

Reducing Emissions from Deforestation in Developing Countries

*A Policy Workshop for
UNFCCC COP11 Agenda Item #6*



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 **Coalition for Rainforest Nations**
www.RainforestCoalition.org



OVERVIEW

The **goal** of the *Policy Workshop on Reducing Emissions from Deforestation in Developing Countries* was to develop common political ground and common themes for SBSTA submissions by Rainforest Countries. The forum served as a novel forum for cross-regional cooperation as well as innovative diplomatic and policy dialogue. Many of the scientific, technical and methodological issues called for by COP11 were discussed. Some of the key expectations for the UN dialogue on reducing emissions from deforestation in developing countries included: international standards, pilot projects under UNFCCC to generate experience and capacity, agreement on mechanisms and structure and the start of a “fast market.”

SCIENCE

Rates of deforestation remain only generally known; projections into the future are even more uncertain. Some modelers expect peak rates of deforestation around the year 2020, with a slow decrease thereafter. Forests may also be affected by climate change: On the regional level deforestation is altering climate and rainfall patterns. These issues raise the concern about permanence of forests as sinks within any proposed mechanism.

PROFITABILITY

Several presentations calculated profitability of credits for ‘reducing emission from deforestation and degradation’ (REDD). In expert presentations, net profit of pasture of \$200/ha versus potential carbon credits approaching \$15000/ha, based prevailing prices on European ETS. Even if those profits are reduced for monitoring and infrastructure, only some land uses are more valuable than carbon storage with a real market. It was projected, that this issue could offer a “new scale of resources”. For PNG, it was calculated that an income was possible of \$600 million for five years, assuming 20% annual reduction rates over the term. This would account for 2.6% GDP based on a \$50/t carbon price and 100t C/ha. For comparison: Indonesia appeared with 0.2% GDP and Mongolia with 2.9% GDP.



NATIONAL & LOCAL

National and local realities such as demand for timber, political stability, governance, opportunity costs of land, and tenure patterns will affect participation in any new mechanism. Some countries have undertaken successful efforts. For instance some African countries currently



have almost no deforestation, however, they also wish incentives to maintain this status. Costa Rica has undertaken successful reforestation and forest conservation policy. These different starting positions should be taken into account in the design of an effective instrument.

It was stressed that financial incentives and compensation must help local communities, and **different types of landowners** have to be addressed in different ways. E.g., the role of the *PNG* government is not very significant, since most of the land is under customary ownership. Bolivia used its own soy production: there are (1) small landowners, which deforest few hectares per year and (2) big landowners, whose deforestation actions are large and easier to detect. It was considered that small landowners could be addressed with ecosystem payments; large landowners with tax policies.

Political stability affects deforestation rates and thus also the permanence of credits for REDD. In *Colombia*, it was noted, unrest has caused its baseline to plummet. And deforestation may rise if unrest



dissipates. It was agreed that developing countries do not want to limit their sovereignty by committing themselves to the long-term conservation of forest. Several experts emphasized the value of 'temporary commitments' with the idea of insurance through a "wooden bridge to a clean future."

PROJECTS OR NATIONAL

Several Parties argued that projects can allocate money more directly. A national approach would require long-term governmental stability and consistency. Further, projects could also be on a national level and initiated by the government. However, there are several reasons why a national approach could work: economies of scale in monitoring, fragmentation through project approach and faster large-scale progress.

It was proposed that both options should be pursued at early stages. It was considered that this approach would effectively change the discussion. Further, the role of governments and national policy are important for projects to be sustained.

LEAKAGE

Experts suggested that **leakage** may be unavoidable, though national baselines might limit it. Emission reductions are produced by economies, not only a forest plot. Valuation of forest carbon can promote rural development and reduce marginal farming. Parties stressed involvement of communities. It was suggested that the impacts of leakage may be smaller with projects, though better control is possible with a national approach.



MONITORING

The challenge for **monitoring** is achieving balance between “economics of scale” and accuracy, with limited financial resources (esp. at early stages). Experts agreed that methodologies exist. Parties expressed concerns that satellite technology does not capture understory carbon loss. Experts suggested parameters to monitor include carbon, rates of deforestation of non-intact and intact forests and spatial distribution. Existing worldwide databases on carbon and deforestation (e.g., Brown, Houghton, Olson) should be updated. For a country level assessment she suggested a hybrid of high-resolution targeted samples and decadal “wall-to-wall” assessments (Landsat), which intact and non-intact forest types.

According to the experts, different assessment methodologies can cause very different outcomes (such as doubled deforestation rates) but also recommended combination of moderate and high-resolution data. The only countries that are currently in possession of necessary national capacity are India and Brazil. Experts stated pan-tropical monitoring from space is not an option at the moment.



Also, carbon fluxes have significant interannual variability and heterogeneous forest types need more attention and suggested forming and funding a forest monitoring consortium on forest change mapping, methodologies and base line. Experts stated that degradation can also be tracked with monitoring.

