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FERN response to the

Eliasch Review Questionnaire: Global Forests and Finance Flows

Measuring and monitoring of forest carbon

1. What forest activities should be included in a climate change strategy (such as deforestation, degradation, afforestation, reforestation etc)?

The distinction between the different categories is not always clear-cut, and an effective climate change strategy will only emerge from a careful analysis of the specific drivers of forest loss in a particular location / region. These drivers are diverse and the most appropriate strategy will depend on the particular situation in any given location.

Obviously the biggest carbon loss results from converting existing intact forests into other land use, a process which releases large amounts of carbon that have accumulated over centuries in a single event or a short series of spikes. Degradation of intact forests is also a significant source of carbon and the Kyoto Protocol's current definition of forests fails to capture the extent of carbon loss from degradation: an intact, closed-canopy forest could be degraded to the extent that canopy cover falls to 30% yet the severely degraded area would still be considered 'forested' and the carbon loss that results from such degradation (e.g. linked to industrial logging in many tropical forests) would not be reported / accounted for if forest degradation were not included in a climate change strategy aimed at halting forest loss.

With regards to reforestation and afforestation, these activities can contribute to an effective strategy to halt emissions *if* they address the causes of forest loss e.g. local fuel wood shortages and are aimed at restoring degraded forests, use native species and are implemented in response to the needs of local communities. More often however, such reforestation and afforestation activities have exacerbated the forest *and* climate crisis, e.g. where they result in the expansion of large-scale monoculture tree plantations that increase local pressure on land and land prices and which thus contribute to pushing peasants into previously intact forest areas.

Extensive documentation of the impacts of both successful and harmful reforestation and afforestation activities is available in the series of reports produced by the World Rainforest Movement, www.wrm.org.uy

An effective climate change strategy would also need to consider carefully the accuracy of any measuring and monitoring required to achieve its objective. Such requirements will differ markedly depending on the financing instrument chosen: any approach that would include the trading of carbon credits which justify additional fossil fuel emissions will generally require significantly more detailed measuring and monitoring than approaches

that do not include such a trade in carbon credits. Moreover, there remains significant doubt as to whether it is possible to measure forest carbon fluxes with the accuracy necessary for a carbon accounting scheme. For a summary of why carbon trading is a poor and in all likelihood ineffective, if not damaging financial instrument to fund climate change strategy aimed at avoiding deforestation, see Karsteny & Pirard: 'Climate Change Mitigation: Should "Avoided Deforestation" (REDD) Be Rewarded?'¹

2. What forest carbon services should be valued (avoided emissions, sequestration etc)?

The question appears to assume that such valuation is required for an effective climate change strategy aimed at avoiding deforestation. This assumption merits careful consideration, not least because the effectiveness of any strategy aimed at reducing forest loss will depend on the solidity of the underlying assumptions upon which it is based. As outlined above, a strategy that is not based on careful analysis of the local drivers of forest loss is almost certain to fail. If, for example, the local causes of forest loss are degradation based on the need for fuel wood, a strategy that prevents access for the local population to such fuel wood collection in an intact forest area (because the forest is now 'valued' as providing a 'forest carbon service') will fail if it does not provide a readily available alternative source of fuel wood that meets the needs of the local population.

The effectiveness of a strategy aimed at reducing emissions from forest loss will depend not least on the level to which those who devise the strategy understand that forests are already valued by local communities. In many cases, external pressures in the form of logging concessions, protected areas, infrastructure development etc. fail to recognise these values and therefore increase the pressure on forests which results in forest loss.

3. Should other environmental ecosystem services such as biodiversity and water be considered? If so how?

It depends on the context: They certainly must be considered in analyzing and understanding local land use patterns and causes of forest loss. Considering these services in the context of a credit trading scheme however is a different matter and is likely to complicate the picture considerably – probably to the point of incomprehensibility. Inclusion of such services in a trading scheme would also raise additional property rights issues – issues which still remain largely unresolved even in the case of forest carbon. For example, would forest carbon – were the financial instrument of choice to be carbon trading – be considered a non-timber forest product, a mineral, a forest product? Depending on the choice, different aspects and questions of forest carbon ownership will arise.

