



# **Permanence and REDD activities: Possible solutions and how they may impact private-sector investment**

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# TerraCarbon - services

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## Technical Services

- Assess the potential of proposed land use and forestry projects to generate marketable emission reduction credits
- Assist with the development of the project idea notes, methodologies and project design documents

## Transaction Services

- Provide origination and marketing services for LULUCF buyers and project developers
- Assist with negotiations and due diligence for LULUCF credit transactions

## Investment Advisory

- Provide advisory services related to investments in LULUCF credits
- Include portfolio design, transaction origination and negotiation
- Include regional or project type funds

## Policy Advisory

- Advise corporates and governments on LULUCF programs, policies, and inventories



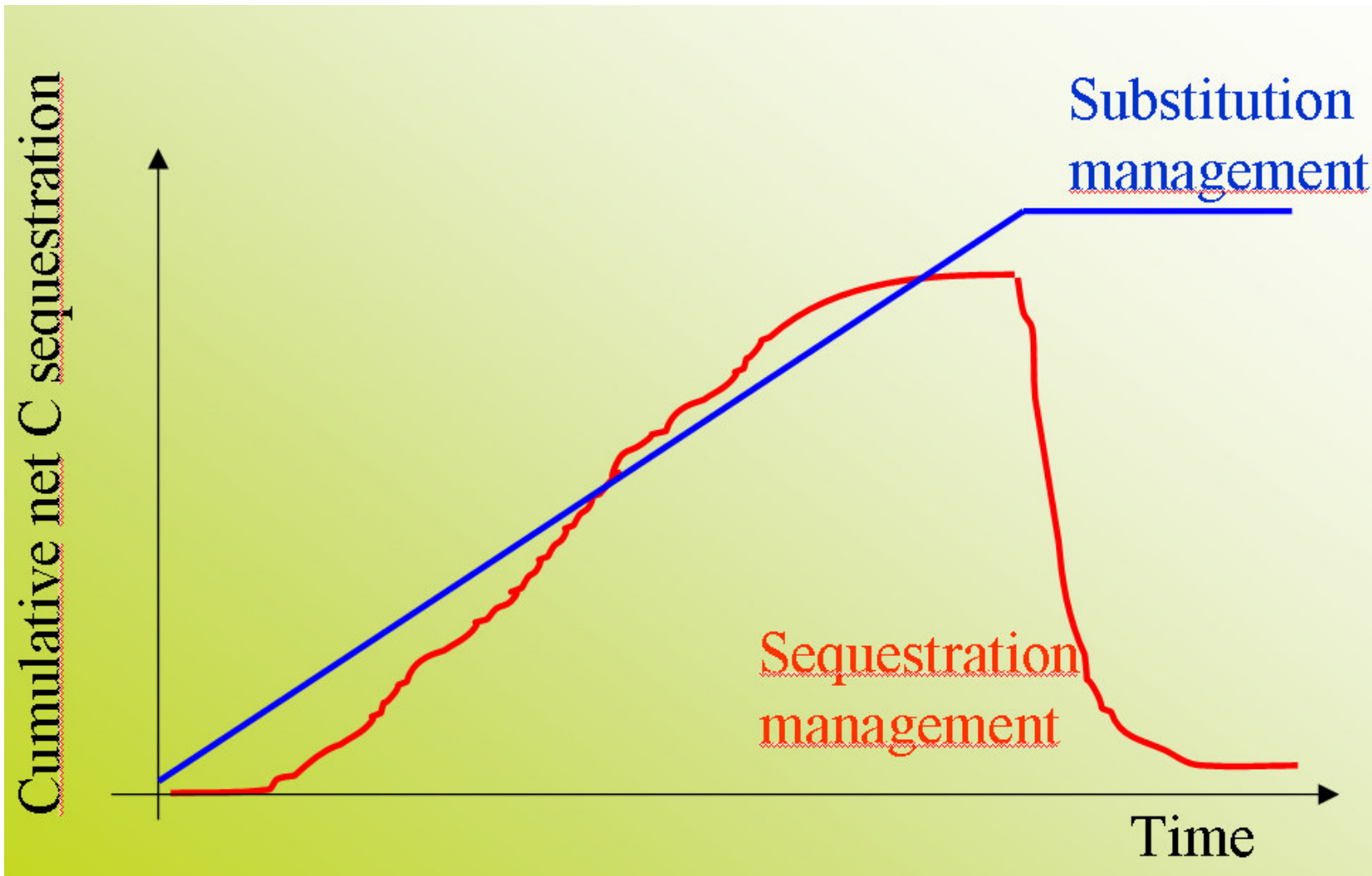
## Content

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- ❑ The permanence issue
- ❑ How is this addressed in Kyoto Protocol
- ❑ How REDD could create non-permanent benefits
- ❑ Proposed solutions
- ❑ Impact on fungibility and private-sector investment



# The permanence issue





## How permanence is addressed in KP

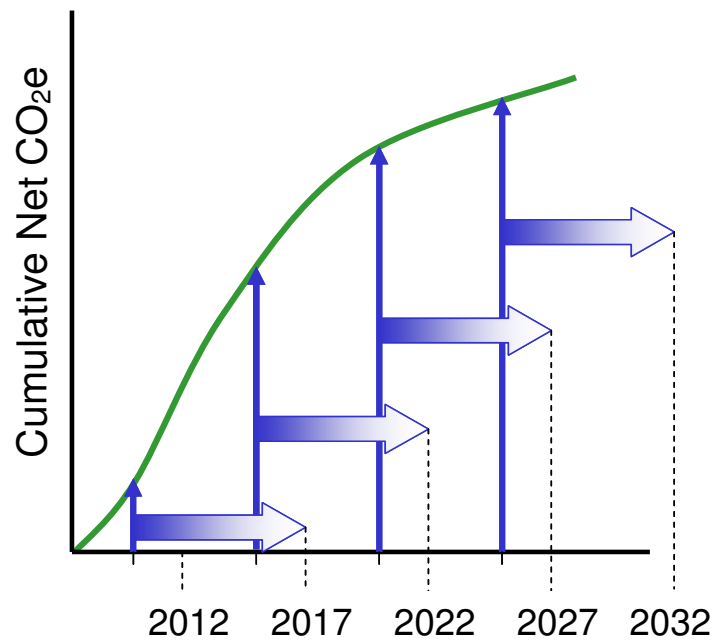
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- Article 3.3 and 3.4
  - “Once Kyoto land, always Kyoto land”
  - In combination with binding emission targets
- CDM
  - tCERs or ICERs
- JI
  - Track 1: via national commitment of host country
  - Track 2: an overlooked area (but no projects)

