



New York Declaration on Forests
GLOBAL PLATFORM

**Forest Solutions Dialogue: Environmental Integrity in
Voluntary Carbon Markets – Forest Countries’ Perspectives**

Event Report

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Organizers:



*Empowered lives.
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Summary:

This country dialogue focused on environmental integrity for forests in the voluntary carbon market (VCM), in the context of the Paris Agreement. The two sessions of the dialogue, held on 14 April through zoom, were hosted through the [Forest Solutions Dialogue](#) and coordinated by the United Nations Development Programme (UNDP) and partners of the New York Declaration on Forests Global Platform.

“The Dialogue” is an initiative of Climate Advisers to provide a neutral space to share experience, discuss common challenges, and identify solutions to accelerate action in the forest sector through the implementation of “cooperative approaches” under Article 6 of the Paris Agreement. Two sessions were held to accommodate different time zones: Session 1 included country participants from Latin America & Caribbean and Africa and Session 2 was for Asia-Pacific countries. French, Spanish, and Bahasa interpretation were provided. The sessions featured a discussion on challenges and opportunities related to the environmental integrity of forest emission reductions and removals in the context of voluntary carbon markets.

Participants included UNFCCC, REDD+, and NYDF focal points from countries that submitted [forest reference levels to the UNFCCC](#). The approach and outreach efforts facilitated the participation of several REDD+ country participants to attend the Forest Solutions Dialogue for the first time, expanding the reach and participation of the Dialogue. Overall, the two sessions gathered a combined total of 85 participants from 32 countries¹. Each dialogue session opened with an introductory presentation by UNDP and panel discussion with 4 senior technical experts on land-use, forests and climate change, and carbon markets, followed by an open dialogue with participants.

Background

Carbon markets are expected to play an important role in the implementation of the Paris Agreement to the United Nations Framework Convention on Climate Change (UNFCCC). If designed and implemented in a way that ensures high integrity, carbon markets can mobilize significant private sector finance, raise ambition by lowering climate change mitigation costs, contribute to the achievement of the Paris Agreement goals.²

The concept of high-integrity in the carbon markets context often refers to environmental integrity, understood as the supply of emission reductions and removals being real, additional, quantifiable, verifiable, with issues of leakage and permanence sufficiently addressed, and units tracked through robust carbon accounting to avoid double-counting. However, there are broader aspects when considering high-integrity voluntary carbon markets (VCM), including, for example, the relationship between the VCM and Nationally Determined Contributions (NDCs) under the Paris Agreement, as well as demand-side

¹ Session 1 Participation: 66 country participants from 22 countries in Africa and Latin America and the Caribbean, including Argentina, Brazil, Burkina Faso, Colombia, Congo, Côte d'Ivoire, Costa Rica, Dominican Republic, Ecuador, Gabon, Ghana, Honduras, Kenya, Liberia, Mexico, Nigeria, Panama, Paraguay, Saint Lucia, Togo, and Uganda; Session 2 Participation: 19 country participants from 10 countries, including Bangladesh, Cambodia, India, Indonesia, Malaysia, Pakistan, Papua New Guinea, Sri Lanka, Thailand, Vietnam

² To limit global warming to well below 2°, preferably to 1.5° Celsius, compared to pre-industrial levels.

considerations to ensure that access and use of carbon markets is aligned with credible corporate climate change mitigation strategies.

There are currently several other related processes underway also focusing on the environmental integrity associated with the VCM, including development or application of sets of principles, such as the Task Force on Scaling of Voluntary Carbon Markets and the NCS Alliance. The Voluntary Carbon Market Integrity Initiative (VCMII) has also been initiated this year to develop guidance on how voluntary carbon credits can be used by corporates and other non-state actors as part of credible net-zero decarbonization strategies.

At the time of hosting these sessions of the Forest Solutions Dialogue in April 2021, there were not yet opportunities for engagement with a focus on the supply-side of forest emission reductions and removals in a carbon market context, specifically tropical forest countries. Recognizing that the high integrity of forest emission reductions and removals has been a major focus of international negotiations on REDD+, this process was designed to be informed by and build upon that wealth of REDD+ experience. The intent was also to have these initial dialogues as well as related future discussions as part of this process recognize the UNFCCC context, including the related issues of the NDCs, transparency and finance and ensure this is integrated as critical context for carbon market integrity discussions, without prejudging the outcome of the Article 6 negotiations.

