

# Fast Forest Cash: How REDD+ will be market-based

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## The Early Years

Since the earliest experiences of offsetting forest have been used as tradable carbon credits.<sup>1</sup> The initial practice of forest offsetting in Costa Rica and Papua New Guinea in the early 1990s established a precedent for inclusion of tradable carbon sequestration offsets or carbon "sinks" in UNFCCC legislation.<sup>2</sup> During the Kyoto negotiating years in the 1990s the US, Canada and Australia had a vested interest for the inclusion of "sinks" in any deal as a means to make their emissions targets cheaper and easier to attain while northern-based conservation organisations took the lead in designing projects in the South.

Pressure by the Northern elites paid off. A 377-page report issued by the Intergovernmental Panel on Climate Change on Land Use, Land Use Change and Forests (LULUCF) was released in May 2000 and outlined how credits could be generated from "sinks".<sup>3</sup> During the divisive COP 6 in Den Hague in November 2000, one of the major controversies concerned the technical possibility of countries claiming carbon credits for "additional land and forest activities" within their borders as part of their Kyoto Protocol "reduction" commitments. The concept of carbon sequestration was accepted, but the ability to trade credits from the environmental service of "avoided deforestation" was not.<sup>4</sup>

Not until Bali, however, when the United Nations Framework Convention on Climate Change (UNFCCC) repackaged the concept of forestry offsets and adopted Reducing Emissions from Deforestation and Degradation (REDD) in 2007. Although not explicitly market-based within UN-backed emissions trading schemes, the prospect of a market-based REDD set in motion what could arguably be the most reckless land grab in history.

To market, to market

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À The UNFCCC currently caps the use of LULUCF credits at one per cent of base year emissions, meaning that industrialised countries face a limit on how many they can buy.<sup>5</sup> The European Union Emissions Trading System (EU ETS), which drives most of the demand for offsets, currently excludes LULUCF credits altogether.

The EU has maintained the exclusion of LULUCF credits for the third phase of its ETS (2012-2020). More significantly, a series of new activities dubbed "forest management"™ could be included beyond the one per cent limit. Under current definitions, these could include monoculture plantations and commercial logging.<sup>6</sup>

It is sometimes argued that REDD+, alongside the inclusion of afforestation/reforestation of CDM, would significantly benefit the South. Yet the existence of considerable forested areas does not in itself guarantee a significant flow of REDD+ cash. Historical deforestation rates have been high in Brazil, Indonesia and Malaysia, for example, which may be (perversely) rewarded by REDD+ for having deforested more rapidly than other countries unless a "correction factor"™ is

built into the scheme.<sup>7</sup> Alternatively, the "baselines"™ for REDD could be set so high that payments will be triggered for increases in deforestation, as is the case with a recent agreement between Norway and Guyana.<sup>8</sup>

Like the CDM, the complex accounting procedures involved in commodifying forests tends to divert resources from forestry initiatives to carbon counting. While direct estimates for REDD+ are not yet available, it is reasonable to assume that this would be comparable with the CDM, where often less than 30 per cent of financing goes towards the project itself, with the rest absorbed by consultancy fees and taxes.<sup>9</sup> Finally, the combination of significant uncertainties in forest carbon accounting, unequal global power structures and weak governance signal a capacity for large-scale fraud, the siphoning off of funds by elite interests and land evictions.<sup>10</sup>

To date, afforestation/reforestation accounts for just 56 of more than 5,300 projects under consideration for inclusion in the CDM, and no credits have yet been issued for these projects. The slow pace in developing such projects is partly accounted for by the availability of cheaper options, and partly by the restrictions placed upon the use of such credits. Such projects are currently only entitled to issue tCERs (the "t"™ stands for temporary) or ICERs ("l"™ for long-term), but have proven unpopular with carbon traders, and the prices remain low.

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#### Head in the Sand

Currently, many REDD+ supporters in the NGO arena often deny the verity that REDD+ is being developed for offsets. Even the NGOs with good intentions contend that the money will flow in one direction " North to South. However, within the trading world REDD+ is viewed in a very different light.

