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What is the Potential for a Climate, Forest and Community Friendly REDD+ in Paris?

Summary

Reducing Emissions from Deforestation and Forest Degradation (REDD+) is a mitigation instrument that creates a financial value for the carbon stored in standing forests. The purpose of REDD+ is to provide incentives for developing countries to mitigate forest-related emissions and to foster conservation, sustainable management of forests and the enhancement of forest carbon stocks.

This instrument is still not fully operational under the United Nations Framework Convention on Climate Change (UNFCCC) but, despite the large criticism it raises, its political traction is what is keeping it on the table.

In this Briefing Paper, we discuss the prospects for REDD+. We structure these on the basis of options included in the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) Negotiating Text of February 2015: (1) forests in a market-based mechanism, (2) result-based approaches for REDD+, and (3) non-result-based approaches. In addition, we discuss for each of these the likeliness of substantial international finance that they may raise, their mitigation potential, their contribution to forest conservation, and their social co-benefits.

We conclude that large sums for REDD+ can only be expected when REDD+ credits can be used to offset fossil-fuel based emissions, provided the carbon credit price is high enough. Although funds could be large, and may contribute to forest protection, there is an important counterargument: only the emissions reductions that are realised through non-offsetting approaches are net emission reductions.

Integrated non-results-based approaches may offer more opportunities for local social and ecological co-benefits but it is difficult to raise funds for them. With the high stakes of protecting the global climate and important ecosystems, biodiversity and local cultures, a non-results-based mechanism seems too non-committal. But, without funds, non-offsetting approaches may not be realised at all, which may prove to be a missed opportunity for forest protection. Leakage (deforestation elsewhere) and non permanence (deforestation at a later point in time) may be an issue for all options, but form a climate risk particularly when forest credits are used to offset emissions.

We suggest a middle road that focuses on regulatory measures and results-based approaches, which ensure social co-benefits, and are financed through public funds specifically generated for the purpose of developed nations assisting developing nations in adaptation and mitigation projects. Under this type of solution the results-based approach should be separated from mechanisms to reduce emissions from fossil fuel use.

Introduction

When REDD+ was established, it was based on the idea that climate change can be mitigated more cost-effectively by tackling greenhouse gas emissions from deforestation than, for instance, from transport and industry. While for developed countries, it may indeed be cheaper to pay developing nations to prevent emissions from deforestation than to reduce their own emissions, its effectiveness in mitigating climate change can be questioned. It will be difficult to guarantee that emissions are indeed avoided. Three concerns are often raised: How does one guarantee that i) trees would actually have been cut without the mechanism (additionality); ii) trees are not cut somewhere else (leakage), particularly when underlying driving forces are not addressed; and iii) trees will remain standing for the agreed period (permanence). This is the case as forest governance is complex. It is naïve to assume that deforestation will only be reduced by providing a direct market incentive that covers opportunity cost, since there are complex issues of governance involved, including issues of land tenure and rights of indigenous and local communities, while at the same time strong economic interests exist to convert forests to agricultural land. This complexity makes the efforts to stop deforestation more than a simple exercise of computing opportunity costs and offering a financial compensation. Despite REDD+ criticism, REDD+ has strong political traction and is still high on the agenda of the climate negotiations. Although estimations of the contribution of deforestation to global emissions have been reduced from 20% (2006) to around 10% (2014), this is still a considerable amount and warrants international attention.

With the upcoming negotiations for a new climate agreement in Paris in 2015 (COP 21), we discuss options and their implications for an international mechanism that would reduce emissions from deforestation and forest degradation, based on the REDD+-relevant options mentioned in the Ad-Hoc Working Group on the Durban Platform for Enhanced Action (ADP) Negotiating Text of February 2015 (UNFCCC, 2015). This text reflects all possible options and we are aware that choices will be made in Paris.

The evolution of REDD+

The first formal emission-trading system permitting forest carbon projects came with the Kyoto Protocol (KP) in 1997. The KP allowed companies to pay for emissions' reductions elsewhere (e.g. through reforestation and afforestation) in order to offset their own emissions. The integration of standing forests (i.e. avoided deforestation) into the Kyoto mechanisms was favoured by some as a cost-effective way for developed countries to meet emission reduction targets, but was opposed by the European Union/NGOs because of the difficulties of guaranteeing that emissions are indeed avoided.

Standing forests re-entered the climate agenda in 2005 due to strong lobbying by the Coalition for Rainforest Nations (CfRN) which argued that negotiations should be limited to forests in developing countries. This, together with the fact that the Kyoto Protocol finally came into force in 2005 (COP 11 in Montreal), gave a new momentum for forests in the climate negotiations. This reinvigoration turned the UNFCCC into an appealing forum for actors interested in protecting rainforests as living spaces for biodiversity and local/indigenous communities. This momentum created an influential discourse coalition for the inclusion of standing forests involving those arguing for forest conservation and poverty reduction at the forest margins and those arguing for cheaper offsetting options for fossil fuel emissions from developed countries.

