Architecture for REDD+ Transactions (ART) Overview
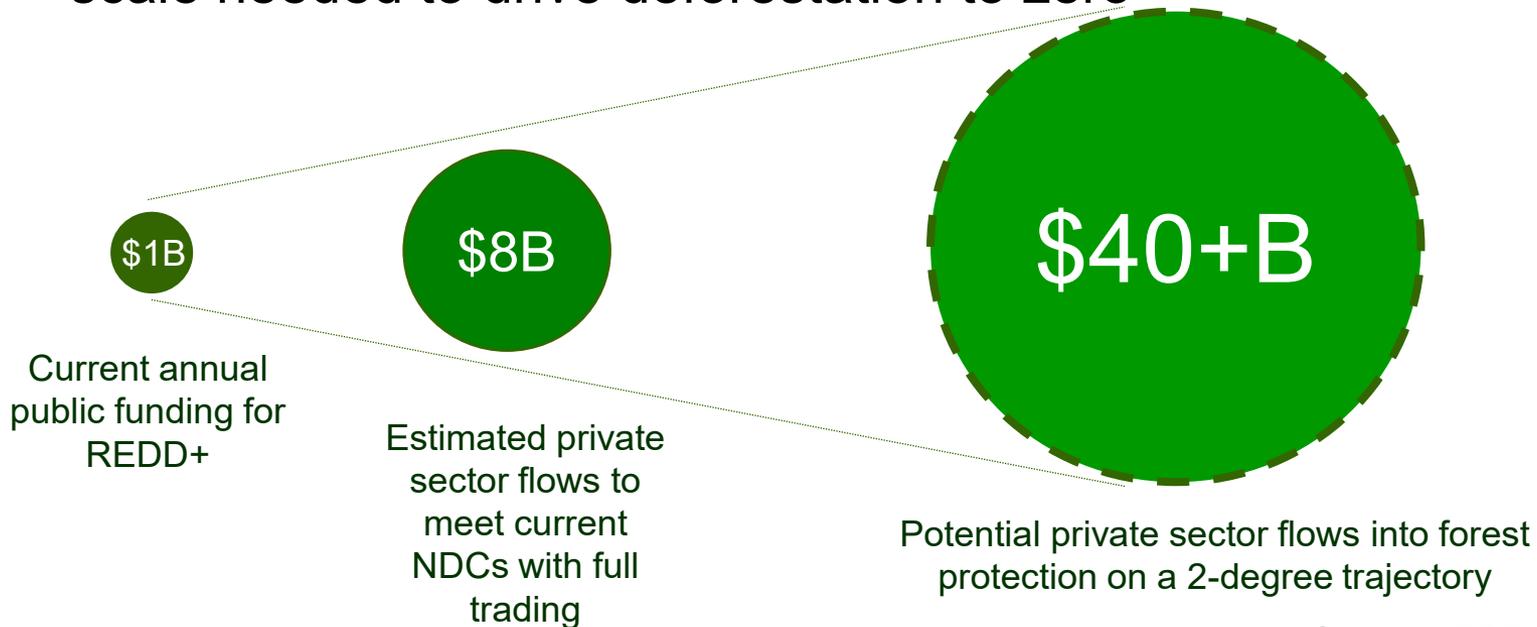
TREES 2.0

September 2021

Webinar Logistics

- To ask questions:
  - Type questions into '**Chat**' box near bottom of your webinar pane.
  - Questions can be submitted at any time during the webinar.
- Webinar will be recorded and posted to: www.artredd.org

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Need to Attract Private Capital at Scale for REDD+

- Public funding has provided the building blocks for jurisdictional REDD+ programs through "REDD+ readiness"

- Market-based private sector finance holds the key to achieving the scale needed to drive deforestation to zero

$1B

Current annual public funding for REDD+

$8B

Estimated private sector flows to meet current NDCs with full trading

$40+B

Potential private sector flows into forest protection on a 2-degree trajectory

Source: EDF analysis

Architecture for REDD+ Transactions (ART)