4. Can emission reduction activities from forestry be measured in a standard manner? E.g. through agreed methodologies, set values. If so how can accuracy and costs, such as data and technical capacity, be balanced?

Karsteny & Pirard explain very convincingly in their forthcoming paper 'Climate Change Mitigation: should "Avoided Deforestation" (REDD) Be Rewarded?' that it is not very likely that accuracy and cost considerations can be reconciled if the measurements have to be of sufficient accuracy to make a robust **carbon trading** scheme work. This conclusion tallies with FERN's experience of analysing and scrutinising carbon offset tree planting and forest conservation project documentation. It is also supported by research published on the topic. The use of default values in such offset project calculations is widespread

¹ Forthcoming.

and estimates of carbon volumes stored in the respective forest areas vary considerably. Full carbon fluxes, including soil carbon and non-timber carbon storage, e.g. in vegetation other than trees or in roots; annual - let alone inter-annual - fluctuations in carbon storage are rarely considered because measurements are not continuous, but in almost all cases, one-off research or sample-plot-based findings with occasional re-sampling. Carbon calculations are often based on forest inventory data which may be suitable for general forest and timber inventories but which lacks key parameters such as wood carbon densities, soil carbon data etc, all of which are crucial for accurate calculations of carbon storage in forest ecosystems. Error bars of 50% and more are not uncommon, as reported among others in research carried out on estimating the volume of carbon stored in Russia's forests (IIASA, 2001: Nilsson et al.) or more generally, as reported in the Science article 'Improved Monitoring of Rainforests Helps Pierce Haze of Deforestation. Deforestation produces a significant amount of greenhouse gas emissions through burning, clearing, and decay. But exactly how much?'² Chen et al. show that "uncertainty in estimates of the carbon balance in Canada's forests could be greater than 1,000% if even seemingly small factors such as increased CO₂ levels in the atmosphere are not taken into account"³ and highlight that estimates in carbon storage and sequestration can be affected by a factor of 10 just by new discoveries. The proposal by carbon trading proponents that 'uncertainties can be dealt with through conservative accounting' is called into question in light of the scale of uncertainties that arise in forest carbon accounting.

Obersteiner et al. in presentations at the side event 'The Political Economy of Avoided Deforestation'⁴ during the December 2007 Bali climate conference provided further analysis on costs of monitoring as well as compensation costs rising exponentially in a carbon trading scheme if the drivers of deforestation are not understood in great detail for any given location.

Obersteiner et al. also point out that the mere availability of satellite images is not enough – the real cost arises from careful analysis of these images. Most cost estimates ignore these latter costs and only include the cost of obtaining the satellite imagery.

Presentations by carbon consultancy Winrock International at earlier climate conference side events equally demonstrated that the costs of carbon monitoring and measurements rise exponentially with increasing accuracy requirements and that in the offset 'avoided deforestation' projects they based their calculations on (among others, the Noell Kempff project in Bolivia), accuracy had been compromised in order to make carbon accounting affordable for the project proponents.

One of the key reasons for not including avoided deforestation in the carbon trading scheme established under the Kyoto Protocol was the inability to accurately monitor and account for emissions arising from displaced activities, e.g. if forest loss is halted in one area, but the emission is simply displaced to an unmonitored area because the underlying drivers of deforestation were ignored. Existing methodologies and proposals that are based on project or sub-national approaches fail to provide a remedy for this inability to adequately monitor displaced emissions.

² "Despite solid improvements by scientists in monitoring deforestation, the uncertainties are still substantial. The gap between remotesensing data and field measurements on the amount of deforested land is between 5% and 10%, say researchers. And the error bars on estimates of the amount of CO₂ released by clear-cutting those tracts, they note, are 25% to 50%. Those errors, related to gaps in fundamental understanding of forest carbon." Page 537 in: SCIENCE VOL 316 27 APRIL 2007

³ Wejun Chen, Jing Chen, Jane Liu, Josef Cihar: Approaches for Reducing Uncertainties in Regional Forest Carbon Balance. In: Global Biogeochemical Cycles 14, September 2000. Page 833

