TRANSLINKS

Global Policy Action on Climate Change

Emerging Compliant Regimes and Donor Funding for REDD

Linda Krueger

Promoting Transformation by Linking Natural Resources, Economic Growth, and Good Governance

WILDLIFE CONSERVATION SOCIETY

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Outline

1. Forests and Climate Change
2. International response
   - UNFCCC negotiations & status
   - Emergence of compliant markets
3. New public funding for REDD
4. REDD & Biodiversity

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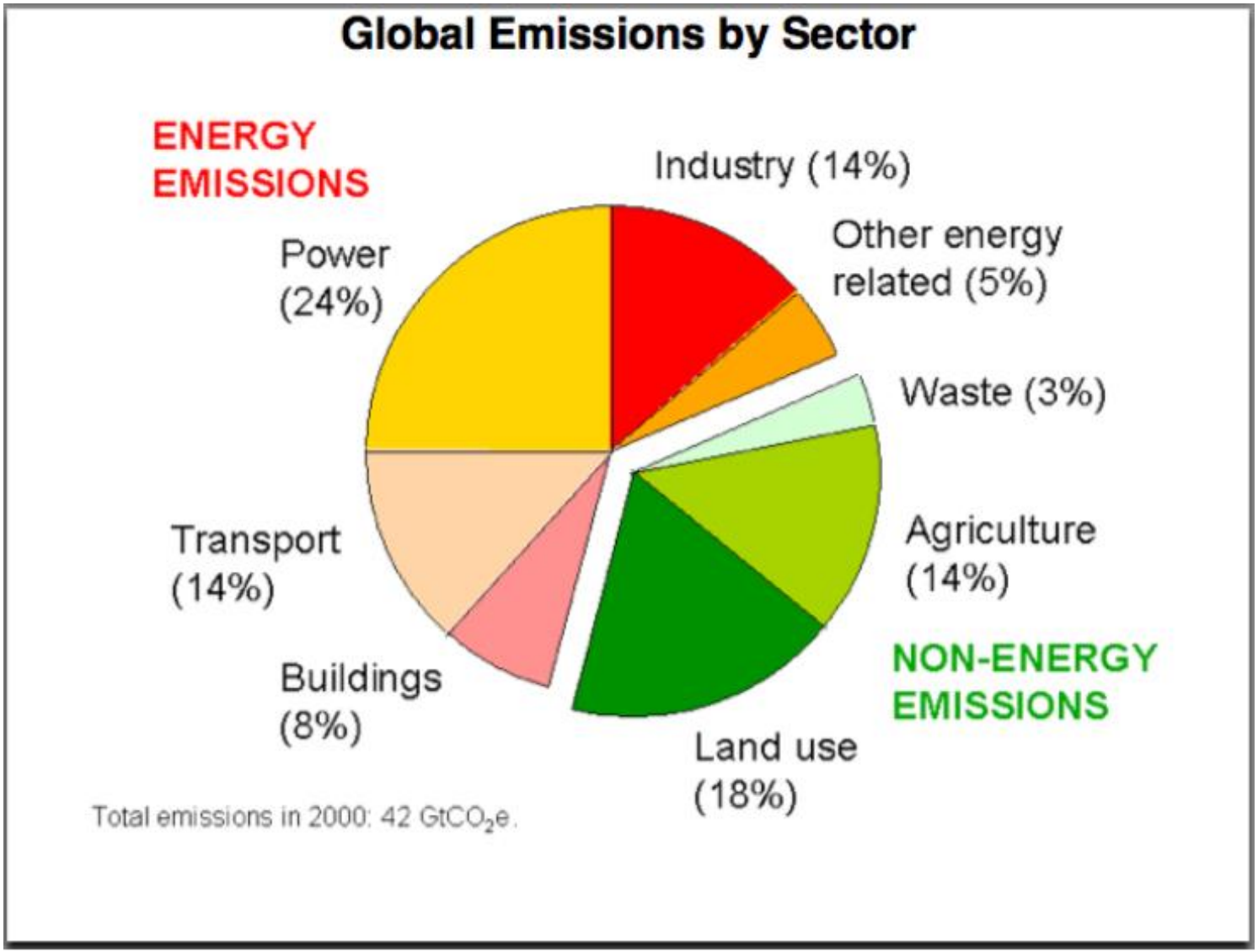

Source: Stern Review 2006

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Sources and Sinks

- 25% of anthropogenic CO2 removed by terrestrial ecosystems each year.
- Avoided deforestation not that different from emissions in other sectors.
- Even delaying emissions has notable benefits to the climate.

