Expanding the Carbon Market to Include REDD?

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Reducing Emissions From Deforestation

- Challenge
- Key Assumptions
- Key Questions: Governance, Financing, Transactions
- Lessons Learned
- Conclusions

Challenge

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The Problem I

- Forests store about 638 gigatonnes (Gt) of Carbon
- 50% more carbon than in the atmosphere
- Gross deforestation averages 13 million ha/year
- Responsible for 25-30% of global GHG emissions

The Problem II

- Scary scale
- Uncertainty: methodological issues, leakage, permanence etc
- Sovereignty issues and country specific circumstances
- Environmental, social and socio-economic effects

Things have (not) changed since Kyoto….have they?

Key Assumptions

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- Scientific basis more robust
- Political will to address the problem of GHG emissions from deforestation
- Acknowledgement of the opportunity provided by the carbon market
- Private financing necessary to mobilize the required amount of funding
- Acknowledgement of country specific circumstances

Key Questions

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1) How can any REDD mechanism be implemented? What are the respective capacities of Governments and other private/public actors?

2) How can any REDD mechanism be financed? How can finance reach the levels of society affected by the change/activities?

3) If relying on carbon markets, how can any arrangement be reflected in contracts?

Implementation Capacity

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- Governments: *often (not always) challenged in implementation capacity, weak enforcement, tendency to over-regulate*
- Public subnational actors: *often closer to the problem and to the solution, relationship to central government varies, need for direct incentives*
- Private sector: *needs framework and guidance, strong implementation capacity*

Needed: Improved national policies and capacities

- Improvement of forestry laws, management practices, enforcement, land planning and zoning, data collection
- *Increased availability of funding*
- *Establishment of enabling frameworks without getting lost in details*
- *Empowerment of local actors*

Financing

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- Level of financing needed (regardless of the estimates) goes beyond ODA and government budgets
- Need to involve the private sector

Status Quo: Private sector generally interested, not much real action, actors with experience cautious (or have pulled out already)

Needed: Strong policy signal (from Bali), reliable and predictable government action

- Investors are creative and powerful but: Robust government framework, manageable risks, prospect of returns
- *Take into account the special features of the carbon commodity vs traditional commodities (regulatory commodity, deferred creation)*

Transactions

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Provided the carbon market shall be part of the policy mix, are we heading into the right direction to create such a market for REDD?

Status Quo: Carbon market “hot & sexy”, treated as a given, no time or resources invested in market feasibility, limited market consultations

But:

- Accounting for carbon in broad approaches burdened with insecurities
- environmental credibility limited, high risk approach from a contractual point of view
- **Difference between assigned allowances and project-based off-sets on one hand and very broadly designed REDD approaches on the other**

Needed: Modest approaches that allow learning and create confidence into the market place

Lessons Learned from…

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- **The Clean Development Mechanism**

  Relevance for REDD: project based carbon accounting, limited involvement of Parties

  - PRO: Over 850 projects (only one A/R project) , broad intl support, mobilized unprecedented financing
  - CONTRA: complex, costly, governance challenges, uneven geo. Distribution

- **Joint Implementation**

  Relevance for REDD: project based, embedded in national accounting, credits issued by Parties, option to switch to Track I JI

  - PRO: head-start over JI, comprehensive accounting, countries in driver seat
  - CONTRA: limited success, failed to inspire trust over a longer period, ERPA limited bankability, credits only from 2008, slow government action, Track I not operational

- **GIS**

  Relevance for REDD: carbon market, country led programmes, administration of resources linked to emission reductions

  - PRO: great potential, can overcome challenges of JI and CDM, lower transaction costs, means to finance government programmes
  - CONTRA: little action beyond talks, implementation challenge, paralysis

Lessons Learned from…

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- **The Montreal Protocol**

Relevance for REDD: Fund solution, distribution of funds on the intl level, success story

  - PRO: Highly successful, broad intl support
  - CONTRA: purely gov-to-gov, targets limited number of actors, financing challenge smaller, not easily applicabble to the REDD problem

- **The GEF**

Relevance for REDD: Fund solution, distribution of funds on the intl level

  - PRO: Largest env trust fund, targets various conventions, coordination, innovative structure
  - CONTRA: cumbersome procedures, limited intl support, not able to mobilize sufficient financing

REDD Conclusion

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Are we too ambitious when we are looking at comprehensive national solutions before we have tested the waters and gathered necessary experience?

- No time to loose to wait for readiness of governments
- Start small, gather experience, evaluate feasibility
- Take into account country specific circumstances

- Private financing is necessary
- Carbon market needs robust framework and reward mechanisms that are (for the start) de-linked from Gov performance
- Public action needs to support private financing, creation of an enabling environment
- Fund solution to support government action

Questions?

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