

ART Board Meeting Minutes

5-6 November 2019

ART Board members: F. Seymour, D. Zarin, C. Nobre, A. Kalibata (by phone both days), P. Sukhdev (by phone day 2), B. Bumpers, (Absent: A. Nababan, due to passport/visa delays and time zone)

ART Secretariat Participants: J. Kadyszewski, M. Grady, J. Orrego, C. Magerkurth, T. Pearson, Q. Oliver

At the 5-6 November 2019 ART Board meeting, Board members discussed stakeholder comments submitted on *The REDD+ Environmental Excellence Standard (TREES)* and made decisions on changes to the Standard. The Board also considered the ART “open for business” plan based on timing for the full package of program requirements including a final version of TREES 1.0 and accompanying ART registry, legal agreements and verification standard.

1. WELCOME AND OVERVIEW

INFORMATION

1. The Chair called the meeting to order and confirmed a quorum
2. The Chair introduced members of the ART Board and the ART Secretariat

DISCUSSION

1. Objective of the meeting

The Chair called attention to the primary objective of the meeting, which was the thoughtful consideration of stakeholder comments on TREES based on alignment with the ART Immutable Principles and the aim to make decisions on any changes to TREES by consensus. If consensus cannot be reached, then changes would be agreed by a supermajority, per the ART Charter.

2. Background for Decisions: Overview of ART

To aid the Board in considering changes to TREES, the Secretariat provided background on the genesis of ART including the **urgent need to attract private capital at scale to REDD+ to incentivize action and increase ambition.**

The Secretariat noted that existing REDD+ initiatives through Green Climate Fund, World Bank FCPF, REDD Early Movers and other bilateral initiatives have built capacity and established norms but are not structured to attract private capital at scale and are not market transactions. ART responds to this identified gap, while building on existing REDD+ initiatives and aligning with UNFCCC requirements and Paris Agreement commitments. ART includes uniform accounting and registration requirements for national and subnational REDD+ programs, third-party verification of emission reductions and safeguards, and issuance of serialized units – fungible with those from other sectors – on a transparent registry.

DECISIONS

1. Any Board members who were unable to join these deliberations will be provided the opportunity to review proposed changes before the final version is approved and published.
2. The Secretariat will document all Board decisions for circulation to the Board for review.

2. Overview of Stakeholder Consultation

INFORMATION

The Secretariat presented an overview of results of the TREES stakeholder consultation process, which was conducted for 60 days in 2019 between July 29th and September 27th. The Secretariat accepted late submissions through November 12th. The Secretariat sent four email announcements to the dedicated ART email list, posted notice on Climate-L, Forests-L and Ecosystem Marketplace, hosted four webinars - two in English, one in Spanish and one in French - the recordings of which were posted on the ART website, co-hosted two events with Emergent at the NY Climate Action Summit, and held several dedicated stakeholder meetings. Through November 12th the Secretariat received 46 formal submissions, as well as additional comments via webinar and email, totaling 778 individual comments.

DISCUSSION

The Board acknowledged the value of comments received during the public comment period and was pleased by the number of thoughtful comments. The Board wanted to be sure that those that submitted comments were aware that all comments were reviewed and considered and contributed to an improved final product.

DECISIONS

All stakeholder comments will be published on the ART website with responses including a basis and justification for decisions taken to incorporate or not incorporate proposed changes to TREES (the Statement of Reasons).

3. TREES Key Issues

INFORMATION

Based on stakeholder comments received, the Secretariat presented the five key issues and topics for Board discussion and deliberation including mapping the topic to the Immutable Principles listed in the ART Charter, noting the rationale for the position taken on the topic in the public consultation draft, as approved by the ART Interim Steering Committee (ISC) decision on the topic, which has now been superseded by this Board. The Secretariat presented materials submitted by stakeholders, options for revision suggested by stakeholders along with considerations relevant to those options and, based on all of these considerations, the Secretariat's recommendation. The five key issues were:

