

Bringing “REDD” into a new deal for the global climate

A contribution to the current debate on reducing emissions from deforestation and degradation in developing countries (REDD)

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Ten years after the Parties of UN Framework Convention on Climate Change agreed on the Kyoto Protocol, the objective to reduce greenhouse gases (GHG) that cause climate change remains of alarming importance. According to the 2007 reports of the Intergovernmental Panel on Climate Change (IPCC), these emissions have grown by 70% since 1970; and in 2005 the concentration of the most important GHG, carbon dioxide (CO₂), peaked at its highest level for 650,000 years.

Although GHG continue to rise, the perception of climate change has altered profoundly, in both scientific and political circles. The debate has shifted from the discussion of the *fact* of climate change occurrence, towards dealing with the *extent* of climate change impacts and methods of mitigation. The debate is also shifting from focusing only on reducing emissions in the North, to also addressing emissions in the South. The proposal to compensate reduced emissions from deforestation and degradation in developing countries (REDD)¹, as an additional element in the international climate regime, reflects this change in at least two aspects.

Firstly, it addresses the fact, which has so far been ignored, that up to one fourth of global GHG emissions arise from forests, notably through deforestation. Secondly, it offers an opportunity for the gradual involvement of developing countries in global efforts to combat climate change.

Although excluded from the first commitment period of the Kyoto Protocol, largely due to political and methodological reasons, the idea of compensating REDD was submitted by Papua New Guinea and Costa Rica, on behalf of the Coalition of Rainforest Nations, at the 11th Conference of Parties (COP-11) to the UNFCCC in Montreal in 2005. The proposal has initiated a two year examination process, facilitated by the UNFCCC, and has attracted extremely high participation levels of the concerned parties. Decisive steps on the topic are expected during COP-13 in Bali in December 2007.

As the examination process on REDD takes place, significant progress is being made. Points of common agreement include *inter alia*: that REDD will need to play a role in future climate regimes (although REDD activities will not issue carbon credits for the first Kyoto commitment period (2008-2012)); that there is a need to take into account national circumstances to successfully inte-

¹ The debate is abbreviated by “RED” or “REDD” depending on whether emission reduction from forest degradation is considered as well – which then constitutes the second “D”. In this note, we opt for using “REDD”, the currently more widely used abbreviation.

grate developing countries; and capacity-building and early action (prior to 2012) are crucial to enable developing countries to effectively participate and benefit from REDD.

However, points of contention remain which reflect the controversy of the debate and the challenge to accommodate the interests of all parties. These points, which we will discuss in turn, include concerns regarding the financing system, the appropriate institutional framework and how the variety of national circumstances and expectations can be addressed in an effective way.

REDD finance

A key question in the international debate on REDD is whether to finance REDD through market- or fund/ODA-based schemes. While a majority is in favor of market-based approaches, a complete integration of REDD into the existing carbon markets seems currently a politically non-viable option.

Financing REDD through markets?

Markets are deemed to be attractive because they have the potential to assure long-term, continuous and predictable flows of finance for REDD. However, concern exists that a direct integration of REDD into carbon markets may result in a destabilization of these structures, such as the European Emission Trading Scheme (EU-ETS), and the creation of competition with other supply options (Kyoto Clean Development Mechanism). The potential sudden arrival of large volumes of cheap REDD credits on the carbon markets could lead to price volatilities that ultimately undermine the signal function of the carbon price, and thus the global quest for cost-effective emission reductions. In addition, REDD finance via mandatory markets may imply more robust carbon accounting systems, higher performance requirements and generally higher carbon prices per ton compared to voluntary markets. Countries with weak legal, institutional and governance structures may not therefore necessarily be in the position to assure long-term compliance with the requirements of market mechanisms.

For these political-economic reasons in the North, and institutional-governance challenges in the South, market-based REDD finance, which relies on a complete integration into the existing carbon markets, may not be feasible in the short term. Market-based finance via integrated REDD-carbon markets can, however, constitute a reasonable long-term objective, which suggests that REDD systems may need to ensure that such a connection to carbon markets remains institutionally feasible for the future.

Market-based finance is also attractive because REDD initiatives may channel both institutional demand (post-2012 commitments, regional trading schemes) and additional voluntary markets with the same instrument. Although the Kyoto markets

mechanism still constitutes the most important market for forest carbon (volume-wise), voluntary markets for forest carbon are expanding rapidly. Important voluntary buyers include private companies which – for corporate social responsibility reasons – seek to offset their emissions by financing reforestation, afforestation or forest conservation. Quality aspects certainly play a role in favor of a greater legitimacy of voluntary actions, with the potential to further increase the demand. Relevant and promising methodologies for REDD projects have been developed, for instance by the BioCarbon Fund Window Two or the Voluntary Carbon Standard (VCS).

