offsets.[76] While necessary, financing for capacity building alone will not solve these problems. Governments in developing nations will need to make a decisive political commitment to understand and address what is happening in their forests—including enforcing existing bans on certain activities.

This lack of market-readiness may suggest two conclusions. First, market and non-market investments may both be essential to achieve needed emission reductions in countries that stand a chance of attracting private sector investments and those that do not. Second, early investments (even pre-2012) are urgently needed to give policy makers and companies confidence that the potential cost containment benefits of international forest offsets will prove real and that U.S. carbon markets will not be choked off by limited offset supply.

Commissioner Perspective:
ALEXIS HERMAN
Former Secretary of Labor

"A low-carbon economy holds tremendous potential for American job creation – but we have to get there first. A smart climate policy would address the near-term costs of transitioning to clean energy, and protecting tropical forests as part of that policy provides a solution. Not only can we reduce a major source of CO_2 – we can also lay a solid foundation for a new economy built on energy efficiency, advanced renewable power, smart grids and beyond. The promise of that economy is boundless, but the debate over how best to prepare for that economy will remain incomplete until the constructive role of tropical forest protection is recognized. It's a win-win for our environment and our economy."

International Cooperation

Prior international efforts to conserve tropical forests have had mixed results. In recent years, many forest-rich developing nations have dramatically expanded their national park systems, extended other legal protections to heavily forested areas and carried out some forest sector reforms.

Yet despite these national-level actions, more than $1.1 billion invested in forest sector reform through the World Bank over the past decade, and larger sums provided directly by donor nations for forest conservation, global deforestation rates have not diminished.[77] Without new forms of concerted international action the next few decades will witness precipitous deforestation in the world's three major forested regions: the Amazon Basin, the Congo Basin and Southeast Asia.

Finding: Past international cooperation on tropical forest has achieved some success, but has been far too limited in scale and on the whole ineffective.

The G8 has taken modest initiatives to reduce illegal logging,[78] but that problem has also largely defied progress. Most heavily forested nations (including the United States) have resisted occasional calls by other countries to negotiate binding international obligations to conserve forests, as well as proposals to alter World Trade Organization rules to allow importing nations to give strong trade preferences to sustainably harvested timber. Prioritizing the enforcement of U.S. trade policies designed to combat illegal logging—especially the 2008 Lacey Act amendments discussed below—could provide a strong driver for change to the international system.

Making Progress on Forests in Global Climate Talks

The fate of tropical forests has also been discussed in global climate talks since the 1990s. During negotiations on the 1997 Kyoto Protocol, the United States, Japan, Canada and Australia strongly supported the proposition that investments in tropical forest conservation should count towards their Kyoto emissions reduction targets. Many other nations opposed this approach, and forest conservation projects were eventually excluded from the Kyoto agreement and European carbon markets, although less economical reforestation and afforestation projects were partially included. At the time, Europe questioned whether emission reductions from the forest sector were verifiable and feared that forest conservation might distract attention from the need to revolutionize the energy sector. Brazil shared these concerns (and still does), also opposing the inclusion of tropical forests in Kyoto because it worried that climate change rules might impinge on its national sovereignty in the politically sensitive Amazon region.

Finding: Tropical forests are a key point of discussion in ongoing global climate talks, and the United States is an active participant.

In 2005, a new coalition of small- and medium-sized rain forest nations seeking access to global carbon markets (formally known as the Coalition for Rainforest Nations or CfRN) convinced the international community to study whether tropical forests should be included in future climate agreements. Since that decision, the idea of integrating forests into overall climate policy has been far less controversial, partly as a result of advances in forest carbon science that have shown that emissions from deforestation are such a large part of the climate problem and given nations' greater confidence that emissions reductions can be adequately measured and verified. Most countries and climate experts expect that the next global climate agreement, which nations hope to conclude in Copenhagen, Denmark, in December 2009, will give significant attention to reducing emissions from tropical forests, including through new public- and private-sector financial mechanisms.[79] An informal working group has already been launched that is focused on providing interim financing before broader international efforts can be scaled up.[80]

The Obama Administration has developed principles regarding about how a new international climate agreement should seek to reduce tropical forest emissions.[81] The Administration supports including forests as one part of a comprehensive reduction strategy from all terrestrial sources—including agriculture—but recognizes that because of technical challenges a phased approach may be required with an initial focus on reducing rates of deforestation. It has also proposed using non-market and market financing to fulfill different objectives, with market financing that could be used for offsets carrying stricter measurement, reporting and verification standards.The Administration has yet to weigh in on a number of key issues. While the principles are somewhat general, it is clear that the Administration places a high priority on reducing tropical forest emissions.

Key Issues Remain Unresolved

Despite the growing political consensus, how a new global climate agreement would actually reduce emissions from tropical forests remains unresolved. Following are some of the big open issues.[82]

Land types. While forests have been at the center of negotiations, some nations have proposed

covering a wide range of land types (i.e., forests, wetlands, agricultural and grasslands), to create the most comprehensive system possible and broaden the number of nations that would receive financial incentives to manage their lands for carbon benefits.

Activities. Almost all nations wish to address emissions from deforestation, but many nations also wish to include forest degradation, reforestation and afforestation. The United States is one of the few nations supporting comprehensive terrestrial greenhouse gas accounting, covering all land types and activities. Brazil supports focusing primarily on deforestation, while most other countries favor including all forest sector activities, but not land-use activities that do not involve forests.[83]

Mechanisms. Many nations favor mobilizing funding through private sector-oriented carbon markets, but others argue for a system of government-to-government payments.[84] Brazil in particular has been staunchly opposed to a market-based system that would allow developed nations to substitute tropical forest conservation investments for domestic emissions reductions. Although some key nations have also been unclear or opposed, many other influential developing nations support transitioning to a market-based system after some initial public investments in planning, market readiness and implementation activities.[85]

Finding: Several important issues to striking a global deal on climate change and tropical forests remain unresolved.

Eligibility. Some proposals focus on nations with high deforestation rates, but others would also provide incentives for countries with low deforestation rates to maintain them.[86] The Bali Action Plan guiding current negotiations for the next global climate agreement allows for both approaches.[87] At present, these low deforestation nations are unlikely to gain access to lucrative carbon markets—which will likely require verified emission reductions—but these nations would be eligible for government-to-government assistance.

Scale. Many nations, including Brazil and the CfRN countries, wish to limit the most significant financial incentives to nations that have adopted strong nationwide programs to reduce forest emissions after a transition period. Some other developing nations object to this conditionality and favor allowing more ad hoc project-based approaches, or state- or province-wide approaches.[88]

Methodologies. Proposals also diverge on standards and procedures to ensure that emission reductions are genuine, particularly the setting of reference levels or baseline rates of deforestation for developing countries. Since payments would only be provided if countries improve upon these levels, they have a significant impact on the effectiveness and geography of forest conservation financing, including the eligibility issue discussed above. While these matters are quite technical, they are also politically important in global climate talks and infused with significant ideological content. Some countries support using historical deforestation data, but others favor using projected future rates.[89]

Designing U.S. Climate Legislation

Despite these differences, most countries expect the next climate agreement to include tropical forest conservation in a robust way.

The United States has a strong bipartisan tradition of supporting conservation of tropical forests. Most of the major U.S. programs to date were initiated by Republican