

# **International Roundtable on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries**

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**Sustainable Forestry Management Ltd**





# SFM – Our Vision

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- The rapidly developing market in carbon dioxide emissions trading provides significant new business and capital market opportunities. All emerging US schemes, state, regional and federal, include carbon forest credits
- Among them is the opportunity to make private equity level returns from investment in forests on a sustainable and ethical basis
- Sustainable Forestry Management Ltd was formed in 1999 by leaders in emerging market business development, conservation and human rights advocacy to exploit this opportunity.

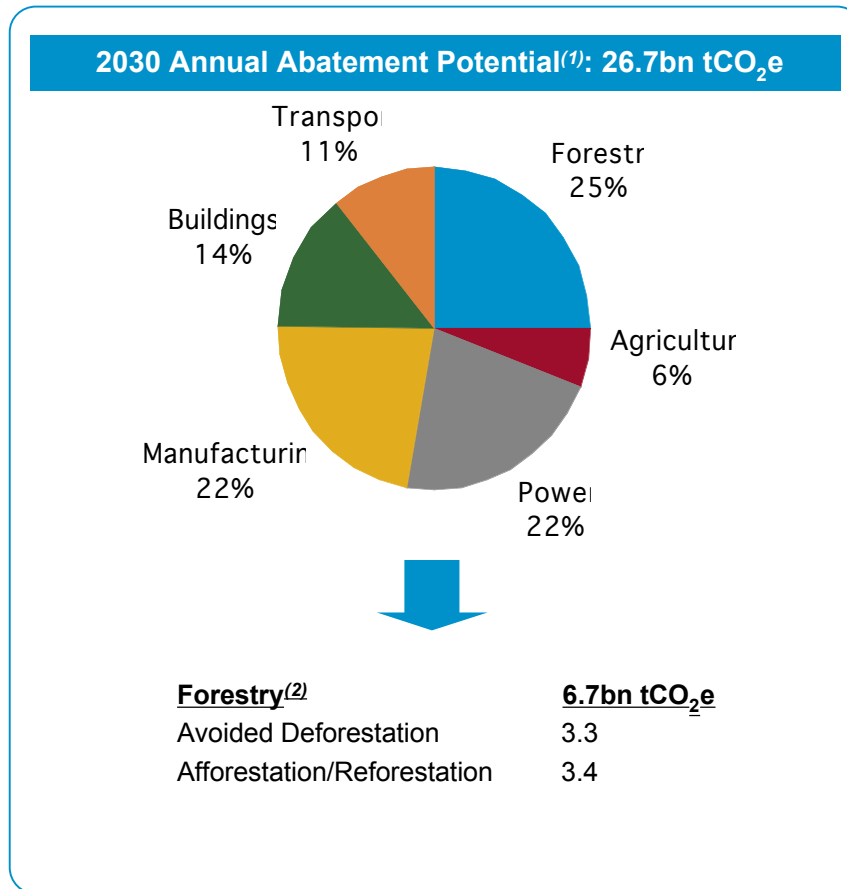


## Views on CO<sub>2</sub> market

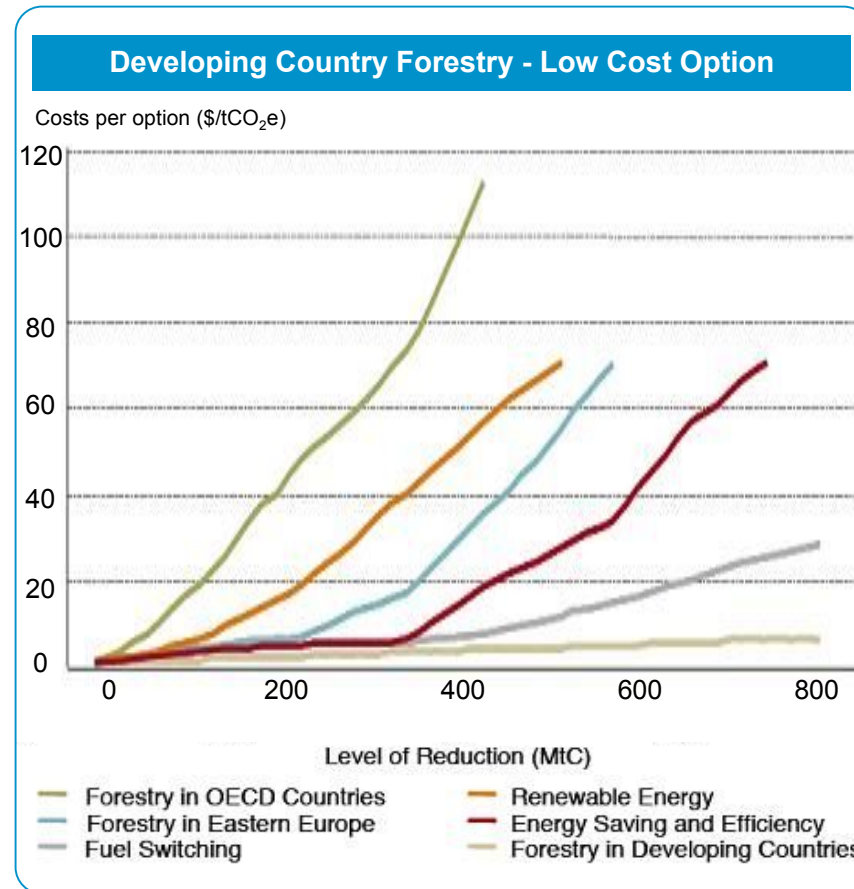
*In order to constrain average temperature increases to 2°C by 2030, at a cost of less than €40 per tonne of CO<sub>2</sub>, 35% of the required offsets would have to originate from forests, predominantly in the developing world \**