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Mitigation Potential of Forests

- Good potential for mitigation, esp. avoided deforestation (2,000-4,000 Mt/year)
- Even with continued deforestation, mitigation is possible
- REDD provides short-term bridge for transition to cleaner energy

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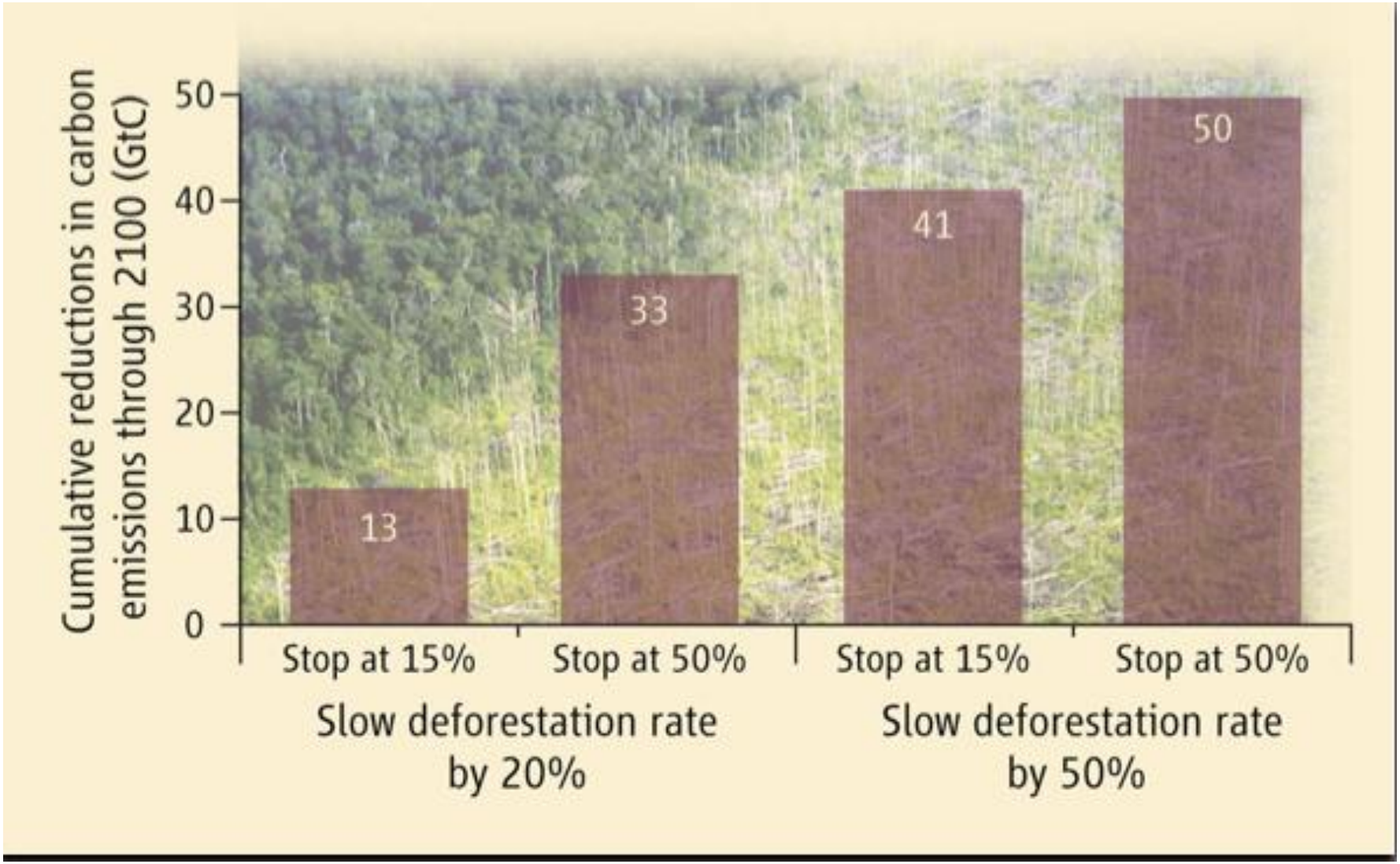
RED could be 12% of CC solution



Source: Gullison et al., 2007

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Cost of preventing forest loss

- Stern review of the economics of climate change reported that curbing deforestation highly cost-effective means of reducing GHG emissions
- Review estimated that $5 billion annually needed to cover opportunity costs of forest protection.

http://www.hm-treasury.gov.uk/media/C7F/7E/ch_25_reversing_emissions.pdf.

