



CONSULTATION ON THE ACRE STATE'S PAYMENT FOR ENVIRONMENTAL SERVICES – CARBON PROJECT

THE FOREST TRENDS KATOOMBA GROUP'S RESPONSE: A SUMMARY

INTRODUCTION

Forest Trends' International Katoomba Group was established in 2000 as a global network of individuals working to promote and improve capacity related to environmental markets and payments for ecosystem services (PES). Over the past ten years, this network has grown in both size and capacity to become a powerful resource for addressing key challenges in the development of markets and payments for ecosystem services.

On behalf of the Government of Acre State in the Brazilian Southwestern Amazon, Forest Trends' Katoomba Group was invited to contribute to the public consultation of Acre State's Payment for Environmental Services – Carbon Project, which integrates the Valuing Forests Assets Policy. Faced with the challenges of valuing forest assets and reducing the emissions from deforestation, Acre has defined strategies focused on incentives and payments for environmental services. These incentives and payments will work in conjunction with the consolidation of productive agro-forestry market chains and supported by an improved system for monitoring and control of deforestation.

The Acre State Government is committed to refining the PES-Carbon Project based on the recommendations received from a variety of collaborators. In response to their request to provide comment, The Katoomba Group circulated the draft PES-Carbon Project framework among 30 key network members. Contributors include: Amy Rosenthal – Amazon Conservation Association (ACA), David Diaz – Ecosystem Marketplace, David Takacs – Independent Consultant, David Tepper – Independent Consultant, Jason Funk – Environmental Defense Fund, Manuel Pulgar – Vidal – Sociedad Peruana de Derecho Ambiental (SPDA), Jacob Olander - EcoDecisión, Joerg Seifert - Katoomba Incubator, Sandra Jaramillo-Poveda – Universidad de la Amazonia Programa de Ingenieria Agroecologica, Stephan von Borries – Fundacion Amigos de la Naturaleza (FAN) Bolivia, Michael Jenkins – Forest Trends, & Beto Borges – Communities & Markets, Forest Trends. If you would like to contact these or any of our other individual respondents please email therbert@forest-trends.org. Our comments and recommendations are consolidated and summarized in the following text.



COMMENTS AND RECOMMENDATIONS

STRENGTHS

1. The regional ecosystem and state-wide perspective is an operative and holistic way to approach the problem and shows a view toward long-term solutions. The plan is as well structured as it is ambitious.
2. The landscape-level planning is strong; this document covers the bases of a multi-sectoral approach to avoiding deforestation and reforesting degraded areas. The technical aspects of the plan are well thought-out, in addition to the specific programs that will be implemented for diverse conservation activities.
3. The various incentives for relevant stakeholders offer excellent and diverse means of support for anti-degradation and economic self-sufficiency. The strategies for defining incentives for environmental services are a clear regional need.
4. Estimates of carbon stock appear accurate, making use of state of the art measuring and enforcement technologies.
5. Additional strengths of The Payments for Environmental Services – Carbon Project include the focus on indigenous reserves and Sustainable Use Protected Areas, and the focus on governance and various democracy-building bodies. Integration will be a large component of the plan's success.

SPECIFIC RESPONSES

1. Incentives to increase productivity on already-deforested land (5.2.2.2) should be available only for lands deforested before 2009, to ensure that these incentives do not unintentionally encourage additional deforestation. Defined target areas and strategically directed stakeholder outreach are critical. This incentive for increased productivity of cleared lands should also reference rebuilding soil carbon and long term sustainable use practices which can generate additional carbon benefits through soil carbon potential.
2. Considering the project is focused in different categories of land tenure (settlers, indigenous groups, rubber trappers, etc) there is not enough information on how land tenure and status will affect initiative objectives. Page 9 outlines broad actions that the PPCD-Acre envisions, "territorial and land tenure ordering" is the first identified action. This demonstrates that land tenure remains an issue and this potential obstacle should be addressed in this document.
3. As stated in 5.2.2, the 15 year payments for 10 years of carbon reductions are not a valid way to deal with permanence. More thoughtful structures such as buffers, insurance pools, and long term finance mechanisms (10 to 20 yrs) from new commodity revenue streams are necessary.



