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Date: 06/18/2012 06:26 AM
Subject: RE: FCPF: Methodological and Pricing Approach for the Carbon Fund

Dear Valérie, dear colleagues,

The Commission welcomes the outcome of the working group as a solid basis to discuss key design issues of future ERPAs and thanks its Members for their efforts.

Like the AFD, we regret we could not join the phone conference and thank Anja for having provided more details on request.

Bearing in mind that this is policy guidance and not yet the Methdological Framework or Pricing Approach itself, it still seems to us that some elements are overly detailled, whereas some others (like the non carbon/adaptative benefits already mentionned by Valérie) would in our view deserve more attention.

I attach a draft note to the file, which lists potential shortcomings that we have identified. I am still consolidating inputs from my colleagues in the climate, development and environment directorates and may send a revised version before the end of the week (please do not distribute yet, work in progress). Please allow me to stress the 3 most important areas where clarifications would be needed:

A) We do not necessarily consider that a price premium is required (athough it would be straightforward option) to encourage generating benefits beyond mitigation. We think however that **demonstrating credible mitigation requires more than carbon figures**. Tenure, governance and fair benefit sharing are not mere co-benefits, they are core elements that secure the transparent involvment and lasting support of local populations. Biodiversity, ecosystem services, fire prevention and resilience are not mere co-benefits, they are core elements that improve the permanence of terrestrial carbon pools and contribute to limiting the risk of reversals. Incentivizing explicitly greater social legitimacy and ecological robustness of REDD+ is therefore required to meet its objective of lasting and sustainable CC mitigation. They might not make a difference over the lifetime of an ERPA, whose contractual duration will probably be much shorter than the lifecycle of a forest. This means carbon focused approaches (A/R) may give the same or better yields (in carbon/$ terms) than more holistic ones in the short term. But in the longer run REDD+ is all about preventing anthropogenic and non-anthropogenic reversals. These elements must therefore be part of the core of the pricing negotiation as quantified variables. A handfull of synthetic indicators (like documented tenure, population density, institutional capacity and fragmentation) could be enough to achieve much better outcomes.

There are however other forest related functions that do not directly pertain to forest-based mitigation but rather to the adaptation of society to the impacts of climate change (like forestland securing watersheds, changing precipitation patterns and generally buffering the watercycle or providing water/food security and renewable substitution materials in a low emission, green economy). These elements may or may not be part of the final REDD+ package, they add value to REDD+ action but would not necessarily need to be incentivised under REDD+ because they can be valued otherwise. In a REDD+ context, we would restrict the use of the term co-benefits to these. I understand the Members of the WG found it difficult to agree on the definitions of **"inherent" versus "additional benefits"** and I think this important discussion needs to continue in Santa Marta.

B) The discussion on **cost effective MRV**. Estimating the carbon results of the 5 REDD+ activities requires the optimum combination of **approach(es)** for Activity Data (areas) and **tiers** for Emission Factors (tC/ha/y). A one size fits all, standard operating procedure could not accomodate the variety of country situations as regards monitoring capacities and would prevent the participation of some countries and regions (the rule rather than the exception in my book). It would also be a challenge to ensure consistency between the data used to set RLs/Crediting Baselines and the data used for actual MRV. At this stage, the prequisite (if any) should focus on acquiring better Activity Data covering large areas, *i.e.* on promoting Approach 3 (rather than Tier 2), for which information from the past can be derived from datamining in earth observation data, with the added benefit of simplifying considerably verification ex-post.

C) Performance indicators and incentives for REDD+ will be discussed in Qatar in December, where the closing of the LCA (and the future of REDD+ in SBI and/or ADP) and the decision on MRV are expected. It would be politicaly wiser not to prejudge any of these decisions in the CF six months before. Other elements however are already agreed (like the definition and sequencing of phases, the safeguards, and so on). We would encourage greater consistency with these elements, and the testing of various approaches to inform (rather than contrain further) the UNFCCC negotiations. In particular, the pricing can and should include different performance assessments models (we suggest lump payments in tranches conditioned on several objective/quantifiable targets including but not limited to carbon quantities or forest areas). Most UNFCCC standards are elaborated upon but the identification of natural forests is not addressed in the note as it stands. The MPA should highlight it as a way to implement UNFCCC REDD+ safeguard (a mandatory standard) on biodiversity and/or as a cost effective way to estimate degradation and restoration of intact forest landscapes in a tier 1 MRV for REDD+.

Kind regards to all, see you on Sunday.

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