DEFINITIONS

Forest **definitions** have long been problematic. A key balance is national issues on one hand and broad harmonization on the other. Definitions should help build a foundation for conservative baselines and methodologies for a stable market. They could be based on existing definition (e.g., UNFCCC good practices guide, Marrakech accords).

Change in definitions could open up more controversies and negotiations. The system should be close to the KP. Should the system be based on deforestation or forest estate; should it differentiate between forest types? Parties suggested differentiating between intact and non-intact forests, a broad definition based on biomass and management improvements, and that each country negotiate its own baseline, beginning in the 80's. The baseline could be regional or national.

UPFRONT FINANCING

Funding for **upfront financing** is necessary to establish carbon infrastructure and monitoring systems. However, experts advised that World Bank funds, such as Global Environmental Facility (GEF) or the BioCarbon Fund (BCF), are not accessible at the moment to support this initiative. Also, the World Bank doesn't have financing for 'new' carbon credits. The BCF funds were raised for 'specific' reasons and it is difficult to reallocate. Still, the bank can provide support, build on the BCF experience and use it as pilot to create new funds. As developing countries convince developed countries to establish large funds, the bank can become involved.



STRATEGIC THEMES

Participants noted that it is necessary to remind high-level governmental officials of the importance of the issue -- as coordinated policy is considered key to future success. Participation by Brazil was a sensitive issue for smaller developing countries. It was agreed that the **common principles** of the UNFCCC submissions should:

1. emphasize agreed policy of 'common but differentiated responsibilities'
2. any mechanisms should be **voluntary**, as countries want to maintain sovereign rights
3. retain philosophy of annex-1 purchasing emissions credits from developing countries to support sustainable development.
4. within context of differing national situations, develop 'flexible basket of instruments' that provide positive incentives for developing nations
5. point out that these efforts should not lead to a reduction of ODA
6. the instruments should be linked to adaptation and biodiversity.

Suggested objectives:

1. Capture full market value
2. Address existing market failures
3. Look at long-term strategies to bundle other ecosystem services
4. Create financial incentives for wide range of countries, including those with lower deforestation rates
5. Use lessons and experiences gleaned from existing systems.

APPROACHES

In essence there are several different approaches in general terms. The idea is that different countries may select different approaches, but that the approaches would not be mutually exclusive.

1. **National approach for sector:** developing countries adopt targets to reduce emissions from deforestation and sell what credits exceeds the target; this could, attract a lot of ODA interest;
2. **Expand CDM:** by creating a different incentive structure that deals with sectors in addition to projects;
3. **ODA:** strategy under UNFCCC framework: create a fund, access in response to compliance;
4. **Multilateral agreements:** such as BCF, but difficult to integrate into the existing KP-compliant market;
5. **Staged approach:** some type of ODA to credit early action; which then builds capacity for approaches listed above.



OTHER OUTCOMES

If the mechanism would be limited to the CDM market (limited by Bonn accords to 1% of ER), the actual market for the Initiative would be 20Mt — identified restriction of the market as one reason why the CDM prize is so low. Parties suggested a separate percentage. Generally, a limitation of the market limits revenues. Smaller Parties added that under the scale of such transactions, they would be unable to compete with big players. There was a suggestion to link the scale of CER of Annex I countries through REDD to the scale of their reduction commitments under the KP. However, there should be a minimum size, as for the KP, because the opponents are too strong. Experts commented on the origin of the criticized principle of **additionality**, which is one very limiting criteria for CDM projects: Projects shall be additional in order to reduce emissions and not only to use the mechanism to finance measures that would have happened anyway. It was noted that this requirement could be absorbed within overall target.



Notes:

1. *Chatham House Rule*: As an 'informal' policy dialogue designed to foster collaborative and cooperative policy development, the participants agreed to abide by the Chatham House Rule, which specifically states: "WHEN A MEETING, OR PART THEREOF, IS HELD UNDER THE CHATHAM HOUSE RULE, PARTICIPANTS ARE FREE TO USE THE INFORMATION RECEIVED, BUT NEITHER THE IDENTITY NOR THE AFFILIATION OF THE SPEAKER(S), NOR THAT OF ANY OTHER PARTICIPANT, MAY BE REVEALED".
2. *Broad-based Participation*: Considering the objectives of the policy dialogue, cross-regional and multi-stakeholder participation was encouraged. Specifically, national participants hailed from Africa, Asia, Latin America and the Pacific, including: Bolivia, CAR, Chile, Colombia, Costa Rica, Ecuador, Gabon, Guatemala, Indonesia, Nicaragua, Panama, Peru, Papua New Guinea, etc. Participation also included 'expert' representation from the World Bank, the Union of Concerned Scientists, the Smithsonian Institution, the Nature Conservancy, Environmental Defence, and Conservation International, Columbia University, and others.