4. The assumption on 50% deforestation rate in critical areas, cited on page 30, deserves additional detail. The international community will also be interested in placing a maximum amount on deforestation in critical forest. To address this, Acre could assert that not less than ___ % of stock will ever be deforested, or that the maximum rate of deforestation will not reduce over the crediting period. Setting this target will ensure a baseline of conserved forest cover.
5. In section 5.2.2.1 on page 19, the top box specifies that the incentives should be designed to cover the costs of investing in actions. There is some thinking on this topic that suggests that incentives, in addition or instead of covering the costs should be calculated to make the new forest or land use of equal or greater profit per unit area as competing, destructive land uses. It would be useful to assess these incentives as they are designed to ensure that they make it worthwhile for communities to commit to preserving forest instead of cutting it down. As a result, it will likely be necessary to make these incentives flexible depending on the location and practice of communities. Those nearer to markets will have a higher profit-option than those further away. The profitability of each land use will also vary year by year, making a variable metric for incentives useful for increasing efficiency and guaranteeing competitiveness. Having an early – in incentive and a later one is a good system as it increases the likelihood of follow-through and focuses on catalyzing good activity and good results.
6. The link between performance, incentives and metrics is also worth exploring in 5.2.2.1. When an ecosystem service is commercialized, the provider of the service will be remunerated through performance based mechanisms. Would this be linked to emissions reductions? Area conserved? Or to cost/investment needs based on the perceived finance gap?
7. On page 17, Figure 3 shows a comprehensive framework for incentives for environmental services (IES) which includes intensification as one basic element. Increasing the efficiency of forest use for timber products through incentives in the form of partial subsidies for technology that reduces impacts and FSC certification that provides guidance on selective and sustainable logging will help Acre's PES plan be self-sustaining and not create unintended leakage into other states (like Rondonia) or countries (like Peru).
8. It is striking that the Incentives for Environmental Services (IES) described on page 17 do not include the need for incentives to address opportunity costs for land/forest communities. All sorts of activities and enabling actions can be funded, but these may not be sufficient to make conservation or certified management attractive in comparison to clearing. Covering all costs of actions, without covering opportunity costs may not be enough to tip the balance to sustainability.
9. The 'supervision and control component', outlined on page 32, could increase certainty around control assessments by incorporating random on-site checks of carbon stocks and implementation of plans with communities through the rural extension team (ATER) and in coordination with the multi-stakeholder Commission to Monitor Protected Areas.



ADDITIONAL CONSIDERATIONS

1. The low level of regional knowledge among other Amazonian states and countries about this project is concerning. The plan will be all the more effective if other Amazonian governing bodies are included in its design and kept apprised of its results. A tool this innovative will be useful if replicated in other areas across South America.
2. In as much as this project only covers a portion of the state's land areas, it would be useful for the strategy to identify potential leakage risks. Though these effects will ultimately be captured by the state-level accounting proposed, the overall effectiveness of the priority site-focused program will depend on the degree to which leakage undermines outcomes. Discussion and coordination with neighboring states around solutions to potential REDD leakage and water rights challenges are warranted.
3. In the next iteration of the PES-Carbon Project Guidelines, the document could include an update for post-COP. Language associated with the need and opportunity to attract public funding that is structured to leverage private funding would be most applicable. The outcome of COP-15 also requires adjustments of the financial perspective of the mechanism in terms of higher risks (failure of the UNFCCC process) and a stronger focus on alternative sources of finance (voluntary markets, private sector).
4. This framework would benefit from a more specific concentration in activities (actions) rather than results (outcomes). There is a proposal of desired goals to reach, but no in-depth detail of how the government wants to reach said goals.
5. A clear description of the drivers and underlying causes of deforestation and how policy actions relate would ensure that the strategy will effectively address and reduce deforestation.
6. The document could improve by relocating the methodology of the carbon mapping into an annex, and simply displaying the results of the mapping in the body of the framework.
7. While the plan is correct in that carbon is the most internationally developed voluntary market; markets for hydrological services have many models and successes in Latin America and abroad. The plan could also incorporate a valuation of hydrological environmental services. Beneficiaries/users always exist – therefore markets are always an option. This would require, however, additional data and studies, and links with other various productive sectors and populations before the government could think about valuation. Biodiversity markets and market-like instruments (such as biodiversity offsets) may also be relevant.
8. This framework makes frequent use of the word 'plantation'. As reforestation with plantations often implies the planting of timber for industrial activity only, further explanation is necessary. To the extent possible, the plan should avoid the finance of monocultures, particularly exotic species. While this is often the cheapest option for carbon payments, projects with multiple benefits will also generate higher capital investments. These price differentials should be factored into projections.
9. There is a concern that the methodology for quantifying and monitoring carbon stocks is not strongly supported by an on-going ground measurement effort; consequently, the costs of governmental services for surveillance and monitoring might be underestimated if such an effort



is deemed necessary. (The current effort relies almost exclusively on remote sensing; to achieve the level of accuracy and precision necessary for assessing the contribution of projects, it's likely that a robust ground monitoring and measurement effort will also be needed; this will add substantially to costs.)

