

Reducing Emissions from Deforestation and Degradation (REDD)

KEY POINTS

- Multiple diverse funding streams are necessary to make REDD work.
- A REDD crediting mechanism should create incentives for accounting for emissions reductions at the national level and encourage all countries to move toward creating such a national accounting framework.
- A REDD crediting mechanism should provide flexibility on the scale of ownership of REDD credits and implementation of REDD strategies.
- A REDD incentive mechanism should promote a comprehensive approach to land management, beginning with the forest sector and phasing in other land uses over time.
- A simple, consistent, transparent, and defensible method for determining reference levels, derived primarily from historical emissions data, should be adopted.
- The interconnected issues of international leakage and perverse incentives must be addressed, but should be separated from the methodology for establishing credible reference levels.
- Standards and safeguards that ensure that the rights of Indigenous Peoples and other forest-dependent communities are respected are necessary.
- A REDD mechanism should support activities that contribute additional environmental benefits.
- A phased approach to the implementation of REDD allows the flexibility needed to ensure the greatest participation possible.

Background

The destruction and degradation of tropical forests contributes up to 20 percent of annual greenhouse gas emissions, making it the third largest source of emissions—more than the entire global transportation sector. In fact, if emissions from the forestry sector are not addressed, those emissions alone would push the world past the goal of limiting atmospheric concentrations of CO₂e at 450ppm¹. An efficient, effective, and equitable mechanism for reducing emissions from deforestation and degradation (REDD) is therefore essential to mitigating the climate crisis.

The technology exists to credibly measure and monitor emissions reductions from reduced deforestation and forest degradation and the emissions sequestered through forest restoration, afforestation, and reforestation. Scientists have agreed that limitations in the science and technology of forest monitoring can no longer delay action on REDD. The Nature Conservancy's extensive forest carbon work has demonstrated that credible methodologies exist to address technical challenges such as leakage, permanence and additionality.

In addition to providing measurable, reportable, and verifiable climate benefits, REDD offers a cost effective mitigation tool that will be essential to reducing emissions in the next several decades. Incorporating a major additional sector into the global compliance regime would allow the international community to achieve more ambitious reduction goals at a lower cost.

Incorporating REDD into a comprehensive climate agreement will help assure that all major sources and major emitting countries are included in climate solutions. In many tropical countries, emissions from deforestation and forest degradation are the majority of their greenhouse gas emissions. In others, there is considerable potential to enhance carbon stocks through forest restoration, reforestation and afforestation. REDD could provide an avenue for developing countries to participate in meeting the global challenge, while providing real incentives to improve forest governance and reverse a long history of unsuccessful attempts at tackling the complex drivers of deforestation and degradation. Since the mechanism will be performance-based, it will create a genuine economic value for maintaining standing forests that can counteract prevailing incentives that only value the trees once they have been cut down and the land once it has been converted.

A comprehensive funding approach to REDD is needed to ensure reliable, long-term financing to protect the biodiversity and ecosystem services that millions of people around the world directly depend on for their livelihoods and ways of life. A market-based approach is necessary to reach the scale of funding needed, but it must be combined with performance-based publicly funded approaches to achieve widespread and effective engagement of tropical countries. We envision that in the early phases public investment in readiness and other catalytic activities may provide the bulk of REDD funding, but as countries achieve needed levels of capacity and infrastructure to create compliance-grade emissions reductions, funding sources should increasingly shift toward private finance from carbon markets. If designed properly, a REDD mechanism could create alternative sources of income for the rural poor and provide an impetus for defining unclear land tenure.

Despite the clear and urgent need for incentives for REDD, there are a number of key policy design, technical and on-the-ground implementation challenges that need to be addressed in order to establish an effective, efficient and equitable system. The Nature Conservancy has a comprehensive local to national to global strategy to develop ground-truthed solutions to those implementation, science, and policy challenges. We have developed some of the world's largest, most rigorous and well-documented forest carbon projects in Bolivia, Brazil, Belize, China, the United States and other countries. The following recommended principles draw upon this extensive experience in implementing large-scale forest carbon demonstration activities.

The Nature Conservancy supports the following principles for the design of a REDD mechanism.