1. Basis for Initial crediting level (based on 10-year historical average emissions in the public consultation draft)
2. Determination of future crediting level (20% exogenous ratchet applied every 5 years in the public consultation draft)
3. Participation of subnational governments (Subnational jurisdictions could only be included via national government participation in the public consultation draft)
4. Required transition from subnational to national accounting (by 2025 in public consultation draft)
5. Spatial Scale threshold for eligible subnational accounting areas (encompass a total area of at least 6 million hectares OR a total area of at least 4 million hectares AND represent at least 30% of the national forest area in public consultation draft)

Information presented:

1. Basis for Initial crediting level

Public consultation draft requirement

10-year historical reference period used to determine initial TREES crediting level

Relevant ART Principle(s)

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

Rationale for position taken in public consultation draft

10-year reference period aligns with what other REDD+ programs use (FCPF) and rewards countries with historically decreasing emissions.

Primary stakeholder issue identified:

Numerous stakeholders indicated that a shorter reference period is more accurate. New Technical Standard Committee (TSC) analysis confirms a 2-5 year period more accurately reflects the recent trends and is better predictor of future emission reductions than a ten-year reference period.

Options to address issue(s) identified:

1. Change reference period to 5 years to better reflect actual emissions trends, per recommendations by TSC and recent TSC analysis, and related stakeholder suggestions
2. Allow participants to select a period between 5 and 10 years
3. Maintain 10-year historical average as the basis of the initial crediting level

Considerations

Option 1

- Consistent with the ART Principle as the initial crediting level is determined based on historical emissions.
- Improves the accuracy of the initial crediting level in reflecting emissions trends as supported by recent TSC-member study showing 2-5 years as the most accurate reference period.
- Per Secretariat's analysis, a 5-year historical average makes ART more attractive to countries with increasing emissions trends compared to a 10-year historical average, while still remaining attractive to countries with decreasing emissions trends compared to a 10-year historical average.
- Addresses most stakeholder comments and is the TSC's recommendation.

Option 2

- Allowing participants to select a period between 5-10 years would result in a high level of inconsistency between participants, is more difficult to implement and verify, and would potentially lead to cherry picking or gaming.

Option 3

- Sustains position taken in public consultation draft
- Does not reflect the latest TSC analysis or respond to stakeholder comments and concerns.

2. Determination of Future Crediting Level

Public consultation draft requirement

Following initial crediting period, the Crediting Level is determined at each new crediting period by decreasing the previous crediting level by an automatic exogenous ratchet of 20%.

Relevant ART Principle(s)

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

Rationale for position taken in public consultation draft

Desire for an ambitious standard that targets reaching near-zero deforestation by 2050.

Primary stakeholder issue identified:

The 20% ratchet is too ambitious, not attainable, overly challenging, overly punitive and restrictive and will deter use of the Standard and participation in ART. The ratchet approach is not consistent with other sectors, and after the initial period, the crediting level never changes as a function of time or in reflection of a country's success since it is replaced by the exogenous decrease.

Options to address issue(s) identified:

1. Eliminate the 20% ratchet and require a 5-year historical baseline to be recalculated at the start of each crediting period (every 5 years) to set the new crediting level and to drive down emissions (while not allowing the crediting level to increase at any time).
2. Lower ratchet to a different %.
3. Maintain the 20% ratchet.

Considerations

Option 1

- The recommended change is consistent with the Principles in that the crediting level will decline periodically over time (driven by frequent crediting level updates).
- TREES is already ambitious and requires deductions from crediting beyond other REDD+ programs – including for buffer for reversals, uncertainty and leakage.
- If a Participant is successful, the crediting level may decline more than 20% under this scenario, requiring consistent effort and increased ambition in order to continue earning credits.
- If a Participant has a historically stable or rising emissions trend, this approach recognizes the efforts required for Participants to maintain current level of emissions or reverse the emissions trends.
- Stakeholders have indicated that this change would likely attract participants to ART, while not changing it is likely to deter many participants, in particular, those with increasing and stable historical emissions, and High Forest, Low Deforestation (HFLD) countries.

