Policy Architecture for REDD and the Path to a Post-2012 Climate Change Agreement

(May 13, 2009 address to the Electric Power Research Institute)

This is a critical time for climate policy here at home and internationally. With the intense focus on how to combat climate change cooperatively and cost-effectively, I am very pleased that EPRI has brought us together today to consider the role that REDD can play. As the former lead climate negotiator for the Clinton administration, I was asked by Dirk Forrister and Adam Diamant to give some perspectives on the policy architecture going forward and how REDD is likely to fit into that. Today, I will review briefly why forests are so central to climate policy, share thoughts on how US and international policy discussions are evolving, and describe what I see happening on forest carbon and REDD issues in the process. I want to recognize my colleague Anne Pence for her help on this event. She is part of a Covington team committed to effective and affordable climate policy and regulation.

Why Forests Are Essential to Effective Climate Policy?: In Kyoto, we managed to get recognition that action on forests was important, but it was by no means a key part of the agenda. Today, I am a vocal proponent for U.S. leadership to include forests, both domestic and international, in our climate change legislation. I represent the Forest Carbon Dialogue, a unique environmental-corporate coalition that includes both major environmental NGOs as well as large companies such as AEP and Duke Energy that have joined together to help advance understanding and action on REDD. As you all know, we cannot solve climate change without forests. Deforestation alone now contributes some twenty percent of all greenhouse gas emissions, more than all the transportation modes in the world. Deforestation has made Brazil

and Indonesia the third and fourth largest CO2 emitters in the world, just behind China and the United States.

By providing incentives and support to address deforestation and other forest practices -- such as reforestation, afforestation and forest degradation -- the United States can be a major force in delivering the triple benefits associated with forests and climate change. First, effective action on forests will deliver substantial reductions in global greenhouse gas emissions and empower developing nations to join us in taking active steps to achieve those reductions. Second, such action can enable us to meet aggressive domestic targets under our cap and trade program affordably and flexibly. It also gives us additional time and resources to develop and deploy next generation technologies to build on the domestic energy and industrial efficiency improvements we can make now. This means lower costs to U.S. companies and consumers for real results. Third, promoting sustainable forests generates tremendous environmental and social co-benefits for people worldwide. Forests currently provide livelihoods and critical habitat (e.g. shelter, water and food) directly to well over a billion people and a large share of the world's plant and animal species. Healthy forests also can mitigate the devastating impacts and insecurities that unchecked climate change is expected to cause people everywhere.

Robust action on forests, both as carbon sinks and emissions sources, could address up to half of all human carbon emissions. Some estimates find that comprehensive action on forest carbon could cut developed country compliance costs by as much as forty percent. Rather than being an obstacle to progress, vigorous action on REDD should enable more aggressive targets to be set and achieved on an accelerated basis.

Climate-related action on sustainable forest management ultimately will generate diverse benefits worth trillions of dollars. Healthy forests protect much of the world's biodiversity and the fragile ecosystems and watersheds upon which billions of individuals, including some eighty percent of the rural poor, depend for their livelihoods and well-being. It will help to avert devastating climate change impacts -- including deadly crop failures and drought conditions -- which may otherwise leave half of the world's population to face acute food shortages by 2100. Action on healthy forests and sustainable land use also will protect the two-thirds of the world's population which lives near vulnerable coastlines. REDD activities can also reduce the chances of instability and mass movements of eco-migrants foreseen if climate change goes unchecked.

Forest offsets will promote a wide range of environmental, security and economic benefits for the United States and the rest of the world. Domestic and international support for REDD, through both market-based and non-market based mechanisms, afford us the opportunity to reward developing countries tangibly for taking action. It gives them a direct role and a clear, immediate stake in success. Support for REDD will enable us to act faster and more vigorously on climate change, while making the world a far safer and more hospitable place. And critical to a post-2012 agreement, support for credible action on REDD will break the phalanx of united opposition to action on climate change we confronted at Kyoto. In short, support for REDD at home and internationally can provide substantial real results on climate change at far lower cost, spur global cooperation on climate change, and deliver tremendous co-benefits not only for us, but for some of the world's poorest people. U.S. policy will be key to success.

The Role of the United States -- A Committed Approach Facing Serious Challenges:

Without a doubt, the return of the United States to the negotiating table on climate change has given a boost to the international process. President Obama and his Administration clearly believe that climate change is real and threatens U.S. national and economic security. At the same time, this Administration obviously wants to avoid the situation we faced in Kyoto where they lead internationally, but cannot win support at home. They are taking careful steps to establish credibility and cooperation both at home and internationally. I believe it will pay off.

