Domestic vs. international forest carbon crediting: What's the same? What's different?

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Presentation outline

- Introduce a framework
  - Demand-side
  - Transaction infrastructure
  - Supply-side
- What's the same? What's not?
- What's unique about tropical forest carbon crediting?
- Preview of spring semester YFF series on tropical forest carbon crediting

Framework

Demand-side concerns – how purchased credits are used to meet compliance obligations or as the basis for claims

Transaction infrastructure – institutions and norms for facilitating market transactions

Supply-side concerns – attributes of the credits themselves and the activities that generate emissions reductions and removals that relate to environmental and social integrity

Demand-side

Possible uses of credits:

- As a basis for mitigation claims
  - substituting for feasible own-decarbonization

  => Concern is about greenwash

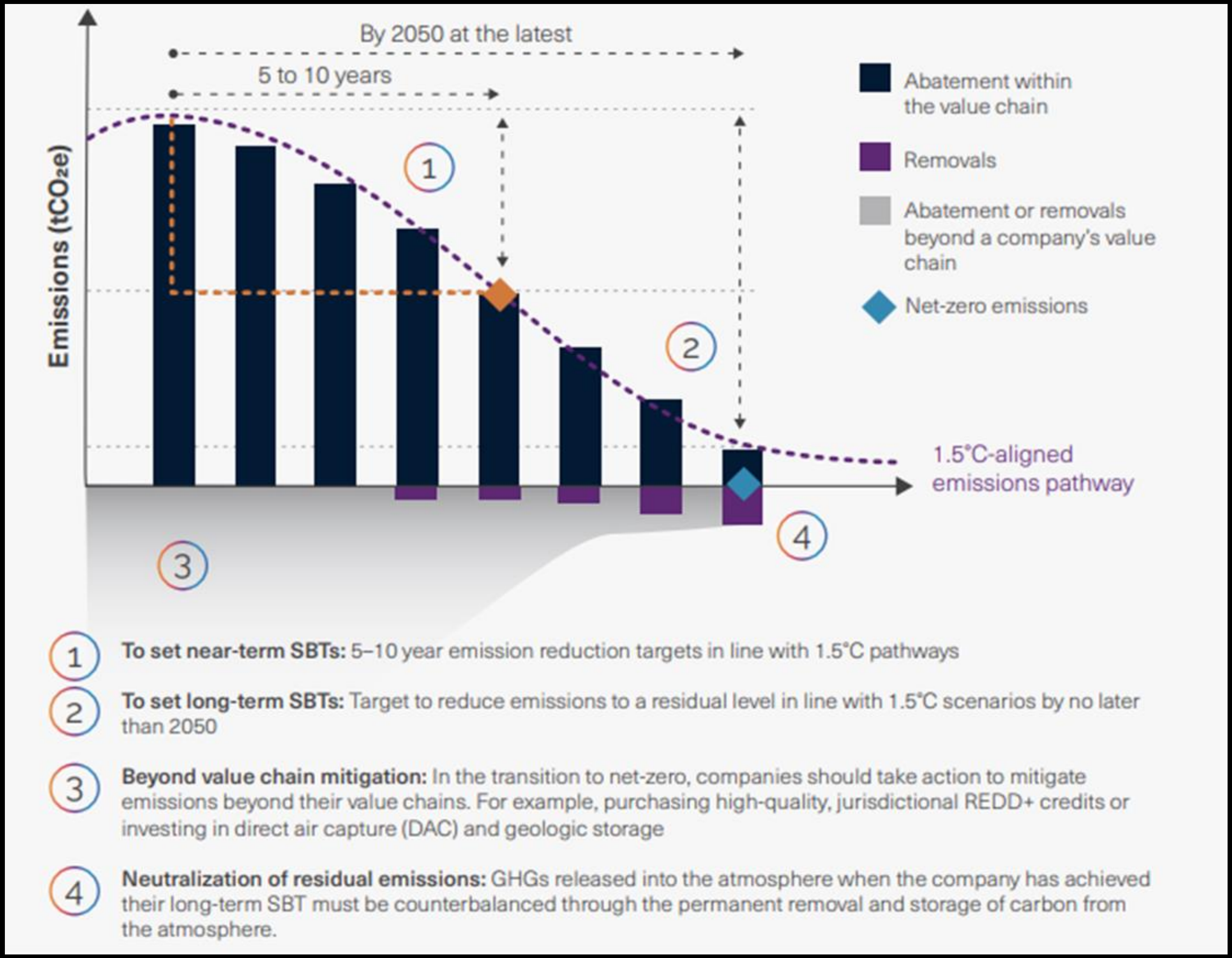
  - compensating unabated emissions on a net-zero pathway (BVCM)
- To meet compliance obligations

  => Concern is about design of compliance system

What's the same?