Option 2

- Would result in a different arbitrary selection of a ratchet %.

Option 3

- Sustains position taken in public consultation draft.
- Does not respond to stakeholder comments and concerns.
- Ripple Effects

If the Board decides to make no change, it could consider extending the crediting period length to allow for a longer period between ratchets, and to remove the ratchet for HFLD countries only.

3. Participation of subnational governments

Public consultation draft requirement

Participants must be national governments, but subnational accounting areas meeting eligibility criteria, including scale thresholds, are permitted.

Relevant ART Principle(s)

- Credit ERs at the national level or subnational level as a time-bound interim measure only where it represents high ambition and large scale and is recognized as a step toward national-level accounting.
- Promote national ambition and contribute to Paris Agreement goals including progress toward the fulfillment of Nationally Determined Contributions (NDCs).

Rationale for position taken in public consultation draft

Desire to promote national accounting and directly linked to ISC decision to require transition to national accounting by 2025 (short window did not support making provisions allowing for subnational government participation)

Primary stakeholder issue identified

Allowing only national governments to be participants does not recognize the importance of actions of subnational jurisdictions, which are on the front lines of tackling the drivers of deforestation and regulating land use change. The Governors' Climate and Forests (GCF) Task Force members, representing more than one third of the world's tropical forests, have reduced forest-based emissions by 6.8 GtCO₂ since 2001. Subnational governments are able to react nimbly and develop novel solutions to land-use challenges that can be scaled-up to the national level and are more likely to take initiative. Subnationals further assert that empowering subnational governments through TREES would actually accelerate the pace at which they can transition to national programs. Relegating subnational governments to mere "accounting areas" in the standard is a tacit endorsement of top-down approaches to addressing deforestation, which have proven ineffective to date.

Options to address issue(s) identified:

1. Allow subnational governments (one level down) to be TREES Participants with national government approval
2. Maintain requirement for TREES Participant to be a national government.

Considerations

Option 1

- Adheres to the relevant Principles as they do not explicitly refer to the Participant being a national or subnational government
- Recommended by numerous stakeholders
- Could incentivize participation amongst GCF states and other ambitious jurisdictions in countries that do not have the political will at the national level to enter ART, but could obtain national government approval

Option 2

- Making no change would not address stakeholder comments and concerns including from 23 subnational jurisdictions in five countries that are members of the Governors' Forest and Climate Task Force.

4. Required Transition from subnational to national accounting

Public consultation draft requirement

Participants may use subnational accounting areas only until 2025.

Relevant ART Principle(s)

- Credit ERs at the national level or subnational level as a time-bound interim measure only where it represents high ambition and large scale and is recognized as a step toward national-level accounting.
- Promote national ambition and contribute to Paris Agreement goals including progress toward the fulfillment of Nationally Determined Contributions (NDCs).

Rationale for position taken in public consultation draft

Best reflected the ISC Principle for allowing subnational crediting as a 'time-bound interim measure.' TSC opinions indicated that transition in 2025 was not impossible for some countries. ISC indicated interest to hear from stakeholders on this topic during the consultation.

Primary stakeholder issue identified

2025 is an extremely challenging timeline to require a transition to national accounting, it disadvantages larger countries and does not offer incentives for subnational action.

Options to address issue(s) identified:

1. The transition date to national accounting should be 2030
2. Use a rolling date to transition to national accounting to allow for a full crediting period
3. There should be no specific date to transition to national accounting
4. Do not make any changes from current version

Considerations

Option 1

- Maintains adherence to the relevant Principles in that it would require transition to national as a "time-bound interim measure"
- Comments indicate that 2025 does not provide sufficient time for subnational participation or offer incentives to subnational governments (noted as particularly important if the Board were to decide to allow subnational governments to be Participants with national government approval).

Option 2

- A rolling, rather than firm, transition date would complicate accounting, in particular in cases where multiple subnational governments are registered (if the Board approves direct subnational government Participation).

