

Questions and Answers, March 2011

Latest developments of the Guyana-Norway REDD+ Partnership

Why was there a need for new data on deforestation rates in Guyana?

When Norway and Guyana entered into the REDD+ partnership in November 2009, estimates of deforestation rates in Guyana varied significantly. Most estimates were in the range of 0.1 to 0.4 percent annual deforestation. For a performance based payment scheme to work, it was realized that more precise data on current and historical deforestation rates was needed.

After an international tender process, the company Pöyry Forest Industries from New Zealand was contracted to analyze archived satellite images of Guyana's forests. Images dating back to 1990 were collected and analyzed, and yielded important and positively surprising data on the changes in Guyana's forest cover over the last two decades. The full report by Pöyry and the Guyana Forestry Commission (GFC) can be downloaded at www.regjeringen.no/guyana.

All the findings reported by Pöyry and the GFC were subsequently subject to independent verification by DNV (Det Norske Veritas). DNV's verification report is also available at www.regjeringen.no/guyana.

What are the key findings of the Pöyry Report?

The key findings are:

- In 1990, Guyana's forests covered 18.47 million hectares
- In September 2009, the Guyana forest covered 18.4 million hectares.
- This represents an annual average deforestation rate of 0.022% over the last twenty years.
- For the ten year period 2000-2009, the annual average deforestation rate was 0.03 %.
- In the first reporting period (Oct. 2009 – Sept. 2010) 10 280 hectares were deforested, giving an annual deforestation rate of 0,056%.
- The key driver of deforestation in Guyana has been, and continues to be, mining activities.

In other words, the analysis of satellite images revealed that deforestation rates in Guyana are only a fraction of what was reported in previously available estimates. To put the figure in perspective, the mean deforestation in South American countries in the period 2005-10 is estimated at 0,41%. The comparable rate in Guyana is thus less than 10% of this regional average.

Has deforestation in Guyana tripled in the first year of the partnership?

No. As we only have mean values for historical deforestation, it is not possible say if the increase has happened from one year to another. However, the first results report (the Poyry/GFC-report) indicate a significant increase in deforestation in the first reporting period (0,056%) as compared to the historical mean.

The following points should be noted:

- By any means of comparison, the deforestation rate in Guyana remains extremely low, and this deserves international recognition.
- At deforestation rates as low as those observed in Guyana, even very small deforestation events will cause significant percentual changes in the deforestation rate.
- The results report indicates an increase from the 2000-09 mean of 0.03% to 0.056%. This can be interpreted either as an 87% increase or, more positively, as an upward variation smaller than 0.3 per thousand points. As to climate change effects, the latter perspective is arguably the more relevant one.
- Not all deforestation is easily controllable. The enforcement involved in avoiding even (in absolute numbers) very small variations in deforestation is complex and expensive. While Guyana is strengthening its enforcement capabilities, and will increase its efforts to control even such small variations, the trade-off will remain real.

What is a reference level?

For a performance based system to work, a reference level is established towards which performance can be measured. The difference between the reference level and the reported deforestation rate in a given year constitutes the basis for determining the magnitude of payments.

How is the new reference level set?

Under the Guyana-Norway REDD+ partnership, the reference level is set as the mean value between Guyana's 2000-2009 annual average rate of 0,03% and a "global average deforestation rate"¹ of 0,52%. Hence, the reference level is 0,275%. The interim reference level, set based on best existing estimates, was 0.45%. In other words, the reference level has been cut by almost forty per cent based on the revised historical deforestation data.

Why set a reference level that is higher than historical deforestation rates in Guyana?

About 20% of the world's remaining tropical forests are found in countries with high forest cover and low deforestation rates. For a future global REDD+ mechanism to work, it must ensure that these countries receive sufficient economic incentives to make forest conservation an attractive alternative to more destructive uses of the forest lands. If REDD+ fails to deliver such incentives, there is a real and significant risk that deforestation will "leak" to these low deforesting countries as the historical "high deforesters" improve their forest management, and as global demand for food, fuel and fiber continues to raise in the face of global population growth and increasing living standards. As a result, the climate mitigation effect of reduced deforestation in one country would be reduced or nullified by increased deforestation elsewhere.

