

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.¹²⁵

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.¹²⁶ These criteria could be applied differently in public and private emission reduction programs.

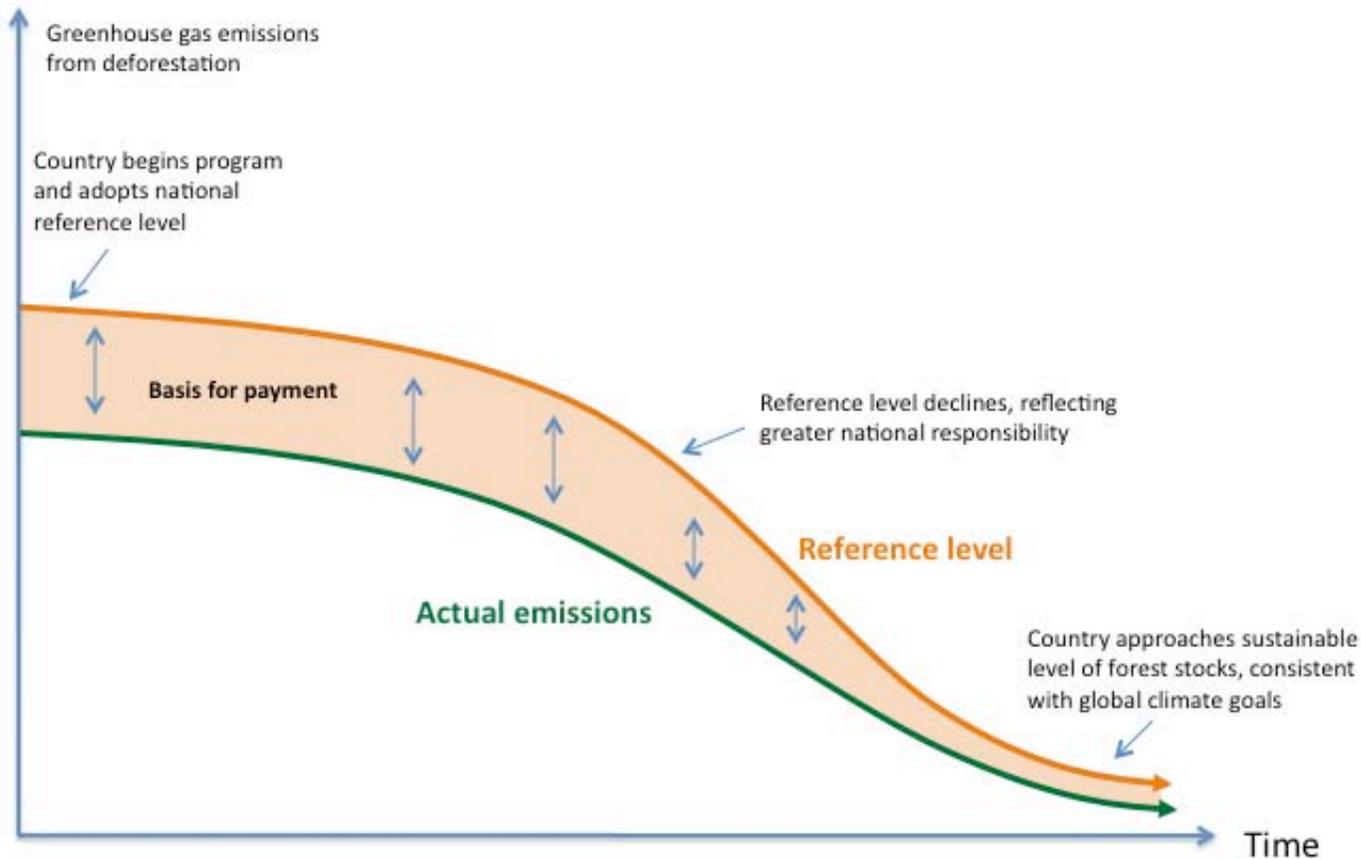
U.S. Climate Diplomacy and New Agreements

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

Figure 10: Reference Levels



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Source: Climate Advisers analysis, based on Eliasch, J. (2008) *Climate Change: Financing Global Forests*, United Kingdom, Office of Climate Change.

