



## **Getting Ready for REDD**

### *Toward an Effective and Equitable Policy on International Forest Carbon*

#### **The Challenge**

Deforestation is a leading cause of climate change—contributing almost 20% of global greenhouse gas emissions annually—most of it driven by demands from industrialized countries for forest products or for commodities like beef or soy that compete with forests for the use of land. In a number of developing countries, tropical deforestation is the largest source of emissions. If the Amazon forest were a country, its emissions from deforestation would rank seventh in the world. But tropical forests do much more than simply store carbon. They purify the air we breathe, filter the water we drink and are home to most of the terrestrial world’s biological diversity—a wealth of life that supplies many of the ingredients from which more than a quarter of all medicinal drugs—including many life-saving medicines—have been derived. Tropical forests provide us with key raw materials, perform ecosystem services we could not do without and, last but not least, are home to rich human cultures that depend upon their natural resources for survival.

Aggressive action to reduce (and ultimately halt) emissions from deforestation and forest degradation (REDD) must be part of any serious policy to address the climate crisis, while at the same time respecting other forest values. Without REDD, keeping global average surface temperature increase below 2°C will likely be impossible. Exceeding 2°C of warming creates a much larger risk of triggering critical climate tipping points leading to large-scale species extinctions, catastrophic reductions in water supply, or increasingly rapid disintegration of ice sheets with resulting devastating increases in sea level.

Policies to stop deforestation and avoid dangerous levels of climate change are complementary and must go hand in hand. By placing a price on carbon through a cap-and-trade program, keeping forests intact becomes economically valuable. Climate policy can then help realize this value for countries and communities that choose to protect forests. Financing REDD will be substantial, but so will the benefits to the economy. According to the Eliasch Review, a recent report commissioned by the United Kingdom, halving global emissions from deforestation could produce \$3.7 trillion in net benefits to the global economy. Financing REDD could be done through a suite of mechanisms including direct payments from governments, market approaches allowing capped emitters to satisfy (i.e. “offset”) some emissions by paying to reduce deforestation and market-hybrid programs that channel a portion of revenues from auctioning emissions allowances to reducing forestry emissions.

The way we construct forest carbon policy will greatly influence whether it will in fact reduce global emissions. As a conservation organization with a strong focus on addressing global poverty, WWF has grappled with these issues from the beginning. When forest carbon was first considered for inclusion in the Kyoto Protocol, WWF opposed the approach. At that time, we cautioned that allowing emissions caps to be satisfied in part through forest carbon could lower carbon prices, improperly shifting focus from domestic improvements in energy efficiency and alternative energy. We also were concerned that too many questions remained about how to measure and monitor forestry emissions in a way that produced real, verifiable reductions. Finally, at that time, the policy focus was on planting trees (afforestation/reforestation) rather than avoiding deforestation (REDD), which has much higher potential for climate and conservation benefits.

### **The Solution**

The challenges above are real but surmountable. Although more needs to be done, great progress has been made in recent years to address REDD methodological issues, to develop policy options and to begin to improve the capacity of developing countries to implement REDD programs. Strong support for REDD should be built into US domestic climate legislation and should be a pillar of renewed US engagement in international negotiations within the UN Framework Convention on Climate Change.

To realize the potential to simultaneously stop deforestation and contribute to meeting the climate crisis, forest carbon policy should be guided by the following principles:

- The first priority for developing a forest carbon program should be immediate and substantial capacity building in key host countries. This will ensure that subsequent market or market-hybrid programs would be implemented with safeguards to ensure measurable, reportable and verifiable emissions reductions, avoiding negative impacts on carbon price.
- Along these lines, REDD should be the priority component of any forest and land use carbon program based on the readiness of methodological, accounting and monitoring tools. Other forest and land-use activities should be incentivized only when methodological issues have been resolved and adequate capacity exists to monitor and verify emissions reductions.
- REDD programs should be designed to ensure that critical forest values, including performing ecosystem services, providing livelihoods for indigenous peoples and protecting biodiversity are preserved and enhanced.
- Any market-based offset program that may be considered should be linked to a deep domestic emissions cap, while limiting any REDD offset percentage so that the United States satisfies the vast majority of its emissions reduction commitments domestically. This will ensure required transformation of our energy infrastructure at home and so not “export” our climate obligations to poorer countries.