- Pretty much everything; issues are independent of supply

Except: New discourse on "contribution" claims to avoid "double claiming" with host country NDCs



SBTi Net-Zero Pathway

Transaction infrastructure

Crediting programs and independent verification bodies for quality assurance

Registries to avoid double counting and promote transparency

What's the same?

- General approach; many programs issue both domestic and international credits

However,

- Registries will need to add information about "authorizations" and "corresponding adjustments" for internationally transferred credits (Article 6); and
- Some countries contest the need for standards and verification beyond the UNFCCC framework for reporting and review of national REDD+ results

Supply-side

- Environmental and social integrity
  - Quantification, additionality, leakage, impermanence, safeguards
- Equity of access to the market
  - Small producers; Indigenous communities
- Unfair exclusion of past good stewards

What's the same?

- The types of risks and concerns

However,

- The scale of implementation and the contexts in which those risks are managed are quite different

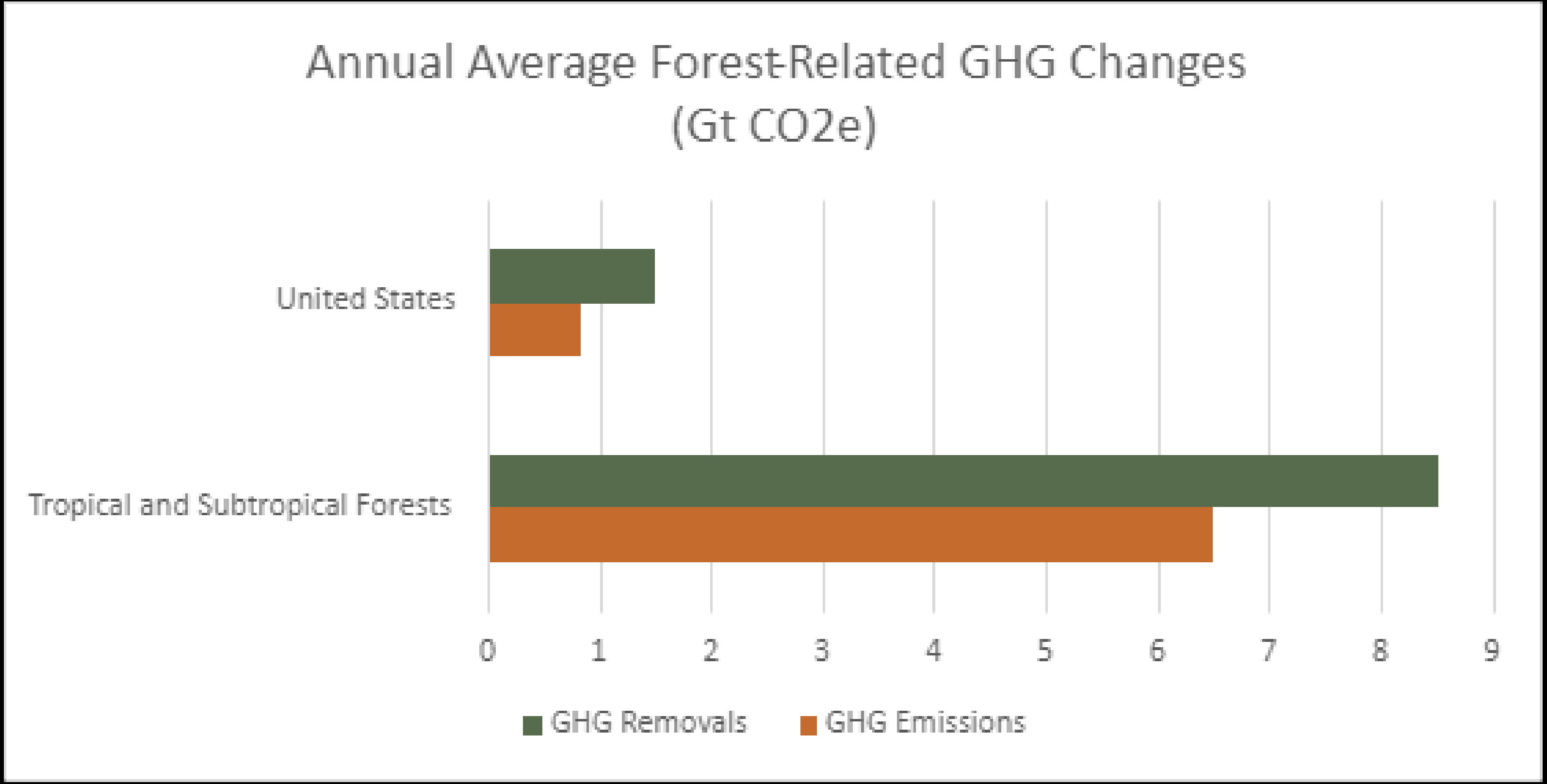
Overstated carbon emission reductions from voluntary REDD+ projects in the Brazilian Amazon

