

The politics of afforestation and reforestation activities at COP-9 and SB-20

Emily Boyd¹, Esteve Corbera^{1,2}, María
Gutiérrez³, Manuel Estrada^{4*}

1. Tyndall Centre for Climate Change Research, UK

2. School of Development Studies, University of East Anglia,
UK

3. Department of Anthropology, City University of New York,
US

4. Secretaría de Medio Ambiente y Recursos Naturales,
Government of Mexico (the views expressed do not represent
those of the Mexican Government)

Email and telephone contact for correspondence:
e.boyd@uea.ac.uk; +44-1603-591380

* All authors have contributed equally to this paper
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Summary

Controversy has always characterised the negotiations for land use, land use change and forestry activities under the Clean Development Mechanism to the Kyoto Protocol. This paper reviews the policy debates on the theme and outlines the relevant decisions resulting from the negotiations at the ninth Conference of the Parties to the UNFCCC (COP-9) and subsequent twentieth meeting of the Subsidiary Bodies. In these sessions, most of the modalities and procedures for these activities have been already come to a close. The paper also provides a preliminary reflection on some of the implications of the agreed COP-9 Decision for sustainable development.

1. Introduction

The Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC) established the Clean Development Mechanism (CDM) as one of

its flexibility instruments, together with Joint Implementation (JI) and Emissions Trading (ET). The CDM enables an industrialised country (including its private companies) with greenhouse gas reduction targets to carry out emission mitigation projects in a developing country - where their cost is usually lower. The investor party receives Certified Emission Reduction units (CERs) in an amount equal to the additional greenhouse gas emission reductions achieved by the CDM project, whilst the host country receives investment, which is to be in line with a sustainable development path defined by host country priorities. Such emphasis on sustainable development was recognised in the mechanism's firstly stated purpose to "assist Parties not included in Annex I in achieving sustainable development and in contributing to the ultimate objective of the Convention" (Kyoto Protocol, Article 12), which differentiates it from the other two flexible instruments (both exclusive for Annex I countries).

One of the most contentious issues in the subsequent negotiations aimed at operationalising the Kyoto Protocol was the issue of sinks and the inclusion of Land Use, Land Use Change and Forestry (LULUCF) activities in the CDM. This issue was seen by some as a potential loophole by developed countries to postpone the implementation of domestic policies and measures to reduce green house gas emissions - which would in turn delay the development and competitiveness of climate friendly energy technologies. Other Parties, however, maintained that investment in the forestry sector was also important to halt deforestation (thus avoiding an important share of the global carbon emissions) and diversify the income-opportunities of local communities through reforestation activities.

At COP-7, three years after Kyoto, Parties finalised the rules for the development of CDM energy-related projects and introduced compromises and restrictions to the development of LULUCF activities during the first commitment period (2008-2012), limiting them to Afforestation and Reforestation (A&R). Meanwhile conservation and forest management became additional options to offset emissions exclusively within Annex I countries through domestic actions and JI project activities.

The adoption of modalities and procedures for A&R project activities under the CDM was scheduled for COP-9. The following section reviews the early policy debates regarding the inclusion of LULUCF activities

under the CDM. The central section addresses the COP-9 Decision regarding A&R project activities (Decision 19/CP.9) and the subsequent negotiations on the pending issue of small-scale A&R at the twentieth session of the Subsidiary Bodies of the UNFCCC (SB-20). The final section offers a general reflection on the likely implications of Decision 19/CP.9 and the discussions of SB20 for the sustainable development aims of the mechanism.

2. Brief history of LULUCF activities under the CDM

The CDM wording in the Kyoto Protocol text was unclear on the inclusion of LULUCF activities under the mechanism. This fact allowed political disputes to continue in post-Kyoto negotiations. A significant section of the G-77 and China, in representation of more than 130 developing countries, viewed developed countries' interest in LULUCF projects under the CDM as 'the creation of another big loophole in the implementation of the Kyoto Protocol' (Mwandosya, 2000: 135). They also feared that LULUCF activities under the CDM could divert attention from industrialised countries' responsibility to decrease domestic emissions, as well as reduce the significance of technology and financial transfers (Ramakrishna, 2000). Concerns were expressed regarding the lack of permanence of carbon sequestered in forests, as well as on the implications of committing lands for long periods, raising questions of sovereignty of developing countries (Schlamadinger and Marland, 2000). Other opposed observers emphasised the risk of including forestry activities under the mechanism, saying that these could lead to the creation of neo-colonialist "Kyoto lands", characterised by the spread of commercial plantations to the benefit of large corporations (Dutschke, 2001; Kill, 2001). In contrast, LULUCF-CDM advocates, including the Umbrella Group and an informal coalition of Latin American countries called GRILA¹, claimed that all types of abatement strategies had to be put in practice for lowering the costs of reaching emissions targets under the commitment period. It was also argued that emissions from deforestation were responsible for a significant percentage of overall global emissions and that CDM projects could work against this trend and bring financial incentives to conservation and rural development programmes (Fearnside, 2001; Klooster and Masera, 2000; Masera and Sheinbaum, 2000).