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On September 22, 2010 a "reforestation project"™ in Tanzania became the first forestry investment to earn carbon offsets after credits were issued in the Voluntary Carbon Standard (VCS) registry. The news created a flurry of activity for hopeful market traders eager to cash in on forestry offsets from REDD+ schemes. "Once a forestry project begins trading there, it could open the door for REDD to be included in the UN-based compliance market," reported Ecobusiness.<sup>11</sup> Reuters printed a quote from Grattan MacGiffin, head of GTE Global Trading Ltd, stating, "(California's) Climate Action Registry has been doing forestry for a while but the VCS news is bigger, potentially adding impetus to the growing support for a CDM REDD methodology to be given the green light."<sup>12</sup>

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A lot of money is at stake for traders, brokers, conservation organisations, companies, international finance institutions and governments who are banking on REDD. Calculating REDD+ offset credits are simplified to estimate one metric tonne of CO<sub>2</sub> within the terrestrial system to equal one credit. For example, the controversial Rimba Raya project located in Kalimantan, Indonesia could generate 75 million credits and if priced between 10 to 15 euros per credit could earn an estimated 1.1 billion euros in revenues.<sup>13</sup>

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The UN estimates that REDD+ could be worth up to US\$30 billion a year for developing countries and investors but more likely higher returns for private investors in the North.<sup>14</sup> With potential revenue of this scale to be had, peoples'™ land rights are quickly being overlooked by hungry investors eager to cash in on fast forest money.

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## Bribery and Corruption

From the Amazon, Liberia to Papua New Guinea traders, brokers and conservation organisations earnestly work to secure lands for REDD+. Before REDD+ areas become more valuable and more difficult to attain, "carbon cowboys" deviously persuade communities to hand over land rights. The Wilderness Society's Tim King told the Sydney Morning Herald that, there had been "a tsunami of carbon traders spreading across PNG. Carbon finance and REDD have triggered a 'gold rush' mentality."<sup>15</sup> The name of the game is to secure the maximum land rights to forests as early as possible while the infrastructure is still being organised.

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In late October 2010, Wandogo Siswanto, a lead delegate in Copenhagen and key architect of REDD, was arrested and charged with accepting bribes of up to US\$10,000 from the director of PT Masaro Radiokom, a telecommunications company.<sup>16</sup> In Indonesia, the forestry sector's reputation has been referred to as "a source of unlimited corruption," by Indonesia's Corruption Eradication Commission (KPK).<sup>17</sup>

Bribery, corruption, unequal global power structures, history and governance all play a role in back-door dealings when large sums of money are at stake. Greenpeace highlighted the issue of corruption in a recent briefing by stating, "Corruption within PNG's forest industry, disregard for land owner rights, inflated estimations of likely benefits from REDD and a lack of effective institutional systems in place do not engender confidence in the country's ability to manage a funded institutional transition to a low carbon economy."<sup>18</sup>

Rampant corruption instigated by companies and governments to secure lands in key rainforest nations like Indonesia and Papua New Guinea undermine any real chances of so-called benefit-sharing.<sup>19</sup> Although governance is a real issue, the initial pressure comes from northern players including banks, IFIs and traders. Without acknowledging these unequal global power structures any global forest protection programme is likely to fail whether market or fund-based.

## The Role of the World Bank

Working in tandem with the UNFCCC in Bali, the World Bank launched its Forest Carbon Partnership Facility (FCPF) with the aim to develop pilot projects, securing funding and launch the market. Benoit Bosquet, a World Bank senior natural resources management specialist who led the development of the Facility stated its "ultimate goal is to jump-start a forest carbon market."<sup>20</sup>

These were unoriginal words reminiscent of 1999 when the World Bank launched its first carbon fund, the Prototype Carbon Fund (PCF) with the aim of creating "a short-term catalyst to jump-start the transfer of finance for clean energy technologies to developing countries."<sup>21</sup> What followed, in the form of the CDM, was anything but such a catalyst. A closer look into the World Bank's track record of developing such prototypes show how pilot projects become replicated on a larger scale within the WB and by the private sector.

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The FCPF includes over 37 countries in the South and 14 financial contributors in the North worth \$165 million (\$115 million to the Readiness Fund, aimed at preparing countries for REDD, and \$50 million to the Carbon Fund). But the World Bank wants more. According to the latest World Bank State and Trends of the Carbon Market, fast-start pledges will not be enough to meet the funding required to set up REDD+ with the Bank calling on large private sector investment as the essential solution to make up the shortfall.<sup>22</sup>

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The World Bank has had the intention to make REDD+ market-based every step of the way. The World Bank states, "The focus to date has been on REDD+ readiness, though it is expected that the Carbon Fund, which will provide payments for verified emission reductions from REDD+ programs in countries that have achieved, or made considerable progress towards, REDD+ readiness, will be launched in the course of 2010 as a public-private partnership."<sup>23</sup>