Ten years after Montreal, the mechanism of REDD+ is still not fully operational and the criticism previously mentioned has not been addressed. The environmental and social safeguards that are part of the Warsaw Framework on REDD+ (COP 19) remain ambiguous and the issues of leakage and permanence have not been addressed.

Options under the Paris talks

The various text suggestions in the ADP Text show that many options for REDD+ are still open. REDD+ may be an instrument to offset emissions from developed countries, either as part of a market mechanism or through bilateral agreements. Other options leave out the possibility of offsetting and suggest results-based or non-results-based payments. The approach of 'joint mitigation and adaptation for the integral and sustainable management of forests' proposed by Bolivia seems to fit the latter.

The exact role of REDD+ within a 2015 Climate Agreement to be adopted in Paris in December remains unclear. REDD+ could be relevant in two different ways. First, REDD+ could be an offsetting mechanism for developed countries. We assume that even when nationally determined, emission reduction targets for developed countries will have a binding character once pledged, and that in principle market mechanisms can be developed to allow countries 'flexibility' with regard to how they reach their targets. Second, REDD+ could be a way for developing countries to meet their own targets. Developing countries might have to formulate targets at least in the form of actions to reduce emissions below 'business as usual'.

The various options for forest finance in the Negotiating Text represent the positions of different parties on how to deal with REDD+. Common ground only seems to be that finance for forest-based mitigation activities should be in line with the Warsaw Framework for REDD+. Below, we discuss and assess the potential to i) raise funding, and the advantages/disadvantages for ii) emission reductions, iii) forest conservation, and iv) social co-benefits for the following three options: (1) forests in a market-based mechanism, (2) result-based approaches for REDD+, (3) non-result-based approaches.

Option 1: Forests in a market-based mechanism

To significantly reduce deforestation, a high carbon price would be needed. Carbon prices would only rise if an ambitious cap on emissions stimulates demand. However, the full integration of REDD+ into a global carbon market is unlikely to be agreed upon in Paris since a number of parties reject market integration. Nevertheless, it may be acceptable that countries set up regional markets: the US and the members of the CfRN might still establish regional forest carbon markets. Parties could promote forest protection by allowing their national industry to offset parts of their emissions through investing in national forest conservation activities. The UNFCCC should ensure that regional carbon markets have strict social and environmental safeguards if credits are to be used to meet official nationally determined targets. The current ADP text explicitly keeps the market-based option and the transfer of contributions and obligations between parties open.

The integration of REDD+ into a market-based mechanism could, in theory, generate substantial funds especially from private sources. When fully fungible with other emissions, the availability of funding will depend on the carbon price and the amount of credits in the market. Calculations for Indonesia have shown that the carbon price needed for incentivising actors to avoid deforestation also depends on soil type, the land-use type competing with conservation, and on stakeholders considered as entitled to receive a share of the incentives (Irawan, Tacconi, & Ring, 2013). On mineral soils, a carbon price of USD 81 per ton and on peat soil of USD 7.75 per ton would be needed to avoid the conversion of 1 ha forest to oil palm plantation. However, opportunity costs calculations do not reflect other indirect income losses, e.g. occurring as a result of informal employment losses or social conflicts (Ibid).

Expected impacts:

- Funding: Depends on supply and demand; experiences with the European Emission Trading System indicate that stable prices above USD 30 are unlikely. Although for a long time considered *the* mechanism to upscale funds for REDD+, an unambitious cap on emissions and the corresponding low carbon prices will result in a low demand for REDD+ credits.
- Emission reductions: Depend on carbon price/cap, but offsetting will by definition not result in additional emission reductions.
- Forest protection: A market-based approach might complement regulatory forest protection but such protection will depend on the volatility of market prices for carbon credits.
- Social co-benefits: Specific social co-benefits in developing countries depend on explicit (additional) legislation, policy measures and social safeguards (e.g. free-prior and informed consent). Low mitigation costs would be the main objective and could have positive social co-benefits in countries with high emissions and reduction commitments but could have negative social implications in developing countries.

Option 2: Result-based approaches for REDD+

The ADP Text and the Warsaw Framework for REDD+ both stress the importance of result-based approaches and of the Green Climate Fund (GCF). Recently, the board of the GCF approved an 'Initial Logic Model and Performance Measurement Framework for REDD+ Results-based Payments'. The framework allows for payments for reduced emissions from deforestation, from forest degradation, and for the increase of carbon removals through conservation, sustainable forest management and enhancement of forest carbon stocks. Outcome is only measured in verified emission reductions; non-carbon benefits are not explicitly mentioned.