Negotiations leading to COP-9

Decision 17/CP.7 to the Marrakech accords at COP-7 consolidated compromises and restrictions to the

¹ The Umbrella Group represented a loose alliance of Annex I Parties not affiliated with any other negotiating group, and includes Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the US. GRILA included most Latin American countries except Brazil and Peru, which were not supportive of including sinks under the CDM.

development of LULUCF projects under the CDM. The Decision states that, for the first commitment period (2008-2012), the eligibility of LULUCF activities is limited to A&R activities² and only up to a ceiling of 1% of the fivefold amount of a Party's 1990 base year emissions -that is, 1% per year during the five year commitment period. Only CDM projects established as early as 2000 and submitted for registration to the Executive Board of the CDM before 2006 are considered eligible for the first commitment period. Concurrently, Parties established the Adaptation Fund (UNFCCC Decision 10/CP.7) to assist particularly vulnerable developing countries to meet adaptation costs, funded partly from 2% of the share of proceeds from CDM projects (Boyd and Schipper, 2002). The other two flexibility mechanisms, those exclusive for Annex I countries, will be exempted from this "adaptation levy".

The Decision requested the Subsidiary Body for Technical and Scientific Advice (SBSTA) to develop definitions and modalities for including A&R project activities under the Clean Development Mechanism with the aim of adopting a Decision at the ninth session of the Conference of the Parties (paragraph 2e, *ibid.*). COP-7 further decided that this new Decision shall be in the form of an annex on modalities and procedures for A&R project activities for the CDM reflecting, *mutatis mutandis*, the annex to Decision 17/CP.7 on modalities and procedures for the CDM.

SBSTA, at its sixteenth session (SBSTA-16), agreed on terms of reference and an agenda for the work on this issue, inviting Parties to submit draft text for future negotiations. Almost half the submissions subsequently received by the Secretariat (9 out of 20) were from Latin American countries, including a common submission from Bolivia, Colombia, Ecuador, Guatemala, Nicaragua and Uruguay. This reflected their interest in the issue, also manifested their participation in the AIJ pilot phase, hosting 15 out of 20 LULUCF-AIJ projects (UNFCCC, 2002). This also anticipated the prominent role they would play during the negotiations of COP-9.

The negotiation process at COP-9 was assisted by a series of inter-sessional meetings hosted in Latin America and Africa, organised by FAO, UNEP and IUCN under request of several Latin American and African countries. These meetings served as a forum where experts explained the highly complex technical

² As per Decision 11/CP.7, 'Afforestation' is the direct human-induced conversion of land that has not been forested for a period of at least 50 years to forested land through plating, seeding and/or the human-induced promotion of natural seed sources. 'Reforestation' is the human-induced conversion of non-forested land to forested land through plating, seeding and/or the human-induced promotion of natural seed sources, on land that was forested but that has been converted to non-forested land. For the first commitment period, reforestation activities will be limited to reforestation occurring on those lands that did not contain forest on 31 December 1989' (FCCC/CP/2001/13/Add.1).

issues involved in LULUCF-CDM negotiations and where negotiators had the chance to exchange ideas and identify common positions. The meetings also favoured the mutual understanding of proposals with other Parties, such as the EU, China and Canada, who were invited to some of the meetings. In June 2003, delegates at SBSTA-18 drafted a heavily bracketed proposal on modalities and procedures for A&R to be finalised at COP-9 six months later. The main issues that had to be settled included the base year for reforestation activities, baselines and additionality, leakage, non-permanence, social and environmental impact assessment, and the use of genetically modified organisms and invasive alien species. What follows reviews negotiations at COP-9, which resulted in what was widely regarded as a “delicately balanced package”, skilfully crafted by co-chairs Thelma Krug (from Brazil) and Karsten Sachs (from Germany).