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Deforestation and Climate Change

IPCC 4AR

Large potential
Short term
Other benefits
Low cost

A high priority mitigation option in tropical regions

REDD

On-going process under UNFCCC

Source: UNFCCC

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United Nations Framework Convention on Climate Change (UNFCCC)

- 1992 Earth Summit
- IPCC formation
- 1994 UNFCCC entered into force (192 Parties)
- December 2005 reopened REDD discussion

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Significance of UNFCCC negotiations to REDD Markets

- Need to create scarcity/demand to create market; UNFCCC creates market demand by capping emissions.
- Governments operate in this context and are bound by its outcomes; National implementation must be consistent with treaty.
- Donor funding ~ $3 billion driven by priorities established in UNFCCC.

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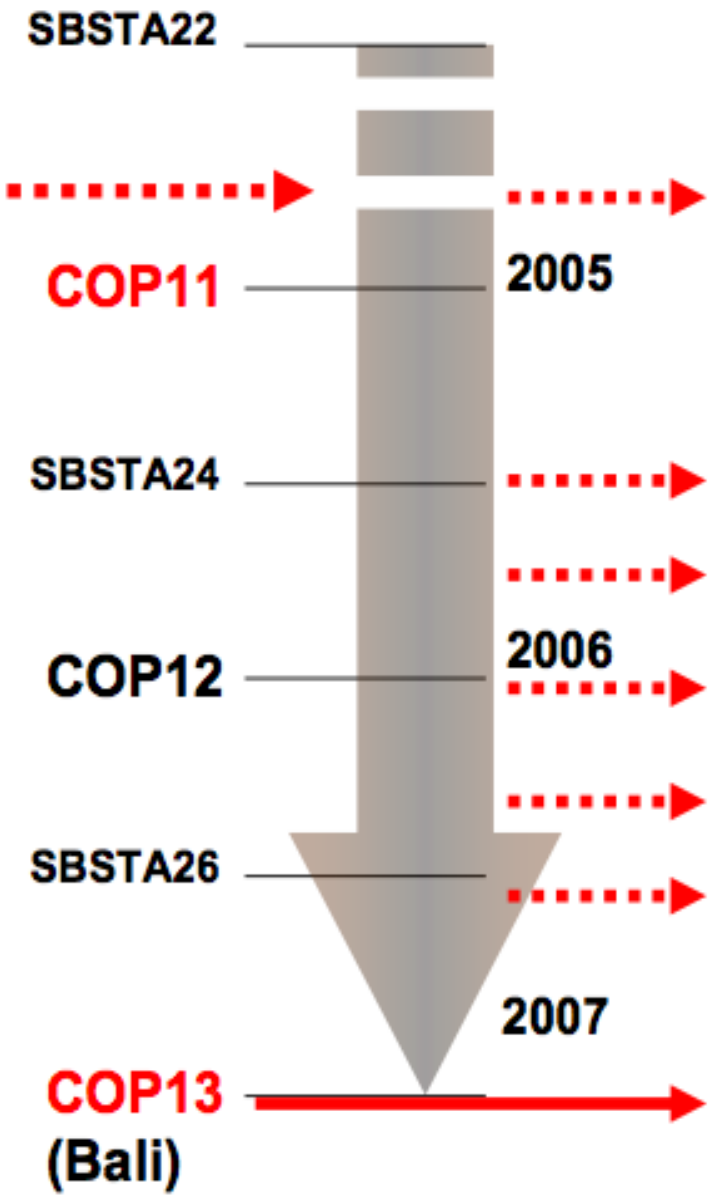
REDD: The Road to Bali



Launch of a 2-year process at COP11.

Initial consideration – scope of 1st w/s

First workshop (Rome, Sep 2006)

Agreement on a 2nd w/s

Second workshop (Cairns, Mar 2007)

