ART HFLD Primer and Frequently Asked Questions

With TREES 2.0, ART is adding a crediting approach for jurisdictions that are protecting large areas of intact forests. Typically, these are areas that have high forest cover and low levels of deforestation (also known as High Forest, Low Deforestation (HFLD) jurisdictions). Providing a pathway that incentivizes jurisdictions to keep their forests standing will create a more effective and equitable global system for forest protection and restoration.

Background

It is widely recognized that forests are critical to meeting Paris Agreement goals of limiting the planet's warming to 1.5 degrees. Intact forests such as those in HFLD jurisdictions provide both climate mitigation and adaptation benefits and provide ecological services humans depend on. Recent studies have further confirmed that forests play a more important role in cooling the surface in almost all regions of the Earth than was previously thought.

In the past decade, REDD+ financing has emerged as a prominent approach for incentivizing activities that reduce emissions from deforestation and forest degradation. REDD+ recognizes the critical role of protecting, maintaining and restoring forests as a critical solution to combat climate change. However, REDD+ financing to date has been largely based on the ability of jurisdictions to reduce deforestation rates compared to historically high deforestation rates, meaning HFLD jurisdictions lose out on climate finance. Since 2007, HFLD jurisdictions have received less than USD 2 billion in climate finance – less than 14% of all climate funds committed to the forest sector.

An effective and equitable global system for reducing tropical deforestation should incentivize all relevant jurisdictions and actors, including both historical emitters and historical protectors of carbon stocks, if the world is to eliminate forest loss in areas where it is already occurring and continue to actively protect areas of high forest cover. Therefore, the goal of REDD+ should be to incentivize all jurisdictions to achieve and maintain High Forest, Low Deforestation (HFLD) status. Such incentives also reward Indigenous Peoples and other actors whose efforts to protect their territories' forests have been succeeding.

Under a business-as-usual scenario, many HFLD jurisdictions will see their deforestation rates increase sharply as a result of economic development and other drivers of deforestation and degradation. Some HFLD jurisdictions have already witnessed such a trend. Expected future deforestation will penetrate interior, higher-carbon forests, resulting in enormous emissions of greenhouse gases estimated at 170 billion tons of CO_2 just from intact forest. This situation raises an urgent need to mobilize significant financing to provide incentives for a low deforestation development path for HFLDs. Without the proper financial incentives, there is no guarantee that forests in HFLD areas will remain protected in the long run. Creating incentives to maintain carbon stocks in HFLD areas can also be an effective solution to reduce the risk of leakage across jurisdictions.

TREES 2.0

To date, there has not been a market-oriented approach that allows HFLD jurisdictions to benefit from carbon market finance. TREES 2.0 includes an innovative and standardized crediting approach for HFLD jurisdictions that are protecting their forests.

How it works

1. **Establishment of eligibility**. Jurisdictions must first determine if they meet the TREES HFLD threshold by calculating their TREES HFLD score. The score takes into consideration the unique qualities of HFLDs, specifically the percent forest cover and the deforestation rate. If the jurisdiction's HFLD Score exceeds the threshold, the jurisdiction is considered HFLD under ART and may use the optional HFLD crediting approach. The HFLD score is then also used as a factor in calculating the HFLD Crediting Level.

The flexibility of this composite threshold approach versus using a single fixed definition of HFLD allows a Participant with a greater area of forest but a slightly higher deforestation rate (indicating a higher threat) to still qualify as HFLD. Similarly, a Participant that has experienced deforestation and therefore has had forest cover loss but has successfully reduced the deforestation rate could also qualify as HFLD.

2. **Determination of crediting level**. A five-year historical average of deforestation and degradation emissions is established from the period directly prior to the crediting period. To obtain the HFLD Crediting Level (CL), this five-year average is added to a figure that is composed of two numbers: the HFLD score and 0.05% of carbon stock (of trees in standing forests). So, HFLD CL = 5-year historical average + (HFLD score*0.05% C stock). This crediting level calculation takes into consideration the unique characteristics of HFLD jurisdictions. A new HFLD CL is calculated after each 5-year crediting period.

3. **Calculation of credits and deductions**. Participants report emissions during the 5-year crediting period (per monitoring and reporting requirements), and if emissions are below the HFLD crediting level, the difference between the HFLD CL and the reported emission value are the eligible emission reductions (ERs) for that period. Leakage, reversal and uncertainty deductions are taken as applicable, and the net quantity is issued into the participant account as serialized TREES Credits. If emissions exceed the HFLD CL, it is considered a reversal and is compensated by retiring buffer credits. If reported emissions are above the 5-year emissions average by greater than 15% an additional deduction is taken from the final ERs.