3. COP-9 outcomes (Decision 19/CP.9)

Base year

Although the Marrakech accords in Decision 11/CP.7 limit reforestation activities to those occurring on lands that did not contain forest on 31 December 1989, this reference year remained in brackets in the draft negotiating text. Prior to SBSTA-18, Canada and some Latin American countries had proposed changing the year to 1999, noting that this would open up lands that had been more recently deforested to forest restoration. This would also mean an increased benefit in terms of biodiversity conservation, and enable more countries to participate –in particular the less developed, which, they argued, lack land use data before 1999. The EU, AOSIS, Malaysia and Brazil opposed this proposal arguing that changing the definitions on A&R agreed in Decision 11/CP.7 would go against the coherence of the policy making process³.

Parallel to Parties’ discussions, some external observers also noted that changing the reference year to 1999 would increase the land available for projects, which would in turn depress the price of credits. This would then discriminate against the more sound and costly initiatives, such as community-based agroforestry and forest restoration projects. The group of NGOs under the Climate Action Network (CAN) argued that this could create a “perverse incentive” to immediately clear native forests so these areas could be available for CDM credits in the future, opening up recently deforested land to large commercial plantations (CAN, 2003). In opposition, others argued that the existing 1% cap on

the use of CERs from CDM-LULUCF projects during the first commitment period already ensured that the market would not be flooded by sink credits. They noted that changing the base year to 1999 would have to be revised eventually for subsequent commitment periods and would hardly represent a perverse incentive given the uncertainties regarding the future price of credits and the future of the Protocol itself. In the end, the Marrakech accords prevailed and the reference year for the definition of reforestation activities was maintained at 1989.

Baselines and additionality

One of the key discussions concerning baselines for A&R CDM projects was the definition of carbon pools and sources of emissions to be taken into account in establishing the baseline and the actual net greenhouse gas removals achieved by project activities. The final Decision established a definition for baselines that considers only the changes in carbon stocks and a definition of project scenario that equals the verifiable changes in carbon stocks minus the increase in greenhouse gas emissions by sources resulting from its implementation.

This reflects a balance between the concerns of some Parties (mostly European) against the crediting of emissions avoided by project activities, and the need to account for possible additional emissions generated as a result of their implementation. At the same time, the definition adopted avoid an unfair deduction of credits due to emissions that would anyway occur in the baseline scenario. One could take, for instance, a hypothetical case where an agroforestry project is developed in an area where there are actually emissions generated by cattle. After the implementation of the project, it is most likely that the cattle would remain in the area and so would the emissions. According to the definitions adopted, these emissions would not be deducted from the net carbon sequestration achieved by project activities. This could even remain true if more cattle are brought to the project area and the emissions increase, as long as this does not happen as a result of project implementation.

Baseline methodologies will have to be developed based on existing or historical changes in the carbon stocks, those expected from a land use that represents an economically attractive course of action, or from the most likely land use at the time the project starts. These approaches emulate those agreed for other CDM energy projects⁴. Project participants may choose not to account for one or more carbon pools and/or emissions if there is transparent and verifiable information that the choice

³ Some could argue that in the past other approved Decisions had been changed as a result of political bargaining. For example, Russia’s cap on sinks use for compliance, which was established at 17 MtCO₂/year at COP-6-2 (see Decision 5/CP.6) was moved up to 33 MtCO₂/year at COP-7 (see Decision 12/CP.7).

⁴ Except from one option that applies to energy and not forests, which allows to establish the baseline according to average emissions of similar project activities undertaken in the previous five years.

will not increase the expected greenhouse gas result of the project.

As for additionality, under the terms of Decision 19/CP.9, a project is considered additional "if the actual net greenhouse gas removals by sinks are increased above the sum of the changes in carbon stocks in the carbon pools within the project boundary that would have occurred in the absence of the registered CDM afforestation or reforestation project activity" (paragraph 18, *ibid.*). The Decision parallels that for energy projects (decision 17/CP.7) in that it leaves it up to the Executive Board of the CDM to decide on a case by case basis which baseline methodologies effectively ensure that projects would not have occurred in a business as usual scenario.

