TREES Statement of Reasons

Intro

The Architecture for REDD+ Transactions (ART) has been developed to promote the environmental and social integrity and ambition of greenhouse gas (GHG) emission reductions and removals (ERs) from the forest sector to catalyze new, large-scale finance for REDD+ and to recognize forest countries that deliver high-quality REDD+ emissions reductions. ART provides a credible standard and rigorous process to transparently register, verify, and issue REDD+ emission reduction credits that ensure environmental and social integrity. ART published a version of The REDD+ Environmental Excellence Standard (TREES) for a 60-day public consultation period between 29 July and 27 September 2019. The purpose of this consultation was to solicit stakeholder feedback for the ART Board to consider prior to finalizing TREES.

The ART Board and ART Secretariat greatly appreciated the level of stakeholder interest during this consultation period. ART received 778 individual comments from 47 different entities. The comments were thoughtful and reflected both understanding of REDD+ and a wide breadth of technical, market and sector knowledge and expertise. The comments and questions covered many topics and offered numerous suggestions for improvement. Responses to all comments are available in the *TREES Comment and Response Log* posted on the ART website.

This Statement of Reasons document seeks to highlight key issues which received the most comments and have a greater impact on the outcome of the Standard. The approach and rationale taken to address stakeholder comments related to these key issues is described below.

Crediting Level

Numerous stakeholders submitted comments related to various aspects of the TREES Crediting Level. Two key issues were identified, including the use of a 10-year reference period to determine the initial crediting level, and a 20% exogenous ratchet used to determine subsequent crediting levels. The ART Board considered these comments carefully and weighed their desire for an ambitious and rigorous Standard with their desire for a Standard that could offer incentives to a broad range of participants. The ART Board also noted the importance of adhering to the applicable ART Principle which states "Set crediting baselines for deforestation and degradation that initially reflect historical emission levels and thereafter decline periodically to require higher ambition over time."

The Board reached consensus that a historical average from a 5-year reference period should be used to determine the initial crediting level. This decision was based on recommendations from several stakeholders and the Technical Standard Committee (TSC), which indicated that a 5-year reference period more accurately predicts future emissions than the 10-year period initially proposed. The TSC is a committee of seven experts convened to provide technical input into the develop of TREES. The TSC members have extensive REDD+ experience with individual expertise including monitoring, accounting, public and private REDD+ program development and reporting, and other REDD+ program development and implementation. This prevalent understanding among stakeholders was further supported by a study recently conducted by two members of the TSC. The study looked at data from Hansen (2013) for 60 countries using data from 8 years, including 2011 – 2018. The study used 8 different average lengths to predict emissions for 8 different years, with 480 observations in total. Results showed that the difference

between predicted and observed is the lowest between 2 -5 years, indicating that a reference period in this range is the best predictor of the future. The ART Board also selected the 5-year reference period to coincide with the 5-year ART Crediting Period that is established in the Standard.

The Board also considered numerous stakeholder comments that indicated that an automatic 20% reduction in the crediting level for each new crediting period was problematic for most potential participants (i.e., countries and subnational jurisdictions), and would disadvantage crediting for ERs from the forest sector compared crediting ERs from other sectors. The Board also noted the global deforestation crisis and the urgent need to attract participants to ART in order to effect change and reach international climate goals. The Board reached consensus to eliminate the 20% exogenous ratchet and selected an approach requiring a 5-year historical average to be updated at the start of each crediting period to set the new crediting level. Increases in the historical average over time will not be permitted. Information will be available on the ART Registry and in associated Participant documentation that will allow market participants to see the level of emission reductions achieved as a percentage relative to the crediting level at each issuance. It is hoped that awareness of the achievement of higher reductions will attract buyers.

TREES Participant

The public consultation version of TREES states that a TREES Participant must be a national government, with subnational accounting permitted during a transitional period, under limited circumstances. Several comments were received recommending that the requirement be amended to allow subnational governments to participate directly. Several stakeholders indicated that many subnational governments are well positioned and eager to enter REDD+ programs, while their national governments may not yet be ready for this step. The ART Board therefore decided, with consensus, to allow subnational governments to participate under TREES with national government approval, which will include provisions such as avoiding double counting with Paris Agreement NDCs. Therefore, the Standard was modified to allow subnational accounting for subnational governments, as well as for national governments.