What's unique about tropical forest carbon crediting?

- Nature and magnitude of the opportunity
- Biophysical effects
- Social/economic/political context
- Relationship to the UNFCCC

Nature and magnitude of the opportunity (1)

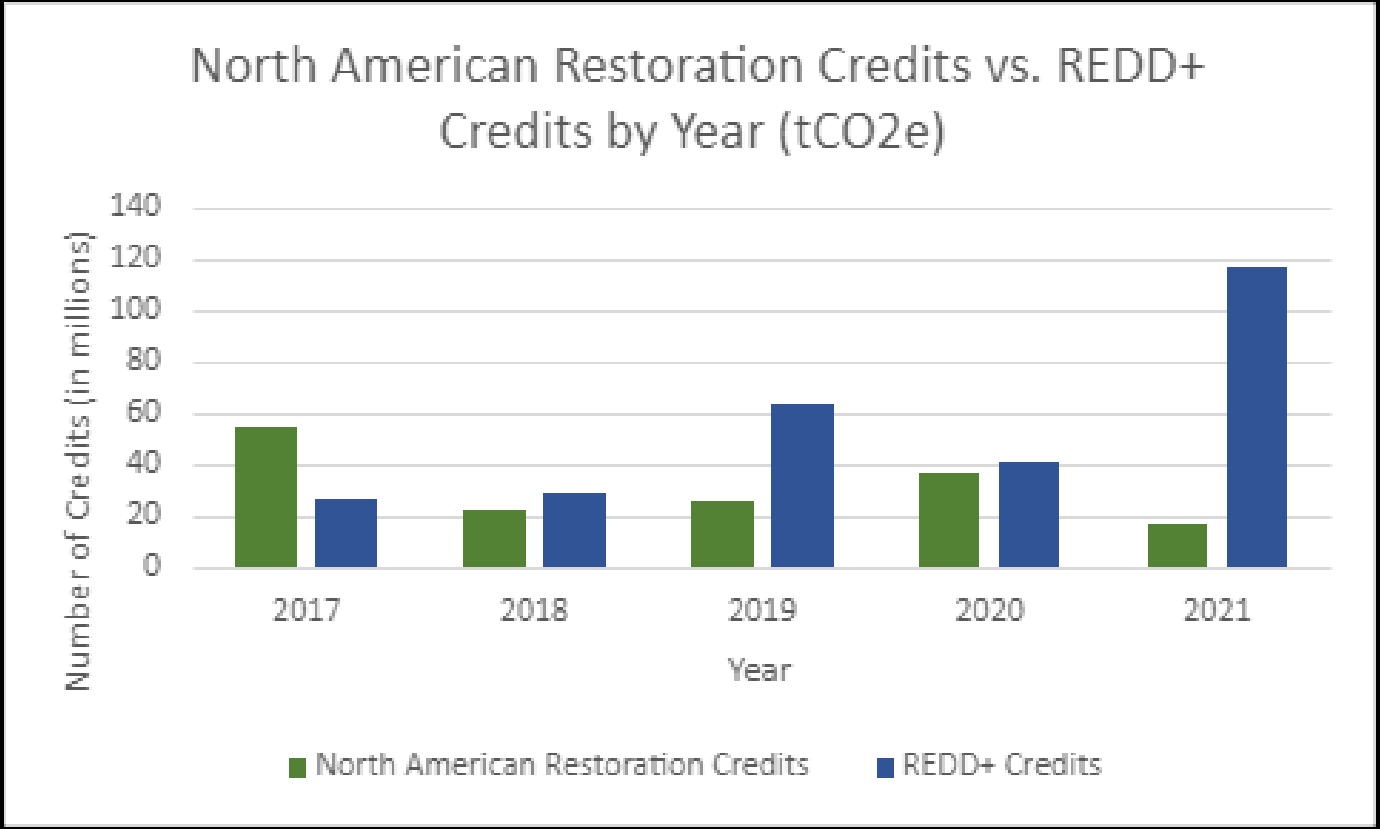
- Opportunity in US mostly related to improved forest management
- Opportunity in the tropics mostly related to ending forest conversion