- A high-quality global voluntary carbon program to register, verify and issue REDD+ emissions reduction and removals credits to countries and jurisdictions to attract REDD+ finance at scale

- Designed to provide **confidence** needed in the **integrity** of forest emissions reductions and removals to **unlock new, large-scale investments** to **protect and restore forests** and **incentivize governments** to achieve those results

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Guiding Principles of ART

- Recognize countries with quantifiable emission reductions from slowing, halting and reversing forest cover loss

- Ensure consistency with UNFCCC COP decisions including the Paris Agreement, Warsaw Framework and the Cancun Safeguards

- Embody high environmental integrity

- Promote national ambition and contribute to Paris Agreement goals including progress toward NDCs

- Credit emission reductions at the national level or subnational level as an interim measure

- Set crediting baselines that initially reflect historical emission levels for deforestation and thereafter decline periodically to require higher ambition over time

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The REDD+ Environmental Excellence Standard (TREES)

- Builds upon the significant work of other REDD+ initiatives, including World Bank FCPF and UN REDD and is consistent with UNFCCC decisions

- Includes precise technical, safeguard, verification and registration requirements for jurisdictional crediting of emission reductions from reduced deforestation and degradation and from removals

- Creates emission reduction and removals (ERR) credits that are comparable across jurisdictions and fungible with ERRs from other sectors and can be used in voluntary and compliance carbon markets

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TREES 2.0

TREES 2.0 published August 2021

Areas of expansion:

- Approach for crediting removals (i.e., sequestration from reforestation and regeneration)
- Approach for crediting high forest, low deforestation (HFLD) jurisdictions
- Pathway for participation of Indigenous Peoples
- Revised approach for uncertainty
- Clarifications on double counting provisions
- Clarification on the flexible treatment of nested projects

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Eligible TREES Participants

National governments with either:

- National accounting area (no size threshold)
- Subnational accounting area
  - May include one or more jurisdictions no more than one administrative level down from national level and/or one or more recognized Indigenous Peoples territories
  - Jurisdictions or territories do not need to be contiguous
  - Must encompass a minimum area of 2.5 million hectares of forest

- Registration of subnational accounting areas that meet eligibility requirements allowed until December 31, 2030

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Eligible TREES Participants

<u>Subnational government</u> no more than one level down from national government

- Accounting area must include entire area of jurisdiction(s)

- Must encompass a minimum area of 2.5 million hectares of forest

- Must have national government approval to join ART

- Registration of subnational accounting areas that meet eligibility requirements allowed until December 31, 2030
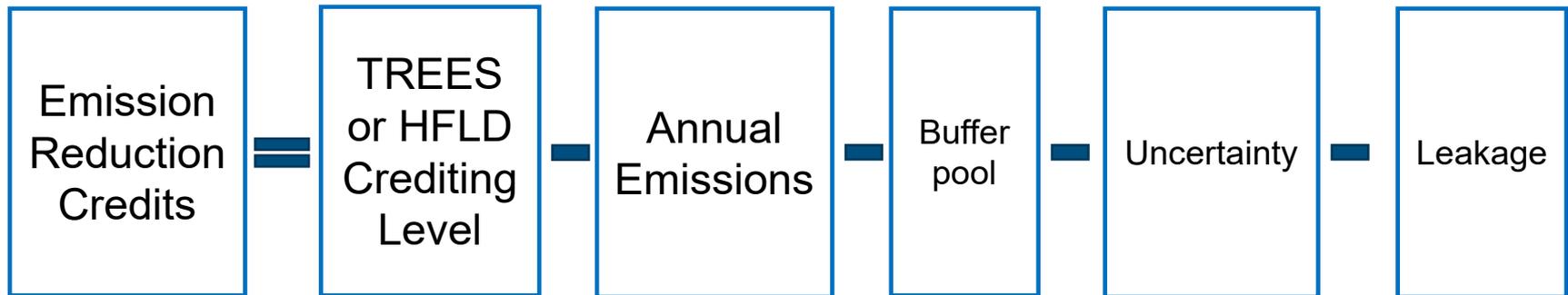
TREES Credits Overview

