HFLD Crediting Level: Public Consultation Statement of Reasons

High-Forest, Low-Deforestation (HFLD) jurisdictions play a significant role in preserving critical forests and providing numerous co-benefits associated with the intact forests. However, it is challenging for these jurisdictions to benefit from the REDD+ carbon market as their success in protecting intact forests and maintaining very low rates of deforestation prevents them from documenting significant reductions in deforestation over time, in line with traditional REDD+ methodologies. Nonetheless, from an environmental and social perspective, it should be the ultimate goal of the market to incentivize jurisdictions to become HFLD and reward jurisdictions for remaining HFLD.

When the Architecture for REDD+ Transactions (ART) launched in February 2020, TREES 1.0 focused on slowing and halting deforestation and degradation. At that time, ART communicated that the next version of TREES would expand to crediting restoration of forests and protecting intact forests, thereby offering incentives for Participants to benefit from a wider variety of activities. The public consultation version of TREES 2.0 included an approach for crediting removals and an innovative approach for HFLD Participants.

The ART Secretariat and ART Board greatly appreciated the comments received and consultations conducted on the proposed HFLD Crediting Level approach from 16 different countries, organizations and individuals. The comments were thoughtful and covered many topics. Several themes arose:

- The proposed HFLD Crediting Level approach only provided incentives for HFLD Participants with rising emissions and did not provide any incentives for those with decreasing or stable emissions profiles. This could lead to perverse incentives for HFLD participants to allow emissions to rise prior to joining ART.
- The approach likely would only provide benefits for one crediting period.
- The approach allowed for a Crediting Level that increases over time which diverges from the TREES Crediting Level approach which remains constant for all 5 years of the crediting period.
- The HFLD Crediting Level approach did not differentiate based on the unique characteristics of HFLD jurisdictions like the quantity of carbon stock protected or the HFLD Score.

Following deliberations informed by these inputs, a new approach for determining an HFLD Crediting Level is proposed as presented on the following page. This approach responds to many of the suggestions and comments submitted during the public consultation. Specifically, the approach applies a 5-year historical average crediting level, acknowledges the unique characteristics of HFLD Participants, including standing carbon stocks and the HFLD score, and remains fixed for the duration of each crediting period.

Transparent consultation with stakeholders in the development of TREES is a primary tenet of ART. Because this approach departs significantly from the originally proposed approach in the consultation version of TREES 2.0, the ART Secretariat is offering stakeholders an opportunity to review and provide feedback on this modified approach prior to its finalization. Therefore, the ART Secretariat is soliciting public comments on the new HFLD Crediting Level approach outlined on the next page until June 23, 2021. Comments should be submitted to REDD@winrock.org.

5.2 CALCULATING A TREES CREDITING LEVEL FOR HFLD PARTICIPANTS (OPTIONAL APPROACH)

Participants exceeding the HFLD Score threshold outlined in Section 9 may optionally use the following approach to determine their crediting level.

The HFLD Crediting Level shall be calculated in accordance with the formula presented in Equation 2. The TREES Crediting Level is first calculated as required in Section 5.1. This crediting level is then adjusted based on the Participant's HFLD Score and intact carbon stocks as indicated to determine the HFLD Crediting Level.

Equation 2

$$HFLDCL_n = CL_n + (HFLD\ Score_t * Carbon\ Stock)$$

WHERE:

$HFLDCL_n$	HFLD Crediting Level for crediting period n; $t\ CO_2e/yr$
CL_n	Crediting Level for crediting period n; $t\ CO_2e/yr$ (Section 5.1)
$HFLD\ Score_t$	HFLD Score averaged across reference period (Section 9)
Carbon Stock	0.1% of Standing Forest Carbon Stock within jurisdiction

For each year of the Crediting Period, HFLD Participants must compare their total reported annual emissions with CL_n in Equation 2. If the total annual emissions exceed the crediting level, a deduction must be applied to the total credits generated (Section 10). The deduction shall be as follows:

Percent annual emissions exceed historical average	Deduction applied
<15%	0
16-35	10%
36-55	20%
56-75	30%
>75%	No credits

Public Consultation Note: ART recognizes that some interannual fluctuation due to measurement error and natural cycles will occur, especially when total annual emissions are relatively low as seen in HFLD jurisdictions. In line with the Reversal Risk Assessment Mitigating Factor 2 (Section 7.1.1), fluctuations of 15% or less are considered allowable by HFLD jurisdictions.

As a reminder, the HFLD Score in Section 9 of TREES is calculated as follows: The HFLD Score is the sum of the Participant's Forest Cover Score and the Participant's Deforestation Rate Score. Participants whose HFLD Score is 0.5 or higher meet the HFLD Score threshold.