Transition to National Accounting

Numerous stakeholders provided comments indicating that the requirement to transition to national accounting by 2025 would be extremely challenging, disadvantages larger countries, and would not offer incentives for subnational action or participation. Several different stakeholders recommended an extension in the timeframe for transition to national-scale accounting under TREES. The ART Board elected to require a transition to national accounting by 2030, an extension of five years relative to the public consultation draft. All subnational participation will now be eligible for crediting in ART until December 31, 2030 regardless of the number of years left in the crediting period. This allows a smooth and transparent transition to national-scale participation. Based on the comments received, the ART Board believes this provides enough time for the transition from subnational to national participation and offers incentives to subnational governments which is especially important given the ART Board decision to allow subnational governments to be Participants with national government approval. The change also maintains adherence to the ART Principle requiring subnational crediting as a time-bound interim measure only.

Criteria for Defining Subnational Eligibility

The Secretariat received numerous stakeholder comments related to the criteria and size threshold for Participants with subnational accounting areas.

The ART Interim Steering Committee (ISC) approved the proposed scale threshold for direct national Participants, and it was assumed that subnational accounting areas (jurisdictions) could be combined as needed in order to meet the threshold. In light of the decision of the ART Board to allow direct participation by subnational jurisdictions, this assumption needed to be revisited. Since each Participant will have distinct legal requirements under ART, subnational Participants cannot combine to meet the area scale threshold, leading to the decision to consider a lower threshold that maintains the ART principle of significant scale. In addition, numerous comments were received from key stakeholders, including Governors Climate and Forest Task Force (GCF) states, indicating that a lower threshold was needed to encourage subnational participation.

Second, several comments were received suggesting that the criteria were overly complex. Simplifying the eligibility criteria will allow all stakeholders to more easily understand and confirm eligibility. As a result, the ART Board elected to remove the criterion pertaining to the percent of national forest.

The Board selected 2.5 million hectares of total forest area as the threshold because it maintained the ART Principle for significant scale, while responding to key recommendations from subnational jurisdictions and allowing for participation of a majority of subnational jurisdictions that have expressed interest in ART.

HFLD and Removals

Numerous stakeholders submitted comments urging the ART Secretariat and ART Board to include a different crediting level approach for participation of HFLD countries and for accounting of removals. The ART Board recognizes urgency of addressing these issues and has directed the Secretariat to prioritize work on them during 2020. The Secretariat will begin work immediately by identifying and convening expert committees so that work can begin in early 2020 on these two important tasks.

Additionality

The Secretariat received several stakeholder comments related to additionality. TREES uses a performance-based approach to additionality. That is, when emissions from deforestation and degradation are lower than the TREES Crediting Level the emission reductions are deemed to be additional under ART. This type of performance-based additionality is widely accepted among carbon market stakeholders and was deemed to be the most appropriate for jurisdictional- and national-scale REDD+ programs. Individual drivers of change that result in specific reduced emissions are difficult to track at this large scale given the complex interactions among economic, policy and social drivers. It would be extremely difficult for Participants to attribute causality at this scale and almost impossible for a third-party verification body to assess whether the attribution is accurate. The ART Board directed the ART Secretariat to clarify the language in the Standard to make the additionality approach used in TREES clearer to stakeholders.

Reversals

Several comments were submitted related to reversals and buffer pool contributions with several suggestions for improving ART's approach. The Secretariat carefully considered the comments and consulted with experts on the TREES committees. Changes approved by the ART Board include the addition of a third mitigating factor to allow Participants to lower their risk rating by 5% in cases where they can demonstrate they have reversal mitigation strategies or plans in place that align with Cancun Safeguard F. This allows Participants who are actively working to lower the risk of reversals to benefit by contributing less to the buffer pool. Further, the ART Board considered changes to ensure that the risk buffer is sufficient to mitigate reversals for the long-term. The ART Board also approved the proposed change to require Participants to replenish the buffer in cases where a Participant's reversal exceeds its buffer contribution to date. In addition, to ensure adequate mitigation of long-term reversal risk, the Board approved the removal of the provision to return buffer contributions to Participants after 10 years of no reversals. The Board noted the intent to reassess allowing for this refund in the future. It is also noted that the ART buffer pool is likely to be adequate because reversal risk from isolated disturbances such as fire or disease is reduced at the jurisdictional and national scale. The changes recommended by stakeholders and approved by the ART Board have strengthened the reversal mitigation provisions in TREES.