TREES Credits

- Emission Reductions calculated using the TREES Crediting Level or the High Forest, Low Deforestation (HFLD) Crediting Approach
  - Participants whose HFLD Score exceeds the minimum threshold may use the HFLD Crediting Approach
- Removals calculated using the Removals Crediting Approach
  - Participants must demonstrate deforestation and degradation emissions below their TREES Crediting Levels in order to use this approach
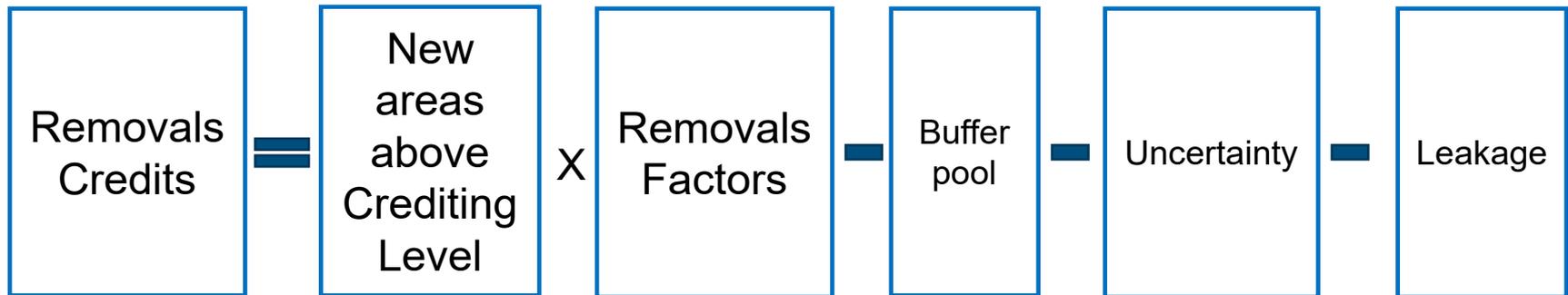
TREES Emission Reductions

Emission reduction (ER) credits =

| Emission Reduction Credits | = | TREES or HFLD Crediting Level | − | Annual Emissions | − | Buffer pool | − | Uncertainty | − | Leakage |

- After the ERs have been independently verified for conformance with TREES and approved by the ART Board, the Secretariat will issue serialized ERs to the country/jurisdiction in its registry account

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TREES Removals

Removals credits =

$$\text{Removals Credits} = \text{New areas above Crediting Level} \times \text{Removals Factors} - \text{Buffer pool} - \text{Uncertainty} - \text{Leakage}$$

- After the removals have been independently verified for conformance with TREES and approved by the ART Board, the Secretariat will issue serialized ERs to the country/jurisdiction in its registry account

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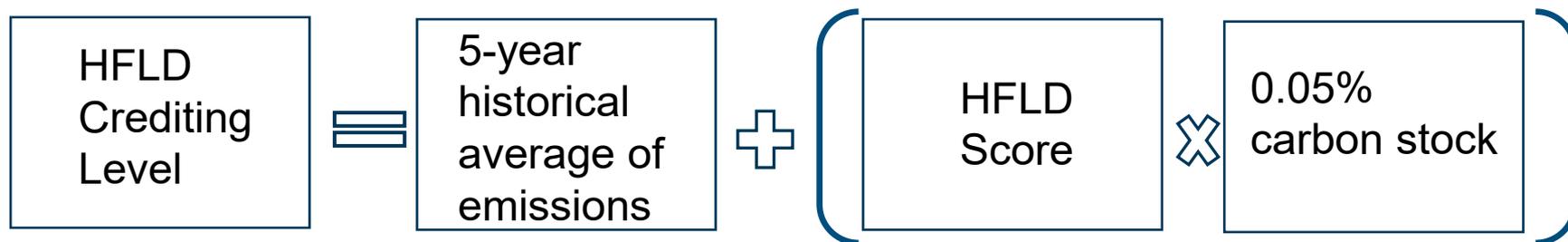Architecture for
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TREES Crediting Level