The following key messages were considered the main “takeaways” based on the expert presentations and interventions by country participants:

Key Messages:

1. After more than 10 years progressing through REDD+ readiness and implementation, developing countries have learned important lessons that can be built on to operationalize the high integrity of forest emission reductions and removals in the context of VCM.
2. For country participants, meeting the NDC targets or goals is a clear priority, but there was the perception that demand-side discussions and expectations (regarding quality of emission reductions and others) tend not to consider NDCs when defining environmental integrity. This highlighted the need for further dialogue between the private sector and supply countries. Countries signaled their interest and willingness to actively engage in discussions with potential buyers of REDD+ units.
3. While countries recognize that the VCM and the UNFCCC may have links, it was acknowledged that the principles and practices on how the VCM relates to NDCs will likely be defined outside the UNFCCC, by the “court of public opinion.”
4. There are unresolved technical matters that warrant further discussion and clarification, such as corresponding adjustments to the NDC, and approaches for nesting carbon projects within jurisdictions.
5. There is overwhelming agreement that the price of carbon does not reflect the true cost of forest protection, particularly in the long-term. Countries have mentioned the lack of transparency on carbon market transactions and prices as a key challenge.
6. There is significant country interest in tools to assess risks and opportunities of engaging in carbon markets, in the context of countries’ prior experiences, existing systems, and climate policy and finance priorities.

Thematic Summary: Presentations³ and Discussion

- Leticia Guimarães, UNDP (Sessions 1-2): There is no single definition for environmental integrity. Without agreeing on what it actually means, it becomes very difficult to put it into practice. Forest countries need to be at the center of these discussions. There is a general association of environmental integrity with carbon accounting, but the concept goes well beyond. There is growing interest from private sector companies to use REDD+ credits to achieve carbon neutrality. This interest is met with a growing concern about the use of forest credits to offset fossil fuel emissions. Environmental integrity is key for all sectors, but, the unique characteristics of the land sector create additional challenges for its effective operationalization. Carbon markets can play a key role in the transition process, mobilizing significant and much needed private capital for forests.
- Thelma Krug, former Senior Researcher, INPE on *Perspectives on environmental integrity and the role of forests in carbon markets* (Session 1, pre-recorded video in Session 2) No definition of environmental integrity has been proposed or agreed upon so far under the Paris Agreement, leaving Parties with the flexibility to apply their own methods to ensure it is met. There are a number of key elements that need to be considered when GHG removal or enhancement units are used in carbon markets, be it voluntary or under the UNFCCC, to ensure the avoidance of “hot air” or fictitious units. Presently, there is a high level of interest by the private sector and business in general to use carbon markets to demonstrate their carbon neutrality. Carbon markets should be considered as a transition to move to a low carbon supply and demand; and the acquired units should not be used by governments to demonstrate compliance with their NDCs.
- Charlotte Streck, Cofounder and Director, Climate Focus on *Legal and institutional matters relevant for environmental integrity* (Session 1): Voluntary carbon markets hold the potential to channel hundreds of millions of dollars in direct mitigation investment in developing countries. Rather than welcoming these investments opportunistically, countries may consider building an engagement strategy that maximizes investments and directs them to priority mitigation opportunities. A voluntary carbon market with high integrity supports the Paris Agreement goals and contributes to the long-term transition towards a decarbonized, sustainable and prosperous society. In the end, each country has to decide what ‘integrity’ in this context means. There are various aspects of VCM integrity that should be considered: mitigation, policy, legal, investment and commitment integrity.
- Melissa Pinfield, Senior Fellow and Tim Mealey, Senior Partner and Managing Director, Meridian Institute on the *Role of voluntary carbon markets in supporting credible net zero carbon plans*:⁴

³ See presentations and recorded remarks here: <https://www.dropbox.com/sh/e7yt9yx2srx7p/AAAaTFMN-IItLOy8S5myeirfa?dl=0>

⁴ The remarks shared by the Meridian Institute were delivered by Melissa Pinfield in Session 1 and Tim Mealey in Session 2.

The new Voluntary Carbon Market Integrity Initiative (VCMII) focuses on demand-side considerations in the VCM. A key element of this will be to focus on corporate claims so that there is clear guidance, transparency and scrutiny to ensure they are robust and real, including when and how corporates should access voluntary carbon markets as part of net zero transition strategies. In addition to looking at corporate claims, the broader global architecture and how VCMs can evolve over time will be considered under VCMII. There are a number of important issues that need to be resolved so that compliance and voluntary carbon markets can co-exist in the future, for example carbon accounting mechanisms such as corresponding adjustments to the NDCs and the use of registries.