The Administration has already taken key steps. First, President Obama has committed to reduce U.S. emissions to 1990 levels by 2020, which would leave U.S. emissions in 2020 some fourteen percent below 2005 levels. While the original Waxman-Markey target was more aggressive, aiming for reductions by 2020 that would have us at twenty percent below 2005 levels, the current Waxman-Markey bill being advanced aims for seventeen percent, which would allow President Obama to more than meet his goal. Second, the Administration's new budget includes cap and trade allowances sufficient to generate up to $700 billion in revenues over the next ten years if one hundred percent were to be auctioned, as the President had suggested. To enable passage of U.S. legislation with a meaningful emissions reductions target, however, nearly half of these allowances will likely be allocated for free in coming years to industries most affected by new emissions targets, including power, cement and steel.

Third, in order to rebuild trust with developing countries and others, the Obama administration hosted in late April a Major Economies Meeting to discuss the path to a post-2012 climate change agreement. The meeting involved not only developed countries, but major emerging

economies and big emitters such as India, China and Brazil and Indonesia. The discussions emphasized cooperation on technology, and improved financing, to facilitate progress on a new climate change agreement. More of these meetings are planned -- the next in France later this month -- to dovetail in sessions with G8 leaders in Italy in July. To add to this, the Obama administration also committed in its budget proposal this month to support the Clean Technology Fund for developing countries with up to $500 million, as well as to provide $50 million for the Special Climate Fund and Least Developed Countries Fund, along with substantial additional resources for the Strategic Climate Fund and for bilateral assistance programs on energy efficiency and other climate programs. These efforts to assist adaptation and mitigation in developing countries, include support for efforts on REDD.

Finally, on May 5th the United States filed a submission with the UNFCCC on outcomes for Copenhagen. While it proposes that developing nations "whose national circumstances reflect greater responsibility or capability" adopt by 2020 actions plans including emissions targets, it also calls for international funding for low-carbon strategies in developing countries. The US submission gives strong, explicit support to a REDD-plus approach in a post-2012 framework with comprehensive accounting for all sources and sinks from land use, including avoided deforestation, afforestation, reforestation and forest degradation, along with agricultural and other relevant land use practices. It acknowledges the need for environmental integrity as well as the tremendous climate change and other sustainable development co-benefits REDD-plus efforts represent.

Despite a clear commitment to act, the Obama Administration faces real challenges. They are honest with the international community that they cannot get in front of or go beyond whatever target Congress passes in domestic legislation. Realistically, U.S. legislation, despite support from Chairman Waxman and Congressman Markey, is unlikely to pass by the time of COP15 in Copenhagen in mid-December 2009. When U.S. legislation does pass, it will not meet Europe's target of a twenty percent reduction in 1990 emission levels by 2020 with 20 percent of all energy supplied by renewables. Thus far, the big emerging economies have been unwilling to take on any international commitments to act on climate change. While some of them -- including China -- have begun to take steps at home and to engage more actively on solutions at the UN, they have yet to set any economy wide targets, energy efficiency targets or sectoral targets, nor even to signal a willingness to do so. China's most recent submission to the UNFCCC remains notably silent on these matters. Congress is well aware of this.

Nonetheless, the Waxman-Markey draft legislation is on track to establish a meaningful target to reduce U.S. emissions by around 17 percent below 2005 levels by 2020, and to do so with robust domestic and international forest offset provisions, and support for capacity building in developing countries. Last weekend -- after heroic efforts based upon mutual respect and shared interests -- several Members of the Forest Carbon Dialogue came together with other major NGOs under the auspices of the Avoided Deforestation Partners Group to produce a broad-based agreement on international forest carbon which they hope will be reflected in U.S. climate legislation. AEP and Duke Energy joined Conservation International, Environmental Defense Fund, Natural Resources Defense Council, National Wildlife Federation, Sierra Club, The Nature Conservancy, Union of Concerned Scientists, Wildlife Conservation Society and Woods

Hole Research Center in submitting to the Waxman-Markey staff detailed legislative language on offsets for avoided deforestation, afforestation and reforestation. This agreed language covers national as well as sub-national activities, and includes safeguards for the environmental integrity of the credits, as well as reasonable and clear standards for progress towards national baselines by the developing countries qualified to produce the offset credits. The agreement may well enable the United States to lead on REDD issues internationally by reflecting diverse interests and harnessing the power of a large and vibrant U.S. market for carbon credits.

In the midst of severe recession, we should be clear that the more that can be done in U.S. legislation to enable sound efforts on REDD -- including via domestic and international offsets, allowances and capacity building -- the more, not less, likely it will be that targets and domestic efforts will be meaningful and immediate. I urge you all to vigorously support the approach on forests agreed by this cross-cutting U.S. coalition.