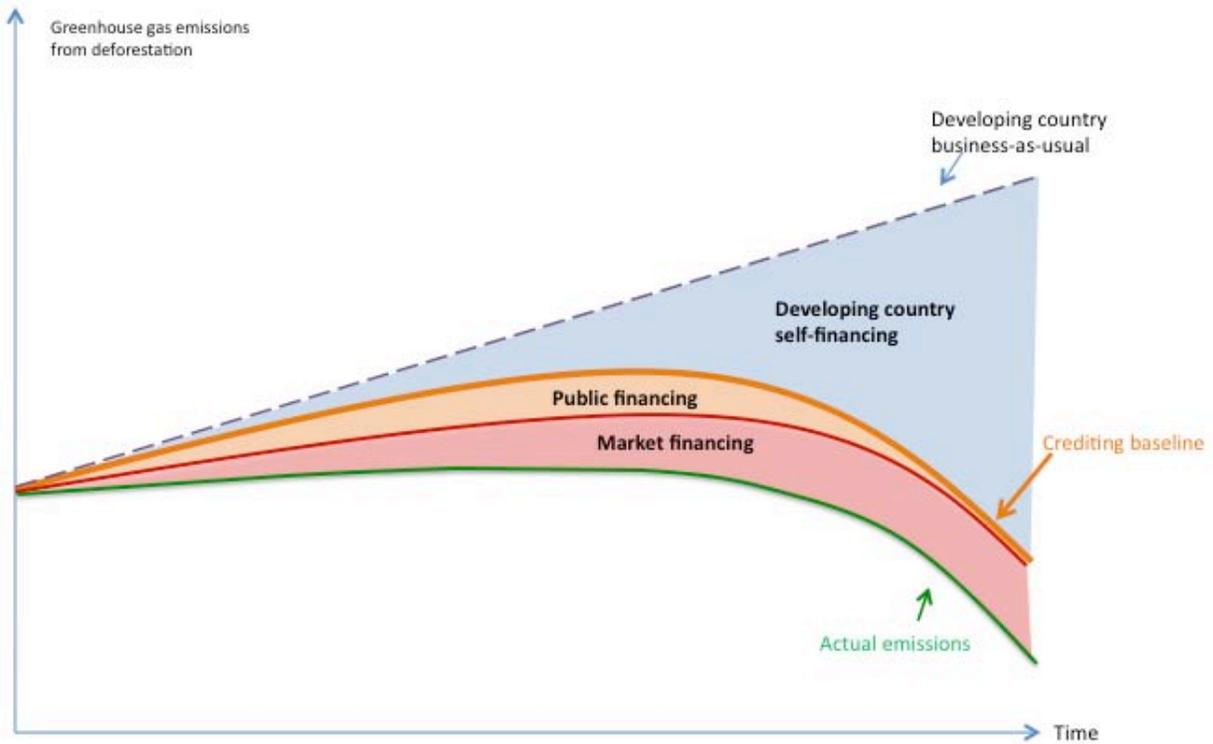
consistent with global emission reduction objectives. Figure 10 shows the type of reference level that will be needed to make new agreements compatible with global emission reduction goals. Over time all nations must take on a greater share of responsibility domestically and meet more ambitious goals to receive international financing at a rate that is consistent with their stage of development.

Recommendation: The United States should work to ensure that international agreements with tropical forest nations secure actions by those nations that support global emission reduction goals for forests. One way to make this requirement regarding the ambition of forest agreements more concrete would be to require nations to develop

a reference scenario that reaches a sustainable level of carbon stocks within a certain timeframe after beginning to receive funding from U.S. programs. This requirement would channel U.S. funding to nations that are taking appropriate national action and thus create the strongest possible incentives for nations to develop ambitious emission reduction plans. This is the general approach taken in the House climate bill and suggested by the Administration in their submissions to global climate talks.