Leakage

The Secretariat received several questions pertaining to leakage at the subnational scale. In the context of TREES, "leakage" is the displacement of anthropogenic emissions from within a participant's registered subnational accounting area to an alternative area within the country not monitored under ART.

The TREES Standard employs a conservative, standardized leakage deduction beginning at 20% and decreasing as Participants near their goal of complete national enrollment. The approach encourages the rapid scale enrollment advocated by the UNFCCC to promote broad policy reform, achieve larger-scale emissions reductions and minimize domestic leakage (Angelsen et al. 2008). It also falls in line with research concluding that implementing comprehensive, national level emissions reductions programs is a priority action for minimizing leakage (US EPA 2005; Murray et al. 2004; Wunder 2008; Kuik 2013). By leveraging the rigor of scientific literature with the practicality of standardized deductions, participants with relatively little technical knowledge of leakage can efficiently move through the certification and issuance process (Atmadja and Verchot 2011).

The 20% leakage deduction employed by the ART TREES Standard is well supported in the literature. Sohngen and Brown (2004) estimated leakage resulting from timber concession buyouts in the 661,000 ha Noel Kempff Mercado Climate Action Project in Bolivia at 18% over 30 years and to 21% over 50 years. Under the U.S. Conservation Reserve Program, Wu (2000) concluded that for each 100 acres of land retired under the CRP, an additional 20 acres of non-cropland were converted to cropland (20% leakage). Hooda (2007) examined leakage in response to community and farm forestry expansion in Indonesia and estimated leakage ranging from 10% to 20%. Warman and Nelson (2015) did not observe significant leakage from implementing nation-wide national forest conservation efforts in Australia, which they attributed to a coinciding focus towards plantation establishment and market substitution for deriving wood products. Kuik (2013) estimated leakage from national scale REDD+ efforts ranging from 0.5 to 11.3% and postulated that subnational leakage would fall within the same range. While the quantitative

studies cited above are helpful in estimating specific leakage rates, qualitative studies more focused on leakage processes and sources have also generally noted subnational leakage to be negligible (Morse 2007; Pagiola et al. 2007; Wunder and Alban 2008).

The points presented above highlight that leakage is an important consideration for REDD+ efforts, as well as any GHG mitigating project or program. Proper accounting is highly complex and must consider quantitative and qualitative factors driving REDD+ activities across varying geographies and socioeconomics. Requiring such measures would increase the complexity of program management as well as transaction costs associated with emission reduction activity implementation, monitoring and verification. While various accounting standards have attempted to develop technical approaches to directly quantify leakage, they have typically generated relatively low or nonexistent estimates of leakage compared to the TREES Standard and the existing literature base. For these reasons, the TREES Standard has opted to employ standardized leakage deductions based on literature. Deduction rates under the TREES Standard are considered conservative could be adjusted as the program matures and further literature becomes available.

Uncertainty

Many stakeholders submitted comments related to the uncertainty section in TREES. The topic is highly complex, and the approach in TREES will likely be revised in future versions of TREES as best practices emerge from work currently underway by experts on this topic. Several key issues drove the current approach in TREES. There is a gap in the level of usable guidance and guidelines for REDD+ practitioners implementing typical REDD programs. It is difficult to account for the degree of covariance between errors in the reference level emissions and ongoing reported emissions and to assess which sources of error should be included and excluded. The statistical analyses that are available are highly complex and difficult to implement. While it is essential to account for uncertainty, it should also be noted that forestry and land use is consistently the only sector that is subject to stringent uncertainty deductions and calculations in the carbon market.

Considering these challenges, the ART Board elected not to focus on estimation of uncertainty in emission reductions, but instead takes an approach whereby the crediting level and the monitored emissions are conservatively adjusted if uncertainty falls beyond the allowable level of error. If the calculated uncertainty value for the crediting level is above the allowable amount of error, defined reference emissions are lowered by the difference and if the calculated uncertainty value for the monitored emissions is above the allowable amount of error, the implementation emissions are elevated by the difference. ART will reconsider its approach to uncertainty on a continual basis and will adjust the standard when better approaches become available.

