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FOREST CARBON PROJECTS: A STEPPING-STONE TO A LOWER CARBON ECONOMY AND A SUSTAINABLE FUTURE

In Paris governments agreed the ambitious goal of “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels”. Meeting these climate change goals agreed between governments, however, necessitate a complete re-wiring of the economy and long-term global cooperation.

It is the cumulative build-up in the atmosphere of GHGs that matters most because of their long lifetime; even if emissions are stopped immediately, temperatures will remain high for centuries. So the sooner action is taken to reduce or avoid emissions, the better.

The Intergovernmental Panel on Climate Change’s 5th Assessment report showed that in order to achieve such a temperature increase limit, not only a complete overhaul of the energy and industrialised sectors would be necessary over the coming decades but we would also need to deploy negative emissions technologies¹ on a global scale.

This becomes even more important when considering the uncertain pace of the energy transition, with most oil and gas companies predicting that fossil fuels will be the predominant source of energy for the next fifty years.

One of the oldest technologies in the world, with huge potential for negative emissions is biological carbon storage or natural sequestration. And it is available today without the need for years of expensive research or engineering experimentation; it just needs the right focus.

While today the land use sector is a net emitter (24% of the global total of emissions, according to the IPCC), it actually offers a great part of the solution, alongside the necessary changes in the industrial and energy sectors.

Sustainable land-use could deliver about one third of the required near-term reductions, and it will be impossible to reach a sustainable net-emissions pathway without stopping the deforestation and degradation of tropical forests as well as transforming unsustainable forestry and agricultural practices, in particular in the tropics.

In light of the scientific evidence and increasing urgency for emissions reductions one might consider surprising the relatively slow takeoff of the forest carbon markets as the obvious way to incentivize the buildup of biological carbon stocks and reverse unsustainable land-use practices.

Indeed, progress and focus on terrestrial carbon generally has certainly lagged the attention that the energy sector, for example, has received from stakeholders, investors and policy-makers. The land-use sector must also be considered an important part of the puzzle.

One explanation is that to date a lot of the momentum for forests has been top-down; with seed funding from governments and high-level public sector commitments. But it is naïve to assume that this alone will deliver the transformational reductions we so badly need. This is because we need the private sector to be fully engaged to turn this potential into reality. It is businesses

that can do that best through the recognition of market-based incentives.

Looking at other markets around the world, whether equities or commodities, none of them have been developed through top-down command and control, or a UN edict. They have been developed bottom-up, and often led by the private sector.

The Paris Agreement seems to reflect this, in a paradigm shift away from the top-down approach of Kyoto, as it enables bottom-up networked markets and systems to develop and connect over time. This opens the door for the private sector to take the government signals and begin to shape their own responses, which can be adopted into the long-term climate policies that are required to solve this multi-generational issue.

And we are beginning to see a response. A voluntary carbon market exists and has established a role for the land-use and forestry sector, which enjoys a cost of abatement that is significantly lower than in other sectors alongside major volume potential.

In terms of the forest carbon market, Forest Trends’ Ecosystem Marketplace reported in their recent “State of the Voluntary Carbon Markets” that in 2015 alone,

THERE ARE OVER 800 FOREST AND LAND-USE CARBON PROJECTS CURRENTLY OPERATIONAL OR UNDER DEVELOPMENT AROUND THE WORLD.

FIGURE 1: CUMULATIVE VALUE AND AVERAGE PRICE OF TOP 7 PROJECT TYPES



Source: Forest Trend's Ecosystem Marketplace. State of Forest Finance 2015.

\$917 million of new finance was committed for forest carbon, of which \$762 million was contracted to pay for offsets in the context of carbon markets. The remaining \$153 million was committed to Brazil through agreements to pay for emissions reductions outside of carbon markets – specifically through the Amazon Fund and a bilateral agreement between the German government and the Brazilian state of Acre.

There are over 800 forest and land-use carbon projects currently operational or under development around the world. Over three-quarters of those are located in California and Australia where the pre-compliance signals have spurred a rapid rise in the number of projects demonstrating clearly that carbon market signals work. Many compliance-based carbon markets envision a major role for land-use related reductions.

Eleven current and future compliance markets that include an offsetting mechanism have developed protocols for land-use and forestry and the International Civil Aviation Organisation's new carbon market may prove to be a major source of demand. Even the EU has agreed an effort-sharing mechanism to account for the creation of biological sinks.

To truly reach scale, the current project-by-project approach will need to evolve, especially since over 75% of countries submitting Nationally Determined Contributions

included land-use and forestry. National and local governments around the world are busy developing national and jurisdictional REDD+ systems that will eventually lead to projects being fully nested.

These top-down systems will be sparse before 2020, but this should not be seen as a barrier to early action but as just the opposite. A bottom-up, project-based forest carbon market provides access to environmental assets from high-quality projects and programmes that retain the ability to nest in national and jurisdictional systems as they develop and that are essential to demonstrate the potential of the land use sector.

Continued growth in the project-based voluntary market is an important stepping-stone for the forestry and land-use sector to begin to deliver critical global net-emissions benefits and develop local and national policies that work for all stakeholders.

Beyond carbon benefits, forest and sustainable land use projects are also delivering a range of co-benefits, especially when compared to straight carbon reductions in other sectors. These co-benefits include conserving biodiversity-rich primary forest, providing climate resilience to sustainably produced crops, dignified livelihoods for some of the poorest communities as well as a range of other ecosystem services which makes this asset type one of the most popular on the voluntary carbon markets as Figure 1 illustrates.

The next four years, prior to the implementation of the Paris Agreement, will be a crucial period and probably the last chance for companies to actively shape the policies that will define economies going forward. It is in businesses' best interest to ensure that they have access to the most cost-effective solution through forest carbon assets, and to demonstrate the positive power of the private sector to effect change. It is also important for investors and all stakeholders that all effective climate risk reduction strategies are successfully deployed.

The later deforestation is halted and large-scale restoration is carried out, the less chance there will be to achieve the safe 2°C pathway. Therefore, early action through the voluntary and emerging compliance forest carbon markets is essential. Regulatory compliance systems typically take many years for governments to implement.

If businesses wait for more of these to come into force before getting involved it might be too late for preserving endangered tropical forests and species and accessing a critical climate risk reduction strategy. The forest carbon market is a win-win for companies, investors, society and the planet.

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(1) Negative emission technologies are activities that remove carbon from the atmosphere.