Since the historical deforestation rates of these countries are so low – in Guyana's case exceptionally low – using only historical rates to set the reference level would not yield much of an incentive. There is ample historical evidence that at some point in their history, countries' deforestation rates tend to increase drastically, leading to significant loss of original forest cover, before leveling out again. Common to 'low deforestation, high forest cover' (HFLD) countries like Guyana is that they have yet to reach that phase in their development. Once they get there, however, historical rates are a very poor guide to future developments.

Because of these realities, reference levels for HFLDs need to be set significantly above historical levels to provide a genuine incentive to maintain their low deforestation rates. A number of options have been suggested for establishing REDD+ incentives for the "high forest cover, low deforestation"-countries. The option that combines national and "global average" rates was chosen because it provides reasonable incentives to HFLD countries and would, if globally applied, reduce emissions cumulatively. It is not the only model, however, and Guyana and Norway have agreed that when there is agreement on (a) reference level(s) (methodology) under the UN climate change negotiations, Guyana's reference level will be adjusted accordingly.

Will Guyana be allowed to increase deforestation and still receive Norwegian funding?

Partly yes, but a strong incentive structure to the contrary has been put in place. In the absence of a global deal which sets reference levels for all other countries, to avoid the reference level methodology yielding a perverse incentive for Guyana to gradually increase its deforestation rates while continuing to receive payments from Norway, the partners have agreed the following: a) if the deforestation rate in any given year is above 0.1%, Guyana will not be eligible for any funding for that year; b) if the deforestation rate is above 0,056 (the rate reported in the first result period, Oct 09 – Sept 10) but below 0,1 the payment will gradually be reduced as an increasing percentage of the payments that would be due if only the differential between the reference level and verified annual deforestation was taken into account. See examples below:

Examples of reductions in compensation at levels above agreed maximum level					
Deforestation rate (%)	Up to 0.056	0.07	0.08	0.09	0.1
Reduced compensation		25%	45%	70%	100%

¹ The "global average deforestation rate" is calculated¹ across 85 developing forested countries by dividing the sum of reported forest area loss in only those countries which lost forest by the starting area of forest across all countries, Data on forest loss is taken from FAOs Forest Resources Assessment 2010 (FRA 2010). The open source Osiris database was used for these calculations (www.conservation.org/osiris).

As an example, this approach would imply that given a verified deforestation rate of 0,08 per cent in the future, the ceiling on payments Guyana was eligible to receive would be only 55 per cent of the payment that would follow if only the differential between the reference level and the verified deforestation was taken into account, in other words 36, 2 rather than 63,8 million USD for that given year.

In other words: While this approach does allow Guyana to increase deforestation compared to the historical average levels and still receive some payments from Norway, three points should be kept in mind:

- First, the absolute numbers are very low, and the financial penalties for an increasing trend kick in very rapidly from this perspective.
- Second, for countries with exceptionally low levels of deforestation, historical trends are – as explained above – not as indicative of future trends as for countries where large-scale deforestation is underway. The economic downsides of insisting on no flexibility relative to historical rates would effectively rule out REDD+ as an attractive developing option for Guyana by hindering it from realizing activities of high value economic and minor environmental impact.
- Third, given the extremely low historical deforestation rates in Guyana, insisting on a model where payments would cease completely if deforestation is above the historical mean, would be unreasonable. After all, a mean value implies that the true annual values have fluctuated above and below the mean. Unfortunately, we do not have data on annual deforestation rates in Guyana in the past, only mean values for the periods 1990-2000 (0,012%), 2001-2005 (0,037%) and 2006 – 2009 (0,022%).

The agreed model strikes a necessary balance: It provides incentives that would quickly penalize a trend towards higher annual deforestation rates, while also enabling Guyana to exercise careful, strategic use of limited forest areas for high value economic activities, the construction of essential national infrastructure and sustainable development of forest villages.

Why is there exception from the 0.1% ceiling on deforestation for the Amaila Falls hydropower project?

The Amaila Falls hydropower plant is estimated to eliminate more than 92% of Guyanas energy related emissions, after emissions related to its construction are accounted for. Funding for the project from the Guyana REDD+ Investment Fund (GRIF) will only go ahead upon the Inter-American Development Bank guaranteeing that the necessary Environmental, Social, and Financial safeguards have been met. This will include an independent verification to confirm the overall beneficial climate change effects of the project, as outlined in the Amaila Falls hydropower project Environmental and Social Impact Assessment (see: www.amailahydropower.com).