Safeguards

The TREES Safeguards Committee was comprised of experts who have served as safeguard negotiators for countries, worked for non-profits focused on safeguard issues and provided safeguard consulting services to many countries and programs. This wealth of experience allowed the committee to better ensure multiple viewpoints were discussed during the Committee's deliberations. The following information is offered in addition to individual comment responses. Benefit sharing is discussed in the Nesting/Benefit Allocation Section.

Language has been revised in Section 3.1.1 and throughout Section 12 to ensure better, more clear alignment with the UNFCCC safeguards requirements. The requirement for submission of an annual Summary of Information report to the UNFCCC has been changed to require Participants to submit the most recent Summary of Information to the UNFCCC for any year where results-based payments under ART are sought. Participants will be required to report on safeguards in each monitoring report submitted under ART for verification so this requirement will not present a burden to Participants and better aligns with the UNFCCC requirements. As outlined in the Standard, Participants may use the Summary of Information report for safeguard reporting under TREES. In addition, TREES has been amended to require Participants to have a system in place for documenting information on safeguards.

Language has also been revised to clarify how TREES ensures that all Cancun Safeguards are always addressed (structure indicators) and respected (process and outcome indicators) by Participants. The requirement to demonstrate conformance with indicators has been revised to require Participants to demonstrate conformance with all structure and process indicators during the first verification. Conformance with all outcome indicators is required at the first verification of the second crediting period, although plans to achieve conformance must be reported starting with the first verification. This step-wise approach ensures that Participants both address and respect Cancun Safeguards while allowing time for processes to be put in place prior to reporting on actual outcomes.

Several comments focused on questions regarding the indicators and suggestions for improving the wording and content of the indicators. Many indicators have been revised to provide improved clarity and/or to incorporate the suggestions made. The indicators were drafted to reflect UNFCCC language and generally agreed upon, standard phrasing and language used within the international safeguards community. It is important to note that the TREES Standard will not be a standalone document. A guidance document will provide additional information for Participants, and the TREES Validation and Verification Standard will provide guidance to the validators and verifiers on how to determine conformance with the indicators. Both documents are currently under development for publication in 2020.

Verification

Third-party validation and verification are important requirements in order to produce credits that are fungible in markets. This is consistent with requirements under the Clean Development Mechanism (CDM) under the UNFCCC and is a requirement in other compliance and voluntary carbon markets to ensure credibility of the generated credits. ART also values the verification of safeguards as an important step to ensuring high quality emission reductions are created. Expectations and guidance on this process are currently being written as part of the TREES Validation and Verification Standard.

Several comments expressed concern regarding potential conflicts of interest between verification bodies and Participants or potential for verification bodies to underbid or cut corners in order to win verification work. The processes outlined in TREES were designed to address these risks and as such, the ART Board feels comfortable maintaining the Standard as drafted for this topic.

There are many checks in place to ensure the quality and independence of the third-party audits. These include:

1. ART requires all validation and verification bodies (VVBs) to be accredited. This means that the VVBs must apply and be approved (scope-specific) by a member of the International Accreditation

Forum (IAF, www.iaf.nu) as having appropriate processes in place to conduct high-quality validation and verifications. The process for accreditation includes witnessed site visits, reviews of skills and qualifications of the team, review of internal processes and forms including conflict of interest processes, records reviews, and ongoing oversight and audits. If the VVB is found to be out of conformance, the VVB can lose their accreditation.

2. ART also requires the VVBs to apply to ART directly, which includes ART Secretariat review of qualifications, resources, experience and ability of the VVB to perform audits under ART. If the VVB is approved by ART, they must sign a legal agreement with ART, which includes provisions regarding the use of sub-contractors and conflict of interest requirements. If a VVB is found to be in violation of the agreement, ART will terminate their approval to serve as a VVB.
3. ART requires an assessment of conflict of interest prior to the start of each validation and verification. The submission will specify the staff that will conduct the validation and/or verification and any professional or personal relationships with the Participant or organizations supporting the Participant's submission. Any conflicts of interest must be appropriately documented and mitigated.
4. ART requires VVBs to adhere to the TREES Validation and Verification Standard. This Standard will outline the mandatory requirements all VVBs must use when conducting validations and verification under ART. The ART Secretariat will provide training on the Standard for VVBs and will oversee the validation and verification process to ensure all work conforms to TREES requirements. This prevents VVBs from "cutting corners" to lower their bids and will ensure consistent work products across VVBs.