Following these principles, REDD can help meet US emissions reductions targets beyond what is possible domestically, build the capacity of developing countries to sustainably manage their forests, and reduce global emissions. Looking forward, these investments also would build a bridge to a future climate partnership that includes mandatory reductions from both industrialized and emerging economies.

## **I. Promoting Real Emissions Reductions Through Preserving Forests**

We cannot meet our climate goals without a strong forest carbon policy. To this end, the United States should commit to supporting a goal of eliminating net emissions from global deforestation by 2020 through a strong financial commitment to support REDD. Although this could be implemented through a number of mechanisms, under any of the funding approaches, key steps must be taken to ensure REDD policy strongly advances our climate goals.

**Capacity Building:** Forest carbon investments must be targeted to activities that produce real, measurable, reportable and verifiable reductions to ensure that climate benefits are achieved. To meet these standards, key investments in host country capacity must be made now. It is particularly important that institutional and land tenure improvements be funded and assured before any market-based program is begun. Otherwise, REDD activities would be deceptively inexpensive, as they will not include the cost of constructing the capacity necessary to manage national REDD programs, thus jeopardizing the integrity of emissions reductions. Host country national frameworks are important to ensure that sub-national activities are managed in a way that produces emissions reductions that are permanent while protecting against deforestation avoided in one area moving to another (“leakage”).

**Protecting Carbon Price Signals:** As market-based approaches are considered, they should be designed to protect against lower-priced REDD credits “flooding the market” (i.e., reducing overall carbon price to the point of reducing incentives for investments in a low-carbon economy). Limiting the potential destabilizing impacts of REDD credits on the carbon market could be accomplished by limiting the percentage of reductions to be met by REDD, while also limiting the fungibility of REDD credits within the carbon market. The latter could be done through credit discounting (i.e., requiring a higher than 1-to-1 ratio for REDD credits when used as a substitute for domestic allowances) or through preliminary market insulation (a so-called “dual markets” approach). To encourage strong national programs, discounting could be reduced as countries meet conditions demonstrating their increasing ability to deliver monitored and verified REDD credits. Full fungibility could be conditioned on demonstrating verified compliance with monitoring, permanence, leakage and additionality criteria.

**Prioritizing REDD:** The land use sector is both the second-largest source of GHG emissions and an important GHG sink. This sector includes forests (avoided deforestation, tree planting), grasslands, agriculture and other soil-based carbon. In terms of its carbon content (and so emissions and sink capacity) avoiding tropical deforestation offers a vastly greater potential for reducing overall emissions than other aspects of the land use sector, including management of temperate forests (which have much lower carbon intensity) or planting new trees (afforestation).

In addition, it is important that financing be prioritized to promote activities that will produce measurable, reportable and verifiable (MRV) emissions reductions. To meet MRV criteria, adequate methodological standards and sufficient accounting and monitoring capacity must exist to track the emissions reductions associated with changes in land use management. REDD methodology and accounting questions have received sustained attention in recent years and are currently being field-tested in pilot projects, thus positioning REDD to meet MRV criteria and deliver clear climate benefits.

For these reasons, REDD should be prioritized in any forest carbon policy. Over the longer term, we should work to resolve outstanding methodological and accounting questions associated with other land use activities and consider a move toward full land-use-based emissions accounting. If well-designed and combined with the necessary accounting and monitoring, full land use carbon accounting could further reduce emissions while increasing sink capacity through carbon sequestration.

