



CLIMATE FOCUS

Incentivizing Forest Conservation

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LULUCF and the Regulatory Environment



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- For the last decade, LULUCF has been at the margin of the negotiation of the major climate change related regulatory frameworks.
- There is a recognition of the LULUCF sector
 - As large source of GHG emissions (mainly through deforestation)
 - As mitigation opportunity through the uptake of CO₂ from the atmosphere (sinks)
- *However* the focus of the Kyoto Protocol as well as the EU ETS is on the reduction of fossil fuel based and industrial emissions, LULUCF is mainly seen as
 - Increasing the flexibility to meet negotiated or assigned targets (pro-sinks)
 - Diverting the attention from the main goals of the regulatory instruments (anti-sinks)

The Trouble with Avoided Deforestation



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- Scary scale
- Uncertainty: methodological issues, leakage, permanence etc
- Sovereignty issues and country specific circumstances
- NGO opposition
- Environmental, social and socio-economic effects

Things have (not) changed since Kyoto....have they?





Post-Kyoto Negotiations

- Need to create a comprehensive system that rewards
 - Decreasing deforestation
 - Sustainable forest management
 - Restoring forests
 - Sustainable production and use of biomass
- Scientific basis more robust
- Political will incl from developing countries to address the problem of GHG emissions from deforestation
- Acknowledgement of the opportunity provided by the carbon market
- Active discussion on various proposals

But is there political will? Or is the forestry issue a welcome diversion from the addressing the energy challenge?



Elements of the Tool Box

Improved national policies and capacities:

- Improvement of forestry laws, management practices, enforcement, land planning and zoning, data collection
- *Increased availability of funding*

International incentives:

- Harnessing the forces of the international carbon market
- Create incentives for countries to improve performance
- Promote Payment for Ecosystem Services systems
- Linking the various Intl Environmental Conventions
- *Increased availability of funding*



Carbon Market

- Assigns monetary value to the standing forest by creating tradable carbon certificates.
- Based on defining a new commodity that can be traded
- Mobilizes private funds
- Demand triggered by compliance obligations and voluntary activities

- May provide additional finance to forestry projects (afforestation, forest management, fire or pest control)
- May eventually provide finance to avoid further deforestation

But....

is the (carbon) market the silver bullet for all environmental problems?

Is the – international and national- governance and regulatory system robust enough to avoid detrimental and harming effects (perverse incentives, country leakages etc)?

The trouble with forestry in the Carbon Market



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- Implementation challenge:
 - Financing, sustainable and longterm project management, forestry sector often publicly controlled, monitoring
- Project Risks:
 - Loss of carbon, permanence
- Legal Problems:
 - Land title, title to carbon, transfer of rights, implementation and management contracts
- Perverse incentives:
 - Rewards fast-growing species
 - Bioenergy-connection
- Methodological Troubles:
 - Baseline data often not available, definition of forest, leakage, etc

Can we tackle these challenges? Are there sufficient risk mitigation tools available? Will we be able to ensure the environmental integrity of our activities?

The “Nested Approach”



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One of various proposals based on:

- Creating an incentive to reduce emissions from deforestation now
- Design of a flexible mechanism
- That works on different scales and can be integrated into a broader framework
- Partnership between private and public actors
- Environmental integrity
- The prospect of mobilizing significant resources



Design Principles

- Baseline-and-Credit System (similar to the CDM)
- Integrated into national efforts and (as soon as feasible) national accounting
- Triggering national as well as subnational activities
- Mobilizing private and public financing
- Shield the various activities from risks and failure of parallel activities
- Creating risks for countries and private entities manageable



Project activities

- Allow early action
- Allow for testing and learning (without putting at risk the whole framework)
- Harness carbon markets
- Tap into private capital
- Focus on deforestation clusters
- Mobilize local capacities and create incentives at the right place in the system
- Create partnerships
- Raise awareness
- Strict eligibility criteria, management and monitoring of leakage, robustness of the achievement (permanence)



Integrated in national initiatives

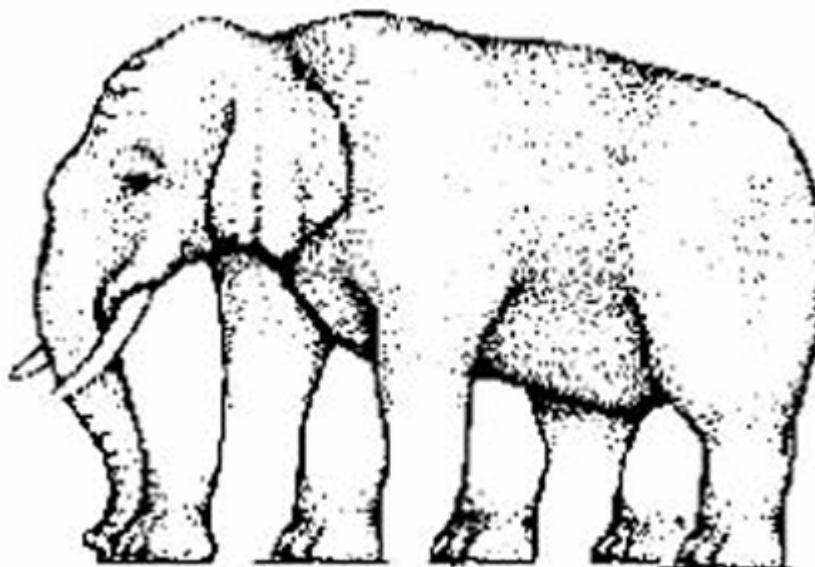
- Once a country is willing and/or has the capacity to adopt national baselines, such baselines are set based on a historical reference period
- Countries to negotiate a target on the basis of the reference scenario
- Rewarding of national compliance with the target
- In case of non-achievement compensation (e.g. in next period)
- Credits issued for project activities are subtracted from national efforts

But....



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The big challenge remains: how to tie A/R incentives and credits into stricter Annex I targets?



Challenge: ensuring the environmental robustness of the system, creating a long term framework



Questions?

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