Accounting for leakage

Because projects do not take place in a vacuum, it is possible that activities associated with removing emissions in one place lead to an increase elsewhere. This is what is known as negative leakage. This leakage can also be positive, as when a successful project is emulated and removals take place also outside the project. Accounting for leakage is then, like calculating the baseline, a complicated matter that entails forecasting beyond the project's boundaries – both geographically and temporally. Some Parties, such as Canada and Bolivia, favoured accounting for both positive and negative leakage, or at least, as Colombia argued, recognising positive leakage - without crediting - as an extra greenhouse gas benefit of the project.

The EU, Brazil and Norway opposed positive leakage accounting because it is not verified and/or monitored and, additionally, Decision 17/CP.7 did not allow CDM energy projects to credit positive leakage. This proposal for positive leakage also posed accounting problems, as in a hypothetical case provided by co-chair Krug of two neighbouring projects, in which it would be impossible to decide which of the two projects was responsible for positive leakage in a third adjacent area, and therefore deserving of the credits.

In the final Decision the latter argument prevailed and positive leakage was excluded from accounting. As regards negative leakage, Norway had introduced text recommending an assumed 100% leakage default in cases where significant sources of leakage could not be estimated nor prevented - a proposal that was supported by NGOs under CAN. Yet this proposal was also rejected. The final rules merely state that all projects must account for potential leakage and include measures to minimise it.

Accounting for non-permanence

The SBSTA-18 draft negotiation text included two approaches for accounting for non-permanence of carbon offsets in A&R activities. One was the insurance approach, elaborated by Canada and

supported by Bolivia and other Latin American countries⁵; the other was the temporary crediting approach, based on a joint submission by the EU with Latvia and the Czech Republic which was in turn a modified version of a proposal submitted back in 2000 by Colombia⁶. This latter approach was further elaborated during the SBSTA-19 sessions incorporating elements of a joint proposal by the EU and Brazil for "removal CERs."

Under an insurance approach, project participants could insure the CERs generated by the project (which implies to pay a premium to the insurer) and, in case of a loss during the project lifetime – plus an extra period of 10 years –, the insurer would have to replace the CERs with other permanent carbon credits, such as ERUs, AAUs or RMUs⁷. The principal argument in favour of the insurance approach was that it could imply higher credit value (provided that the cost of insurance remained low enough), as they would have been considered permanent credits when issued. However, a set of technical questions limited the validity of this approach, including the uncertainty in the prices of CERs with the consequent impossibility for insurers to establish a fixed premium in long-term projects and institutional difficulties in developing countries relating to insurance markets (Wong and Dutschke, 2003).

In the end, Parties agreed to two new types of CERs to deal with the issue of non permanence: a Temporary CER (tCER), which expires at the end of the commitment period following the one during which it is issued, and a Long-term CER (lCER), which expires at the end of the crediting period of the project activity. Prior to their expiry date, both tCERs

⁵ A Canadian submission during pre-COP-9 sessions considered three options for making the insured credits permanent. First, to exchange the insured credits (iCERs) for an equal number of AAUs, CERs or ERUs. Second, to subject the project to a legally binding "protected status", such as a national park, protected area, covenant or easement. And third to subject the project to long-term sustainable management agreement for the land and its carbon reservoir, in accordance with domestic legislation. All options had to be insured and monitored for a fixed number of years, which went up to a maximum of 30 years for a reforestation project with a crediting period of 20 years not renewed (Submission by Canada, 26 November 2003).

⁶ The *Colombian proposal* (originally submitted in September 2000 and contained as a Colombian submission in document FCCC/SBSTA/2000/MISC.8) suggested that those carbon credits obtained by a developed country from forestry projects would expire when the carbon is emitted to the atmosphere for whatever reason. Then, the holding country would have either to reduce national emissions by that amount or buy the same number of carbon credits from another forestry project.

⁷ Emission Reduction Units (ERUs) derive from removals of greenhouse gases in Joint Implementation projects under article 6 of the Kyoto Protocol. Assigned Amount Units (AAUs) derive from removals of greenhouse gases in Parties' assigned amounts through energy-related activities in Annex I-Parties, which can be traded under the provisions of article 12 of the Kyoto Protocol. Removal Units (RMUs) derive from removals of greenhouse gases in Parties' assigned amounts through the land use sector of Annex I-Parties, which can also be traded under the provisions of article 12.

and ICERs have to be replaced with AAUs, CERs, ERUs, RMUs (or other tCERs in the case of tCERs), but not with ICERs. In addition, ICERs must be replaced in case of a reversal, or when the obligatory 5-year certification report is not provided. To ensure credits are replaced in time, each national registry shall include ICERs and tCERs replacement accounts for each commitment period.