Option 3

- Not having a specific date is inconsistent with the principle of allowing subnational crediting as a time bound interim measure

Option 4

- Does not respond to stakeholder comments and concerns

Ripple Effects

This change should be considered in concert with the change related to the Participant being a subnational government.

5. **Spatial Scale threshold for eligible subnational accounting areas**

Public consultation draft requirement

Subnational accounting areas must:

- Encompass a total area of at least 6 million hectares OR
- Encompass a total area of at least 4 million hectares AND represent at least 30% of the national forest area

Relevant ART Principle(s)

Credit ERs at the national level or subnational level as a time-bound interim measure only where it represents high ambition and large scale and is recognized as a step toward national-level accounting.

Rationale for position taken in public consultation draft

Met the desire for ambition and scale and would be inclusive of the majority of REDD+ programs including FCPF and GCF states. Scale thresholds could be met by grouping subnational jurisdictions into one program.

Primary stakeholder issue identified

The scale thresholds are too restrictive and would limit the ability for some leading GCF state governments that have high forest cover and significant deforestation threats to participate.

Options to address issue(s) identified:

1. Make no change for national level participants with subnational accounting areas
2. Lower the area threshold
3. Add a third criterion based on % of emissions

Considerations

Option 1

- Making no change to scale thresholds for subnational accounting areas would be inclusive of the majority of REDD+ programs including FCPF and GCF states noting also that scale thresholds could be met by grouping subnational jurisdictions into one program.

Option 2

- Could set a smaller area threshold (recommended at 2 million hectares to ensure actions at scale while allowing sufficient flexibility for participation)

Option 3

- Could include an emissions threshold (recommended at 4 million tCO₂ equivalent annually), as combined with option 1 or option 2.

Ripple Effects

- If the Board decides to allow subnational government participation, it will need to consider whether distinct scale criteria are needed in cases where the Participant is a subnational government. Options include removing all scale criteria for subnational governments, maintaining scale thresholds for national government Participants with subnational accounting areas or lowering the subnational scale threshold for all Participants / accounting areas.

DECISIONS

All ART Board decisions will be reflected in updated TREES text and justified in the Statement of Reasons.

1. Initial crediting level

With quorum and by consensus, the ART Board voted to endorse the recommendation to set the initial TREES crediting level based on 5-year reference period. The decision was based on the increased accuracy in predicting future emissions and symmetry with the 5-year crediting period and takes into consideration, based on the global trend of rising emissions from deforestation, the urgent need to incentivize and reward actions to reduce emissions.

2. Future crediting level

With quorum and by consensus, the ART Board voted to accept the recommendation to eliminate the 20% exogenous ratchet and set the ongoing TREES crediting level to be calculated at the start of each 5-year crediting period based on immediately preceding 5 years of historical data (while not allowing the crediting level to increase at any time).

3. TREES Participant must be a national government

With quorum and by consensus, the ART Board voted to accept the recommendation to allow subnational Participants (one level down from national government) with a requirement of approval from the national government including a recognition of the need for integration with national accounting under the Paris Agreement (such as avoidance of double counting). The Board also agreed to future consideration, pending legal analysis, for indigenous territories to be eligible as Participants with national government approval and as long as they meet other TREES eligibility criteria.

4. Transition to national accounting by 2025

With quorum and by consensus, the ART Board voted to accept the recommendation of 2030 as the required date to transition to national accounting.

5. Scale eligibility thresholds for subnational accounting areas

With quorum and by consensus, the ART Board voted in principle to reduce the subnational scale area threshold(s), while maintaining the objective of large scale. The threshold(s) will be the same for subnational accounting areas and for subnational Participants.

4. Other TREES Issues for Board Review

The Secretariat presented on other issues on which comments had been received. Some of the issues were addressed by the Secretariat with proposed changes to TREES and others were not. The issues addressed included:

1. Eligibility – legal authority (3.1.1) – change proposed

Requirement is complicated in cases where tribes or communities hold policy making responsibility.