10. The PES and Carbon sequestration market is a dynamic market with various intervening brokers, speculators, and actors. It is unclear how this initiative will define negotiation strategies and who will negotiate. The project is not clearly identified in the context of an international market.
11. This framework would profit from a section dedicated to possible scenarios in which the project could develop in the future. For instance: under high vs. low carbon prices, high vs. low beef/ timber prices. Thinking through these possibilities will make implementation more effective and expectations more realistic.
12. Community plans and indigenous involvement is mentioned; however, the document makes no reference as to how the PES-Carbon project will link to the community plans and indigenous groups. It would be interesting if the ideas and perceptions of communities about the project were included through participation workshops. Any form of socialization with relevant stakeholders during early chapters of the project will increase local buy-in.
13. The framework effectively prioritizes areas for maximum returns. It would have been good to also conduct a study of opportunity costs to know the trade-offs between deforestation and conservation to discover if conservation is really more attractive for forest owners.

QUESTIONS

1. General questions: Who is the intended audience for this document? When will the next phase of planning take place, when new institutions are structured and actors identified? When is the plan expected to be finalized for implementation?
2. How will the state assure they have governing capacity to implement what they propose? It would be very helpful to understand how each existing and new agency, commission, and committee will interact to form a coherent implementation team for Acre's REDD-PES program. We recommend making a web of actors which identifies roles for each and overall hierarchy.
3. It is unclear if projected carbon credits between 2010 and 2020 would cover the PES plan's implementation costs, particularly as start-up programs run through 2025, but reductions are planned through 2020. If a regulatory market is developed in the next year, or philanthropic and state funds are devoted to REDD, then high levels of funding are likely, but does Acre plan to move forward with the same level of implementation if it is forced to deal with the voluntary market or compete for limited funds with states like Pará that have a higher deforestation rate? Will the fundraising arm, the Forest Assets Fund, be able to fill in the gap in funding?
4. It is a bit unclear who earns credits. Will private landowners market their own credits, or will Acre's registration agency also hold all credits, devolving some to owners, or earning all monies and proving benefits to projects? Or, will the Forest Assets Fund take on that role, as the FAS does in Amazonas state? And if so, are there laws or policies in place to allow this?



5. Will revenues be re-invested into project activity or will payments be delivered directly to landowners / individuals? On page 16 the authors write, “The revenues generated through the negotiation of carbon credits will be used to compensate populations who preserve forests, as well as to provide incentives for other stakeholders to reduce deforestation.” The most crucial aspect of this project will be how populations will be compensated. Who will be chosen? Who will not be chosen? Without a detailed plan of who is to receive benefits, the project could produce unintended negative outcomes.
6. The reference scenario is well calculated and the targets well outlined. However, will credits be received in relation to the reference scenario or the outlined targets? Some clarification here would be helpful.
7. If these details are available, it would be good to understand what will be the specific mechanisms. For instance, will PCPS (plans for certification of sustainable properties) include impartial, 3rd party certification? Can these PCPS and plans for compensating environmental liability use the same or similar formats as VCS, FSC, CCAR or other certifiers use to facilitate direct access to market share or price premiums in international carbon and commodity markets?
8. Regarding monitoring, reporting and verification, it is not clear whether Acre is prepared for RED or REDD. What can Acre do now and what will the state be able to do in 5 years time?
9. Page 12 calls for ‘precise and accurate estimates of deforestation’. Is there any plan beyond the SAD system to monitor, report, and verify degradation in Acre? In the past, illegal logging has been a significant driver of degradation, which could have a large carbon and potentially biodiversity impact in the region. According to Asner et al. 2007, around 13% of the carbon emissions impact in Acre from 2001 to 2002 was due to degradation as opposed to deforestation. As technologies improve (LiDAR, radar, Google, etc.), this seems an important area to gain expertise and improve precision and accuracy of MRC activities for REDD and eventually other PES activities.
10. What does, “forest potential”, Table 1, page 14 include? Is this a variable to proxy logging impacts? If not, how does acre plan to monitor and report and/or prevent those impacts?
11. Is there or will there be any consideration of secondary roads to identify high-threat areas? Secondary roads have been targeted as an important driver of deforestation in Pará and Madre de Dios, Peru in recent infrastructure development projects.
12. How will the science committee presented on Page 32 be selected? How many members will there be? What credentials or expertise will be sought? Will they vote or make unanimous decisions? Will their decisions carry the weight of mandates, or are they only suggestions to policy makers.
13. Will the state be helping to bring the projects to market? If so, through knowledge capital/ project design or actual financing? The methodology is reasonable however the role of the government could be more clearly outlined.
14. Can there be a description of how this plan generated? Did local communities participate in all levels? Was there a study to ensure that the project activities will be culturally appropriate?



