Tenure Trends

Does REDD Need a Global Carbon Market to Work?

Available in French and Spanish

17 March 2011

Emerging experience and a new report suggest it's time for some mid-course corrections…

The assumption that it was necessary to pay people, or governments, to stop deforestation, and that a global carbon market was necessary to raise the requisite funds, was a foundational underpinning of REDD. REDD came on the heels of global excitement over the potential of Payments for Environmental Services – which was powered by the growing sense that policy approaches did not work and that payments and new markets were the answer to environmental problems.

Emerging experience, recent events and a new report call all of this to question. First, a new study by The Munden Project, a private firm specializing in developing derivative trading platforms and commodities markets, finds that ***the uncertain definition of the forest carbon commodity, the low percentage of final value to the forest carbon producers, and the lack of a production system where the commodity's quality, sale and transfer can be easily, and independently verified, all result in a very risky and substandard market*** – that will not only not reduce deforestation, but that could be easily manipulated and cause even more destruction. The study, "*REDD and Forest Carbon: Market-Based Critique and Recommendations*," also finds that the requirement for technical expertise, as in all commodity markets, positions intermediaries to capture the greatest percentage of market value – and thus creates a great risk of monopsony power – a small set of firms controlling the market and beyond the effective control of governments or forest owners. The report also provides recommendations for how finance and markets can be more usefully deployed to help REDD succeed.

The emerging experience of helping developing countries set up the institutional basis for trading in forest carbon – the focus of the FCPF and UN-REDD and related bilateral initiatives - inventories, the MRV, the mechanisms to control leakage and govern the market, have shown that getting countries "ready" is proving much more difficult than proponents expected. In many countries there is no agreement over who owns the land, much less who owns the forest or the carbon. All of this would need to get sorted before a country is "ready". The issues at play here are all very political and contentious – and require informed, national consultations to achieve sound and supported reforms.

Other recent events show that the global market is suffering: climate exchanges have closed, the price of carbon has declined, and climate advisory firms have shut down. The recent fraud and thefts of carbon allowances worth over 5 billion euros in the European Trading Scheme carbon market do not inspire confidence. Perhaps most important, the US has not, and is not likely to pass a climate cap and trade bill, and it is questionable whether the EU ETS will be accepting forest carbon credits, either. And of course, there was no agreement in Cancun on a global regime. ***Without globally significant "caps" there can be no globally significant "trade".***

None of this suggests that there is no need for private capital, or no need for transfers of funding from the northern countries who created the climate crisis to the developing countries who will suffer the most from it. On the contrary, this experience and report just begins the process of re-thinking how and where to best use capital – both public and private - and how to make REDD work. And the current limitations of a global carbon market do not in any way suggest that the private, voluntary market will not, or should not continue or grow. But the driving rationale of REDD was that large sums of capital were required to roll back deforestation and the global carbon market was required to raise it. ***If this market cannot be established, or does not make sense, it is time to rethink the global market as the central instrument needed to achieve the goals of REDD.***

A column prepared by RRI and just published in *Nature,* "Cash alone will not slow forest carbon emissions," says that these new studies, along with the accumulated experience of the last several years spent trying to establish REDD, suggests that REDD can succeed without a global carbon market – but it's clearly time for some mid-course corrections. The newly released FAO data on forest cover between 1990 and 2010 show that many countries have effectively protected forests, and many more were expanding forest area before and without REDD. The growing set of studies on deforestation show clearly that government – via policies to promote industrial logging and agriculture – are the leading cause of deforestation in most countries. All of this suggests that REDD should shift focus to encouraging and helping countries adopt policies that promote conservation and restoration, as well as set up the enabling conditions necessary to attract private finance to support the conservation efforts of community and family forest owners. The Munden Project report concludes that after all of its research the most important recommendation is to ***"Invest in tenure. Our first recommendation is the most straightforward. In many cases we analyzed, a very simple question – does the project have the right to do this on this land? – was impossible to answer. If there is any involvement from private capital sources, we cannot envision a scenario where the answer to that question is not important."***

Documents and Sites Reviewed:

The Munden Project. 2011. REDD and Forest Carbon: Market-Based Critique and Recommendations. The Munden Project. Available from http://www.rightsandresources.org/publication_details.php?publicationID=2215

White, Andy. 2011. "Cash alone will not slow forest carbon emissions." *Nature*, March 16, 2011. Available from http://www.nature.com/news/2011/110316/full/471267a.html

Wynn, Gerard and Ivana Sekularac. 2011. "Slim pickings in "dead" carbon market." *Reuters*, March 2, 2011. Available from http://www.reuters.com/article/2011/03/02/us-carbon-eu-idUSTRE7214JK20110302

Tenure Trends alerts the global development community to important news, events and research findings regarding forest tenure, rights and development in the world's forests. It is published by the Rights and Resources Initiative (RRI), a global coalition of community, development, research and conservation organizations and prepared by the Rights and Resources

Group, the secretariat of the coalition. The views presented are those of the secretariat and are not necessarily shared by the agencies that have generously supported RRI, nor all of the Partners of the coalition. If you would like more information please send a message to Lopaka Purdy at LPurdy@rightsandresources.org. For more information on RRI go to www.rightsandresources.org.