... or through funds/ODA?

Specialized funds or Official Development Assistance (ODA) are discussed as alternatives to the financing of REDD. Sources of funding are seen in voluntary private sector engagement, ODA or additional revenues from taxing bunker fuels or carbon market transactions. Specialized funds would thus be independent from carbon markets and avoid the risks of destabilization, but may not be able to generate sufficient and sustainable flows of resources in a context of progressively decreasing trends of ODA, especially with regard to assistance for forestry action. Fund/ODA-finance may present an important complementary contribution to the creation of international REDD mechanisms, notably to support capacity building and early action, such as envisaged by the World Bank Forest Carbon Partnership Facility. However, sole reliance on such methods of financing seems unrealistic in the long run, as has been proven in the past.

Institutional framework

The debate on how to finance REDD will largely define the institutional framework in which a future REDD mechanism is embedded. While there is a consensus that REDD will play a role in the post-Kyoto regime within the convention, there is a large debate as to whether this implies its integration into the existing Kyoto Protocol (i.e. in its post-2012 arrangement). This is a crucial question, since the way REDD is instituted at the international level, potentially affects the level of commitment of participating countries, including both the demand side (Annex I countries in the North) and the supply side (forested tropical countries in the South).

Implementing REDD within the post-2012 Kyoto framework?

The main arguments put forward in favor of integrating REDD into future commitment periods of the Kyoto Protocol are of a pragmatic nature, referring to the existing framework and the demand for carbon credits. Supporters of this line of reasoning

claim that the creation of an independent protocol for REDD would face problems of insufficient demand; and is also unfeasible, since a separate protocol for the forest sector would take too long to be agreed and implemented. This is a legitimate argument considering that the creation of an international regime for forests with binding commitments (e.g. UN Forum on Forests) has remained an unsolved endeavor since Rio 1992.

Skeptics, however, fear that an integration of REDD into the post-2012 framework may undermine the future regime. This point of view takes into account the tedious negotiation process prior to the establishment of the Kyoto Protocol, and also the aforementioned concern regarding the uncertain consequences of the inflow of REDD credits (from REDD) on the carbon markets.

To counterbalance the fear that the price may drop following the integration of REDD, it is sometimes proposed that caps should be applied to control the share of eligible REDD credits to offset Northern emissions. Or that more ambitious emissions targets should be adopted simultaneously. However, assuming the latter would be possible, the overall regime may face an even more serious crisis if the expected volumes of REDD credits were not to be delivered (a possible outcome at least for the first period, considering governance and implementation questions that still exist), leading to a massive risk of non-compliance.

The establishment of parallel markets may be one way to include REDD into the existing Kyoto Protocol, without threatening the current Kyoto carbon market regime. Ogonowski *et al.* (2007), for example, argue in favor of a “dual markets approach” for the post-2012 Kyoto regime, in which a new market for REDD would exist in parallel to the global carbon market, with only partial fungibility between the two. In this system, developed countries would commit a percentage of their post-2012 target to come from the REDD market. Ogonowski *et al.* suggest that this would reduce the risk of disruption of the post-2012 global carbon market, while allowing for the development of a new parallel market which, once mature, may be connected more directly to the carbon market.

Although not necessarily the best solution from an economic perspective, parallel market systems can help overcome some of the issues associated with the direct integration of REDD into the carbon markets, and are therefore highly attractive for political reasons.

... or rather in a separate agreement or protocol?

An alternative design may consist of a separate arrangement or protocol for REDD. The attractiveness of a separate protocol lies in its disconnection to Kyoto-specific commitments, which may increase the political acceptance of crucial stakeholders, no-

tably the European Union and Brazil. In addition, fund-based REDD finance is not required to account for “carbon tons”, but can use other measurement units such as “per ha”, which may be more suitable for the forestry sector (Stern 2006). This may allow for greater coherence with other actions and policies that may interact with REDD measures, such as the promotion of renewable energies (agro-fuels) or sustainable agriculture.

A separate protocol for REDD may also offer a chance to overcome obstacles that have long prevented binding agreements within an international forest regime (e.g. UNFF); and provide the opportunity to ensure greater synergies with other initiatives (e.g. Forest Law Enforcement and Governance) and international conventions (Convention on Biological Diversity, Convention to Combat Desertification).

Nevertheless, the important arguments in favor of a separate protocol should not underestimate the aforementioned challenges of ensuring constant long-term REDD finance, and of potentially substantial transaction costs associated with the establishment of such a protocol. The essential question is whether a regulatory scheme, which is constructed on the basis of carbon measurement units, can deliver objectives and deal with concerns, without causing greater adverse effects. In the affirmative case, we would argue in favor of a REDD/post-2012/dual market solution, eventually complemented by ad-hoc measures to, for instance, account for biodiversity aspects.