Additional comments were received regarding concerns about VVB staffing and the ability of VVBs to assemble qualified teams. Based on discussions with the TREES Verification Committee, it is anticipated that VVBs will have the resources needed to assemble qualified teams. The expectation is that Participants will join ART on a rolling basis and therefore a limited number of VVBs will be needed at any given time. The TREES Verification Committee is comprised of five members with significant experience in verifying REDD+ projects and programs for voluntary offset programs and other REDD+ programs such as the Green Climate Fund and FCPF.

Finally, comments were also received regarding the implications of a Participant missing a required verification after years 1, 3, or 5 of a crediting period. Each Participant will be required to sign an agreement with ART which will outline the Participant's obligations. This document will include the consequences for not meeting certain requirements such as the verification frequency. ART is working with outside legal counsel to draft these agreements.

Public Comment period

Stakeholders submitted comments recommending that ART adopt a formal public stakeholder consultation period prior to each ART Board approval of the issuance of emission reduction credits. The ART Board notes that stakeholder comments are highly valuable to ensure transparency and to raise concerns, but recommends the comments be submitted much earlier in the process. ART welcomes comments at any time through the website and encourages interested stakeholders to submit emails when they have relevant and pertinent information related to an emission reduction claim, or any associated TREES requirements. Comments received earlier in the registration cycle, after Participant documents are approved by the Secretariat and before validation and verification begins, allows more

time for issues to be addressed and/or resolved. To facilitate this process, ART will establish a notification system via the ART email listserv to alert stakeholders of newly approved submissions from Participants. All comments submitted to ART will then be disseminated to the appropriate entity (the jurisdiction, the verification body, the ART Board) to be addressed.

Nesting/benefit allocation

Many stakeholders expressed concern that TREES does not include an explicit accounting or benefit allocation approach for nesting existing or future REDD projects. ART recognizes the importance of local actions to reduce deforestation and encourages continued private sector investment in these activities. As such, ART wishes to give Participants flexibility in how projects or subnational efforts are nested, noting that many jurisdictions and countries have already begun developing approaches. ART does not wish to prohibit any nesting arrangements that have been or will be developed within participating jurisdictions. In addition, other organizations are working to develop nesting approaches which could be used by ART Participants.

It is important to note that ART requires all stakeholders, including the private sector, to be included in the participatory planning and implementation processes outlined in the safeguards section of TREES. Private sector entities often act as the REDD+ project proponent, and thus are included automatically in the participatory process. Under a jurisdictional or national approach, ART notes that subnational governments, private sector project proponents and private landowners may also be relevant stakeholders in addition to communities and indigenous peoples. Criterion 4.1 requires all relevant stakeholders to be included and the guidance will highlight the need to include private sector stakeholders or subnational governments as appropriate.

Several comments were also received asking why TREES does not explicitly require a benefit sharing plan. ART allows Participants to develop and implement procedures, policies, or programs appropriate to their unique circumstances when demonstrating conformance with environmental, social and governance safeguards under TREES. The Standard requires conformance with safeguards requirements under the UNFCCC but does not prescribe specific approaches that must be used. While specific requirements for traditional project-level safeguards such as formal grievance processes or benefit sharing plans are not prescribed, the themes and indicators seek to ensure that activities are implemented in conformance with all Cancun Safeguards, including transparent implementation of activities and allocation of resources.