Source: Data from Global Forest Review

Nature and magnitude of the opportunity (2)

- Project-scale issuances in the U.S. add up to tens of millions of credits annually
- Jurisdictional-scale issuances from REDD+ countries could be tens of millions of credits each

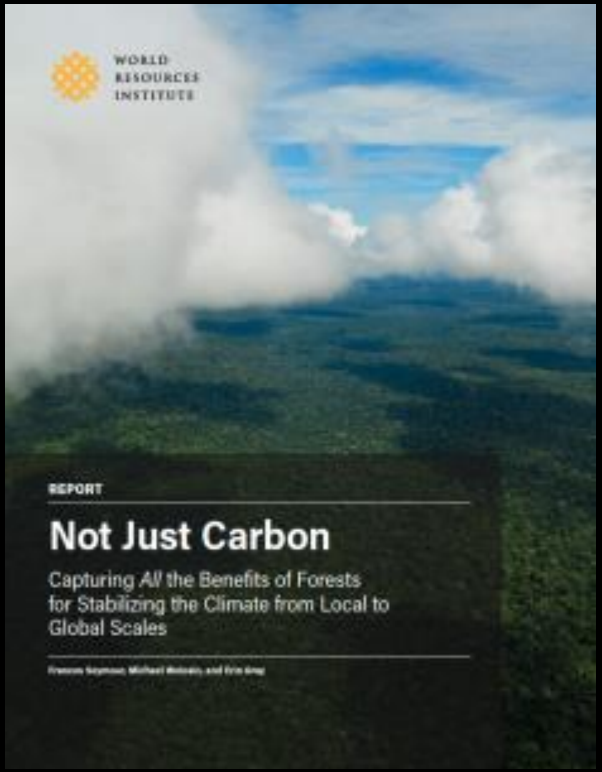


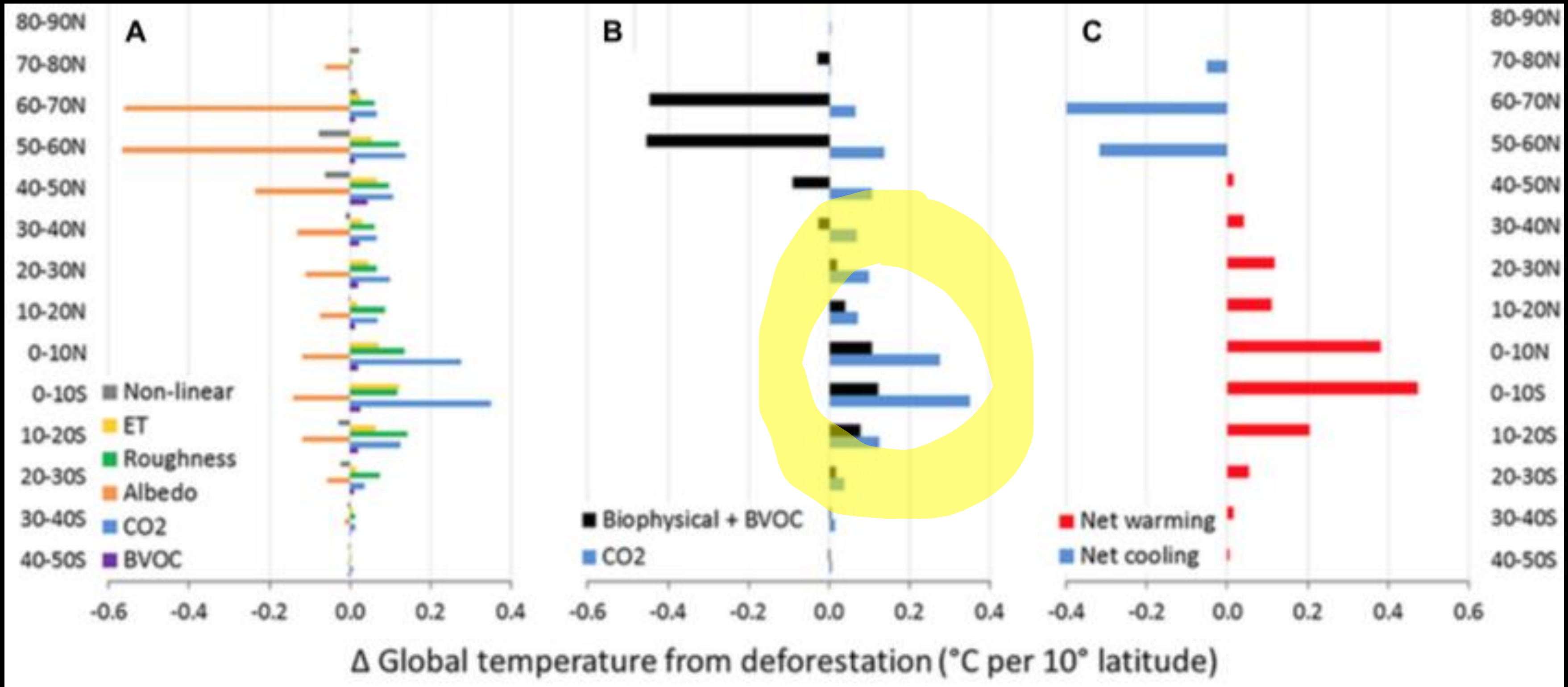
Source: Trove

Biophysical effects

The failure of crediting systems to account for the non-carbon effects of forests on global temperature and local resilience introduces a systematic bias against credits from the tropics

- 50% bonus global cooling effects of biophysical factors beyond carbon effects (Lawrence et al 2022)
- “positive leakage” by maintaining cooler, wetter conditions for forests nearby and at a distance





Social/economic/political contexts