- Donna Lee, Independent Climate Change and Land Use Consultant on *Corporate expectations on “quality” of carbon credits* (Session 2): The voluntary carbon market is expanding rapidly, and high-quality of forest carbon units—including demonstration of how such credits also contribute to Sustainable Development Goals (SDGs)—are increasingly valued by companies. Most companies engage in “due diligence” processes, assessing the quality of carbon credits in order to manage risk. Such due diligence can depend on the role the company plays – a buyer of credits (for example, from a broker), will differ from an investor in a carbon project. The market is nascent, many companies are only starting to understand what “quality” means for carbon credits. It is likely that price differentiation will occur as the market learns to better assess credit quality.

Relationship between the VCM and NDCs:

The importance of the Paris Agreement context for countries was emphasized, particularly in session 2. The challenge of balancing NDC ambition and engagement in the VCM was discussed. This was seen as being further complicated by the uncertainty of regarding how the VCM would be treated under the UNFCCC and how the VCM would be accounted for within NDCs. Environmental integrity considerations were raised in terms of decisions of including/excluding forests in the NDC and how to reconcile NDC ambition and the expectation of increasing comprehensiveness, or inclusion of all sectors, in the NDC with the interest in accessing the VCM and making emission reductions available for market transactions. A disconnect was raised, however, with one of the expert panelists pointing out that companies tend not to be as aware of the NDC issues, which highlighted the importance of converging the supply-side and demand-side discussions.

The opportunity for forest countries to think of how to engage in carbon markets and the cost of producing high-quality carbon credits, to advance respective country NDCs and set the terms and conditions they find acceptable from demand-side of equation was recognized.

In addition to the NDCs, other policy priorities and trends were also raised. For example, deforestation may increase in the post-COVID recovery period and rural priorities, like livelihood development and increasing rural migration, are key and should be considered. Related to this, the point was made that government priorities are focused on public health, so resources are not flowing to the forest sector.

Corresponding Adjustments (CA)

There were varying perspectives and interpretations among participants on the topic of corresponding adjustments, particularly in Session 1, and if and how such CAs or a version of it would be applied to VCM. While a CA is an approach under Article 6 to avoid double-counting of emission reductions, there is a question of whether such a mechanism can or should be applied to the VCM. In Session 2, it was noted that such decisions on the VCM would not be made under the UNFCCC, but more likely “in the court of public opinion,” in other words the civil society institutions setting expectations for the VCM and what behavior is accepted by the general public and their advocacy.

The topic was further discussed with an explanation that countries can decide whether to apply CA for voluntary carbon market transactions, as a sovereign decision. However, it was recognized that this will also be dependent on the type of VCM investment and what corporates will be seeking. Some VCM investments may be claimed as a climate finance contribution to a country’s NDC. In such cases, an adjustment would not be needed. Another important reflection was that a CA does not automatically make an emission reduction more robust as this will depend on other factors, the MRV system that “backs” the CA and the level of ambition of the NDC.

The issue of atmospheric integrity was also raised in the context of this discussion, with one participant in Session 1 noting the supply is all coming from a single planet with a single atmosphere, regardless of the varying claims being made by countries and the demand-side.

Carbon Accounting

The centrality of carbon accounting and the urgent need for robust accounting systems to deliver on the Paris Agreement, particularly stringent NDCs and carbon accounting, was recognized. The interaction of Forest Reference Emissions Levels/ Forest Reference Levels (FREL/ FRL) with carbon accounting under the VCM was raised as an important consideration, and more broadly, the overall convergence of the FREL/FRLs, national GHG inventory reporting and NDC accounting was pointed to as key to ensuring environmental integrity. It was raised that robust national arrangements for national accounting would be one of way to reduce the risk of overselling forest credits, within the context of the NDC.

Participants explained that forests provide long-term benefits but require continued monitoring. Also, forests should not be used as a voucher to continue to emit fossil fuels – we are not able to do that for long-term and this is a poor compensation.

A specific challenge related to this area is that there are many different standards and accounting frameworks, and they are constantly updating and becoming more stringent, so this creates a “moving target” making it difficult for countries to engage in the VCM.