### **Recommendations**

- US climate legislation should establish a REDD program that contributes to stopping net emissions from deforestation by 2020. This program should provide incentives for reducing deforestation through a variety of financial tools, including fund-based, market-based and hybrid approaches. The program should include safeguards to avoid negative impacts on carbon price signals. These safeguards could take the form of a segregated market or discounting REDD credits.
- Substantial, predictable funding for capacity building and pilot programs should begin this year. At the outset, this funding would have to be provided through increased federal appropriations. In the near term, funding could be linked to a REDD market through levies or discounting, or it could be provided by investing a small percentage of the resources raised from auctioning emissions permits (after a US cap-and-trade program is established).
- US forest carbon policy should prioritize REDD while supporting further study on a broader land use sector approach that includes other forms of terrestrial carbon.

## **II. The Role of Offsets in US REDD Policy**

To create a sufficient financial commitment to eliminate net emissions from deforestation, a combination of financial mechanisms is needed, including new official development assistance (ODA), market approaches and using auction proceeds or other hybrid mechanisms. For example, according to the Eliasch Review, even with REDD incorporated into the carbon markets, a substantial funding shortfall will occur without additional public funding or dedication of auction proceeds. Moreover, some funding streams are more appropriate for particular aspects of REDD. Near term funding for capacity building, for instance, will need to come from new development assistance because auction proceeds or other market-related funding will not yet be available.

Although it is one of several financing options, market approaches have dominated the debate within U.S. policy circles about REDD, specifically, the extent to which forest carbon activities should offset domestic emissions caps or should produce reductions that are supplemental to them. Although this debate is often cast as one between those who are “pro-market” or “anti-market,” this way of viewing the issue misses an important point: It is impossible to meaningfully talk about offsets or supplementarity without focusing on the level of the cap. WWF supports a US emission commitment that contributes to limiting overall global average surface temperature increase to well below 2°C. In an analysis by the Intergovernmental Panel on Climate Change (IPCC) in its Working Group III report, a higher likelihood of limiting warming to 2°C could be achieved if industrialized countries reduced their collective, economy-wide emissions 25% to 40% below 1990 levels by 2020 while key developing countries make substantial deviations from business as usual emissions. If the United States commits to reducing emissions along these lines, it is easier to envision a component of this commitment being met through REDD. If a weak cap is set, REDD must be supplemental, both to ensure the climate benefits of any cap-and-trade program and to construct a program that is equitable.

Pairing REDD with a strong overall emissions reduction commitment by the United States will also ensure that the United States, along with other developed countries, is meeting its commitment under the UN Framework Convention on Climate Change to act first to reduce emissions and to help fund emissions reductions in developing countries. Recently, the United States has argued that major developing countries must also take on mandatory economy-wide emissions reduction commitments in the near future. Global emissions reductions are a zero-sum game. Any reductions achieved internationally that “offset” US domestic emissions cannot be used to satisfy future developing country emissions commitments. REDD policy should be designed to ensure that industrialized countries, like the United States, do not pick all of the “low hanging fruit” in developing countries during the early commitment periods, leaving only expensive reduction options when developing countries begin taking on mandatory commitments. Otherwise, developing countries will be deprived of the most obvious way to reduce their own emissions, giving them less incentive to engage in a new global climate agreement.

### **Recommendation**

- Any REDD program that involves offsets should be combined with a strong overall emissions reduction commitment that contributes to keeping global temperature increase well below 2°C (e.g., 25% below 1990 levels by 2020). The percentage of any REDD offset component of a domestic cap and trade system should be limited, both to protect carbon price signals and promote climate equity.

### **III. Preserving the Social and Environmental Values of Forests**

The value of tropical forests extends well beyond their carbon storage capacity to include important ecosystem services and key economic development benefits for forest-dependent people. Recognizing these values, forest carbon policy should be designed in a way that

promotes biodiversity and protects the rights of indigenous peoples, promoting poverty reduction within these communities.

## **Recommendation**

- REDD policy should promote the preservation of intact forests while including specific standards that protect biodiversity and ecosystems services. Recognizing the key role forests play in the livelihoods and culture of indigenous peoples, REDD should be implemented in a transparent manner that protects land tenure rights and ensures that financial benefits flow to local land owners while robustly engaging them in decision-making.

*“Getting Ready for REDD” is one in a series of papers examining in more detail some of the issues raised in the Greenprint, WWF’s conservation agenda for the new administration.*

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