2. HFLD/Removals (3.3)

Suggestion to include an approach to credit removals as well as differentiated approach for HFLDs in TREES 1.0.

3. Additionality (3.4)

Suggestion to require a theory of change to prove additionality.

4. Reversals (7.1) – changes proposed

Comments that the Buffer deduction too conservative, the Buffer deductions not sufficiently conservative, and that returning credits will limit the buffer pool's ability to cover future reversals.

5. Leakage (7.2)

Suggestion to require a detailed assessment, considering drivers of deforestation and other components, to quantify leakage rather than use a standard deduction.

6. Uncertainty (8)

Suggestion to calculate uncertainty on the Emissions Reductions rather than the crediting level and annual emissions.

7. Safeguards (12) – changes proposed

Comments that alignment with UNFCCC safeguards requirements are unclear and that TREES should require all safeguards requirements be met from start.

8. Verification Body selection (14)

Comment that allowing Participants to select VVBs may result in a conflict of interest or a "race to the bottom."

9. Public Comment period

Suggestion to require a formal public comment period prior to issuance of ERs.

10. Nesting/benefit allocation

Comment suggested the need for TREES to address nesting including allowing for risk-based baselines for a nested accounting approach as well as benefit allocation.

11. UNFCCC alignment

Comments that TREES does not align with/is more prescriptive than UN FREL accounting including not allowing for national circumstances, UN reporting timelines and REDD+ Strategy submission.

DECISIONS

All ART Board decisions will be reflected in updated TREES text and justified in the Statement of Reasons.

1. Eligibility – legal authority (3.1.1)

With quorum and consensus, Board agreed to review Secretariat's proposed language to clarify the requirements for a subnational government to have ownership of land and carbon rights or agreements in place with those that do in order to transfer emission reductions.

2. HFLD/Removals (3.3)

With quorum and consensus, Board approved finalizing and publishing TREES 1.0 without approaches for removals and HFLDs (to be developed in 2020).

3. Additionality (3.4)

With quorum and consensus, Board endorsed the current TREES approach of performance-based additionality.

4. Reversals (7.1)

With quorum and consensus, Board endorsed the current TREES reversal risk mitigation approach including the changes made by the Secretariat to: 1) add a 3rd mitigating factor to reduce contribution by 5% if national reversal mitigation actions, plan or strategy developed in alignment with Cancun Safeguard F, 2) clarify the requirement for the Participant to replenish buffer if reversal exceeds its contribution to date; and 3) remove the provision to return buffer contributions after 10 years.

5. Leakage (7.2)

With quorum and consensus, Board endorsed the current TREES default-based leakage deduction approach rather than a complex, modeled assessment.

6. Uncertainty (8)

With quorum and consensus, Board endorsed the current TREES uncertainty approach as mathematically sound and conservative.

7. Safeguards (12) – changes proposed

With quorum and consensus, Board endorsed the current TREES safeguards approach including the Secretariat's changes to 1) Require structure and process indicators from start (outcome indicators require time to monitor); 2) Revise annual reporting requirement to reflect UNFCCC language; 3) Add language to explain how indicators ensure Participant is both addressing and respecting Cancun Safeguards; and 4) Clarify that the private sector and local REDD+ investors are stakeholders to be consulted.

8. Verification Body selection (14)

With quorum and consensus, Board endorsed the current TREES approach to independent third-party verification without changes.

9. Public Comment period

With quorum and consensus, Board agreed to review Secretariat's proposed language to clarify that while public comments on applications under TREES can be submitted at any time, they are most valuable after the publication of the TREES Registration Document and Monitoring Report, prior to verification.

10. Nesting/benefit allocation

With quorum and consensus, Board agreed to no changes to TREES to prescribe accounting or benefit allocation approaches in TREES.

11. UNFCCC alignment

With quorum and consensus, Board agreed to no changes to TREES to further align with UNFCCC FREL accounting or reporting timelines. TREES will continue to require the reporting necessary to allow for verification and issuance of credits, even if this requires more frequent reporting than UNFCCC.