

A CAUTIONARY NOTE ON REDUCING EMISSIONS FROM DEFORESTATION AND FOREST DEGRADATION (REDD)

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The establishment of an international system to provide support and incentives for Reducing Greenhouse Gas Emissions from Deforestation and Forest Degradation (REDD) has been put forward as a key pillar of a post-2012 international climate change regime, and it is emerging as a global blueprint to reduce emissions from land-use change. It is believed that REDD will increase developing countries' financial resources to fight deforestation and that it will also increase the well-being of rural and indigenous communities through the provision of economic incentives and the recognition of their role as forest stewards. Against such high expectations, however, we argue below that such "REDD optimism" must be put in quarantine in the light of financial and implementation challenges, divergent institutional, technical and governance capacities and the risk of benefiting powerful actors at the expense of indigenous peoples and low income communities.

Future REDD demand

In the last few years it has become evident that, in order to be effective, the international climate change regime needs to adequately address GHG emissions from deforestation to be effective. Whilst deforestation currently represents about a fifth of global GHG emissions, REDD is usually considered a cost-effective (and potentially massive) way of reducing emissions in the short term, since - as mentioned by the Stern Report - no new technologies (other than remote sensing) need to be developed for its implementation. For these reasons, global expectations on the role that REDD will play in the fight against climate change are high. The European Union has expressed its will to halve the total forested area loss in the tropics by 2020, and to halt the global forest cover loss completely by 2030 at

the latest. At the same time, in the US, REDD is high on the agenda of the designers of the future national legislation on GHG emissions. The American Clean Energy and Security Act of 2009, as approved by the House in June 2009, establishes a program on REDD with the goal to "achieve supplemental emissions reductions of at least 720 million tons of carbon dioxide equivalent in 2020, a cumulative amount of at least 6 billion tons of carbon dioxide equivalent by December 31, 2025, and additional supplemental emissions reductions in subsequent years". This program would also demand participating countries to establish a trajectory that would result in zero net deforestation by not later than 20 years from the date the national baseline is established.

After decades of mostly unfruitful attempts to reduce deforestation by developing country governments, the possibility of involving the private sector through the regulated carbon market - representing 126 billion USD in 2008 (Capoor and Ambrosi, 2009) - has raised the hopes of such governments of receiving sufficient, long-term and predictable funding to enhance and complement their ongoing efforts. At the same time, the private sector appears to be willing to invest in REDD credits, as revealed by the results of the *Forest Carbon Offsetting Survey 2009* carried out by Ecosecurities, Conservation International, ClimateBiz and the Climate, Community and Biodiversity Alliance. For developed countries with emissions commitments under the Kyoto Protocol, REDD does not only represent a way of providing potentially cheaper emissions reductions to the private sector - thus facilitating the acceptance of domestic reduction commitments - but it is also a key factor for the engagement of developing countries in scaling up measurable, reportable and verifiable (MRV) mitigation activities and/or acquiring voluntary commitments at a sectoral level from 2012 on. This, in turn, could facilitate the adoption of similar targets in other sectors (or even nationwide) in such countries in the middle term, and - possibly more important - put extra political and moral pressure on the US to legally commit to significant emissions reductions immediately.

REDD options

In the light of such high expectations, we find it healthy to take a step back and reconsider what can be realistically expected from an international REDD mechanism based on the proposals currently being negotiated. These proposals, put forward by Parties to the United Nations Climate Change Framework Convention (UNFCCC), describe how an international

framework aimed at granting positive incentives for REDD should look like, and in most cases, also outline the support mechanisms required to facilitate the creation of technical and institutional capacities needed for its implementation. All of the proposed incentives mechanisms are based on the *ex-post* rewarding of emissions reductions achieved against a historical baseline, either at a national or sub-national level.

In the first case, incentives would be received by national governments and, ideally, disbursed to policy programmes and stakeholders who would have contributed most to the reductions in land-use change emissions. Sub-national approaches, on the other hand, are scalable versions of projects and programmes under the Clean Development Mechanism. As currently proposed, national approaches would not allow for the development of sub-national activities outside the structure established by developing country governments, that is, all transactions would have to be carried out through national governments, since individual projects would not have direct access to the regulated carbon market. Incentives for both national and sub-national approaches are likely to be linked to the carbon market, either as sellable carbon credits or as a percentage of the proceeds collected by auctioning emission allowances in Kyoto's Annex B countries.

Reasons for caution

The idea of fighting deforestation by linking REDD to the regulated carbon market sounds promising. Even though the continuation of the market and the stability of carbon prices have been permanently threatened by the uncertainty regarding the future of the international climate regime and the level of ambition of its mitigation targets, tradable REDD credits may constitute the largest – although maybe not the most predictable – source of funding available to fight deforestation in the future – estimated to be far larger than current developing countries' efforts and ODA. However, a brief review of the implications of implementing an international REDD scheme unveils important challenges that may significantly reduce its potential of a climate mitigation option, at least in the short term.

