

The climate bill approved by the House includes provisions to protect the interests of local people and indigenous communities. The EPA Administrator, in consultation with the Administrator of USAID, must promulgate regulations establishing standards to ensure that U.S. tropical forest conservation programs give due regard to the rights and interests of local people, include them in consultations on design, planning, and implementation, and seek to share financial benefits

with them.<sup>121</sup> The bill requires the Executive Branch to both follow these standards in distributing funding and ensure as much as possible that developing nations are following them in program implementation. However, the House bill does not make public participation and transparency the primary objectives for these regulations and standards. This is an area the Senate and the Obama Administration should revisit and address.

## Environmental Safeguards

Poorly designed or managed forest conservation programs could jeopardize important U.S. national interests. Programs that offset U.S. domestic emissions reductions could send money overseas for no environmental benefits if measurement, monitoring and verification systems are inadequate. Approaches that fail to strengthen forest governance, transparency and public participation in developing nations could encourage corruption, harm indigenous communities and provide few development benefits.

*Finding: Although the risks of inadequate environmental safeguards are serious, they can be effectively managed.*

Programs that do not consider the indirect effects of major new financial incentives could convert agricultural lands into forests in ways that reduce crop yields, raise food prices or heighten food insecurity. Thus, strong safeguards for the environment and people are essential to ensure that new U.S. tropical forest conservation policies are effective, economically beneficial for developing nations, and advance broader U.S. national security interests. New forest conservation programs will not work on autopilot. However, good solutions exist that can effectively manage these risks.

*Principle: U.S. tropical forest conservation policies must have robust environmental integrity.*

Appropriate environmental safeguards are essential to guarantee that forest conservation programs achieve real reductions in greenhouse gas emissions and advance other environmental objectives, such as biodiversity conservation. Following are several key risks and associated feasible solutions.

**Non-additionality.** Payments could be provided for forests that never would have been cut down or for reforestation that would have occurred anyway. This can be addressed with appropriate crediting “baselines”—the reference level against which financial incentives would be provided—that compensate nations for actions that are above and beyond business-as-usual outcomes.

**Leakage.** Deforestation could simply shift from one place to another, either within the same country (activity leakage) or to another country (market leakage). This can be addressed by encouraging national-level actions and engaging as many tropical forest nations as possible, including “high-forest, low-deforestation” countries that might otherwise see an increase in deforestation as rates come down in other nations.

**Non-permanence.** Conservation benefits could be short-lived as a result of forest fires, poor forest management, policy changes or the impacts of climate change. This can be addressed with certain types of insurance, discount rates or “buffers.”

**Improper crediting baselines.** Poorly set crediting baselines could result in large payments that are not warranted. This can be addressed with close attention to historical and projected future rates of deforestation.

**Habitat conversion/Loss of biodiversity.** Perverse incentives, such as incentives to convert non-forested land into forests, could encourage the loss of critical biodiversity and ecosystem services if developing nations turn species-rich native grasslands and wetlands into industrial forest plantations. This can be addressed by using eligibility criteria and environmental assessments that channel investments toward regions and practices that help conserve biodiversity and critical ecosystems.

These are serious concerns that will need to be addressed in a very credible manner by any new U.S. climate policies that target tropical deforestation. Different safeguards could be required for public and private financing mechanisms. The House climate bill makes a good faith effort to address these concerns and it has attracted the support of a number of major environmental organizations that have historically opposed including forests in a domestic cap-and-trade program.

**Recommendation: U.S. policies should provide incentives for countries to move to national-scale action as quickly as possible.** The House bill includes a phased transition for countries to move from sub-national to national-scale actions in order to continue participating in U.S. programs. Programs that cover less than a nation’s entire forest sector may be allowed into the U.S. system during this transition. This approach was designed to move countries through the three phases of action—planning, implementation and verified emission reductions—as quickly as possible, while also recognizing the need to encourage swift action and provide companies immediate access to low-cost international offsets.<sup>122</sup> Several major electricity utilities and influential environmental organizations have also embraced an approach with phases that transition nations from

sub-national- to national-level actions—although not precisely in the same manner as that taken by the House bill. A transitional approach with phases would have many advantages, including encouraging large-scale action by developing nations. One important benefit of managing forest-sector emissions at a national-scale would be minimizing the risk that forest conservation programs simply shift reforestation with a country from one place to another (a version of carbon “leakage”). The Commission, therefore, recommends that policy makers adopt an approach that moves nations in phases through a transition from sub-national- to national-level actions in the forest sector.