Consideration of w/s reports and draft decision

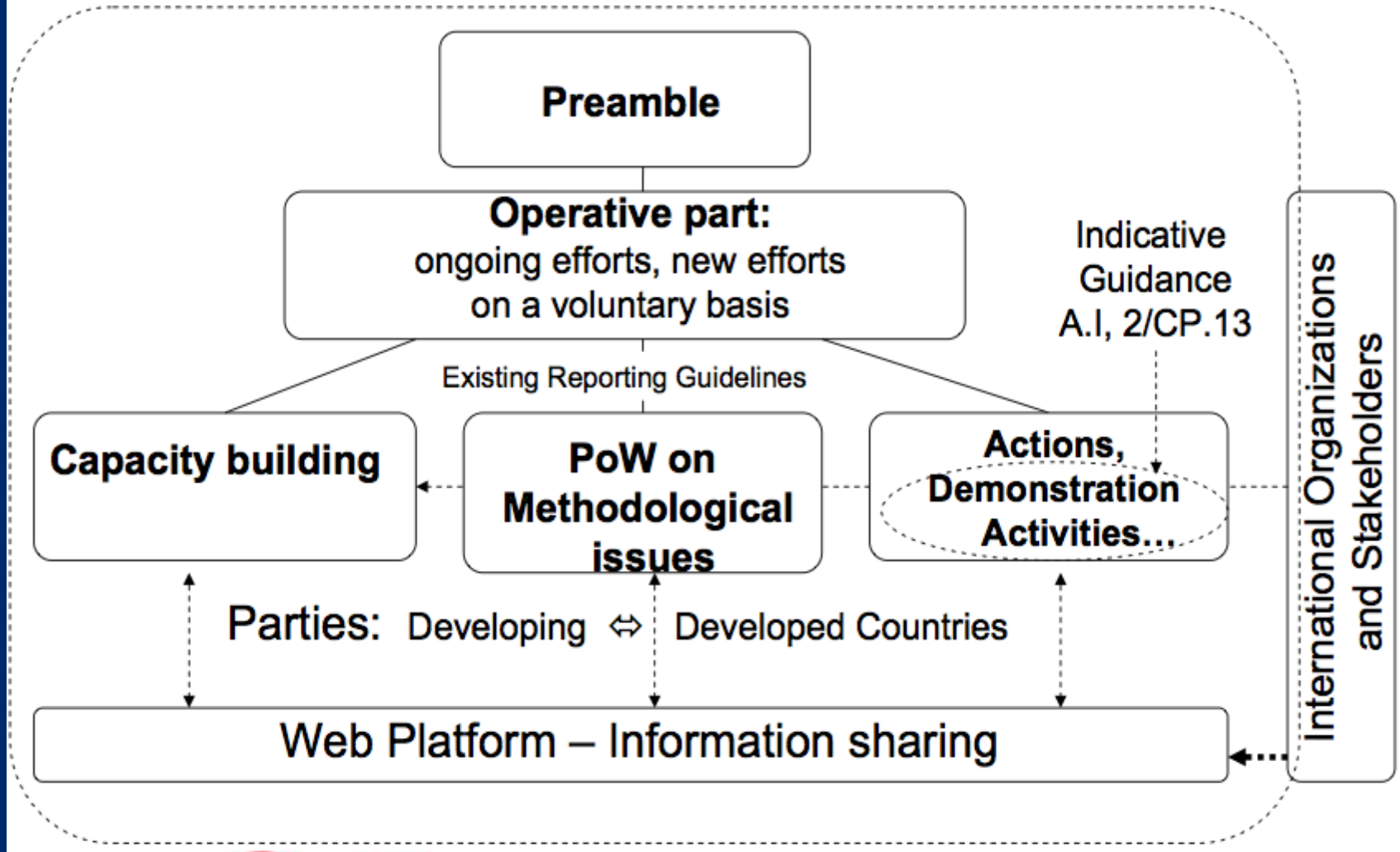
SBSTA27 reported at COP13
Decisions 2/CP.13, 1/CP.13

Source: UNFCCC Secretariat

Bali Action Plan

- Calls for negotiators to address deforestation
- Includes forest *conservation, carbon stocks*
- Allows demonstration projects in the context of national plans
- Support for market and non-market mechanisms