- **Multiple diverse funding streams are necessary to make REDD work.** Successful implementation of REDD will depend on a variety of funding sources, which may be tailored to different but complementary purposes. In the early phases of the mechanism, public investment in building readiness will be needed to get REDD off the ground. These resources may be generated in various ways, including through taxes, new and additional ODA, and/or a dedicated portion of auction revenues from the sale of allowances within a cap-and-trade system. There is an urgent need for this type of dedicated funding stream to support readiness activities such as: developing monitoring networks, strengthening national institutions, improving forest governance, and building capacity to channel carbon finance to actors at the local level.

As countries begin to reach increased levels of readiness and begin to implement emissions reductions activities, additional public funding will be needed to provide up-front financing, buffer the risk of early actions, facilitate market access for higher-risk countries, and catalyze private investment. Such a “catalyst fund” could be financed through a variety of means and distributed through grants, loans, and/or purchase agreements. This fund would not supplant the market; rather it would provide needed risk management to accelerate market development.

Once countries have the capacity to generate compliance-grade emission reductions, they should be allowed access to carbon markets. Market-based approaches to REDD offer the greatest potential, particularly in the long run, to provide the level of funding needed to truly address deforestation and forest degradation globally. REDD credits, generated through rigorous and verifiable methodologies, should be fully fungible with emissions reductions from other sectors. By expanding the options for achieving emissions reductions globally, including REDD as an offset mechanism should induce deeper emission reduction targets for Annex-I countries.

- **A REDD crediting mechanism should create incentives for accounting for emissions reductions at the national level and encourage all countries to move toward creating such a national accounting framework.** National accounting frameworks are essential to accounting for in-country leakage, reducing transaction costs, and encouraging the large-scale policy reforms and other measures essential to addressing the problem of deforestation at scale. However, many countries do not currently have the capacity to develop national reference levels, account for emissions reductions against those levels, or implement systemic land-use and governance reforms. Therefore, market incentives should be provided for those

countries to reduce emissions at the sub-national or project-scale even before national accounting frameworks are developed. Ultimately, however countries will need to develop national level accounting frameworks, and incentives could be created to motivate countries to move toward that goal.

- **A REDD crediting mechanism should provide flexibility on the scale of ownership of REDD credits and implementation of REDD strategies.** Once a country has developed a national level accounting framework, national governments should have the option to either retain ownership over all emission reduction credits or devolve that ownership to other actors, including local governments, landowners and project developers. If the national government chooses to retain ownership of all credits, there are a variety of contractual arrangements the government could create with project implementers to ensure transparent, efficient, and equitable distribution of revenues.

Under a national accounting framework, mechanisms through which the government could allow project developers to own credits and transact those credits directly with the international market may help in attracting private investment. Credits from such projects would be required to fit within the national-level accounting framework. Project credits would be invalid internationally if national emissions are above the reference level. Such a system, supported by rigorous accounting and risk management mechanisms, may generate greater investment into REDD+ activities than could a purely national-level system.

- **A REDD incentive mechanism should promote a comprehensive approach to land management. The ultimate goal of a REDD mechanism should be comprehensive accounting of all land-based sources and sinks.** In order to reach this goal, a phased approach that begins with the forest sector and moves toward including agriculture and other land use should be adopted. Data and technical capacity currently exist to credibly account for emissions reductions from reduced deforestation and forest degradation and both should be incentivized in the first phase of a REDD mechanism. Sustainable or improved forest management provides tangible carbon benefits and should be included as a viable strategy to reduce forest degradation during the first phase. Finally, a REDD policy framework should provide incentives for enhancing carbon stocks through forest restoration, reforestation and environmentally-appropriate afforestation in the first phase. An integrated approach combining protection and restoration of forests creates a significant opportunity to improve biodiversity outcomes and forest management practices and land use planning, while increasing carbon removals from the atmosphere and helping prevent leakage by providing a sustainable source of timber. The post-2012 agreement should provide a pathway for phasing in agriculture and other land use in later phases.