First, in order to enter the carbon market, REDD initiatives will have to be able to generate real, measurable, long-term and additional emissions reductions certifiable by a third party. Although this has been achieved at the project level (for instance, the Noel Kempf project in Bolivia, whose emissions reductions were certified by SGS), the accuracy of national emissions inventories in the land use sector in developing countries is currently too low compared, for instance, to the CDM standards. The uncertainty associated to such emissions reported by Brazil in its first National Communication to the

UNFCCC (1990), for instance, reached 39% (representing around 200 million tons of CO₂ equivalent), whilst in the case of Mexico's third National Communication (2007) it was estimated around 34%. These relatively high levels of uncertainty are generally due to the low quality and the lack of appropriate data regarding land use change over time and on specific carbon contents in biomass. Consequently, it seems difficult that large amounts of tradable REDD credits could be generated in the short term, since they would be limited to those generated by certifiable projects (if allowed) and maybe by a few developing countries – those with more capacities – under national approaches. Few credits reaching the carbon market would mean less funding available to developing countries to carry out REDD, and therefore, more deforestation (and emissions) in the coming years.

Second, actual levels of funding will depend on the political acceptance of REDD credits by buyer countries. Even if the private sector shows interest in REDD credits, their actual demand will be limited by the regulations established by Annex I country authorities. The exclusion of Afforestation and Reforestation CDM credits in the EU ETS is possibly the best example of how a potentially large mitigation option (and huge global expectations) may be effectively nullified by regulation in buyer countries.

Third, the timing of funding will also be critical. Carbon credits are generated *ex-post*, which means that, in principle, developing country governments would only have access to carbon money once they have achieved to reduce emissions – and would therefore have to cover the costs of policy design and implementation beforehand, with their own resources. Given the already significant budgetary constraints suffered by most developing country governments, and the fact that they must give priority to other more urgent and pressing needs – such as poverty alleviation, health and education –, REDD is unlikely to happen at a national level unless up-front financing options are sought. However, alternatives such as forward sales of the foreseen reductions at a discount – frequently seen in CDM transactions and applicable to sub-national activities – seem difficult to apply to national REDD approaches, as they may imply the acquisition of debts by developing country governments if emissions reductions are not achieved.

Fourth, whether the carbon market may be able to provide the long-term funding demanded by developing countries to stop emissions from deforestation is also debatable. By definition, the carbon stored in existing forests can only be emitted to the atmosphere once, and the avoidance of such emissions may therefore be sold and used for compliance with emissions reductions only one time. As a consequence,

developing countries will receive a one-time payment for the carbon in their forests, distributed over time according to the expected deforestation rate, in exchange of a "permanent" commitment to avoid land use changes in their forests. In fact, depending on the rules agreed internationally to deal with non-permanence, this commitment could even turn into a financial obligation for developing countries if a "seller's liability" approach is used – that is, they would be obligated to compensate for any loss of the carbon in their forests for which credits would have been issued and sold. If the policies and measures designed to REDD do not generate structural changes lifting the pressure off forests permanently, only short-term reductions, resulting from the current "REDD momentum" may be achieved but their real effect on climate change and overall benefits would be minimal.

Fifth, assuming that technical and funding issues are solved, could deforestation be stopped or at least significantly reduced by REDD as expected by many? A positive answer to this question will depend on the effective and efficient performance, in coordination with all relevant actors, of the institutions in charge of designing, implementing and enforcing policies and measures and managing funds, as well as on their continuity over time. Evidence has shown that sustainable forest management programmes have performed poorly because there is often a lack of secure land tenure or effective rights to forests, which result in conflicts over land allocation. Furthermore, the failure of conservation policies and programmes is rooted in the existence of illegal logging and trade networks, accompanied by lack of staff, equipment, training, as well as the presence and practice of corruption among government officers (ITTO, 2005).

In fact, it has been observed that most of the countries with the highest potential for REDD identified by Stern (the exceptions being Malaysia and, to some extent, Brazil and Congo) perform quite poorly in governance indicators such as government effectiveness, regulatory quality, rule of law and control of corruption. Whilst some of these aspects might be improved in the short through the newly established and

future capacity building mechanisms to support REDD (such as the FCPF and UN-REDD), addressing others – such as corruption – will require more time and efforts well beyond the scope of a REDD mechanism. In fact, it might be expected that the direct access to large amounts of money from REDD by governments may result in increased corruption in countries with poor governance. These governance challenges will ultimately hinder countries' capacity to implement a REDD framework, particularly if such framework is centralised at government level. In fact, if REDD prioritises the allocation of funds and potential carbon credits through host country governments, the political and legal risk of the mechanism is likely to be considered too high to attract private finance (Pedroni et al., 2007).

Finally, it must be stressed that the success of an international REDD mechanism will largely depend on its ability to fully consider and fairly reward those who reduce emissions on the ground, particularly indigenous peoples and communities. REDD policies and measures focusing on carbon benefits instead of prioritising social development will be doomed to fail. Identifying all the actors, rising their awareness and carrying out consultations on the shape of REDD initiatives (including on their right to participate or not, and on the distribution of incentives) and their time of implementation are all time consuming processes that should not be rushed in order to match the starting date of the international REDD mechanism or the agenda of supporting organisations.

References

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