Main elements of 2/CP.13



Source: UNFCCC Secretariat

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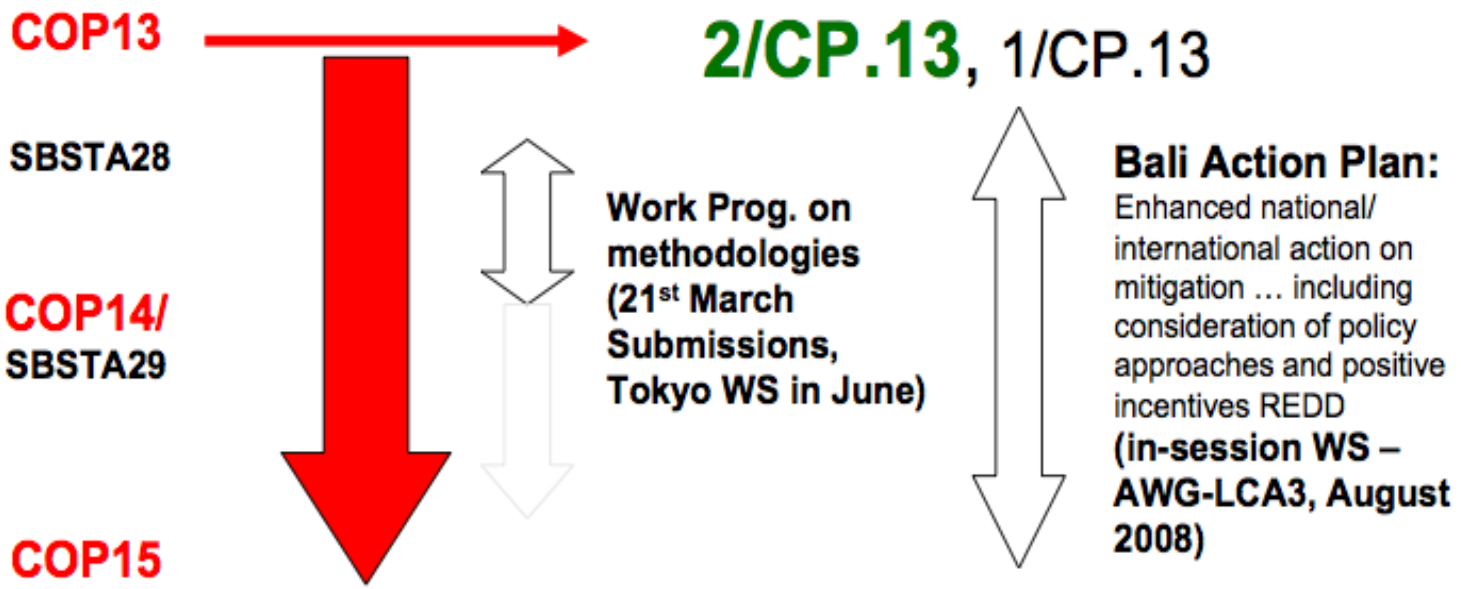
REDD: … beyond Bali



Source: UNFCCC Secretariat

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Methodological Issues (SBSTA)

- National monitoring systems
- Robust methods for forest inventories (ground-based, RS)
- Establishment of RELs
- How to deal with displacement
- Capacity building
- Effectiveness of actions (criteria for evaluation)

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Architecture of future REDD Regime: Key Uncertainties/factors

- Will an agreement in UNFCCC be reached?
- Market vs. non-market approaches
- Fungibility of credits
- Distribution of benefits: national or subnational
- Scope: RED[D][+][+]

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Architecture of future REDD Regime: Cross-Cutting Issues

- Displacement of Emissions (aka "leakage")
- Equity at different scales
- Setting baselines
- Second "D" (degradation)
- Stabilization/conservation (low defor rates)

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UNFCCC REDD proposals (non-market)

- Voluntary RED Fund (Brazil)
- Stabilization Fund (Congo Basin)
- Multilateral Fund (enabling window for market approaches)
- Compensated Conservation (India)

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UNFCCC Proposals (Market)- I

- N24/CfRN Proposal:
  - national approach
  - NERL set on historical emissions (>5 yrs) with adjustment factor.
  - National or project implementation.
  - Target 50% reduction (deepen Annex B targets by ~9%)