Weaker institutions and governance systems

- High levels of illegal deforestation and degradation
  - undermine additionality tests linked to ending illegal behavior
- High proportion of forest land claimed by the state and/or under communal ownership
  - leads to less secure/contested rights to forest land and carbon
- Much greater focus on social integrity, including
  - substantive and procedural rights (e.g., FPIC) and
  - equitable benefit-sharing especially with regard to Indigenous Peoples

Example: Indigenous territories in the California cap-and-trade system

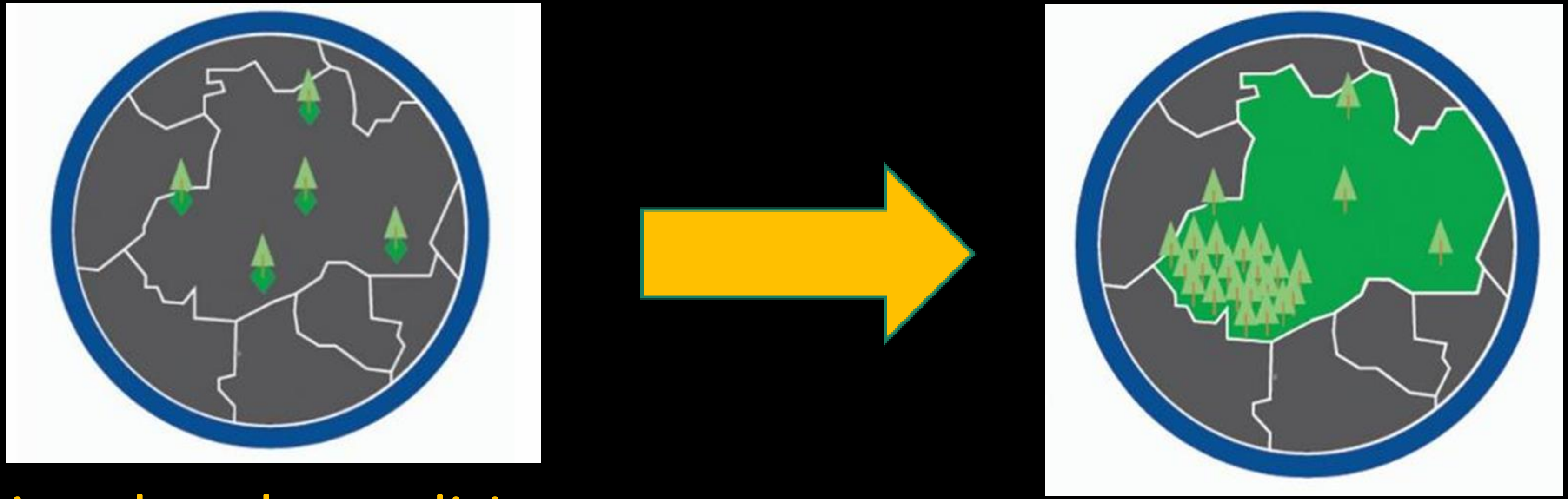
- Yurok and other tribes have successfully participated in the CA market by selling forest carbon credits and reinvesting revenues in land acquisition and other programs