4. **Issuance of credits.** TREES Credits issued under the HFLD crediting approach will be designated as such in the ART Registry.

FAQs

1. What does HFLD stand for and why is it important to recognize HFLD jurisdictions?
HFLD is the acronym for "High Forest, Low Deforestation" and refers to jurisdictions that still have very high levels of forest cover and also experience low rates of annual deforestation. It is important to recognize the contribution of HFLD jurisdictions to climate change mitigation because forests are critical to meeting Paris Agreement[1] goals of limiting the planet's warming to 1.5 degrees. These large areas of forests contribute both climate mitigation and adaptation benefits by storing carbon, regulating local and regional climate, supplying critical moisture to agricultural lands, resisting wildfire. Also, providing incentives to HFLD jurisdictions lowers the risk of cross-boundary shifting of deforestation emissions (i.e., leakage).

2. Can any jurisdiction qualify as HFLD?
No. The HFLD approach was developed to incentivize jurisdictions to achieve and maintain high-forest and low-deforestation (HFLD) status. TREES includes an HFLD score threshold that jurisdictions must meet to qualify as HFLD and be permitted to use the optional HFLD Crediting Approach.

The HFLD Score is based on the percent of forest cover and the rate of deforestation in the accounting area. Jurisdictions calculate their HFLD Score for each year of the 5-year historical reference period, and if it is higher than 0.5 for each year, the jurisdiction qualifies as HFLD for the entire crediting period. The HFLD Score calculation is validated by the independent third-party auditors as part of the validation and verification process.

3. What happens if the HFLD score changes over time during the crediting period?
To qualify as HFLD, the HFLD score must be greater than 0.5 for each year of the five-year historical reference period (i.e., the period directly prior to the TREES Crediting Period). Participants that qualify as HFLD can maintain that status for a full five-year crediting period even if their forest cover and deforestation rate change during the crediting period. However, they must then re-assess the HFLD Score when they begin a new crediting period. It is possible for a jurisdiction to gain or lose HFLD status between crediting periods based on its performance.

4. How will stakeholders know which TREES credits are generated using the HFLD crediting approach?
TREES credits that are issued based on the HFLD crediting approach are labeled in the ART Registry as such for full transparency.

5. Are HFLD credits additional and fungible?
Yes. HFLD credits under TREES 2.0 constitute additional climate action. Published projections are that future deforestation will extend into intact, high carbon forests, resulting in greenhouse

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[1] Available at: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement

gas emissions of an estimated 170 billion tons of CO_2 by 2050,[2] equivalent to four times annual global CO_2 emissions (2019). TREES 2.0 incentivizes jurisdictions to protect intact forests since guarding the carbon sequestered in these forests is essential to meeting the goals of the Paris Agreement.

It is an Immutable Principle that ART shall "*Embody high environmental integrity, including accounting for the uncertainty of data and the risks of leakage and reversals, the avoidance of double counting, and result in issued units that are interchangeable with emission reduction units from other sectors.*" Therefore, although a different crediting approach is used for jurisdictions that qualify as HFLD, in light of the growing threats to all tropical forests, a conservative approach to HFLD crediting that includes reporting annual emissions from deforestation and degradation, accounting for leakage, uncertainty and reversals, avoiding double counting and adhering to the same rigorous environmental and social safeguards requirements, yields credits that are fungible with those generated by the approach used for non-HFLD jurisdictions.

Like all other ART participants, TREES requires action from HFLD jurisdictions. Under TREES, all HFLD jurisdictions must have a jurisdictional REDD+ implementation strategy that establishes the actions they are taking to mitigate the drivers of deforestation and degradation. These actions have contributed to low deforestation rates in their jurisdictions, and without financial incentives, it is less likely that forests in HFLD areas will remain effectively protected. Moreover, providing incentives to jurisdictions with intact forests to maintain those forests lowers the risk of deforestation shifting to these countries as nearby jurisdictions with high deforestation begin reducing their forest-related emissions.

We recognize that views on fungibility are not uniform in the marketplace, and TREES credits that are issued based on the HFLD crediting approach are labeled in the ART Registry as such for full transparency.

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[2] Busch, J. & Engelmann, J. (2017). Cost-effectiveness of reducing emissions from tropical deforestation, 2016– 2050. Environmental Research Letters. 13, 015001. https://doi.org/10.1088/1748-9326/aa907c