Parties agreed that project participants must choose one of these two approaches, which shall remain fixed for the crediting period, including any renewals. The crediting period was established at either 20 years - which may be renewed at most two times (up to 60 years), provided that for each renewal the baseline is reviewed - or a maximum of 30 years. For both types of credits, verification is required every five years with the exception of the first verification, which may be undertaken at a time selected by project participants. Following each verification - and in case the amount of carbon sequestered has increased or at least remains constant -, tCERs will be issued as equivalent to the total amount of carbon sequestered by the project. In the case of ICERs the issuance shall cover only the increase in carbon stocks since the last verification. No banking is allowed, that is, all credits are to be used for the commitment period for which they are issued.

One important difference between ICERs and tCERs is that the former issued and in holding accounts for a specific project activity become ineligible for transfer until the Parties concerned complete the replacement of such ICERs with CERs, AAUs, ERUs or RMUs. The quantity of ICERs to be replaced by each Party will be calculated by dividing the amount specified in the request for replacement by the quantity of ICERs issued for the project activity held in each registry not yet replaced or transferred to the ICER replacement account. In the case of tCERs, carbon reversal does not invalidate the issued tCERs but affects (diminishing or nullifying, in case of total carbon loss) their re-issuance.

Social and environmental impact assessment

Already at COP-8 in New Delhi, discussions on sinks in the CDM centred on the issue of socio-economic and environmental criteria for project assessment. At SBSTA-18, Tuvalu, on behalf of AOSIS, the EU with the Czech Republic and Latvia, as well as Norway and Switzerland, had each introduced a proposal detailing a list of issues that had to be addressed in the analysis of environmental and socio-economic impacts of project activities (UNFCCC, 2003). The range of issues to be addressed included, among others, "the needs of indigenous and forest-dwelling peoples" and "expected effects on biodiversity and ecosystem integrity within the project area and adjacent ecosystems". These issues entered the draft negotiating text at COP-9 as "Appendix E" and they

would become one of the most contentious aspects of discussion.

The majority of the G-77 members and China, with the notable exception of AOSIS, and supported by Canada, argued that the definition of a standard list of sustainable development criteria would impinge on national sovereignty. It was also opposed on more practical grounds arguing that such assessment would significantly augment the project transaction costs, which were already anticipated to be very high. After extensive negotiations, the package deal removed Appendix E and inserted instead a more general list of areas of enquiry for the impact assessment in Appendix B, which outlines the information required in the Project Design Document (PDD) for A&R activities under the CDM. These areas include information on hydrology, soils, risk of fires, pests and diseases, as well as local communities, indigenous peoples, land tenure, local employment, food production, cultural and religious sites, and access to fuelwood and other forest products.

Drawing on the Project Design Document guidelines for CDM energy project activities, a project's preparation phase should be subject to a period of local stakeholder comments and, prior to registration under the CDM Executive Board, subject to 45 days of scrutiny by Parties, stakeholders and UNFCCC accredited non-governmental organisations. In relation to stakeholder involvement, South Africa, Norway and the EU advocated to increase to 60 days the period to receive comments on the validation report by local stakeholders, Parties and UNFCCC accredited NGOs, which was set in 30 days for energy projects (Decision 17/CP.7). The period for comments was finally set at a conciliatory 45 days.

Genetically modified organisms (GMOs) and invasive alien species (IAS)

Referred by some delegates off the record as a "non-issue", the question of GMOs and IAS came into the open on the third day of COP-9 formal negotiations, when Norway, who had earlier proposed excluding these from project activities, introduced alternative text. The text contained an option to use IAS and GMOs, provided their introduction had been subject to advanced informed authorisation by a competent national authority of the host Party, and that a risk analysis had been carried out in accordance with host Party procedures -an option supported by Canada, Japan, New Zealand and Australia.