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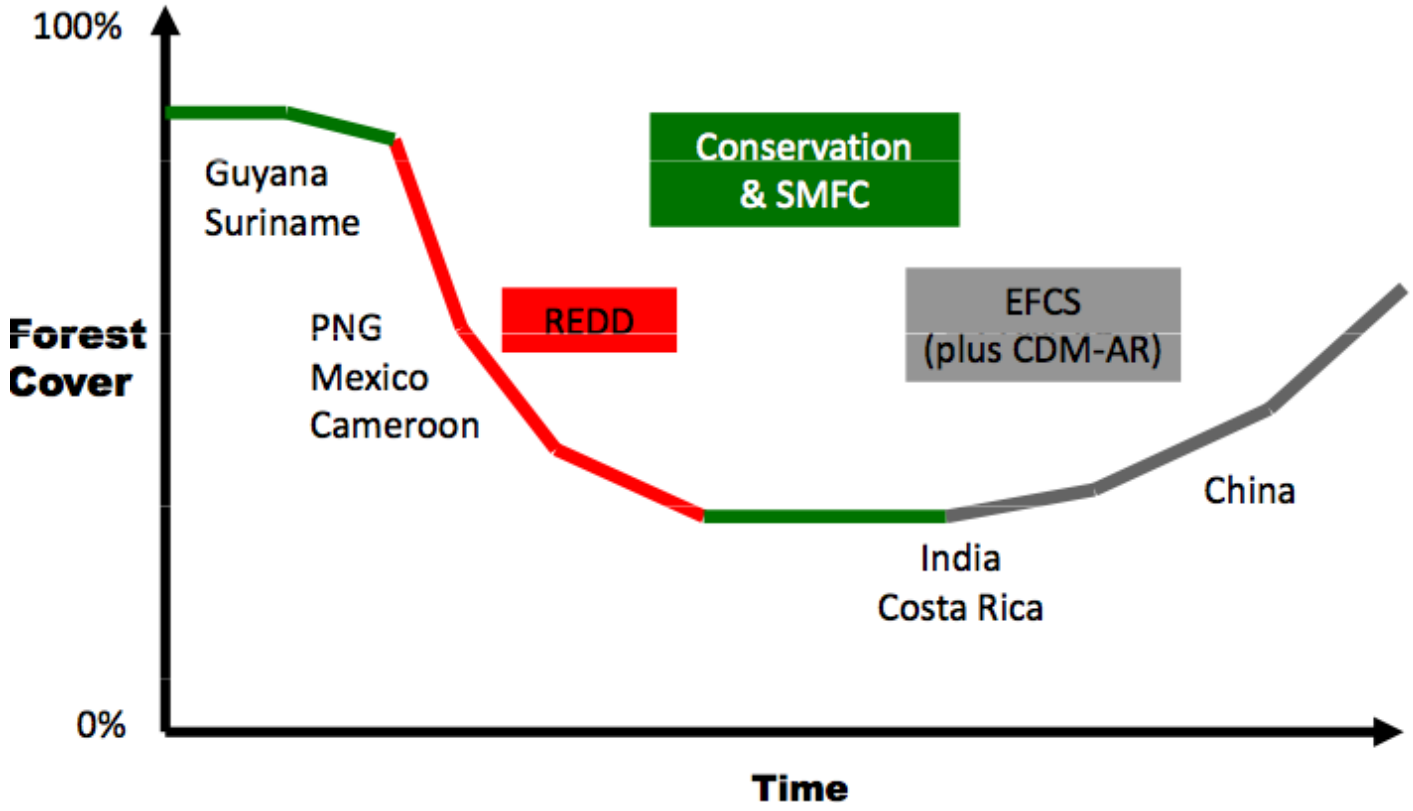
Coalition for Rainforest Nations



Source: PNG Presentation AWG-LCA August 2008

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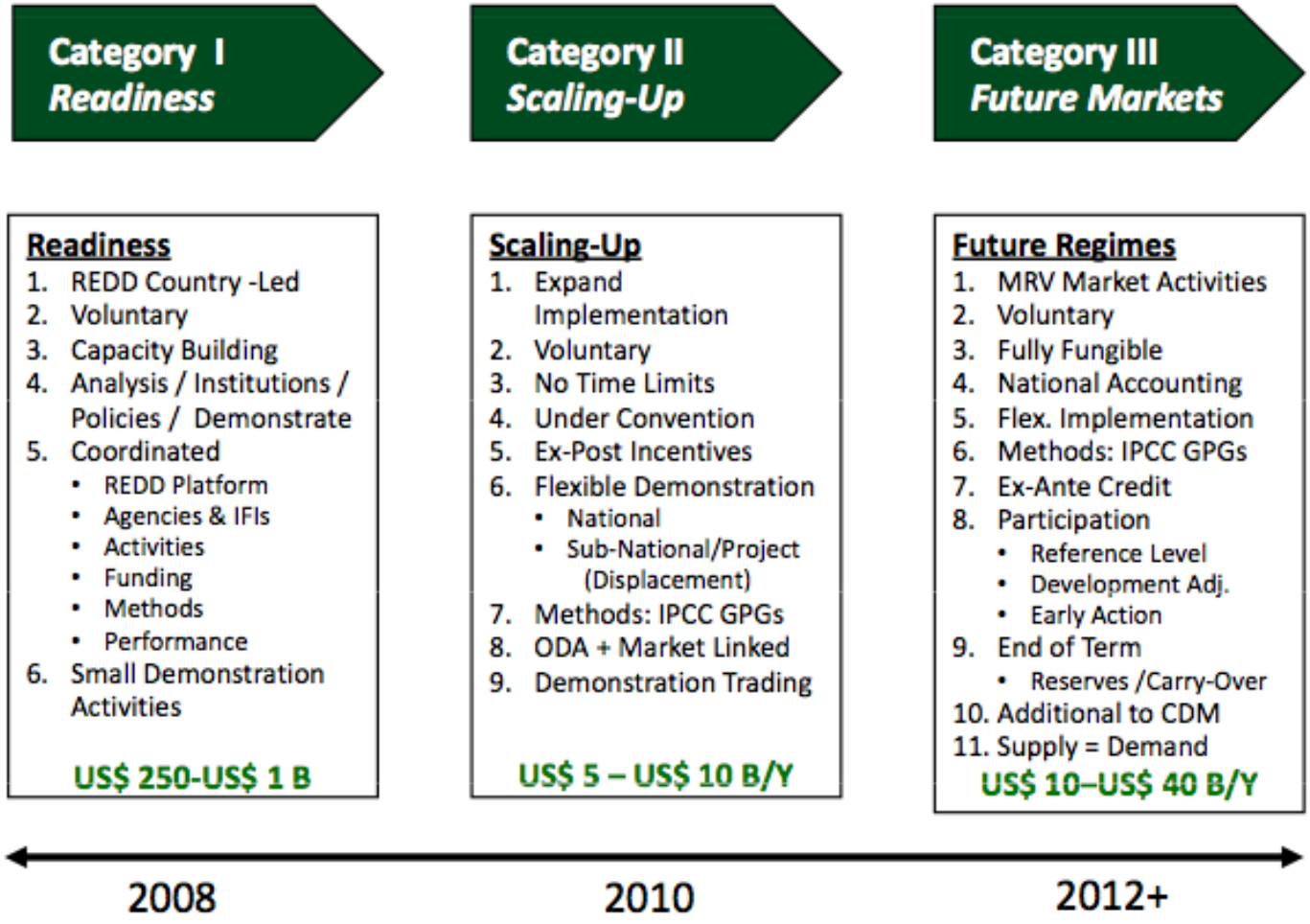
Coalition for Rainforest Nations