The project is estimated to imply the deforestation of less than 4 500 hectares of forest, which if reported in a single year would yield around 0,025% deforestation, given Guyana's current forest cover. In other words, the project in itself would cause deforestation above the agreed ceiling on deforestation. To avoid the undesirable situation where Norwegian climate change mitigation funding would cease to flow as a result of the development of a project with significant net benefits to the global climate, the partners have agreed not to apply the 0.1% ceiling on deforestation directly related to the eventual construction of the Amaila Falls hydropower plant, given the caveats sketched above.

The deforestation caused by the Amaila Falls construction would, of course, be monitored and reported and result in reduced payments on a ton by ton basis.

How will Guyana use the funds?

To implement Guyana's Low Carbon Development Strategy, see: www.lcds.gov.gy

Why is Guyana reporting an increase in timber export to ITTO and a decrease in timber extraction to Norway?

According to the International Timber Trade Organisations (ITTO) Market Information Service, export value and exported volume logs increased in 2010 compared to 2009. At the same time, the first results report indicates a reduction in harvested timber volume from Guyanas forests in (almost) the

same period. Some stakeholders have presented this as an inconsistency, alluding to underreporting of harvested volumes in the results report.

However, an increase in exports does not presuppose an increased harvest. It could also indicate a higher portion of the harvest going to exports rather than domestic consumption. The percentage of the harvested volume destined for export versus domestic uses varies depending on, inter alia, international market prices on forest products.

The reported data on harvested volumes have been checked and verified by DNV. Even so, Guyana is preparing a series of measures to further improve control and transparency on logging operations and harvested volumes in Guyana's forests, for example the establishment of Independent Forest Monitoring.

How do you know that there will be additionality with this model, i.e. that developments in Guyana under this partnership differ significantly from what they would otherwise have been?

Demonstrating and quantifying additionality is a challenge in all issues involving climate change mitigation. It is *de facto* impossible to know with complete certainty that deforestation in Guyana would have been higher in the absence of the REDD+ partnership with Norway. There are, however, many strong reasons to expect an increased pressure on Guyana's forests in the coming years, which will challenge Guyanese authorities' ability to maintain deforestation level as low as required under this partnership:

- Historically, countries turn towards a high-deforestation path at some point in their development. The same economic benefits from deforestation that triggered, inter alia, large scale deforestation in parts of the Brazilian Amazon, are present in Guyana. If unaddressed, these pressures will lead to significantly increased deforestation rates.
- High prices on minerals increases interest in further expanding mining activities, thus exacerbating this general trend.
- With development comes increased access to the forests: An example of this is how improvements to the Lethem (Brazilian border) - Georgetown road will increase risk of deforestation and forest degradation along the road.
- Global demand for food, fuel, fiber, and minerals will in all probability increase significantly over the coming decades in the face of a significant rise in global population and their average living standard.

The pressures on Guyana's forests are real and growing. In this situation, maintaining Guyana's annual deforestation rates at levels well below 0,1 percent over time, would be historically unprecedented.

Moreover, to further ensure additionality and permanence of the results, Guyana has committed to a series of measures to improve forest and REDD+ governance, including:

- A national system to system for measuring, reporting and verification (MRV) of emissions and removals of carbon in Guyana's forests. The system will, inter alia, provide annual information on rates of deforestation and forest degradation. All data will be subject to independent verification.
- A national system for coordinated land use to ensure that economic use of Guyana's forests targeted at very high value economic activities and strategic infrastructure developments, coupled with appropriate measures for conservation and biodiversity protection.
- An independent forest monitoring system to facilitate increased transparency and accountability in Guyana's forest sector.
- A process towards entering a Forest Law Enforcement, Government and Trade (FLEGT) Voluntary Partnership Agreement with the European Union. The aim of FLEGT is to guarantee that the wood exported to the EU is from legal sources and to support partner countries in improving their own regulation and governance of the sector.
- Specific measures to reduce forest degradation caused by mining and infrastructure development.