The question was not openly discussed in the formal contact groups even though a number of draft proposals were circulated and discussed informally by delegates during COP-9. Yet, it was included in the Decision adopted by the COP, as "[R]ecognizing that host Parties evaluate, in accordance with their national laws, [potential] risks associated with the use of [IAS and GMOs in A&R project activities]", and likewise, that "Parties included in Annex I evaluate, in accordance with their national laws, the use of [tCERs

and/or ICERs] generated from [A&R] project activities that make use of [IAS and GMOs]". Support of this text gained Fossil of the Day awards to Canada (twice), New Zealand (twice), China, Japan, Argentina, France and Ireland. Even Norway was awarded one, for it was found to deserve "some friendly fire for temporarily chickening out on the clear GMO and IAS language"⁸. Still, in their final statements, Australia and the US voiced their discontent over the singling out of GMOs in the Decision.

Small-scale projects

A number of Latin American countries, including Nicaragua, Colombia, Costa Rica, Bolivia, Uruguay, Chile and Mexico, put forward a proposal to include small-scale and special projects under the CDM, subject to simplified modalities and procedures to be developed by the Executive Board. These Parties argued that small-scale projects broadened the scope of the beneficiaries because the reduction of transaction costs in project preparation may enable local communities to participate. These countries also argued that simplified modalities for small projects providing environmental services offered a chance to make explicit the positive synergies across UN conventions (UNFCCC, UNCCD and CBD) and national or regional strategies for the sustainable management and conservation of forests and water resources. The original text, presented to the contact group by Nicaragua, defined these special projects as those falling under any of the following categories:

- Small-scale project activities, defined as those afforestation and reforestation project activities that remove on the average less than 45 kilotonnes of CO₂ equivalent per year (Kt CO₂eq/year);
- Small holder and community project activities, defined as those afforestation and reforestation project activities involving, as host country project participants, low-income communities as defined by the host country, and remove on the average less than 60 Kt CO₂eq/year;
- Environmental services project activities, defined as those afforestation and reforestation project activities that remove on the average less than 60 Kt CO₂eq/year where more than 50% of the land area covered by the project activity will be established as a protected forest for the protection of one or more of the following:

⁸ Fossil-of-the-Day awards are given every day of the conference by the Climate Action Network based on Parties' performance in the negotiations. See www.fossil-of-the-day.org

biological diversity, water, soil, cultural heritage, scenic beauty, and human nutrition.

The proposal was taken up in informal consultations, although it soon became clear that environmental services project activities would not be part of the final deal. Heated negotiations took place on the sequestration threshold for small-scale activities and concerning who should define the simplified modalities and procedures for small-scale projects: either SBSTA or the CDM-Executive Board (as is the case for simplified modalities for CDM energy projects).

In the final Decision, only small-scale projects expected to result in net removals of less than 8 Kt CO₂eq/year are allowed. These are to be developed or implemented by low-income communities as determined by the host Party. Instead of having the Executive Board decide on the simplified modalities and procedures to apply to these small-scale projects, delegates opted, as Thelma Krug said, to "take a more cautious approach" and invited Parties and accredited observers to submit their views on the matter by February 28th 2004. Taking into account these submissions and the Executive Board's relevant work, the Secretariat produced a technical paper in time for SBSTA-20.

4. Negotiations at SBSTA-20

At the twentieth meeting of the subsidiary bodies in Bonn in June 2004, discussions on small-scale A&R CDM projects focused on 11 submissions of Parties' views on simplified modalities and procedures for small-scale A&R CDM projects and a technical paper provided by the Secretariat that encompassed Parties' views. Measures to facilitate the implementation of projects – the other pending issue – were left for discussion during SBSTA-21/COP-10. The technical paper noted that most Parties saw the need to: clarify issues on the calculation of the size limit of 8 Kt CO₂; develop project categories; elaborate a simplified project design document; and establish criteria for addressing de-bundling. Parties also proposed options relating to the simplification of baseline and monitoring methodologies, additionality and leakage (FCCC/TP/20004/2).

Following lengthy discussions, Parties failed to reach agreement on many matters and decided to forward the issue to COP-10 to possibly deal with it all as a package. For example, discussions on the issue of bundling and monitoring of projects got entrenched on the possibility of bundling small scale projects over the limit of 8 Kt CO₂eq/year, an option which has been allowed for energy projects over 15 Kwh/Mw/Kt. The G-77 was against this proposal until the final day of negotiations when they accepted a draft text allowing projects bundling (project coordination by the host country over 8 Kt CO₂eq/year) albeit surprisingly Canada requested to have the text bracketed. In the end all text relating

to bundling in the Annex to the draft decision text FCCC/SBSTA/2004/L.9 remained bracketed and forwarded to COP-10.