Source: PNG Presentation AWG-LCA August 2008

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Nested approach

- Dual accounting:
  - National target emissions level, with REDD credits for emissions reductions below that level. Reserve account to reduce risk.
  - Subnational (project) mechanism, with (probably) separate baselines, private investment, issuance of tCERs. Start right away. Converted to permanent credits once country has adopted target.

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UNFCCC Proposals (Market)

- Colombia Proposal: Fungible RED credits direct to private entities/local communities on project basis.
- Dual Markets approach: new and separate ER targets for LULUCF under KP.

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Should REDD be Fungible with International Carbon markets?

- Pro:
  - More and more sustainable finance
  - Increased efficiency
- Con
  - Risk of market destabilization (flooding)
  - Lose "gourmet" aspects of projects with biodiversity cobenefits

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Elements of National Approach

1. Determine and negotiate NERL
2. Implement national policies and measures to reduce deforestation
3. Monitor to compare real deforestation against NERL
4. Receive credits for national reductions

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National Targets?

- Bali decision calls for sub-national (project) activities to "constitute a step towards the development of national approaches…"
- Work with World Bank Forest Carbon Partnership Facility to determine methods

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Equity

- Redistribution among countries
- Redistribution within countries
  - Compensation, but at what level (individual, corporate, etc.)
  - Traceability
  - Governance

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Addressing international displace-ment

Strassburg et al., 2008

Table 1: RED-DC Mechanism Equilibrium Projections

Country	Forest Area (10^6 ha)	Initial Deforestation (%)	Equilibrium Reduction (%)	Combined Incentive (10^6 US$ y^{-1})				
				α=0.5	α=1	α=0	JRC (1/2)	JRC (1/3)
Brazil	478	0.55	97.5	5,996	6,497	5,495	5,877	6,150
China	197	-1.7*	100.0*	594	0	1,187	553	386
DR Congo	134	0.3	100.0	1,763	1,379	2,147	1,247	1,305
Indonesia	88	1.85	94.5	1,935	3,200	(669)†	2,895	3,029
Peru	69	0.1	99.8	512	(180)†	844	393	274
India	68	-0.6*	100.0*	212	0	425	198	138
Sudan	68	0.8	48.7	102	179	(26)†	162	169
Mexico	64	0.45	93.4	619	607	632	549	574
Colombia	61	0.1	100.0	518	(183)†	853	397	277
Angola	59	0.2	87.1	307	174	440	194	164
Bolivia	59	0.45	86.7	522	510	533	462	483
Venezuela	48	0.6	100.0	854	960	748	869	909
Zambia	42	0.95	53.4	63	121	(6)†	110	115
Tanzania	35	1.05	82.1	266	401	(130)†	363	380
Argentina	33	0.4	88.4	191	174	207	158	165
Myanmar	32	1.35	93.5	536	824	248	746	780
Papua New Guinea	29	0.5	100.0	486	502	470	454	476
Central African Republic	23	0.1	100.0	180	(63)†	296	138	(96)†
Congo	22	0.1	100.0	243	(86)†	400	186	130
Gabon	22	0.1	100.0	220	(77)†	362	169	118
TOTAL	**1,631**	**(Mean = 0.48)**	**94.4**	**16,118**	**15,528**	**15,287**	**16,118**	**16,022**
Emission Reduction (%)				94.4	90.9	71.5	94.4‡	94.0‡
Participant Countries				20	15	16	20	19
Incentives to High Def Countries in relation to Low Def Countries (Equal Forest Area)				+74%	+270%	-6%	+147%	+192%