Carbon Price

The topic of carbon price was raised in both sessions. Participants viewed the price of carbon as not reflecting the true cost of maintaining forest conservation nor incentivizing environmental integrity. However, it was also recognized that given the growing trend in net-zero corporate targets and the expected increase in regulatory measures as governments seek to meet ambitious emissions reduction targets, demand for carbon credits will increase, leading to an increase in price. In the relevant VCM reports compiled, REDD+ already shows a better price compared to other sectors (around \$5 per tCO₂

compared to \$1.4 and \$3.9 per tCO₂ average price for renewable energy and energy efficiency respectively⁵).

Another issue that was raised within this topic area was the lack of transparency of current forest carbon market transactions, including on the price paid for credits. There is no public pricing or trading platform for carbon credits, unlike other commodities like corn or soy so there is no transparency in price, which puts countries at a disadvantage. This creates information asymmetry between companies and the countries or projects. Country participants raised this as a challenge when seeking to engage and negotiate carbon credits price with the private sector.

VCM in the context of broader climate finance

It was recognized the need for long-term sustainability of scaled-up REDD+ funding, as well as carbon markets, to protect forests in the long-term. It was also stated that countries can use emissions trading and VCM as a tool to achieve domestic investment priorities, but this needs to consider national context and what could work for each country (i.e. agriculture, restoration, etc.). The clarification that the VCM is different from cooperative approaches under Article 6 was reinforced. There was a view expressed that the VCM may be considered as climate finance under Article 9 of the Paris Agreement, versus framing it as part of Article 6.

Receiving upfront investments is a challenge raised several times by countries. This is needed for preparation to meet the requirements from funders and carbon markets and to enhance technical capacity for policy development and implementation of actions that lead to lower emissions from the forest sector.

REDD+ countries are increasingly developing a regulatory context favorable to voluntary carbon markets because they do not want to run the risk of losing significant funding. While the VCM provides important mechanisms for the flow of private sector investment and VCM investments can be considered as climate finance for the implementation of the NDC, there remains a clear demand for public finance. Countries welcome strategic dialogues with donors to share their perspectives regarding where public sector support is needed.

The relationship between these different types of finance was discussed, for example that between payments for ecosystem services (PES) and carbon market finance. An expert panelist explained that PES schemes can be used as a means to achieve the emission reductions and removals on which generation of carbon credits could be based. It was pointed out that it is also important to ensure the environmental integrity of these PES schemes, but that those imply different tools and concepts.

Next Steps:

⁵ See: State of voluntary carbon markets, 2020: <https://www.forest-trends.org/publications/state-of-the-voluntary-carbon-markets-2020-2/>

The importance of having forums like this was recognized, and in particular, the opportunity to have the tropical forest country voices heard was appreciated, given a general perception that a lot of the dialogues are happening without forest countries' active engagement.

The intent is to build on these initial dialogues, which served as scoping discussions, with additional thematic and/or subregional dialogues. These discussions will continue to recognize and build upon other related processes, particularly relevant and widely accepted sets of principles, frameworks, and standards with a primary objective to consider how these principles would be applied in practice. Additional topics to explore could include specific tools and frameworks countries can use to access the VCM, corresponding adjustments to the NDC and typology and implications of the various "corporate claims."

In addition to opportunities for exchanges amongst countries, there was also clear interest to engage with the private sector. Opportunities for dialogues where companies and supply countries can exchange views should be considered. Countries asked for support on connecting with partners and approaching companies to mobilize international climate finance.

Additionally, given the clear interest in tools to assess risks and opportunities in the carbon markets, UNDP and other partners in this space will look to support interested countries to develop country-level strategies to access the VCM, including assessment of risks and benefits, in the context of countries' prior experiences, existing systems, and climate policy and finance priorities. Tools such as the Paris Agreement LULUCF Assessment & NDC Tool (PLANT) could be applied towards these types of analyses.

Finally, there will be other opportunities for those countries indicating their particular interest and experience in this arena to champion the issues and priorities of tropical forest countries in related dialogues and processes. As a particular example, there is the clear intent to have forest country voices represented in the Voluntary Carbon Market Integrity Initiative (VCMII).

It is critical to make progress on this topic in advance of COP26. Converging on how to operationalize the transfer of high-integrity forest emission reductions and removals can play a key role in scaling up high-integrity carbon markets to meet the goals of the Paris Agreement.