⁴ http://www.geo-bene.eu/files/File/IIASA_GeoBene_SE_COP13_Agenda_301107.pdf

FERN considers existing methodologies and technologies insufficient to measure carbon fluxes with the accuracy needed to include forests into a carbon accounting scheme on the basis of which carbon credits are traded⁵. ***However, if other forms of financing are considered, and if such financing is not linked to justifying additional fossil carbon emissions, less accurate measuring and monitoring of carbon fluxes in forests will be sufficient to ensure a robust climate change strategy that will avoid emissions from deforestation.*** Such a strategy would take as a starting point a solid analysis of the causes that drive forest loss in a given location, and based on such analysis, a community-driven action plan would be developed against which carbon savings could be measured with sufficient accuracy. Policy at regional and national level would be based on such local analysis and aim to address the regional and national / international pressures that drive local forest loss. National level collection of such data derived from the local implementation of action plans to halt forest loss would be one option for national and international monitoring of progress on avoiding deforestation and the resulting emissions from such forest loss.

5. How should forest changes be monitored and verified? E.g. Forest inventories, EM Satellite data, radar, lidar. If so how can accuracy and costs be balanced?
 - Should this be done nationally or internationally?

See also response to question 4, above. The minimum level of accuracy that is required depends significantly on the framework which is chosen. As outlined above, it is difficult to see how cost and accuracy could be reconciled if the instrument of choice were carbon trading. All existing evidence suggested that accuracy will be compromised to the point where global emissions may increase not decrease as a result.

Instruments other than carbon trading will also require reliable monitoring – but it is FERN's assessment that for such approaches, adequate monitoring and measuring is obtainable. A combination of remote sensing and ground verification, especially in order to detect long-term cyclical changes related to land-use patterns would be required and is both feasible and available if regular funding were made available.

Past experience further shows that the use of remote sensing data alone is likely to lead to misleading assessments and may, for example, identify as 'deforested', areas of forest that are actually part of a matrix of farm-fallow land-use patterns and which, in subsequent years, would actually show as regeneration or restored forest. These local patterns are often complex, and need careful assessment on the ground, sometimes over a period of several years to distinguish temporary from permanent forest carbon loss. Without such verification, there is a high risk that the wrong areas of 'deforestation' will be targeted, along with the wrong causes and actors. Equally, remote sensing alone is likely to underestimate significantly emissions from so-called 'reduced impact' 'concession logging in intact forests where the canopy is not fully removed but where carbon losses can be significant despite the remaining canopy cover.

The EU FLEGT programme which aims to develop partnership agreements with timber producing countries to control illegal logging and improve forest governance provides important lessons that must be taken into account when developing a climate change strategy on avoiding deforestation. These agreements will include a number of verification and monitoring systems in support of FLEGT timber licensing, which may also be of

⁵ See attached diagram summarising the fundamental differences between fossil and biological carbon in affecting climate change and why as a result of these differences biological and fossil carbon should not be considered exchangeable in a single carbon trading scheme.

relevance in the context of strategies to avoid emissions from deforestation. Finally, *independent* forest monitoring is an integral part of such FLEGT agreements and may provide another important tool in monitoring deforestation and reduction in forest loss under a climate change strategy aimed at reducing emissions from forest loss.

6. How could an international mechanism for certifying verified emissions reductions from forestry ensure additionality, permanence and prevent leakage?

If experience with the international carbon offset market is anything to go by, it can't. It is now widely acknowledged that 'there is no technically correct answer to the question of additionality'⁶ and that it is not possible to verify the additionality claim of any one single carbon offset project. For more detail please consult FERN's submission to the UK Parliament's Environment Audit Committee's hearing on the voluntary offset market (available in the publications section of www.sinkswatch.org).

In addition to this fundamental flaw inherent in the concept of carbon offsetting, a project-based or a sub-national approach to emissions from deforestation is also widely believed to fail to address the issue of 'leakage' or displacement of emissions beyond the boundaries of an isolated project.

7. How should baselines be calculated and future emissions projected?

A projection of future emissions and detailed baselines are required only if the climate change strategy were considered in the context of a carbon trading regime, which for the reasons outlined above, FERN does not consider advisable.