Overall, there are plenty of reasons to be optimistic that the United States can put in place credible environmental safeguards. Major scientific advances in earth observation technologies are creating new confidence that forest cover and carbon content can be measured remotely with satellites at a reasonable cost and with surprising accuracy. Providing this technical expertise could be one area for a substantial U.S. contribution to the international forest conservation effort. Several leading global conservation organizations can point to numerous successful pilot programs to reduce deforestation in ways that produce measurable, verifiable emissions reductions.<sup>123</sup> Some leading U.S. conservation organizations, moreover, have joined with major American corporations to develop technical standards that are widely used today in voluntary markets for forest carbon.<sup>124</sup> These voluntary market standards and certification processes provide a foundation upon which U.S. agencies can build when designing technical standards in new federally managed programs.

Implementing forest conservation programs only in countries that can verify actual reductions in their forest emissions could perversely accelerate deforestation in countries with large standing forests but currently low deforestation rates, such as those in the Congo Basin. A global forest conservation system will be seriously undermined without addressing these areas, and the participation of these “high-forest, low-deforestation” countries is therefore critical. However, paying countries for maintaining standing forests does not achieve

actual emission reductions that count toward U.S. or global mitigation goals and therefore cannot easily be financed through an offset mechanism. Providing incentives for these forest-rich, low-deforestation countries must therefore be a primary goal of U.S. and international public funding. Given this importance, creating a dedicated “stabilization fund” for these countries through U.S. legislation or global agreements is essential, especially since partnerships with many of them could also provide national security and other benefits.<sup>125</sup>

Climate change safeguards are not the only environmental protections that will be required. Special

criteria may be helpful to make sure that new U.S. forest conservation programs help developing nations protect critical ecosystems and globally significant biodiversity. This could be done in a number of ways. Reforestation programs could guard against the introduction of non-native species, and afforestation programs (that convert non-forested lands to forests) could require environmental impact assessments. Special preferences could be created for investments in biodiversity “hotspots” or other high priority conservation areas and for the preservation of old-growth forests and native species as compared to managed forests and plantations.<sup>126</sup> These criteria could be applied differently in public and private emission reduction programs.

## U.S. Climate Diplomacy and New Agreements

The preceding discussion has focused primarily on emerging U.S.-driven initiatives, primarily under likely domestic climate legislation. Domestic deliberations are occurring, however, in parallel to global climate negotiations and bilateral climate talks with key countries, including Brazil, China and India. Multilateral and bilateral negotiations provide vital opportunities for the United States to advance tropical forest conservation objectives in ways that extend well beyond domestic legislation. This section suggests how the United States should pursue those diplomatic opportunities. Issues relating to U.S. international negotiating objectives are also highly relevant to domestic climate legislation. The House climate bill, for example, would require that in order to be eligible to receive either public funding (i.e., the 5 percent set-aside of allowances for forests) or private funding (i.e., carbon market offsets) a developing nation must be part of a bilateral or multilateral agreement covering forest sector emissions that includes the United States. This would mean that the arc of U.S. climate diplomacy would influence the effectiveness and geographic footprint of the forest provisions in domestic climate laws.

*Finding: Negotiating effective international agreements will be critical to the success of U.S. forest conservation programs.*

The most important negotiating objective of the United States on tropical forests should be to ensure that net forest sector emissions in developing nations decline fast enough to allow the world to meet long-term emission reduction objectives. International agreements that do not help developing nations move aggressively toward the goal of halving deforestation in ways that are supportive of their own sustainable development objectives may be counter-productive. For example, an agreement that provided major financial incentives to high deforestation nations for simply not increasing deforestation rates by 2020 would potentially send billions of dollars abroad for relatively little climate action. Thus, a key element of new climate agreements dealing with international forests will be the reference levels or baselines against which progress is measured and financial incentives are provided. International agreements should require that developing nations create and implement credible, domestically enforceable national plans that are