As we seek to limit costs and maintain competitiveness while acting effectively against climate change, however, we should guard against border measures that create WTO-inconsistent barriers to trade or invite protectionism by others. AEP and the International Brotherhood of Electrical Workers (IBEW), for example, have made a proposal to require that importers acquire international reserve allowances sufficient to cover the emissions of greenhouse gas intensive goods from countries opting <u>not</u> to take action to limit their emissions "comparable" to the effect of action taken by the United States. The proposal was carefully designed to be WTO-consistent, to focus on imports with the greatest, measurable carbon footprint and to incorporate

the flexibility needed to ensure that its implementation would be effective without provoking undue trade tensions.

The Landscape Has Changed Dramatically: The political landscape heading into Copenhagen is very different from what we have faced in recent years. We have a new administration deeply committed to an assertive and cooperative U.S. role. President Obama is engaged, and his team, including Todd Stern with whom I worked closely in years past, has made clear that the United States will work productively for results at home and for a workable post-2012 international climate change agreement. Environmental NGOs and major corporations are working together on pragmatic solutions much more closely then ever before. REDD activities are now seen as having enormous potential to help us get real results on climate change cost-effectively.

Developing countries now play a much bigger role in global emissions, but also are in a position to be major solution providers, especially through their REDD activities. Many of them -- the African nations of COMESA and the Rainforest Coalition of Nations as well as Indonesia and others -- are eager to take action on forests and land use if incentives and support are offered. States and communities in the United States and internationally have also come to play active roles in recent years. Markets and standards for carbon credits exist and are rapidly evolving. The science and economics of climate change, including the role of forests and land use, is now far more advanced and better understood.

Recent studies, including the Pew Center report out last week and new McKinsey analysis this month, make clear that sound action on climate change need not impose high costs on the U.S.

economy overall. The Pew Center study projects that U.S. energy-intensive manufacturing industries would on average lose 1 percent of their annual production to imports assuming a CO_2 price of $15 per ton in the United States and no carbon price in other countries. These costs, while modest overall, are particularly important to U.S. power companies and energy-intensive industries. Effective action on REDD, as part of shared commitments by major emitters, can help the U.S. and others who must commit to reduce emissions do so at far lower cost, and enable investments in the global transition to low-carbon growth.

In a concrete illustration of these positive trends, the governors of California, Illinois and Wisconsin signed in November 2008 a path-breaking MOU with six states and provinces in Brazil and Indonesia to work together to develop rules, incentives and tools to reduce emissions from deforestation and land degradation. Brazil committed last December to reduce deforestation by 70 percent over the next decade. And earlier this month, the government of Indonesia -- which had asked the World Bank for help in preparing for REDD activities -- became the nation to formally enact regulations governing REDD activities involving Indonesian forests. And, not least, the U.S. Congress, the U.S. Executive Branch and the international community are hard at work on crafting policy approaches to climate change that explicitly include REDD, which was only an afterthought in the Kyoto negotiations.

REDD and the Post-2012 International Policy Architecture: We will achieve a post-2012 agreement, although it may not be finalized in Copenhagen this year. And when we do, it won't look at all like Kyoto, where Annex 1 countries had near-identical targets. This time, I believe we will likely see a compilation of national commitments, spurred by incentives and pragmatic

self-interest, that must cumulate to meaningful action. To get there, robust action on forest carbon, domestic and international, can and should be a critical bridge to enable results.

In the post-2012 international climate agreement, REDD will need to be defined and structured clearly so as to allow effective actions both near- and longer-term. Consistent with the May 5 U.S. submission, Copenhagen should provide for an inclusive, phased approach which incentivizes measurable, verifiable credits for various categories of action on the REDD-plus agenda consistent with capacities, methodologies and technologies as they evolve. We must ensure that the post-2012 framework includes comprehensive accounting for **all** sources and sinks from land use, including forests, agriculture and other relevant land use practices. While the framework must institutionalize the rigor, accountability and safeguards needed in any new market, the perfect cannot be the enemy of the good in solving global climate change.

Forest Carbon Benefits Far Outweigh Manageable Challenges: I know that many worry most about the technical requirements and challenges to ensuring that actions on forests have integrity and deliver development benefits. Let me be very clear: these issues are real but manageable. The substantial incentives inherent in forest carbon credits, and the commitment of the international community, to build market-readiness and integrity are very strong. The World Bank, the Food and Agricultural Organization and the United Nations Environment Program have a well-developed partnership to bring together international best practices on forest carbon measurement and monitoring and on good governance of the resources so generated. They are working intensively with many partners, including the private sector, to help ensure markets in which investors can be confident, to support the authentication and verification of carbon credits,

and to link them to sustainable development. Recent analysis by Lord Stern and his expert teams found that it may actually be easier to verify forest carbon, using techniques such as satellite telemetry and rigorous ground-truthing, than other carbon assets. The UN and others, including the U.S. EPA, are working intensively on registries and measurement methodologies.

