

Forest Carbon Partnership Facility (FCPF)

Working Group (WG) on the Methodological and Pricing Approach for the Carbon Fund of the FCPF

Summary of the second WG conference call on February 14, 2012

Chair:

Duncan Marsh (The Nature Conservancy)

Participants:

José Carlos Fernandez (Mexico); Resham Dangi (Nepal); John Goedschalk (Suriname); Peter Horne (Australia); Andreas Dahl-Jørgensen (Norway/Germany); Jeff Fiedler (The Nature Conservancy); Andrew Hedges (Private Sector); Joshua Lichtenstein and Natasha Calderwood (Civil Society Organizations); Benoît Bosquet, Ken Andrasko, Marco van der Linden, Manelle Ait Sahlia, Alex Lotsch, Leonel Iglesias, and Rajesh Koirala (FMT). For unclear technical reasons, Nicholas Soikan Meitiaki (Indigenous Peoples) could not be connected. The FMT wishes to apologize for this inconvenience. We will seek a solution for the next call.

All background documents for this call are available at:

<http://www.forestcarbonpartnership.org/fcp/node/425>

Discussion Summary:

A. Chairing arrangements of the WG

Duncan Marsh was selected to chair the conference call prior to the call. The WG participants did not formally endorse this selection, so the FMT invites the members to voice any views on the chairing of future meetings, and make any suggestions in response to this summary.

B. Outline for the final report

Discussion:

The WG discussed a draft outline for the final report. This draft outline proposed the main topics for the report and the length and structure of the report.

WG members suggested the following changes and improvements to the outline:

- The report should clearly explain the intentions of the WG when drafting the principles and guidance and discuss how the WG sees the intended use of the outcome;
- Rephrase the titles of sections 3a and 3b to be consistent with the wording used for the two categories of the methodological framework (ER Accounting Elements and ER Programmatic Elements), as in background note #2 on Carbon Accounting Aspects for the Methodological Framework of the Carbon Fund of the FCPF;
- The report should include annexes to clarify how the WG arrived at its recommendations; and
- The report should clearly define the principles proposed and leave room for open questions to be discussed with the PC in cases where the WG cannot reach consensus.

One member expressed concern about the length and details of the report, emphasizing the need for a relatively short report in accordance with the mandate of the WG.

Follow-up:

No specific follow-up was identified.

C. Methodological Framework carbon accounting topics and potential principles

Discussion:

Based on background note #2 on Carbon Accounting Aspects for the Methodological Framework of the Carbon Fund of the FCPF, WG members discussed:

- The organization of the methodological framework based on a division between ER Accounting Elements and ER Programmatic Elements; and
- The ER Accounting Elements presented in the note.

Members expressed general agreement with the proposed organization of the Methodological framework. Some members were uncomfortable with the very detailed kinds of principles discussed in the Annex, and did not want to produce such elaborate ones in the WG product.

On the ER Accounting Elements, it was suggested that the titles of some of the elements, such as the one on methodological capacity, need to be rephrased to better represent the intention (e.g., does that element refer to the quality of the methods themselves, or to the capacity to use such methods?). As part of this, the WG should start considering definitions for each of the elements.

On the completeness and definition of the elements, the following suggestions were made:

- Important UNFCCC principles identified in the background note, in particular transparency and conservativeness/accuracy, should be incorporated among the elements to ensure that these are included in the Methodological Framework; and
- It should be ensured that accuracy expectations do not prevent inclusion of ER Programs from countries with very low capacity (in particular Least Developed Countries).

It was suggested that the elements need to be flexible enough: a) to account for the improvements and changes in ER Programs in a country, as they move forward over time in a stepwise approach from simpler to more complex methods and improved data, as well as b) to recognize developments in methodological guidance or policy under the UNFCCC and other regimes, as applicable.

Follow-up:

- All WG Members are invited to provide feedback to the FMT on the titles of the ER Accounting Elements and suggest text for their definitions. Andreas and Andrew are specifically invited to propose a new element, or reformulate one or more of the six proposed elements, so as to incorporate the principle of transparency defined in the UNFCCC texts.