Addressing the diversity of national circumstances and expectations

A future REDD scheme is further challenged by the question of how to take into account the variety of national circumstances that have arisen because forest policies and rates of deforestation differ across the world, for example: some countries currently have low deforestation rates because they have already been deforested and are now concerned with forest conservation (e.g. India) or massive reforestation (e.g. China and Vietnam); others have particular geographic, political or demographic conditions which have so far prevented massive deforestation, and where forests are more threatened by degradation (e.g. various countries in Central Africa); while in some countries, the socio-economic and political situation has allowed the adoption of sustainable forest management practices (e.g. Congo and Gabon).

Central Africa, for example, contains the third most important tropical forest biome in the world, but about 60% of the productive lands are threatened by forest degradation. Establishing a mechanism that only targets emissions from deforestation ignores the non-trivial proportion of emissions coming from degradation. This may

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- institute adverse incentives for countries that have heavily invested in sustainable forest management practices. Establishing a mechanism that only focuses on areas with high deforestation rates can also be counter-productive as it may send out the wrong signals regarding domestic forest policies, and entail the risk of international leakage.
- In turn, some countries have proposed to compensate their efforts in forest management and conservation via a "stabilization fund" (e.g. Central Africa) or "compensated conservation" (e.g. India and China).
- As reflected in the national proposals submitted to the UNFCCC, there is consensus that local characteristics must be taken into account, but little has been said so far about how to actually accommodate the various "national circumstances" in a future REDD mechanism. What type or design of REDD mechanism would allow for an effective consideration of the various "national circumstances"?
- In addition, as global emissions remain alarmingly high and developing countries account for an increasing share of these emissions, there is an escalating need for future climate policies to address the role of developing countries in the global quest to reduce emissions. This implies a fundamental shift in the geographical focus of climate change mitigation, from reducing emissions in the North to also reducing emissions in the South. In this context, it now seems clear that the post-2012 climate regime will not be able to ignore the role of deforestation-related emissions, and that the discussions on REDD need to go beyond the notion of pure "north-south" compensations.
- Instead, following the principle of common but mutually differentiated responsibilities, it is being suggested that developing countries, especially emerging countries, agree to progressively adopt their own - at least voluntary - emission reduction targets. This could occur in the form of sector-specific agreements, bilateral or regional, or even in the form of a "global deal", as suggested by Stern and Tubiana (2007). Applied to REDD, such a global deal could mean that tropical forest countries, especially emerging countries, agree to their own emission reduction efforts - via REDD and under consideration of their national circumstances. While developed countries (Annex I), agree to significantly support and finance these efforts, which would also be in line with the "dual markets" approach. For instance, tropical forest countries that voluntarily agree to reduce their deforestation-related emissions by x%, may sell their share of deforestation-related emission reductions beyond x% to international carbon markets.
- Following the "no-lose" principle, insufficient reductions would not be sanctioned, but over-
- ductions are compensated - not necessarily purely financially, but also by other methods including through policy development and enforcement. Can such arrangements or deals help overcome some of the issues currently hindering the advance of the post-Kyoto debate? Can REDD have the potential to facilitate the emergence of such arrangements? What is the likelihood that countries will move beyond their national interests for the sake of a global public good - the global climate?

Outlook

Reducing emissions from deforestation and degradation has never been discussed more actively than today, not only for its climate benefits but also for its potential social and ecological impacts (biodiversity and poverty reduction via promotion of SFM). Further advantages include the potential to address governance, law enforcement and institutional challenges associated with forest management in developing countries.

Consequently, the expectations for a future REDD mechanism are high. But the fundamental question, we argue, is:

Depending on the ultimate objective of the REDD (*climate-only* or *climate-plus* biodiversity, poverty reduction, law enforcement etc.), and given very diverse national situations, can the carbon market effectively and adequately influence national forest management actions?

If so, i.e. if a REDD scheme based on carbon measurement units is to provide a firm basis for achieving the required targets, while reducing potential adverse effects, then we would argue in favor of a REDD/post-2012/dual market solution. This should eventually be complemented by ad-hoc measures, while continually seeking to induce stronger participation of developing/emerging countries.

To this end, a relevant first outcome from the climate summit in Bali would consist of a roadmap guiding the future process of REDD negotiations. This would require guidance not only on the financial and institutional aspects of REDD, but also on how diverse national circumstances will be addressed.

Evidently, for an effective and coherent REDD mechanism to emerge, much time and hands-on-learning is needed. We certainly cannot expect to solve all problems immediately, and new problems may arise while the exercise is underway. It is therefore crucial to adopt a precautionary approach when moving from talk to action - aware that ultimately, the road taken to reach the final destination may be more important than actually getting there. ●