Hard-nosed business experts and government officials are well aware, now more than ever, that a lack of integrity and efficiency in markets can cause them to seize up with negative impacts on confidence that can be very hard to overcome. Universities, development partners (including UNEP, FAO and the World Bank), research groups -- such as the Consultative Group on International Agricultural Research (CGIAR) and the World Agroforestry Center (ICRAF) -- are working with major donors (including the Gates and Rockefeller foundations, donor governments and environmental groups) to help developing countries gain capacity to implement effective policies and to develop accountability frameworks to get the job done well.

Already thirty-nine countries are participating in World Bank readiness programs. Last week another meeting was held at the World Bank to flesh out the design of a new Forest Investment Program, or FIP, to reflect IPCC standards and support developing country REDD efforts. In particular, the FIP aims for up front donor financing of policies and investments in national readiness strategies. Those multi-stakeholder strategies themselves are to reflect careful analysis of the drivers of deforestation and degradation, and the barriers to addressing them effectively. The FIP is a major effort to advance REDD activities internationally.

The stakes related to REDD are incredibly high, and choices must be made now. The 2006 Stern report found that $5 to $10 billion annually would be needed to provide incentives against cutting down tropical and sub-tropical forests. The more recent Eliasch report estimates that just to halve current deforestation through 2030 would require annual investments of $20 to $30 billion. Change and investment on this scale cannot be accomplished with aid-based and non-market approaches alone; the incentives to cut forests are simply to great. Real change requires the power and discipline of markets, the energy and ingenuity of the private sector, and the participation of local communities and civil society groups.

Many developing countries, including some of the poorest in Africa and elsewhere, want to take action today on climate change and sustainable development. This was not the case at Kyoto. African countries in the Common Market for Eastern and Southern Africa (COMESA) want to protect their forests and to act upon real incentives for good land use and agricultural practices. The Coalition for Rainforest Nations sees incentives as a way to avoid the pressures of deforestation, and pressed this issue vigorously at the 2007 negotiations in Bali. In December 2008, at the UN climate negotiations in Poznan, Brazil stepped forward with a commitment to reduce its deforestation rates by seventy percent over the next ten years. The Government of Indonesia is working with the World Bank to develop the policies, institutions and capacities to tap forest carbon markets and to stop slash and burn agriculture. They now recognize that their forests will be worth far more in place if forest and other bio-carbon credits are accepted than if they continue to cut them down. Developing countries are increasingly willing to act based on incentives. Now we must act in support of providing the tangible resources and market

incentives policymakers and investors need to take real and immediate action, and to provide capacity building to ensure that such action on REDD delivers the dramatic results possible.

The pressures and commercial incentives to cut down forests are enormous and the value of forest-related services is not reflected in current policies and practices. Rewarding sustainable forest and land use offers developing countries the only realistic way to fight these pressures. Inefficient energy, agriculture and livestock practices, poor land tenure and enforcement, and a lack of clear economic incentives to value forests are major drivers of deforestation and unsustainable land use. By including robust, near-term credits for action on forests in U.S. domestic climate change legislation, we provide concrete incentives for developing countries to undertake reforms that otherwise may be too politically and economically challenging.

Including Forests Will Speed Up and Enable Action in the United States and Worldwide: In the developing world, carbon-intensive growth competes with sustainable development, as it does here. We must change the incentives and structures that bind us all into that straitjacket. As we address the technical and governance issues, we must bear in mind that climate change mitigation and adaptation cannot and will not be achieved without action by developing countries, and specifically not without action on forests, their biggest source of emissions. It will take time to build up and integrate capacities and information, and to ensure against risks of reversal, leakage and impermanence.

Action on forests (and ultimately on land use) is not a way out of getting results or taking domestic action. It is a means to do so aggressively, while also taking aggressive action on fossil

fuel and other emission sources. Action now on forests also will give the international community time and resources to develop, disseminate and adapt additional technologies in transportation, power, building materials and industrial processes needed for low carbon growth and green jobs. If we want climate change legislation to work, we need to treat forest-related efforts as serious and very important. There must be room and support in these early years to experiment, innovate and learn as countries -- and communities, companies and organizations -- further develop and improve the infrastructure to achieve the goal of full and credible national accounting for real emission reductions. But it must be done on a scale and at pace sufficient to drive a revolution, and that requires strong signals and incentives. To energize countries and companies to act, early action credits should be provided.

We should be under no illusions that a new approach by a new U.S. Administration will make achieving U.S. climate change legislation easy or fast, but it will make it possible. By the same token, it does not suddenly rid climate change efforts of fear and mistrust or of the deep divisions between developed and developing countries. But it means that the United States is now a cooperative and engaged player, which I believe will make it possible to achieve international agreement. This is our chance to be smart and pragmatic, and to take advantage of major opportunities such as those offered by forest carbon, using market incentives, cooperation and know-how to avoid the catastrophe of climate change. Our choices should be pragmatic and realistic, not fearful and risk-averse. I urge you all to help ensure the right outcomes.