\* McKinsey, 2007

# Forestry - Greatest Potential/Lowest Cost



(1) Source: McKinsey & Co. - A Cost Curve for Greenhouse Gas Reduction, 2007  
 (2) Source: Vattenfall - Global Mapping of Greenhouse Gas Abatement Opportunities up to 2030, 2007

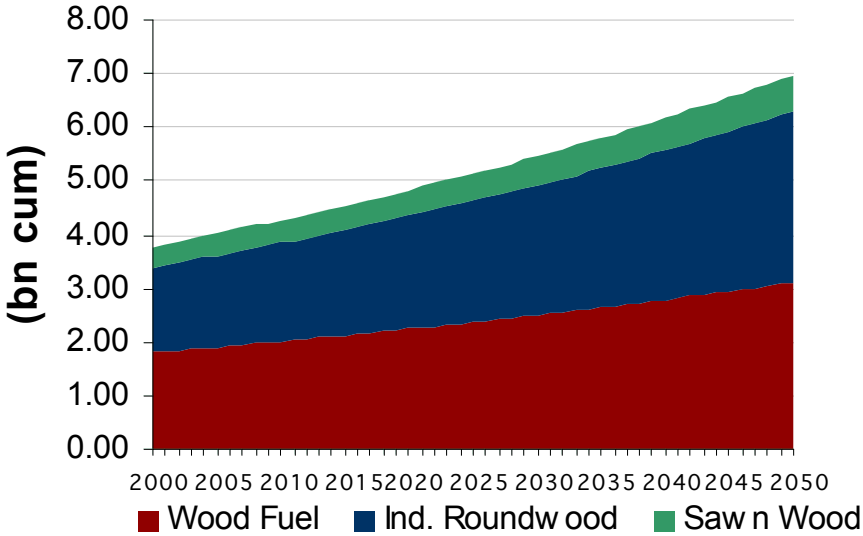


Source: Intergovernmental Panel on Climate Change

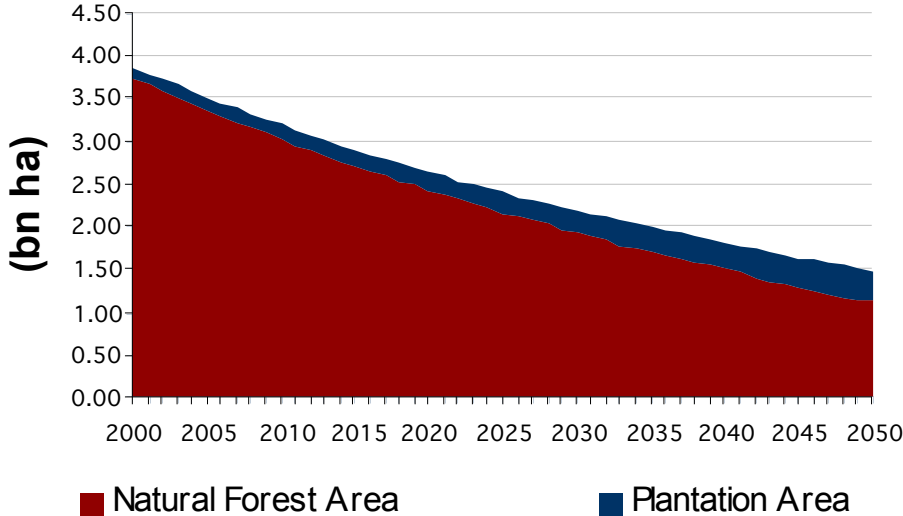
# Afforestation is needed alongside Avoided Deforestation



**Total Wood Consumption**



**Total Forest Area**



Source: “State of the World’s Forests 2005” and “Global Forest Resource Assessment 2005”, FAO 2006