A number of developing countries, in particular the Africa group, expressed frustration regarding process-related issues. In particular, the level of access and transparency of these discussions was criticised, as many important issues for developing countries were discussed in informal "friends of the chair" groups. Overall, the discussions seemed to be torn between the need for complicated, technical procedures to ensure integrity on the one hand, and practical implementation at the community level on the other. Some observers noted that the rules being discussed for small-scale CDM are becoming increasingly complex and technical, which could lead to difficulties in implementation with communities having, for instance, to respond to complex requirements for monitoring and leakage.

5. What do the Decision 19/CP.9 and ensuing SB-20 negotiations mean for sustainable development? Some preliminary reflections

Evaluating the capacity of A&R project activities to promote sustainable development through an analysis of the COP-9 Decision and SB-20 negotiations on A&R under the CDM is not an easy task. In fact, we are aware that this would only be plausible once projects start operating and evaluations take place across all levels of project management and implementation. However, we believe that some preliminary reflections can be offered, ultimately contributing to a more accurate understanding of A&R activities' potential in promoting sustainable development.

The baseline year for reforestation activities has implications at the national level over the selection of potential areas for A&R activities and the geographical distribution of projects, which in turn has equity implications. The definition of baselines and additionality and their interpretation by the Executive Board may have implications over the technical design and the number and quality of projects. Therefore, this will influence the magnitude of the flows of funds, technologies and know-how to developing countries. The linkages with local sustainable development are clearer when it comes to issues of project participation, socio-economic criteria and impact assessment, and GMOs.

Because the overriding concern of negotiators is, understandably, the integrity of the Protocol as a means to reduce overall greenhouse gas emissions, the modalities and procedures governing sinks in the CDM focus squarely on accounting for carbon stocks. The pressure to fully account for changes in carbon stocks is even more critical because the CDM is a market mechanism whereby in exchange for establishing sinks in one area, emissions are allowed elsewhere. Unfortunately, the exacting and complicated rules for assuring that the

temporary reduction of carbon is credible implies high transaction costs that, in turn, result in a certain bias in favour of large commercial plantation projects precisely of the kind opposed by NGOs. The problem is that this accounting is abstracted from the reality of human-ecological interactions on the ground, which are highly dynamic. This is even more so for low-income rural communities, who have few backups to rely on in times of need, and no-resources to risk in an up-front investment of the type required by the CDM registration procedures. Yet, it is in the interest of all to ensure that projects do deliver social benefits and that they are credible also in terms of sustainable development. Numerous examples of successful community forestry exist that can be used to make sure this is so.

Ensuring effective participation

Small-scale A&R projects subject to simplified modalities and procedures are essential because they are the only way to ensure that low-income communities benefit directly from the CDM. The contribution of small-scale A&R-CDM activities to sustainable development will ultimately depend on the ability of project developers and promoters (including governments) to facilitate and support effective participation of stakeholders. This is important given potential ambiguities in the interpretations of the negotiated text, such as who are project participants (PPs), as defined in the Marrakech Accords, and to what extent PPs include local social groups.

It is our understanding that PPs are project developers while stakeholders are those likely to be affected by the project. The same is true for larger A&R projects activities. The management structures established between project developers and local stakeholders will be fundamental to ensure that local communities receive adequate information and that they are fully aware of the nature of the project in which they are engaging and the commitments it implies. We suggest that the more productively involved these communities are in the project activity, the greater the likelihood that the project will be sustained and sustainable.

Host country criteria for impact assessment

The issue of socio-economic and environmental criteria for project impact assessment is related to concerns of integrity of the Kyoto Protocol. Responsibility for monitoring sustainable development impacts is not stated in any of the decisions linked to the CDM. Ultimately, we think that the responsibility will lie with project developers who should comply with national criteria. Hence the country is responsible for establishing the criteria, but the project developers should demonstrate during implementation that indeed they are complying and that, in general, projects are socially and environmentally sound.