Pilot initiatives with results-based payments are already taking place, but without a formal status under the UNFCCC. The most prominent mechanism is the Norwegian Forest and Climate Initiative. Important multilaterals are the Forest Carbon Partnership Facility (FCPF) and the Forest Investment Program (FIP). The existing bilateral result-based payment initiatives do not yet involve any offsetting or transfer of emission obligations between parties. However, since 2012, Japan has been testing a bilateral offset mechanism called 'Joint Crediting Mechanism'. Feasibility studies for the inclusion of REDD+ have been conducted in Peru and the Lao PDR. The result-based agreement between Norway and Indonesia refers to the implementation of a 'verified emission reduction mechanism' but without yet explicitly considering the transfer of emission rights.

An important question is whether these large sums are only made available to prepare for an official offsetting mechanism. One of the options of the ADP is the 'transfer of mitigation outcomes', which would permit bilateral offsetting. However, it is worthwhile mentioning that experiences from the Brazilian Amazon Basin indicate that regulation and law enforcement played an important role in reducing deforestation (Boucher, Roquemore, & Fitzhugh, 2013).

Expected impacts:

- Funding: USD 3 billion have so far been raised by 2014 by bilateral and multilateral bodies (Norman & Nakhooda, 2014). The eligibility of bilateral offsetting would probably generate more funding; on the other hand, if such offsetting were not allowed, it would not be possible to keep the current level of funding. The GCF is likely to play a role in providing results-based funding without offsets, but volumes are not yet clear.
- Emission reductions: Result-based agreements not bound to offsetting would contribute to reduced deforestation; all avoided emissions are additional to fossil-fuel based reductions. Bilateral offsetting would not lead to net emission reduction.
- Forest protection: Depends on the availability of funds and probably on the eligibility of offsetting.

- Social co-benefits: Development goals could be added as additional targets, but, as the GCF framework shows, this is not always the case. The framework does not explicitly refer to social co-benefits.

Option 3: Forest protection as a non- results-based international mechanism

Multilateral and bilateral public bodies provide support to REDD+, without asking for measurable reductions of the deforestation rate. FCPF, FIP and other multilateral bodies are engaging in non-result based REDD+ financing. With this approach the actual emissions reductions are less certain. The Joint Mitigation and Adaptation approach proposed by Bolivia, a new example of such a mechanism, is already receiving support by Denmark. Many ideas have been proposed to generate additional funds for different types of climate-related activities, through specific taxes and levies.

Expected impacts:

- Funding: The volume of funding to be raised is unclear. The approach resembles current aid and could help developed countries comply with the requirement of providing 'new and additional' funding.
- Emission reductions: Uncertain but additional.
- Forest protection: Depends on the availability of funds, the existing regulatory framework and the approach adopted.
- Social co-benefits: Development goals could be added as additional targets.

Conclusions: Funds and forests versus net emission reductions?

With the different options still on the table, which option would most likely be able to raise funds, contribute to mitigation and forest conservation, and provide benefits for local communities? Large sums for REDD+ can only be expected when REDD+ credits can be used to offset fossil-fuel based emissions, and an ambitious cap on emissions stimulates demand. Offsetting may contribute to forest protection, but will not necessarily lead to net emission reductions. All three options imply the risks of leakage and non permanence. Integrated non-results-based approaches may offer more opportunities for local social and ecological co-benefits; however with the high stakes of protecting the global climate, important ecosystems, biodiversity and local cultures, a non-results-based mechanism seems too non-committal. Moreover, without funds, non-offsetting approaches may not be realised at all.

Table 1: Overview of options for REDD+

Options/ Criteria	Market-based	Result-based	Non-result-based
Finance	+(++)[1]	++	+
Net emission reductions	0	0/++[4]	+
Forest	+(+)[2]	++	+
Social co-benefits	+[3]	+(++)[3]	+(++)[3]

[1] depends on supply and demand.
[2] volatility of prices for carbon credits might undermine forest conservation.
[3] depends on the effective implementation of social safeguards; some experiences with voluntary market projects illustrate controversies in the provisions of co-benefits and even exclusion of local communities.
[4] only results-based agreements not bound to offsetting can provide net emission reductions.

The middle road would be to focus on regulatory measures and results-based approaches, which ensure social co-benefits, and are financed through funds specifically generated for this purpose, such as the GCF. Nevertheless, we argue for the explicit integration of social co-benefits into the performance measurement framework of the GCF. How the money is to be used requires further insight in the institutional setting of the respective developing countries and the specific driving forces of deforestation. REDD+ is still under construction: the large uncertainties regarding non-additionality, non-permanence and leakage make it risky to allow the offsetting of actual fossil fuel emission with potentially avoided forest emissions. REDD+, as an offset mechanism, cannot create new carbon stocks, however it may prevent the possible loss of a stock, while it allows fossil-fuel based emissions to continue.

Literature

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