Annex:

Forest Solutions Dialogue: Achieving Environmental Integrity for Forests in Carbon Markets

CONCEPT NOTE & AGENDA

Date and time

Session 1: 14 April at 10:00 am - 12:00 am EST / 2:00-4:00 pm Accra/ 4:00 – 6:00 pm CET

Session 2: 14 April at 9:00 - 11:00 pm EST / 15 April at 8:00 – 10:00 am Indonesia time

Platform: Zoom (interpretation in Spanish, French and Bahasa was made available)

Participants

Invitations will be sent to all forest countries that [submitted forest reference levels](#) to the UNFCCC. Two people from each country will be invited to participate: (i) the REDD+ focal point, (ii) technical experts on carbon markets nominated by the UNFCCC focal points. This session will prioritize participation by forest countries to provide the space for inputs from these countries and to most effectively achieve the intended objectives listed below.

Objective

This session in the Forest Solutions Dialogue series will discuss the principles that underlie the environmental integrity of market-based transactions of forest emission reduction and/or removal units as well as the credible, robust, and pragmatic operationalization of such environmental integrity principles.

The objectives are to:

- i. highlight and reflect the views and key issues for tropical forest countries, related to the environmental integrity of forest carbon market transactions and,
- ii. provide a forum for forest countries to discuss the role of voluntary carbon markets in the implementation of the Paris Agreement for the forest sector.

The dialogue will build upon other ongoing or emerging related processes, frameworks, and standards.

Agenda:

Forest Solutions Dialogue: Achieving Environmental Integrity for Forests in Carbon Markets	
20 min	Welcome and Introductory Presentation: Leticia Guimarães, Senior Global Technical Advisor, UNDP Moderator: John Ehrmann, Senior Partner, Meridian Institute
30 min	Panel Presentations (10 min each) <ul style="list-style-type: none">• Thelma Krug, former Senior Researcher, INPE: perspectives on environmental integrity and the role of forests in carbon markets (Session 1 + record for session 2)• Charlotte Streck, Climate Focus: Legal and institutional matters relevant for environmental integrity (Session 1)• Donna Lee, Independent Climate Change and Land Use Consultant: Key technical considerations for environmental integrity (Session 2)• Melissa Pinfield, Senior Fellow, Meridian Institute & Tim Mealey, Senior Partner & Managing Director: Role of voluntary carbon markets in supporting credible net zero carbon plans (Melissa session 1 + Tim session 2)
5 min	Participant Survey (Questions TBD)
55 min	Q&A / Discussion with Forest Countries
5 min	Closing remarks

Intended Outcomes

1. Identify areas of convergence and divergence among key stakeholders on common elements for the credible, robust, and pragmatic operationalization of environmental integrity for international carbon market transactions of forest emission reductions and removals forest units.
2. Identify potential champions to emphasize forest countries perspective on global environmental integrity discussions.

Context and Background:

Carbon markets are expected to play an important role in meeting the goals of the Paris Agreement. Markets have the potential to lower costs of achieving climate mitigation by providing flexibility. If designed and implemented in a way that ensures high environmental integrity, carbon markets can play a role in raising ambition. If they are not, markets have the potential to compromise global efforts to meet the goals of the Paris Agreement.

There are many different definitions for environmental integrity. In a carbon markets context, environmental integrity refers to emission reductions and removals being real, quantifiable, and verifiable, with issues of additionality, leakage and permanence sufficiently addressed and tracked through robust accounting to avoid double-counting. The environmental integrity of forest emission reductions and removals has been a major focus of international negotiations on REDD+. This process will be informed by and build upon the REDD+ experience.