D. Policy guidance on pricing methodologies

Discussion:

Based on the background note #3 on Quality and Non-Carbon Values as Price Determinants under the Carbon Fund of the FCPF, the WG members discussed:

- Linkages between the methodological framework and the pricing approach;
- The role of non-carbon values in the pricing approach.

Linkages between the methodological framework and the pricing approach

Two options were discussed:

- Under Option 1, the methodological framework would be designed to create a single high-quality standard that would not differentiate amongst ER Programs. Under this option there should not be a price differentiation based on quality either. Prices could still vary according to other parameters (including the conditions at the time of signing the ERPA, or the conditions at the time of delivery);
- Under Option 2, the methodological framework would allow for quality differentiation. This quality differentiation would then be reflected in the prices. For example, ER Programs assessed to be at stage 1 quality (meeting a minimum, but still high standard) would receive a base price to be determined. ER Programs assessed to be of an even higher quality would receive the base price to be determined plus a premium, also to be determined.

Some members expressed a preference for Option 2 since they considered that this approach would create a lower entry barrier for REDD+ countries to participate in REDD+ performance-based payments. This option was also considered to stimulate improvements in quality over time as national capacity is upgraded. This combines with the fact that the UNFCCC process is still developing and the requirements have not all been defined. While Option 1 looks simpler, it may also prove more rigid in the future.

Other members expressed a preference for Option 1 since they considered that this approach would be simpler to develop and implement and more in line with the pilot character of the Carbon Fund. It was noted by members that under this option it would also be possible to differentiate between the quality of ER Programs by applying conservative calculation methods. Under this approach, differences in quality would not lead to price differentiation but would be expressed in other ways (for example, in the volume of ERs expected from a program).

The role of non-carbon values in the pricing approach

The WG discussed if the pricing approach should reflect non-carbon values, meaning that tonnes of CO₂e with relatively higher non-carbon values could receive a higher price than those with lower non-carbon values. Here the application of a premium was considered as an option.

Some members supported the inclusion of a non-carbon premium to recognize the multiple benefits of forests. As part of this it was stated that the objective of the Carbon Fund should be to test performance-based payments and not just carbon markets.

Other members expressed concern since they felt accounting for non-carbon values is complicated and clear valuation methods are not yet available. They felt that the primary objective of the Fund is to test carbon-based payments and although valuation of non-carbon values can be explored, it should not directly be incorporated in the methodological framework or the pricing approach for the Carbon Fund.

Follow-up:

- The WG supported the proposal by the FMT to appoint a Technical Advisory Panel (TAP) by the Carbon Fund in order to:
 - Synthesize the different approaches developed to date to assess and price the non-carbon values associated with REDD+ activities; and
 - Help identify options for consideration by the Carbon Fund on how to build an assessment framework for non-carbon values that would also be reflected in the price.

It was suggested that, if possible, this TAP should provide its first inputs to the face-to-face meeting of the WG in Paraguay on March 25, 2012.

- The FMT is requested to provide examples on how differentiated pricing has been applied in other programs or funds both within and outside the World Bank if applicable;
- The FMT is requested to provide further information on the ERPA negotiation process and the role of the pricing approach.

D. Next steps

- ❖ The FMT prepared this summary report of the second call. It will also be posted on the FCPF web site under: <http://www.forestcarbonpartnership.org/fcp/node/425> on the Methodological and Pricing Approach for the Carbon Fund of the FCPF.
- ❖ The next call was originally scheduled for February 29, 2012. Because of the proximity of this date to the REDD+ Partnership meeting in London, the FMT suggests to move the call to March 1, 2012. The FMT will check availability of the WG members for that date and confirm the final date.
- ❖ The FMT will prepare background documentation on the methods topic for discussion in the next call (e.g., programmatic elements like eligibility criteria, safeguards), and the pricing topic (e.g., valuation approaches for ERs).