Some observers of CDM capacity building in developing countries note that national governments

do not have sufficient institutional capacity or interest in the concept of SD criteria, while other observers speculate that the process of creating SD criteria could help to focus governments on their wider national SD objectives. To ensure national criteria are representative of multiple stakeholder interests, governments would have to engage in policy dialogue and processes that take on different views. There exist some good examples of this, for example, Colombia, Bolivia and Uruguay developed procedures and criteria following a wide consultation process with relevant actors at the national level, some of them funded by UN agencies (UNDP, UNEP). An efficient way to proceed might be to build on existing processes such as the Poverty Reduction Strategies Papers and National Strategy Studies, since multi-stakeholder processes can be costly and lengthy. However, most often the problem is less one of having national criteria than of having capacity to apply it. Here again, the responsibility will fall on project developers and other entities involved, under the watchful eye of interested non-governmental organizations and civil society. Some additional issues requiring awareness include stakeholder access to information and capacity building.

GMO controversy

A controversial aspect of decision 19/CP.9 for local (and global) sustainable development is the non-categorical exclusion of GMOs and IAS from project development, basing their use contingent upon host country legislation and the explicit approval of project developers and investors. Some practitioners argue that IAS might can be a good option to avoid desertification processes for example while most environmental groups maintain that the Decision on GMOs opens the door to environmentally damaging projects (Equity Watch, 2001; Sawyer *et al.*, 2003). We suggest that the environmental and health uncertainty associated with GMOs requires the recognition that their application, if aimed to be in line with sustainable development, would require extensive consultation and deliberation with local stakeholders and with non-project related national and regional actors under the provision of adequate information. Most developing countries do not have a clear legislation on the issue in place or available information and they have not debated the topic with their civil society. For example, by looking at the controversial debate regarding the potential use of GMOs in the UK, one appreciates the distinct levels of knowledge across stakeholders and the important role played by information and open discussions in relation to final public decisions regarding GMOs impact upon the environment and human health (Grant *et al.*, 2003).

6. Conclusion

This paper set out to outline and review the COP-9 Decision 19/CP.9 and the subsequent SB-20 negotiations on A&R activities under the CDM and to reflect on their implications for sustainable development. It is felt that the international discussions resulted in a number of specific decisions that are likely to imply both barriers and opportunities for sustainable development. One key barrier, for instance, is the decision to limit small-scale A&R activities in the CDM to 8 Kt CO₂eq/year due to the potential transaction costs involved. On the other hand, the 8 Kt CO₂eq/year threshold might ensure it is low-income communities that benefit. It is clear that, even though LULUCF might provide important opportunities for some local populations in developing countries, small-scale projects are also likely to represent only a very small percentage of all CDM project activities. In regards to the discussions on socio-economic criteria for project activities and stakeholder involvement, here is where there is central role for national governments and civil society to ensure that project developers abide to credible sustainable development criteria. To ensure legitimacy, these criteria will in turn have to be determined by governments in partnership with wider civil society organisations. The same can be said about the risks of introduction of GMOs and IASs.

For some developing countries, the decision to include LULUCF project activities at all in the CDM equates to an important development opportunity. Such activities open up new opportunities for project developers to provide financial resources and capacity to low income rural communities in need of such resources. Critically though, project developers will have to be creative about ways to cope with the high transaction costs and demanding rules while responding to communities' needs and realities. On another scale, many developing countries are increasingly relying on the international climate community to mobilise financial and technology transfer to fund climate protection and development. The international discussions on LULUCF and CDM in fact reflect the critical situation of globally declining development assistance.

Despite progress to define modalities and rules for A&R projects under the CDM, COP-9 and the subsequent SB-20 discussions strongly highlight an increasingly "complex" technical discussion at the global level, which has bewildered many onlookers as well as participants of the process. SB-20 negotiations in particular emphasised the polarisation between those that believe in "speeding up" implementation and those who continue to push for the integrity of the Protocol. In the light of these technical complexities, a core challenge for project participants and stakeholders will be to effectively and equitably "translate" information from the international discussions to the national and local level.

From this review we can see that the international discussions on LULUCF and CDM have moved forward albeit incrementally. To those closely engaged in the process, the political nature of decision-making sometimes seems to make the supposed coherence of technical understanding all the more convoluted. One of the biggest challenges will be for those outside the process to interpret and understand the implications of these decisions. In the run up to COP-

10 and possible entry into force of the Protocol, the global climate community will now have to think carefully about its commitment to finalising the rules for small-scale CDM and wider LULUCF issues with a view to allowing meaningful action at the local level.

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For general enquiries about the Tyndall Centre for Climate Change Research, Mr Asher Minns, a.minns@uea.ac.uk
01603 593 906 (07880 547 843)

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For further information on this subject please contact:

tyndall@uea.ac.uk