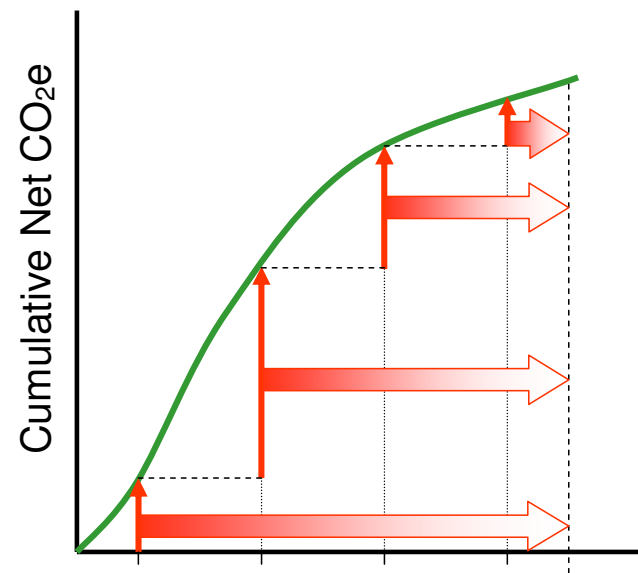
# Temporary CERs

## tCERs & ICERs

Source: L. Pedroni



End of subsequent  
commitment period

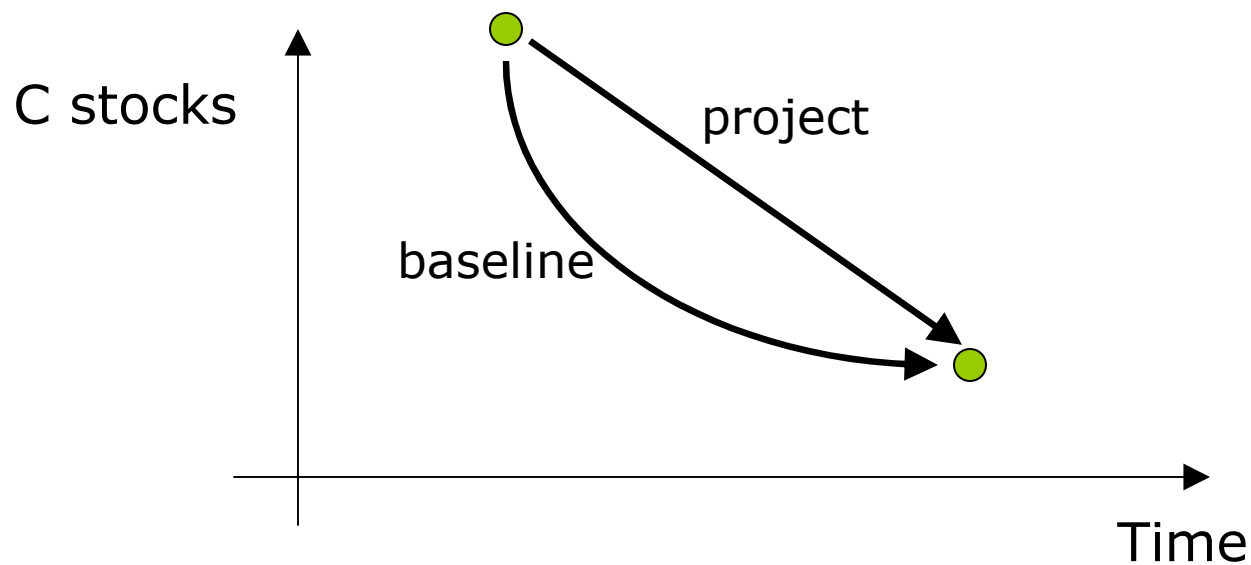


End of crediting period

# How REDD could create non-permanent benefits



- Lower emissions at current time, followed by higher emissions at future time
- Baseline C stocks equal project C stocks at some future time





## Proposed solutions to permanence

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### □ National-level REDD

- Targets with penalties and continuity over time (see Article 3.3 and 3.4)
- No-loose targets, with buffer (set-aside) to cover future shortfalls
- No-loose targets with discounting of credits

### □ Project-level REDD

- Buffer (set-aside) like in VCS
- Discounting
- Insurance
- Temporary credits





## Fungibility with ETS

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- Linkage to ETS may be best way to foster private-sector investment
  
- Permanent credits, national-level
  - Great uncertainty (scale, interannual variability)
    - Caps
    - Corridor
  
- Permanent credits, project level
  - Could be fully fungible
  
- Temporary credits, project level
  - Low acceptance in context of CDM AR
  - Require an exchange rate to account for temporal limitation and risk



## Conclusions

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- Permanence needs to be addressed to have a credible solution for REDD
- Requires simple solution
- Should be robust to allow eventual linking to ETS
- National level mechanism with embedded projects
  - Example: JI Track 1 and Track 2
  - Tracks could differ in leakage and permanence methodologies
  - Provides incentives to move to Track 1 and full national compliance