- **A simple, consistent, transparent, and defensible method for determining reference levels, derived primarily from historical emissions data, should be adopted.** We support setting a reference level based on a ten-year historic average of emissions from deforestation and forest degradation, without modification in the first commitment period, followed by a declining baseline thereafter to ensure that market compensation results in a declining emissions profile over time. If countries reduce emissions below this reference level, they will receive credits to sell in international compliance markets. If countries go over their reference level, they should be required to make up the difference in future performance periods before credits can be sold. This strict approach to reference level setting reduces the opportunities for gaming the system and ensures that REDD credits entering compliance markets are additional. Concerns about international leakage and equity can be addressed through means other than manipulating the baseline, as discussed below.

- **The interconnected issues of international leakage and perverse incentives must be addressed, but should be separated from the methodology for establishing credible reference levels.** International leakage and avoiding perverse incentives can be effectively addressed through the establishment of a stabilization facility. This facility could be financed through a combination of a levy on REDD credits and public funding supplied through auction revenue, taxes, or other means. The stabilization fund would be allocated to countries as a function of their forest carbon stocks. In order to receive stabilization funding, countries or project developers would need to prepare stabilization strategies that could effectively protect their standing forest stocks. Approved countries/projects would need to include long-term protection of forests that are at risk of deforestation within the next 50 years. These funds would therefore provide incentives to protect forests that would not be eligible for REDD credits under a historic baseline and contribute to international leakage prevention.

- **Modest measures can protect against risks of non-permanence.** The climatic benefits from reducing emissions from deforestation and degradation are no different than those from reducing fossil fuel based emissions, and both face potential for variability over time that could reduce the net impact of emissions reductions. To mitigate this risk in the forestry sector, national carbon credit buffers could be maintained to protect against the risks of non-permanence. It should be kept in mind that ensuring social and environmental sustainability of REDD activities can significantly reduce non-permanence risks.

- **Standards and safeguards that ensure that the rights of Indigenous Peoples and other forest-dependent communities are respected are necessary.** Genuine and effective engagement of Indigenous Peoples and forest-dependent communities is essential in the design and implementation of national REDD frameworks. REDD

frameworks should support and promote legal recognition, demarcation, and protection of indigenous lands and territories. Free, prior and informed consent of Indigenous Peoples for REDD measures or activities that involve or affect the territories or lands that they occupy or rely on for their livelihoods should be respected and equitable distribution of both the costs and benefits resulting from REDD measures or activities should be ensured. Any REDD framework should ensure respect for Indigenous Peoples' spiritual and religious traditions, customs and ceremonies, as well as their organizations, institutions, traditional knowledge, heritage, expressions, technologies and intellectual property.

- **A REDD mechanism should support activities that contribute additional environmental benefits.** The protection of standing forests also results in the protection of species diversity, water catchments, air quality, and soil biodiversity. A REDD mechanism should include measures to ensure that policies and incentives to reduce deforestation are consistent with other international conventions and agreements, including the Convention on Biological Diversity. The Climate, Community, and Biodiversity Alliance has created standards that help design forest carbon projects that simultaneously minimize climate change, support sustainable development, and conserve biodiversity. These standards can provide guidance for building national level frameworks with similar goals.
- **A phased approach to the implementation of REDD allows the flexibility needed to ensure the greatest participation possible.** The design of a REDD mechanism should create complementary incentives which simultaneously motivate countries to participate immediately and to move to higher levels of participation. Fund-based mechanisms should provide readiness funding that prepares countries to generate compliance-grade emissions reductions that can enter the carbon markets. Transitional incentives should allow countries to build capacity for national engagement, including through the implementation of sub-national activities. Finally, pathways should be created that include deforestation, forest degradation, and reforestation in the mechanism from the beginning and allow other land-based activities to enter the mechanism once credible methodologies exist for their inclusion.

¹ Eliasch Review, p.1: "Analysis for this Review estimates that, in the absence of any mitigation efforts, emissions from the forest sector alone will increase atmospheric carbon stock by around 30ppm by 2100. Current atmospheric CO₂e levels stand at 433ppm. Consequently, in order to stabilize atmospheric CO₂e levels at a 445-490ppm target, forests will need to form a central part of any global climate change deal."