15. How will project managers resolve ambiguous land title disputes without providing perverse incentives to 'improve' the land so that one can claim title?
16. How does this initiative relate to the Brazilian national legislation on PES? Has it been consulted with all relative actors?
17. Has the State of Acre considered mechanisms which do not link payment on the ground to successful commercialization of PES? It is important to secure long term, consistent payments to landowners for performance in the absence of available market funds. This will help landowners manage risks and continue to deliver environmental services. For instance, markets for sustainable forest products tend to be luxury markets which are volatile by definition (over the last 2-3 years, the world price for Brazilian nuts has fallen considerably). Will government subsidies account for the volatility and cover gaps in income during low-price years?
18. The PES – Carbon Project Guidelines mentions incentive payments required as 'gap' funding. Is there an itemized breakdown available behind this figure? For what will this \$130 million be used?
19. Are value-added products for latex and Brazil nuts sufficient incentive for forest communities to avoid deforestation? Should there also be consideration of direct payments or additional benefits? This may be particularly important for biodiversity protection, as hunting and Brazil nut harvesting are not at all incompatible, particularly as benefits draw larger populations to the region. Also MRV activities are clear for carbon and deforestation; what do they consist of for biodiversity?
20. The focus on priority areas – what does this mean for other deforestation areas (accounting for the other 50% of deforestation risks) outside these 5.8M hectares? Is there any scope for directing project-level finance, through ODA or markets to these areas? Or are they simply excluded for this period? What are the equity implications for these rural producers and forest communities; and the missed opportunities for REDD finance, e.g. through project – based mechanisms.
21. This is an amazing effort which will have a strong impact on other state governments. Will there be a Spanish version available?



CONCLUSIONS

After a review of the Payment for Environmental Services – Carbon Project, The Forest Trends' Katoomba Group notes that this significant and innovative initiative demonstrates great leadership for this region's approach to conservation. We convey our sincere congratulations for this seriously considered proposal for REDD and PES. The Acre team has created a program which builds on the history and geography of the state, and incorporates real economic development, achievable governance standards, and existing technology. The project merits an aggressive communication strategy to disseminate lessons learned to third parties across the globe.

The most important aspect of this plan's success will be carefully structured incentives. Incentives which correspond to specific target areas and stakeholder groups are essential in assuring minimum deforestation in the Acre region.

Subsequently, we recommend that the Acre government consider a broad approach to Payments for Environmental Services (PES), including hydrological and biodiversity services & instruments, rather than a strict reliance on often volatile carbon markets.

It is also critical that the State of Acre facilitate strong community involvement in all planning, project design, and implementation processes. The Katoomba Group advises the use of innovative benefit-sharing tactics as a forum to effectively and sustainably manage funds generated by the project across all communities and stakeholder groups.

In its final form, The PES – Carbon Project Guidelines should incorporate an adaptive management strategy which allows government officials to flexibly improve and inform policies based on lessons learned on the ground. Lastly, embedding the Acre State strategy into larger Amazonian, Brazilian, and global settings/ policies/ markets will ensure maximum benefits are gained from its activities.

We appreciate the opportunity to comment on Acre State's Payment for Environmental Services – Carbon Project guidelines & Valuing Forests Assets Policy. The Forest Trend's Katoomba Group welcomes further participation in the design of Acre's regional approach to forest conservation, governance, & economic sustainability. We reiterate our high opinion of this progressive initiative and our hope for continued collaboration.