoto Protocol target and the company buying these credits also counted them towards their renewable energy obligation. Annex 12 of the report from the 26th Meeting of the Executive Board of the CDM contains 'Guidance on double-counting in CDM project activities using blended biofuel for energy use', and describes situations with a risk of double-counting of emissions reductions claimed under the CDM. https://cdm.unfccc.int/EB/026/eb26_repan12.pdf
11. AAUs are the units that were issued to Annex 1 (industrialised) countries under the Kyoto Protocol. They represented the greenhouse gas emissions budget available during each commitment period of the Kyoto Protocol. One AAU is worth emissions equivalent to 1 tonne of CO_2.
12. Joint Implementation is defined in Article 6 of the Kyoto Protocol. The mechanism allows a country with an emission target under the Kyoto Protocol to sell credits generated through a project that reduced emissions to another country with an emissions target under the Kyoto Protocol. For every JI credit sold, the country in which the reduction project was located had to deduct one AAU unit from its balance sheet.
13. Schneider et al. (2014), op. cit., p 25, has more details.

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