- Yet concerns over the risks to Indigenous communities in developing countries have contributed keeping REDD+ credits out of the system

HOW CARBON TRADING BECAME A WAY OF LIFE FOR CALIFORNIA'S YUROK TRIBE

Relationship to the UNFCCC

- REDD+ developed under the UNFCCC, and as negotiated, performance is based on national-scale accounting (with subnational on an interim basis)



Jurisdictional-scale crediting:

- Helps mitigate risks of non-additionality, leakage, and impermanence
- But increases uncertainty of quantification of emissions reductions, and requires nesting of project-level accounting
- Most importantly, it incentivizes governments to do what only governments can do

Question: Why not jurisdictional-scale crediting in the U.S. and/or in other sectors?

Energy Transition Accelerator announced at COP27:

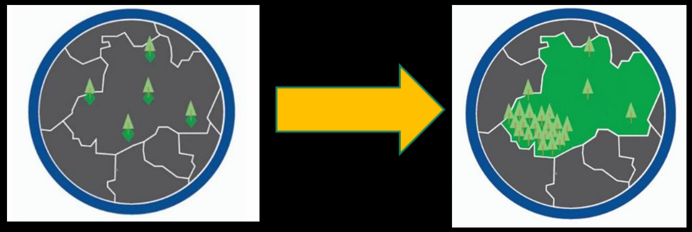
- The goal of the partnership is to establish a high-integrity framework enabling developing countries to attract finance to support their clean energy transitions. Operating at the scale of national or subnational jurisdictions, the ETA will produce verified greenhouse gas emission reductions, which participating jurisdictions will have the option of issuing as marketable carbon credits.
- The jurisdictional approach, similar to approaches currently employed in the forestry sector, will help avoid emissions leakage, ensure that emissions reductions are real and additional, and align a jurisdiction's power sector policies, investment priorities, and just transition strategies. While incentivizing system-wide transformation, jurisdictional arrangements can also help steer finance to discrete projects producing deep, rapid emission reductions.

Preview of spring semester YFF Series topics (1)

- The fraught history of international cooperation to address tropical deforestation
    - And why REDD+ was a breakthrough
- Perspectives of supplier countries
    - Including current REDD.plus challenge to the role of voluntary standards and independent verification
- Perspectives of buyers
    - Facilitating a shift from results-based finance from donors to market-based finance from corporates
- Perspectives of Indigenous Peoples
    - Shifting the narrative from “safeguarded” stakeholders to leaders of interventions

Preview of spring semester YFF Series topics (2)

- Perspectives of standard-setters
  - Differentiating project-scale and jurisdictional-scale crediting
- Perspectives of project developers
  - Reconciling the legacy of project-scale activities with shift to jurisdictional-scale accounting
- The challenge of crediting HFLD jurisdictions
  - Addressing the contested question of additionality
- The progress of various initiatives to achieve consensus these issues



Carbon Pulse

COMMENT: We must protect intact forests, but CORSIA got it wrong

THE INTEGRITY COUNCIL FOR THE VOLUNTARY CARBON MARKET