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**WANTED:**  
**Decisions on carbon finance for REDD**



Romain Pirard  
Forest and Climate  
Institute for Sustainable Development and International Relations

# Time for decisions on carbon finance

## Rationale for REDD:

- Payments to developing countries for emissions reductions in forestry sector (priority natural forests)
- Mechanism under UNFCCC (not voluntary markets)
- Part of global climate negotiations on binding GHG reductions

## Recurrent Issues:

Permanence, national / project accounting, inclusion of forest degradation, measurement, baselines, etc.

Above all issues money is « sinews of war » so...

**How to generate and use carbon finance against deforestation?**

# Three key questions to consider

## 1. How to generate carbon finance?

(translation: how Annex 1 countries pay)

## 2. How to use carbon finance?

(translation: Payments based on Performance or Efforts)

## 3. Fungibility with global carbon markets?

(translation: REDD generates carbon credits tradeable on global markets?)

# How to generate carbon finance?

- **Money ultimately comes from Annex 1 countries** (governments, private sector, tax payers, etc.)
- **Carbon finance** availability will be related to more stringent **reduction commitments** under UNFCCC
- **Carbon finance can be collected in various ways:** taxes (carbon, airfares), sales of carbon credits, binding contributions by States, etc.

# Payments based on performance or efforts?

## Option 1: Performance-based

Observed deforestation compared with reference value...

... but what rationale to set **reference value**?

⇒ **Baselines?** highly uncertain for deforestation:

Hard to rank factors of deforestation, let alone quantify impacts

⇒ **Negotiated targets?** political negotiations ...

**Main argument for performance-based system:**

Fungibility with international carbon markets owing to credits issuance, and therefore assumed easy access to carbon finance (...and support from brokers...)

# Payments based on performance or efforts?

## Option 2: Efforts-based

Financing Policies & Measures (P&M) against deforestation

... but Policies & Measures according to what criteria?

⇒ **Payments** can be set equivalent to **costs of P&M** rather than dependent on carbon markets

⇒ **Long term P&M** (e.g. land reform) can be financed as well as short term (e.g. protected areas)

### **Main argument for efforts-based system:**

Better monitoring of financed P&M against deforestation with no need to measure imputable reductions

# Fungibility with global carbon markets?

## Using REDD credits raises fundamental questions:

⇒ How to **balance credits supply** (capacity to « reduce » deforestation) and **credits demand** (Annex 1 commitments)?  
Risks of market flooding / scarcity of credits

⇒ Are emissions reductions from deforestation **comparable with other sources?**

For climate change: **Yes**

For development / social / environmental impacts: **No**

⇒ **How to deal with environmental risk?**

« fake credits » can enter the market as additionality remains (for ever?) unsolved issue

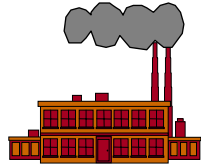
# Conclusions (1)

- 1. Carbon finance** (of any kind) **proportional** to future negotiated **commitments** for Annex 1 countries
- Carbon finance takes **2 main possible avenues**: contributions to a Fund / sales of REDD carbon credits
- 3. Fungibility of REDD** with carbon markets entails risks: destabilization of markets and adverse environmental impacts

## Conclusions (2)

4. **Fund option** allows Annex 1 countries (btw payers) to finance **long term P&M** against deforestation (with no immediate / easily imputed impacts on deforestation)
5. Introducing European commitment to finance (e.g. with auction revenues) action against deforestation would send **strong signal** to other Parties
6. **Europe has leading role with EU ETS** ... still for a long time (NZ, Australia, Canada, USA...)?

# REDD financing: A promising option

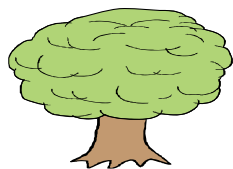


Increase binding GHG reduction commitments in Annex 1 countries by  $x\%$  after 2012.

( $x\%$  = share of global additional GHG reductions to be addressed by reduced deforestation in developing countries)



Governments in Annex 1 countries distribute  $x\%$  of domestic Allowances to development agencies (DFID, AFD, GTZ...) for further sales on carbon markets (EU ETS or others).



Sales revenues fill a Fund that finances P&M to curb deforestation in developing countries