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### Money for Nothing

Selling REDD+ credits will provide another outlet for Northern polluters to avoid responsibility of cutting emissions at source, however, to date, the market demand side for large amounts of offset credits is thin. If REDD+ was included in a current UN-backed emissions trading market the sheer amount of credits could likely collapse the market. While the US and Australia delay setting up emissions markets, offset demands remain relatively low. "But the scheme hinges on rich nations putting in place mandatory emissions trading schemes that underpin demand for large volumes of internationally tradeable REDD credits." Reuters reported.<sup>24</sup>

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The voluntary market provides the place for REDD+ offsets to be sold for now but if and when a US climate bill or Australia passes emissions trading legislation this could have the potential to demand millions of offsets per year.<sup>25</sup> The outcome of including forestry in carbon markets depends on a greater demand which could come from the US and Australia signing up to a climate agreement. Bloomberg reported, "If you take the market as it is now, accepting REDD with the present level of demand would lead to a price crash," said Emmanuel Fages, a Paris-based carbon-market analyst at Societe Generale.<sup>26</sup> Meanwhile California has passed the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms (CETP) which "does not yet provide for the inclusion of REDD offsets, however, the inclusion of sub-national sectoral REDD mechanism for REDD offsets imply the probability to be eligible when REDD is "ready"<sup>TM</sup>.<sup>27</sup>

### No REDD+!

Although REDD+ is not yet based within an UN-backed emissions trading market, it does not alter the basic direction of the scheme for which it was designed. The question should not be, "Will REDD+ be included in a UN-based offset market," but rather how is REDD+/readiness being designed to commodify terrestrial carbon and how is this affecting land rights, property rights, sustainable agriculture and Indigenous Peoples' rights "how is this already affecting the relationship between power and resistance on the ground?"

Even if REDD+ could be kept out of a global offsets market, it still would not provide compensation for communities or protect the remaining forests because the major proponents of REDD+ have vested interests in the scheme and intend to be rewarded. "REDD+ is inherently linked to offsets trading and has been since its inception. It is doubtful that the key players setting up REDD+, including the WB and governments involved, would concede market-based defeat now. If REDD+ were to be de-linked from an emissions trading scheme, it would need to be re-named and placed inside of a different negotiating track within the UNFCCC structure. In addition, countless amounts of policy and legislation from several countries would need to be re-written.

Land tenure and community rights are at stake, especially for Indigenous Peoples. Northern governments view REDD+ as a means to offset their responsibility for reducing emissions domestically, yet are looking for a way around making

public financial commitments. For the financial sector, meanwhile, REDD+ is seen as an opportunity to grow a new speculative market. To tackle such interests requires more than civil society dialogues on safeguards.

One should not be fooled into believing that REDD+ will simply provide benign funding, whether for communities to protect their lands and forests. On the contrary, REDD+ is designed to place fast forest cash in the hands of the elite and at the same time provide yet another pollution pardon and further financing for polluters in the North. Furthermore, REDD+ is a mechanism which presents a legal structure to secure land rights from people who protect and rely on the remaining forests and lands, which is critical to their survival and the health of this planet.

G. Arturo Sanchez-Azofeifa, Alexander Pfaff, Juan Andres Robalino, and Judson P. Boomhower, "Costa Rica's Payment for Environmental Services Program: Intention, Implementation, and Impact", *Conservation Biology*, DOI: 10.1111/j.1523-1739.2007.00751, 2007. The notion of "carbon sequestration" (or "sinks") was already established as part of the UNFCCC. See "United Nations Framework Convention on Climate Change", 1992, article 4.d.

G. Arturo Sanchez-Azofeifa, et. al. op cit. Supra note 1.

R.T. Watson, I., Noble, B. Bolin et al. (eds.), *Land Use, Land Use Change and Forestry* (a Special Report of the IPCC), Cambridge University Press, Cambridge, 2000.

When the UN was drawing up rules for the CDM it originally discarded avoided deforestation and opted to just include afforestation and reforestation plantations. The reasons were likened to mainly scientific accounting questions. See next footnote.

LULUCF restriction to on per cent was adopted at the COP6.5 in Bonn in 2001, sparking criticism from Indigenous Peoples' Organisations at the time. "We, Indigenous Peoples reject the inclusion of sinks in the Clean Development Mechanism and the definition of sinks contemplated under the Kyoto Protocol and we oppose that the forests are considered solely for their carbon sequestration capacity. We register our disagreement with proposals surrounding definitions including Afforestation, Deforestation and Reforestation proposed in the context of the UNFCCC. We express our grave concern that the UNFCCC ignores the concept of conservation, the importance of biodiversity, and the fundamental role of Indigenous Peoples in the management of our territories, forests and other ecosystems. See: [http://www.treatycouncil.org/new\\_page\\_5212.htm](http://www.treatycouncil.org/new_page_5212.htm)

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