The TREES Safeguards Committee also elected not to recommend an explicit requirement for a benefit sharing plan for the following reasons:

1. Benefit sharing plans tend to focus on monetary compensation. In many instances, stakeholders may prefer to receive non-monetary benefits such as land tenure rights, education and training opportunities, access to markets, improved governance, carbon rights or other benefits. These broader benefits would be identified as part of a participatory REDD+ activity development process.
2. Experience to date in FCPF and other programs have demonstrated the complexity in developing these plans.
3. The intent of a benefit sharing plan would be to ensure the fair and equitable use of the proceeds from REDD+ revenue. These would be covered through several criteria/indicators of TREES:

a. Criterion 2.2. Promote transparency and prevent and combat corruption (indicators specifically mention financial transparency and corruption and distribution of REDD+ benefits)
b. Criterion 2.3. Respect, protect and fulfil land tenure rights (including promised rights as part of REDD+ activities)
c. Criterion 3.3. Respect, protect and fulfil human rights of indigenous peoples and local communities, or equivalent (rights include benefit sharing)
d. Criterion 4.1. Respect, protect and fulfil the right of all relevant stakeholders to participate fully and effectively in the design and implementation of REDD+ actions (stakeholders include the private sector and project developers)
e. Criterion 4.2. Promote adequate participatory procedures for the meaningful participation of indigenous peoples and local communities, or equivalent.
f. Criterion 5.3. Incentivise the enhancement of social and environmental benefits

These criteria and their associated indicators ensure that all stakeholders are part of the REDD+ activity development process, and that agreements are adhered to and implemented as agreed. Benefit sharing plans may be developed as part of these processes but may be at a program level rather than national. The verification guidance will also reference that benefit sharing plans, if developed, can be forms of evidence the verifiers should review.

UNFCCC alignment

Several stakeholders suggested stronger alignment between ART and UNFCCC in terms of reporting requirements and timelines. ART is consistent with UN decisions and builds upon many key UNFCCC decisions including those related to reference level setting, safeguard reporting and GHG monitoring. However, as a voluntary REDD+ Standard, TREES is required to establish a consistent set of requirements and deadlines that apply to all ART Participants. The requirements and deadlines are not the same as UNFCCC requirements, but in some cases, Participants may be able to use the same information for both UNFCCC reporting and ART reporting.

Summary of reporting requirements

Requirement	**ART**	**UNFCCC Annex 1**	**UNFCCC Non-Annex 1**
Annual emissions data	Submit monitoring report in Years 1, 3, 5 of crediting period - annual emissions from deforestation and degradation must be reported for all years	Submit annual GHG inventory from 2 years prior by April 15th of each year; National Communications submitted every 4 years; Biennial Report submitted every 2 years	Biennial Update Reports every 2 years, GHG inventory annually starting in 2024
Deforestation reference level	Based on 5-year reference period, updated every 5 years.	n/a	REDD+ countries must submit FREL, there is flexibility in how it is determined, no required update period.

NDC reporting and accounting for emission reductions transfers as Corresponding Adjustments	Requires reporting to the UNFCCC on progress towards NDC target and corresponding adjustments for all transfers of emission reductions for use by another country or entity for use against a GHG target (such as towards an NDC or for a CORSIA obligation)	Requires reporting to the UNFCCC on progress towards NDC target and corresponding adjustments, as determined by the UNFCCC for transfers of emission reductions for use by another country or entity for use against a GHG target (towards an NDC or for a CORSIA obligation)	Requires reporting to the UNFCCC on progress towards NDC target and corresponding adjustments, as determined by the UNFCCC, for transfers of emission reductions for use for another country or entity for use against a GHG target (towards an NDC or for a CORSIA obligation)
Safeguards information	Included in each monitoring report and in validation and verification	Submit the most recent Summary of Information to the UNFCCC for any year where results-based payments are sought; No specific frequency or requirements on reporting and not included in the technical review	Submit the most recent Summary of Information to the UNFCCC for any year where results-based payments are sought; No specific frequency or requirements on reporting and not included in the technical review
Verification	Third party validation and verification of every monitoring report in accordance with the TREES Validation and Verification Standard	Two parts: 1. Technical review of national reports by Secretariat and Expert Review Teams 2. Multilateral assessment of progress towards goals including peer review Q&A, Presentation to the Subsidiary Body of Implementation and completion of a summary report of the review	Two parts: 3. Technical review of national reports by Secretariat and Expert Review Teams Multilateral assessment of progress towards goals including peer review Q&A, Presentation to the Subsidiary Body of Implementation and completion of a summary report of the review