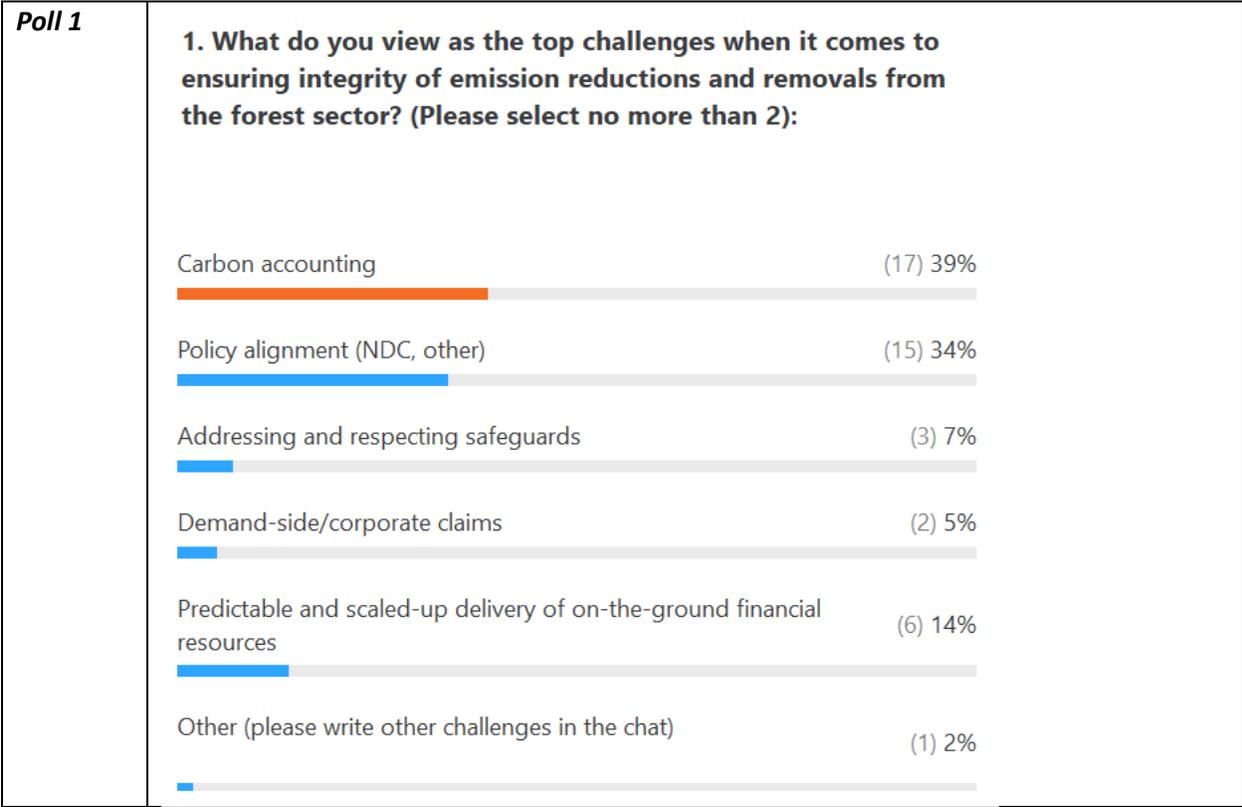
There are currently several other processes underway which are also focusing on the environmental integrity associated with carbon markets, including development or application of sets of principles. In

terms of scope, these either have a broader, cross-sectoral focus (e.g., Task Force on Scaling of Voluntary Carbon Markets), or a narrower lens on nature-based solutions (e.g., NCS Alliance), but there are no current processes in this arena focusing exclusively on the supply-side (tropical forest countries) of forest emission reductions and removals in a carbon market context. In addition, existing processes are tending to focus primarily on voluntary carbon markets, and the use of carbon credits by the private sector, but they are not placing a strong emphasis on the international climate policy arena. This discussion intends not only to recognize the UNFCCC but also ensure it is integrated as critical context for market integrity discussions, without prejudging Article 6 negotiations.

It is critical to make progress on this topic in advance of COP26. Converging on how to operationalize the transfer of high-integrity forest emission reductions and removals can play a key role in scaling up high-integrity international carbon markets.

Poll results

Session 1



<p>Poll 2</p>	<p>1. Do existing carbon markets tools and mechanisms for the forest sector sufficiently address environmental integrity concerns? (Please select one)</p> <p>No, these are not sufficient (19) 40%</p> <p>Partially, but need to be strengthened (24) 51%</p> <p>Yes, these are sufficient (4) 9%</p> <p>2. What areas of support would be most useful to your country's efforts related to and participation in voluntary carbon markets (Please select no more than 2): (Multiple choice)</p> <p>Dialogue platforms for forest countries (13/47) 28%</p> <p>Tools to assess risks and opportunities for forest countries engaging in carbon markets (36/47) 77%</p> <p>Opportunities to engage with the private sector (18/47) 38%</p> <p>Technical papers (6/47) 13%</p> <p>Other (please write in other areas of support in the chat) (3/47) 6%</p>
<p>Final Poll</p>	<p>1. Did you find this event useful and informative?</p> <p>Strongly Agree (19) 48%</p> <p>Agree (19) 48%</p> <p>Disagree (1) 3%</p> <p>Strongly Disagree (1) 3%</p>

