REDD and the Carbon Market

An European perspective

Pedro Martins Barata
Portuguese Ministry of Environment/ CDM EB Member

EPRI GHG Offset Policy Dialogue
Workshop on REDD
Washington, 13 May 2009

State of play of negotiations

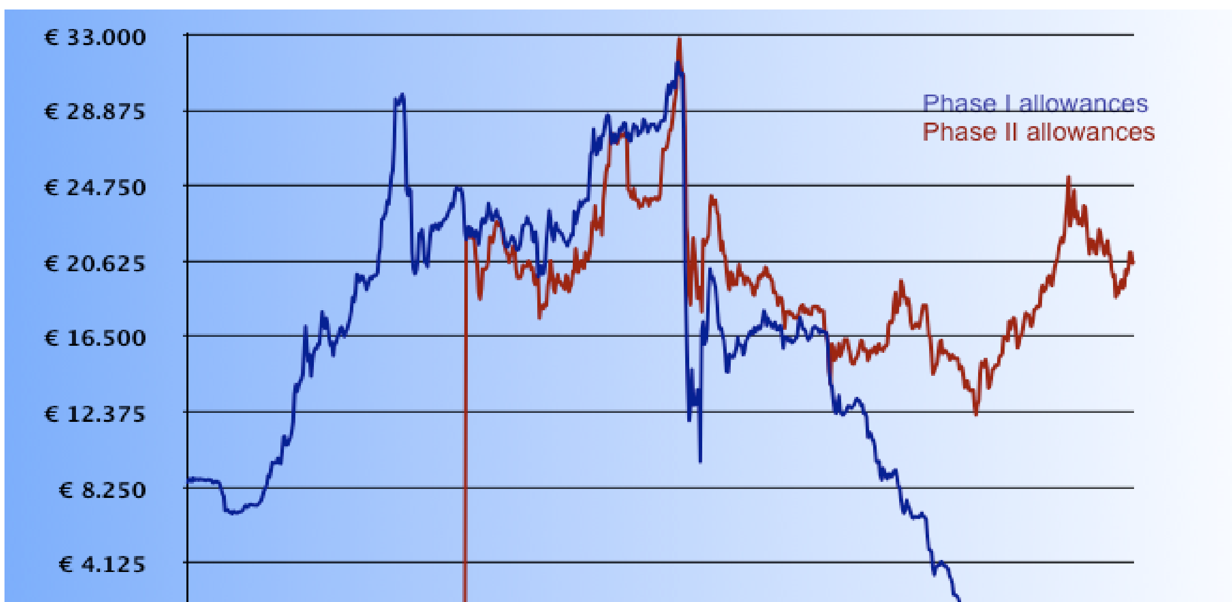
- Nearing Copenhagen
- Main framework in place (current round of submissions):
  - low carbon development strategies for all (US) or DCs (EU)
  - caps for some DC countries in some sectors
  - intensity targets for some countries
  - “nationally appropriate mitigation actions” closer to defining the concept
  - developing distinction between “own action” (to be recognised internationally), and different types of supported action:
    - capacity building, fostering enabling environments
    - action supported by traditional public finance
    - crediting action ➡ link to carbon markets

European context

- iffidence of REDD (and forestry in general)
  - payment for conservation services seen as potentially morally hazardous
  - monitoring land-based, non point-source emissions seen as difficult and f with uncertainty
  - deforestation not part of the Kyoto accounting framework; deforestation ex excluded from CDM
  - REDD seen as potentially leading to exclusion from carbon market from p imperatives, such as promotion of renewables
- .. led to lack of forestry activities in EU ETS
  - developed as main compliance tool with KP targets
  - company-based system
  - system based on seller liability
  - temporary credits not allowed, as transfer of liability to State would c problems with international architecture
- ver time, the EU has acknowledged the problem
  - Commission Communication of 2007
  - Admission of RED+Degradation agenda in the Bali roadmap

A precedent for getting it wrong

- In 2003, EU ETS Directive was passed w/o reasonable installation-level data
- Gaming by industry, along with over-benevolent Governments led to EU ETS over-allocation, based on lack of data
- Resulting in market collapse and over the period, less mitigation than potentially realisable
- Prices remained stable for 2008 vintages, because European Commission based its acceptance of proposed allocations on verified emission data fror first year of operation (2005)
  - It is easy to get it wrong!



Issues with REDD

- Monitoring, Reporting and Verification issues
  - Leakage issues
  - Reference level issues
- REDD offsetting:
  - Quality of offsets and institutional issues:
    - governance (role of CDM EB-like institution), public participatio
    - legal issues (eg property rights, entitlements)
    - relation to cap-and-trade schemes, fungibility across carbon market
  - Relation of market incentive to deforestation result
    - deforestation has many drivers, how does carbon finance deal with them
  - Over-supply of credits potentially flooding the carbon market
  - Impact on overall compliance strategy (intertemporal optimization) some advanced technologies may be displaced by REDD actions, if REDD large at low cost

R CDM – is it a guide for REDD?

- Slow development of rules (rules were developed with a gap of 1-2 yeard from “normal CDM”
- Market choke from the outset (ETS decisions in Europe related to liability transfer in company-based systems linked to State compliance)
- However, much longer lead-in time led to possible better development of rules
- Higher potential for use in post-2012
- Lessons for REDD: longer lead-in and pilot phases, decoupled from compliance markets, may be needed, to get things right

A staged approach required

- Phase 1: planning of policies and measures; capacity building, demonstration. Building inventory and measurement capacity.
  - Voluntary contributions bulk of finance (bilateral and multilateral)
- Phase 2: Planning of policies and measures, with monitoring of indicators related to changes in emissions/removals.
  - More predictable finance from variety of sources (possible inscription in international commitment on finance, eg auction revenue from cap-and-trade)
- Phase 3: PAMs lead to quantified emission reductions or stock enhancement. Performance indicator is CO_2-based.
  - Finance comes from compliance markets (possibly thru linking to cap-and-trade)
- Throughout: increasing MRV scope within AFOLU framework
- Liability increasing to national sectoral commitment
- preference for de-linking REDD units from ETS compliance units, in the short term; pilot phase in advanced countries with viable MRV infrastructure, with possible early crediting (similar to the AIJ phase

Conclusions

- EU not monolithic but clearly less interested in link to carbon market than others, at least in the short term
- Staged approach likely to be needed in any event
- REDD actions should be embedded into the wider discussion on developing country "nationally appropriate mitigation action"
- Pilot phase should be started immediately

Thank you!