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Clean Air Policy

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A New Framework for Reducing Deforestation in Developing Countries: The Dual Markets Approach

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Presentation Overview

- Pros and cons of current proposed market and fund-based mechanisms
- CCAP's New Dual Markets Proposal to combine best elements of leading proposals for Reducing Emissions from Deforestation and Degradation (REDD)

Post-2012 REDD Policy Needs

- Effective incentives for participation of both developed and developing countries
- Development of accurate inventories and baselines
 - » Agreement on methodology, historical or virtual
- Capacity building and monitoring
 - » Inclusion of countries at different stages of development
- Solutions to leakage and permanence
- Consistent and adequate funding (Stern Review estimates at least \$5 billion annually)
- *Avoiding destabilization of global carbon markets*

Market Mechanism Proposals: Advantages

- REDD credits; fungible with global carbon market
- Supported by most countries, combined with a separate Implementation Fund; Stabilization Fund
- Premised on tougher Annex I targets
- Pros:
 - » Can leverage significant private and public sector money by linking to carbon market
 - » Not dependent solely on governments, empowers many players
 - » Can generate lower-cost offsets, market-based

Market Proposals: Disadvantages

Cons:

- Potential to destabilize carbon markets, create price volatility
- Baseline difficulties magnified when linked to carbon market—hot air?
- Leakage due to non-participation
- May not encourage broad systemic solutions (e.g. land-use policy reforms)—market finds the lowest cost reduction

Non-Market Approaches: Advantages

- Examples include Brazil REDD voluntary fund modeled on SD-PAMs concept
- Implementation/Capacity Building funds
- Pros:
 - » Does not threaten stability of carbon market
 - » Easier to include systemic solutions that may be more costly

Non-Market Approaches: Disadvantages

- Cons:

- » Incentives for funding unclear (voluntary)
- » Likely to be less attractive to Annex I nations and to private sector than non-REDD credits (e.g., CDM) and unlikely to produce comparable funding to market approaches
- » Gov't-driven programs on both investor and supplier sides
- » Requires new administrative structure and selection criteria
- » Less incentives for policy competition (in developing countries)

The “Dual Markets” Approach

1. *Market and Targets*

- The REDD system would be *a new and separate market from the post 2012 global carbon market*
- Annex I countries commit a portion of their overall GHG reduction target to come from overseas REDD
 - » *Example: Europe might commit to -25% below 1990 levels from Kyoto system and -5% through REDD market by 2020 (30% total)*
- REDD goal (eg, 5%) would be limited by a maximum established by the COP
 - » The COP could also establish a minimum

Dual Markets Approach (con't)

2. *Generating investment in developing countries*

- Pre-2012 capacity building phase
- Developing countries have “no-lose” option to create programs
- Annex I determines at outset which countries’ REDD reduction they will eventually buy
 - » Could include a flexible percentage to come from less-ready tropical countries
- A1 countries can switch support to other countries for the following period

Dual Markets Approach (con't)

3. Options for Annex I

- IF REDD programs do not produce desired reductions, A1 countries can shift portions of their REDD targets at end of commitment period to Kyoto caps/CDM
- To make up shortfalls, A1 can also borrow REDD credits from a future commitment period

Linking the Dual Market to Carbon Market Over Time

4. Options for COP

- After the commitment period, COP assesses dual targets system and makes necessary revisions
- These could include raising the maximum on Annex I REDD purchases
- Or eventually linking to the post-2012 global carbon market

Dual Markets Approach: Advantages

A Dual-Market Approach captures many advantages of previous proposals:

- would still leverage private sector investment,
- help reduce compliance costs in developed countries,
- encourage significantly more investment than non-market approach,
- emphasize capacity-building
- incentives for early REDD actions by developing countries

Dual Markets Approach: Advantages (con't)

A Dual-Market design adds the following advantages:

- Avoids disruption of carbon market
- Ceiling prevents over-reliance on REDD, for global stabilization goals
- Gives REDD market time to develop and stabilize
- Establishes some minimum international demand for REDD
- Allows learning by doing in developing countries
- Could encourage long-term land management solutions as developing countries compete to produce quality programs

Dual Markets Approach: Disadvantages

- Some countries could dominate the REDD market as in fully fungible approach, less likely in non-market
- Separate REDD market may not achieve targets
- May be harder to get significant REDD targets from A1 countries because of domestic opposition
 - » (e.g. current Canada and U.S. administrations' opposition to CDM)
- Dual markets can still create distortions

Conclusions

- Approach couples Annex I domestic GHG emissions targets with commitments for new REDD investments in developing countries
 - » Both near-term and long-term signals for REDD
- By combining key elements of market and non-market proposals, **Dual Markets Approach** avoids destabilizing the carbon market while ensuring support for REDD actions
 - » Bridges the gap between competing proposals
 - » Captures most advantages and adds new ones
- Provides REDD time to develop before any linking

THANK YOU

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