As one example, the House bill provides incentives for countries to adopt national deforestation baselines that require declining deforestation rates over time and

Figure 11: Sharing Responsibility for International Financing



Source: Climate Advisers analysis

reaching zero net deforestation within twenty years. This does not mean that all forest sector economic activity must cease, but that deforestation in one area must be balanced by re-growth or regeneration in another, as long as appropriate safeguards are in place to ensure that perverse incentives are not in place to encourage deforestation followed by crediting for re-growth. Payments would gradually decline over time, with developing nations adopting a greater share of the effort, and eventually taking on full responsibility for financing and managing sustainable levels of forests in their countries consistent with global climate goals (see Figure 11). While a limit could be useful to encourage more advanced developing nations to adopt commitments by signaling that payments will not be perpetual, the United States must be careful in implementing provisions of this type to ensure that it does not create reversals in reductions that have been achieved, especially in least-developed countries.

Yet, there is also a risk that overly ambitious reference scenarios could create disincentives for action and raise the cost of U.S. climate action. Making it too hard for developing nations to qualify for U.S. financial assistance would reduce their incentive for action and could result in significantly fewer emission reductions than under a more optimal scenario. In addition, overly ambitious reference levels for U.S. funding could result in low quantities of forest carbon offsets and thus higher compliance prices for U.S. firms participating in the cap-and-trade program. The key to success, therefore, will be making sure the reference scenarios set in international agreements are set based on the best available analysis and guided by climate science. Appropriate and strong reference scenarios, however, are only one negotiating objective the United States must pursue. While much of this report has been framed around the question of how best to design U.S. climate legislation, the insights and recommendations offered in prior sections should also guide U.S. climate diplomacy relating to forests. The following principles endorsed previously in the context of cap-and-trade legislation

are also relevant for future climate agreements.

- Incentives are needed for reducing deforestation in nations that are experiencing high rates of deforestation and in those where low deforestation rates could rise absent outside support;
- Public and private funding mechanisms are needed;
- Only verified emission reductions should be included in private carbon markets;
- Public funding mechanisms should help nations build their capacity for action, implement policy and governance reforms, provide upfront funding and purchase verified emission reductions, particularly in high-risk, non-market countries that may be ignored by private investors;
- Credible protocols and common standards are needed to measure, monitor and verify emission reductions in tropical forests;
- Upfront funding is needed to help developing nations with early phases planning and implementation; and
- Forest provisions in an international climate agreement should be compatible with the future creation of a comprehensive system for managing all terrestrial carbon, including forests, agriculture, rangelands and other sources.

Finalizing international negotiations on tropical forest emissions will also require nations to resolve a number of highly technical methodological issues. The United States may need to align technical standards proposed by the State Department to international climate talks with those contained in climate legislation. In general, these issues are best resolved by the Executive Branch, drawing on the technical expertise that resides in relevant agencies, with timely input from relevant scientific advisory bodies. For purposes of implementing new domestic climate laws, Congress should ask the Executive Branch to promulgate new regulations and to consult with the National Academy of Science and other science advisers when developing these regulations and proposed methodologies in global climate negotiations.

Making U.S. Policies Work Efficiently

Recommendation: The pool of emission allowances set aside to help control the cost of a new cap-and-trade program (the “strategic reserve”) should be large enough to manage the risk that the supply of forest carbon “offsets” may prove insufficient to stabilize prices and price spikes. While the United States should reduce the cost of climate action by partnering with developing nations to finance forest sector emission reductions, if the United States adopts a cap-and-trade program it must also guard against the possibility that U.S. demand for international forest carbon will exceed available supply.

A substantial amount of work lies ahead. Developing nations must transition through the three phases of action identified above — (1) planning, (2) implementation of forest sector policy and governance reforms and (3) verification of actual emission reductions. Few developing nations are far along in the planning process and most need substantial technical assistance to even get started. Not all developing nations have the political will and societal buy-in to implement needed forest sector policy reforms. And only a few developing nations today are close to having the capacity to reliably measure, monitor, and verify actual emission reductions.