- Crediting level = 5-year historical average of emissions

- Crediting level valid for five years (i.e., the crediting period)
  - Recalculated at start of each crediting period

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HFLD Crediting Approach

- National or subnational accounting areas may calculate HFLD Score to determine eligibility

- HFLD Score =

   Forest Cover Score + Deforestation Rate Score

   - If Score is greater than 0.5, Participant is HFLD

HFLD Crediting Approach

| HFLD Crediting Level | $=$ | 5-year historical average of emissions | $+$ | (| HFLD Score | $\times$ | 0.05% carbon stock |) |

- May include foregone removals

- Sliding scale deduction is applied if annual emissions are greater than 15% above historical average

Removals Crediting Approach

- Optional approach that may be used if annual emissions are below the TREES CL

- Crediting for non-forest to forest only
  - Must be non-forest for 5-years prior to planting/restoration

- Area based approach
  - Crediting level
    - 5-year historical average of area of new planting or restoration
    - If natural restoration can be tracked separately from commercial planting, those areas may apply a zero CL

Removals Crediting Approach

- New areas that exceed Crediting Level eligible for crediting each year

- Removals = Eligible areas * removals factors

- May include areas of natural restoration initiated up to ten years prior to the start of the crediting period in eligible areas
  - Only incremental growth <u>during crediting period</u> is included

Uncertainty and Leakage

- Uncertainty
  - Based on uncertainty of ERRs
  - Sliding deduction based on risk of overreporting ERRs
  - Participants may recalculate uncertainty every 5-year and recoup deducted credits if uncertainty improves
- Leakage
  - Applied if subnational accounting area is used
  - 0%-20% based on percentage of a country's forests included in accounting area

Mitigating Reversals

- Reversals
  - Assessment to determine reversal risk and required contribution of credits to buffer pool
  - Maximum level of 25% reversal risk
  - Mitigating factors can lower risk
    - Legislation or executive decrees actively implemented and demonstrably supporting REDD+ (-5%)
    - Low variability of annual forest emissions (-10%)
    - Demonstrated national reversal mitigation actions, plan or strategy developed in alignment with Cancun Safeguard F (-5%)

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ESG Safeguards

REDD+ activities must be implemented in conformance with the Cancun Safeguards

- TREES outlines 16 themes of the Cancun Safeguards
  - Each theme has a structure, process and outcome indicator
- Participants must initially demonstrate conformance with all structure and process indicators and either demonstrate conformance with the outcome indicators or present a plan to meet them within 5 years

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Validation and Verification

- Validation after year 1 of each 5-year crediting period

- Verification required after years 1, 3, 5 of each crediting period
  - Verification optional in years 2 and 4
  - No credits will be issued without verification

- Validation and Verification Bodies (VVB)
  - Accredited by International Accreditation Forum (IAF) organization
  - Submit application to ART
  - COI assessment at each verification
  - Secretariat provides training and oversight to ensure consistency across verification bodies

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Double Counting

- TREES 2.0 clarifies provisions to avoid double counting

- Participants must make corresponding adjustments to NDC accounting in line with requirements of
  - Article 6.2 of the Paris Accord
  - ICAO's CORSIA

- Corresponding adjustment is not required for voluntary market transactions unless required or preferred by seller or buyer

Nesting Options Under ART

Any option agreed upon by the relevant parties is permissible;

- Share TREES credits
- Share revenues from sale of TREES credits
- Payments for ecosystem services or other financial incentives not linked to carbon credits
- Allow projects to register under other programs
  - Subject to requirements of TREES Section 13

- Subject to TREES ownership and Safeguards requirements

- More details provided in Nesting Under ART document located in Resources tab of ART website

ART Registry

- A robust, secure and transparent registry system, built for ART process flow and managed by the Secretariat

- Back end user interface allows login account access and upload of TREES documents and information

- Registry front end provides public access to TREES documentation, verification and credit issuance and status (active, retired, canceled)

- Secretariat issues serialized credits to Participant account for transfer or for retirement

Thank you

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