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# Forests and Climate Change

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# Interlinkages

- Impact of Climate Change on Forests
  - Negative and positive impacts: Depends on the geographical, social, economic context of a country, community, individual.
  - Impact on individual trees and ecosystems.
- Impact of Land Use Change on Climate Change
  - Forests as a sink or source of GHG
  - Sink: forests store 60% of all terrestrial biomass
  - Source: tropical forests contribute to 25% of the human GHG emissions
- Climate change mitigation potential
  - Carbon storage
  - Avoid further deforestation
  - Production of biomass



# Carbon market

- Assigns monetary value to the standing forest by creating tradable carbon certificates.
- Based on defining a new commodity that can be traded
- Mobilizes private funds
- Demand triggered by compliance obligations and voluntary activities
  
- May provide additional finance to forestry projects (afforestation, forest management, fire or pest control)
- May eventually provide finance to avoid further deforestation

**But....**

**is the (carbon) market the silver bullet for all environmental problems?**

**Is the – international and national- governance and regulatory system robust enough to avoid detrimental and harming effects (perverse incentives, country leakages etc)?**



# Markets for forestry off-sets?

- Voluntary Markets in the LULUCF sectors
- Compliance Markets
  - CDM Market (only 4% of the total market, Apr 05)
    - **PRICE:** No market price, differentiated pricing for tCER and ICER expected, BioCarbon Fund main buyer, \$4-5tCOe
  - JI Market
    - **PRICE:** Only very few projects
  - National projects and RMUs
  - Local compliance systems (e.g. tradable Abatement Certificates under the New South Wales GHG benchmark scheme, AUS)
    - **PRICE:** Not disclosed

**But....**

**Is it worth it? Will there ever be a stable and predictable price? Aren't the transaction costs too high?**

**And...**

**What is the role of Governments?**



# Voluntary Market

- Voluntary Markets traditionally high interest in LULUCF
- Purchase of credits outside of compliance obligations
  - Various motivations: *inter alia*, internal emission targets, corporate responsibility, strategic positioning, competitive advantage, learning-by-doing, public relations, etc.
- Individuals and Firms have engaged in purchases of emission reductions to become “carbon neutral” (event, corporation, or product)
- Price: no market price, prices between \$1-20/tCO<sub>e</sub> depending on the motivation for the support of a project

**But...**

**Isn't this a pure marketing tool? Business green-wash of BAU or projects with little environmental benefits?**



# Forestry in the CDM

- Only 4% of all CERs purchased in 2005 (down from 7% in 2004)
- Restrictions in the eligibility and use limit the market (temporary crediting system, projects limited to afforestation and reforestation activities, rules even more complicated than in mitigation CDM).
- The temporary crediting system creates carbon “to rent”
- Replacement necessary
- Prices: no market price yet, price not yet differentiating between tCERs and ICERs, ca EUR5/tCO<sub>e</sub>
- Limited interest because of perceived (UNFCCC rules) or real (EU ETS rules) hurdles

**Is the CDM rewarding the wrong sort of projects? What are the environmental benefits of the 60-y replacement rule? Is the CDM the right mechanism for forest conservation?**



# Forestry in Annex I countries

- Only a few projects under development
- JI LULUCF projects follow the same rules as JI mitigation projects, no UNFCCC restrictions
- The EU however has extended the limitations applying to CDM to JI, effectively eliminating private demand for LULUCF ERUs
- Prices: the limited private sector demand means that prices for JI LULUCF credits remain low
- Credits for national forest projects: RMUs
- No private demand so far, not eligible under EU ETS

# The trouble with forestry projects



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- Implementation challenge:
  - Financing, sustainable and longterm project management, forestry sector often publicly controlled, monitoring
- Project Risks:
  - Loss of carbon, permanence
- Legal Problems:
  - Land title, title to carbon, transfer of rights, implementation and management contracts
- Perverse incentives:
  - Rewards fast-growing species
  - Bioenergy-connection
- Methodological Troubles:
  - Baseline data often not available, definition of forest, leakage, etc

**Can we tackle these challenges? Are there sufficient risk mitigation tools available? Will we be able to ensure the environmental integrity of our activities?**



## Avoided deforestation: why is it excluded from the Kyoto Protocol

- Scary scale
- Uncertainty: methodological issues, leakage, permanence etc
- Sovereignty issues and country specific circumstances
- NGO opposition
- Environmental, social and socio-economic effects

**Things have (not) changed since Kyoto....have they?**





# Post-Kyoto negotiations

- Need to create a comprehensive system that rewards
  - Decreasing deforestation
  - Sustainable forest management
  - Restoring forests
  - Sustainable production and use of biomass
- Scientific basis more robust
- Political will incl from developing countries to address the problem of GHG emissions from deforestation
- Acknowledgement of the opportunity provided by the carbon market
- Active discussion on various proposals

**But is there political will? Or is the forestry issue a welcome diversion from the addressing the energy challenge?**



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# Questions?

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