# Need for Appropriate Regulation

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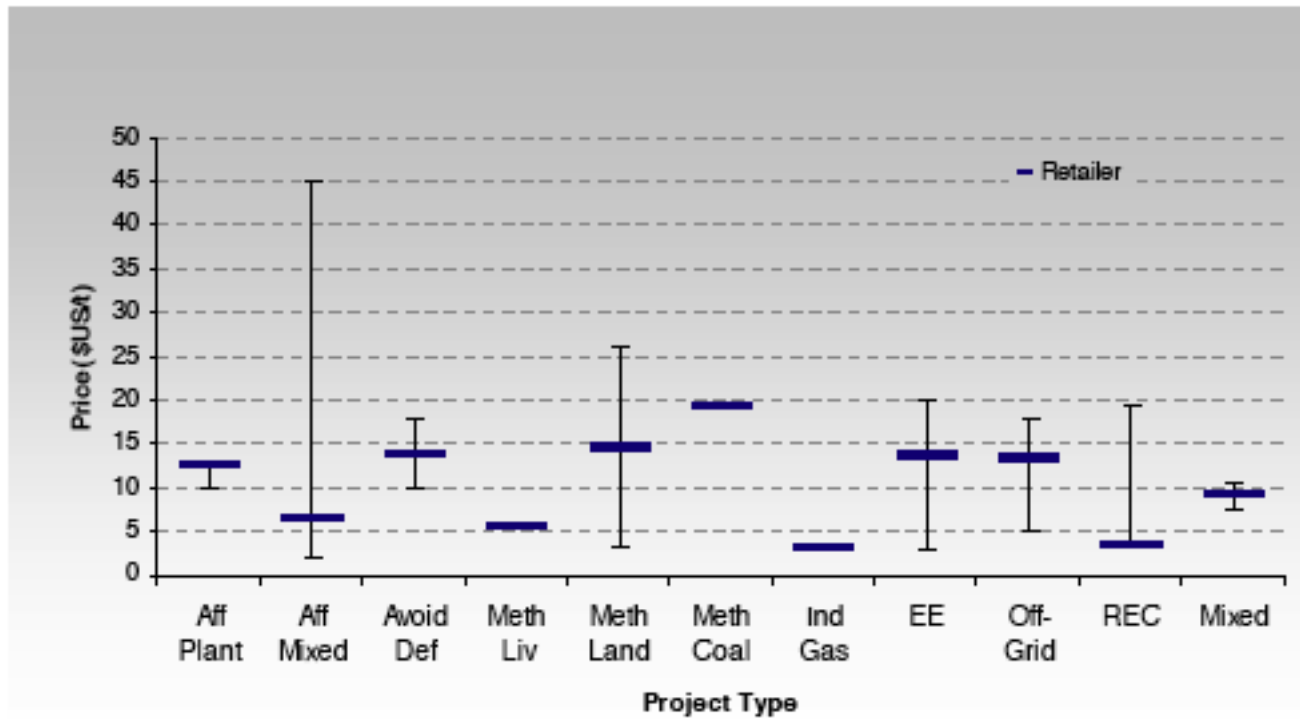
		<b>Expected CER Delivery through 2012</b>	<b>Issued CERs</b>
<b>Registered Projects</b>	<b>819</b>	<b>1,060,000,000</b>	<b>85,098,672</b>
<b>A/R Projects</b>	<b>1</b>	<b>340,000</b>	<b>0</b>

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# Market will respond



Figure 4. Prices Paid for VERs by Project Type



# Forest preservation and restoration: the role of markets

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- Annual deforestation - 12 million hectares - reduce by half = 6 million hectares
- Average CO2 Storage per hectare - 500 tonnes
- NPV tropical forest cleared to pasture: \$200-\$500 per hectare\*
- NPV tropical forest cleared to arable agriculture: \$100 – \$4000 per hectare \*
- Tropical forest carbon value\*\*: \$1,500-\$10,000 per hectare (\$3-\$20 t CO2)
- Potential Value of Standing Forests - \$9 - \$60 billion
- Average Annual GEF budget for Biodiversity and Climate Change: \$800 million

*\*Source: At Loggerheads? Agricultural Expansion, Poverty Reduction and Environment in the Tropical Forests. The World Bank, October 2006*

*\*\*Assuming Average CO2 Storage per hectare in a tropical forest: 500 t CO2 per hectare*

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# Issues for Carbon Forestry

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- A sectoral approach is needed for forestry - just like industrial sectors in the current carbon markets
  - All increases and decreases in carbon stocks in the land use sector should be accounted for on a national level
  - There is no reason to treat developing countries any differently than developed countries in the GHG accounting in the land use sector. To do so is discriminatory; developing world countries should be able to use their natural resource base as they see fit.
  - Carbon credits generated from REDD must be **fully fungible** with carbon credits generated from other sectors.
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# Conclusion

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- Carbon credits are evolving into a financial commodity. As such, like any other commodity, the market will determine the price.
  - Volatility is a given in markets. If you want no vol., impose a tax.
  - REDD credits must be **fully fungible** with carbon credits generated from other sectors. This is the only path to a successful market.
  - Markets like regulatory certainty. Inclusion of fungible REDD credits as soon as possible will lower volatility in the long run and help deepen market liquidity.
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