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WCS Approach at UNFCCC:

- REDD must be integrated into the future international emissions trading system (full fungibility)
- REDD should address underlying causes of deforestation, or it won't be permanent. (some things beyond national control-- high commodity prices, consumption, soy timber etc -- goes beyond national control)
- Developing countries should be compensated on the basis of individual performance indicators

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WCS Approach at UNFCCC (II)

- Need to generate significant financial incentives for REDD without jeopardizing reductions from industrial sectors (need to keep price of C high)
- Design an accounting system that provides incentives for countries with differing rates of deforestation
- Support for subnational approaches within national accounting frameworks.
- Support for early action

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WCS Approach (III)

- This leaves out some big things, some of which are best addressed at the level of national implementation
  - Transparent consultative process
  - Cobenefits

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LULUCF in UNFCCC

- LULUCF introduced very late into KP negotiations. Lack of understanding of issue, lack of good data, resistance from major groups kept it out of KP. Allowed to be used as offsets.
- COP7 (Marrakesh) adopted LULUCF guidelines.

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Compliant markets: 200x voluntary

- New Zealand first (and only) to incorporate forestry emissions and removals in its emissions trading scheme.
- EU-ETS doesn't allow forestry to assist with compliance.
- U.S.Regional
  - RGGI (2009) - 10 states - currently only allows afforestation
  - California: Forest Protocol will likely be adopted by cap & trade mechanism (2012)
- U.S. Federal

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Kyoto Protocol

- Creates a cap and trade system for Annex I; voluntary credit market for non-Annex I
- Emissions trading (EU-ETS)
- Project-based transactions
  - CDM
  - Joint Implementation

– Entered into force 2005

– First commitment period 2008-2012

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International Donor Funding for REDD

Response to the Bali Decision

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Fund	Donors	amount
FCPF	Multiple	$300 million
UN-REDD	Norway, others	??
Rainforest Fund	Norway	$2.74 billion pledged*
Life Web	Germany	€500 million
Prince Rainforest	Corporate	?
IFCI	Australia	€104 million
CBFF	Norway & UK	€126.75
Pre-assigned ODA	Denmark	€65 million
Int'l Enviro Transformation Fund	UK	€70 million
Amazon Fund	Brazil, others	€370.5 million

*includes CBFF, UN-REDD

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UN REDD

- Partnership of UNDP, FAO, UNEP
- Multidonor Trust Fund (mostly Norway)
- Country level work:
  - REDD readiness for monitoring, assessment, accounting and verification
  - Support risk management
  - Technical and scientific assistance
  - Design pro-poor financial transfers
  - Coordinate other donor engagement (?)

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Forest Carbon Partnership Facility (World Bank)

- Focus on Avoided Deforestation
  - Capacity bldg -- readiness for future market regimes
  - Pilot performance-based payments
  - Clarify land tenure
  - Enforce Protected Areas
  - Prevent conversion for ranching/food
  - Prevent conversion oil palm/soy
- Not all reductions can be traded in the market, but help countries make best investment decisions
- Use Participants' Committee to coordinate donors in country?

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International Forest Carbon Initiative (Australia)

- AU$200 million—PNG and Indonesia
  - Increase monitoring and accounting capacity.
  - Trials to demonstrate robust and verifiable action on REDD.
  - Support international efforts to evaluate market-based approaches to REDD.

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REDD & Biodiversity

Considerations for Discussion

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Land-based carbon activities have great potential impact on people and biodiversity

- Watershed & soil protection
- Agricultural productivity enhancement
- Employment or new livelihoods
- Revenue sharing
- Biodiversity conservation
- Continued use of forest products
- Maintenance of traditional livelihoods and culture

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REDD & WCS

- REDD agenda is a biodiversity agenda for WCS (see CCBA)
- Don't get involved in except for biodiversity components (which may just mean sustainable finance)
- Limited interest in biodiv among negotiators, compliance markets

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Is REDD Good for Biodiversity?

- Mitigation of climate is good for biodiversity
- We assume effects of REDD will be positive for biodiv., but need work on spatial overlaps between high carbon, high bd areas
- Land conversion displaced to low C, high Biodiversity sites

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Other Issues

- Loading up REDD may jeopardize its acceptance or implementation.
- National approach makes traceability to high biodiversity sites problematic (how to market "gourmet" carbon).
- Need to include protected areas in scheme.

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Can C markets lead to biodiversity markets?

- Problem marketing biodiversity is no consistent unit of measure
- How to design offset system? Spatial restrictions

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