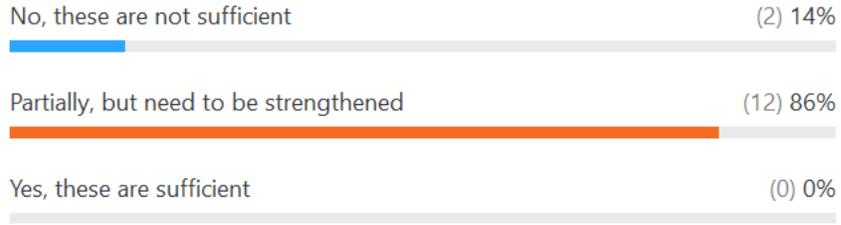
Session 2

(note: there was an error in the polling so the questions were switched from session 1)

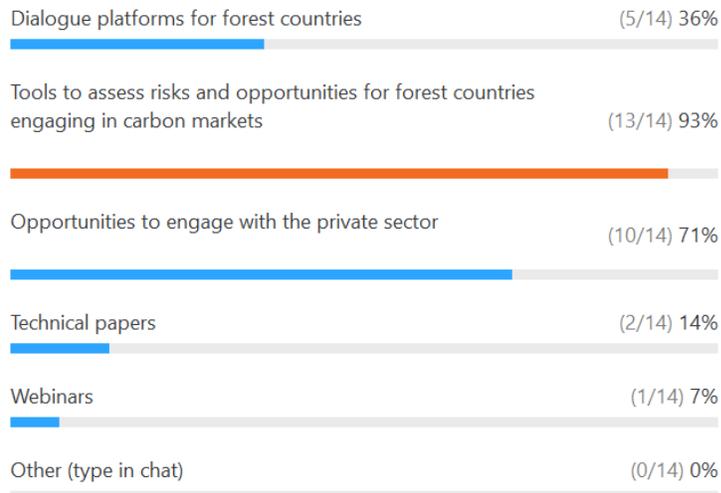
Poll 1

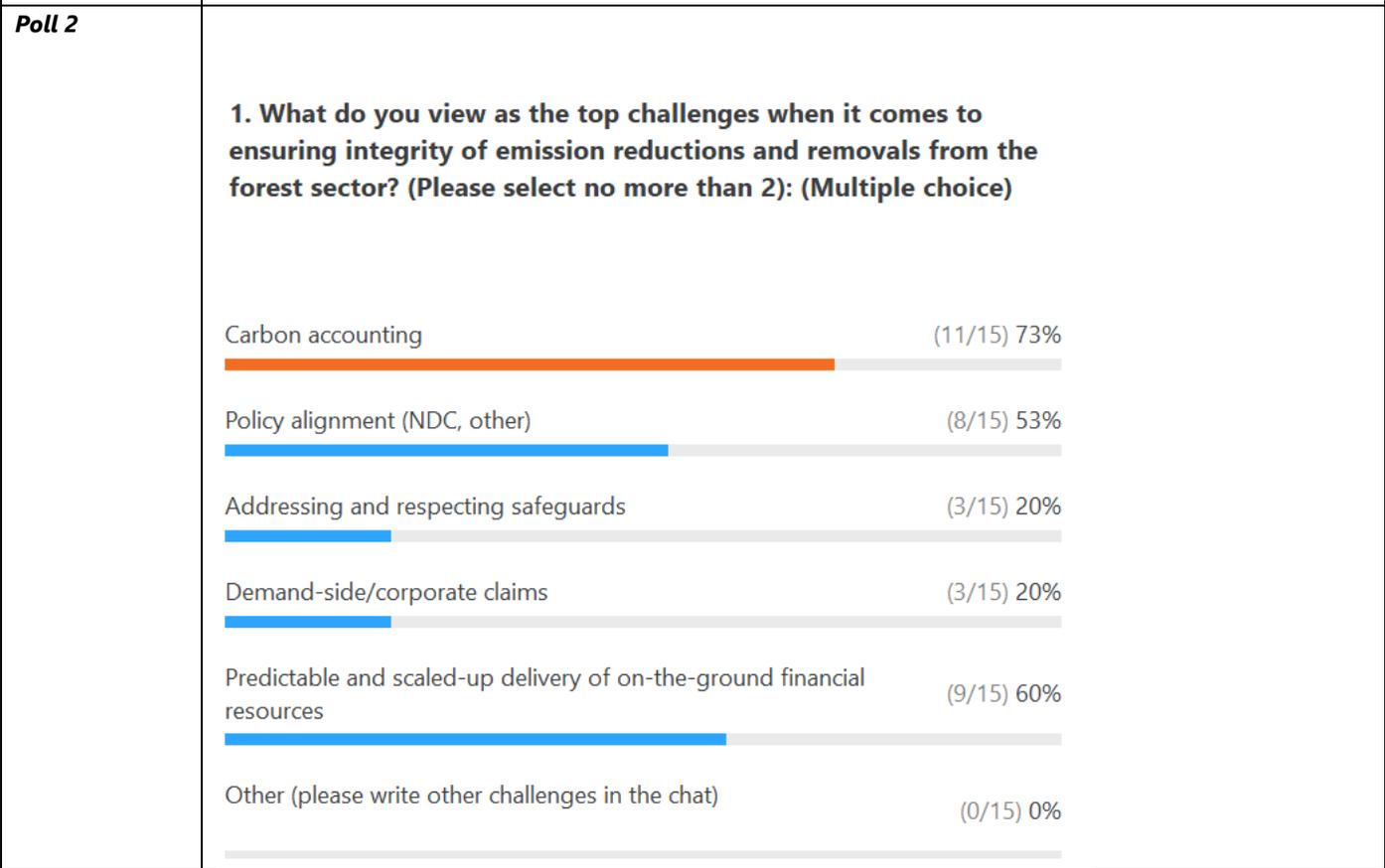
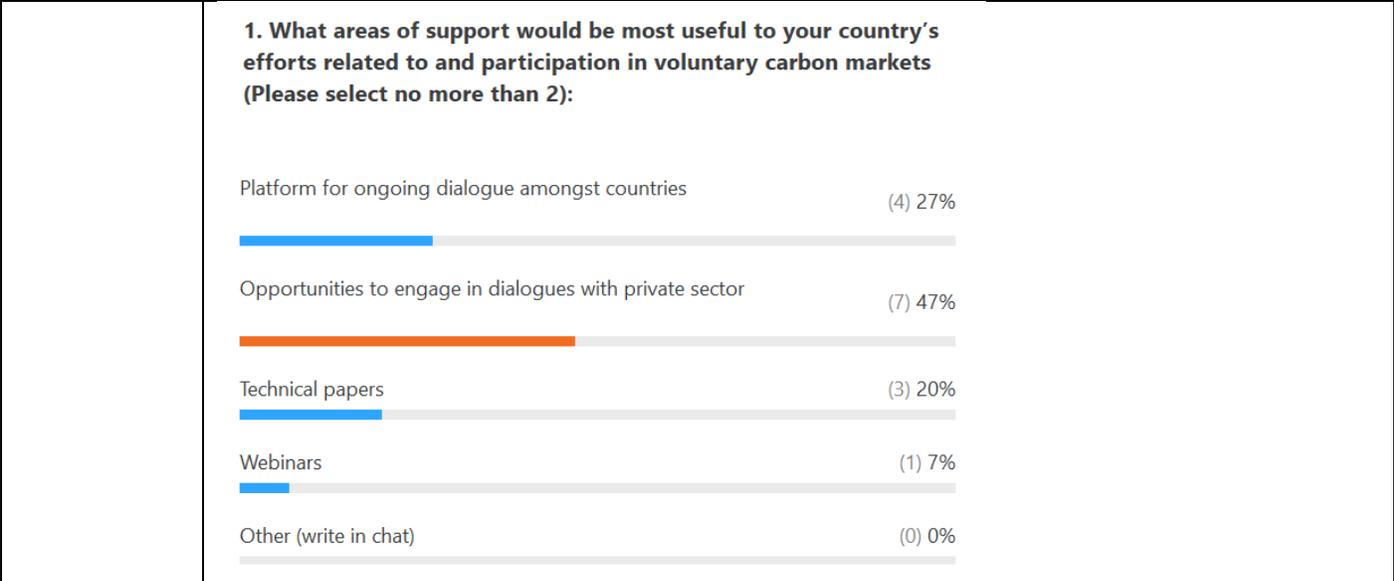
(Q2 was asked again, then showed the challenges question)

1. Question 1: Do existing carbon markets tools and mechanisms for the forest sector sufficiently address environmental integrity concerns? (Please select one)



2. What areas of support would be most useful to your country's efforts related to and participation in voluntary carbon markets? (Please select no more than 2): (Multiple choice)





Final Poll

1. Did you find this event useful and informative?