If other approaches were considered, baselines at roughly the level of current reporting on deforestation rates as carried out by e.g. Brazil, combined with ground-truthing of the data, would provide sufficient accuracy for allocating and administering financial incentive schemes.

Mitigation costs

1. What do you believe to be the main determinants of the costs of using forestry activities to reduce emissions? How significant are trends in global commodity prices (e.g. beef, biofuels, timber)?

Commodity prices are likely to be very significant variables in determining the cost of avoiding emissions from forest loss in many countries. Whether these opportunity costs should always be compensated for and to what extent such compensation is warranted will however depend on a number of factors including governance levels and the extent to which overarching trade policies and consumption patterns that drive such opportunity costs are addressed in parallel. Any meaningful strategy would have to ensure that the trade in international commodities linked to deforestation (and hence the demand for these products from industrialized countries) will be reduced.⁷ This would include among others a critical assessment of the impact of EU agrofuel targets in adding another driver to increased deforestation.

⁶ Mark Trexler, of Trexler and Associates, now part of carbon consultancy EcoSecurities.

⁷ No analysis exists to our knowledge on the extent to which emissions from forest loss in the South are triggered by consumption in the North. Recent assessments by Glen P. Peters and Edgar G. Hertwich determine the CO₂ emissions embodied in international trade among 87 countries for the year 2001. They find that globally there are over 5.3 Gt of CO₂ embodied in trade and that Annex B countries are net importers of CO₂ emissions. <http://pubs.acs.org/cgi-bin/abstract.cgi/esthag/2008/42/i05/abs/es072023k.html> and "EU Consumption, Global Pollution": http://www.panda.org/about_wwf/what_we_do/policy/index.cfm?uNewsID=125140

Compensation for foregone opportunity costs however will only be successful in curbing deforestation in certain circumstances. The assumption that by just addressing the economic drivers of deforestation one could create a U-turn and save the forests is misguided. Economic drivers are only one subset of a complex combination of factors affecting deforestation and forest degradation. It cannot be assumed that by simply changing the economics, the forests will be saved automatically. The main causes of deforestation lie in policy and institutional factors, leading to poor governance of the forest resource. Therefore, a future climate change strategy aimed at avoiding emissions from deforestation needs to strengthen good governance by putting the rights of forest peoples and needs of local communities at its core.

Other main determinants of the cost of avoiding deforestation include the methodologies chosen to calculate the costs and the importance that any adopted climate change strategy will attribute to justice.⁸ If, for example, there is implicit or explicit acceptance of forced, uncompensated relocation or eviction of subsistence farmers from forests, the economic costs are likely to be much lower than in the case of a strategy that is guided by free, prior and informed consent where equitable compensation is offered in the case of voluntary resettlement. Apart from the strong moral case against an approach that prioritises economic cost over justice, we would also question whether such an approach would in fact reduce deforestation in the long-term. Sadly however, the reality is that too many carbon offset projects that involve either tree planting or avoided deforestation have exacerbated or created local land use conflicts. Among the most prominent, though by far not the only example is that of the Face Foundation in Mount Elgon, Uganda (see www.sinkswatch.org for details and a TV report of the project at www.zembla.vara.nl)

FERN's analysis and experience in monitoring suggests that any initiative that hopes to succeed in avoiding deforestation (and with it, the emissions from deforestation) will need to focus on providing communities the rights and the security to the land they live on. This is the key to improved and manageable forest governance which is a pre-condition for forest conservation and sustainable forest management.

2. What do you consider to be the appropriate way to assess the cost of using forestry activities to reduce emissions? Can you give any examples of where this methodology has been applied successfully?

The methodologies currently used for cost estimates (especially the assessment used in the Stern review) are largely based on 'alternative land use values' which are in turn derived from assessing the values of the products grown on those lands. These estimates **are derived from a seriously flawed methodology**⁹ which significantly under-estimates among others the value of subsistence produce because most of the products produced in subsistence forest farming do not enter commodity markets and as a result 'alternative land use values' are considered to be very low. However, hundreds of thousands of forest peoples depend on subsistence farming in forests for their livelihood. Compensating them in line with the cost estimates derived from alternative land use value costing would – many other considerations like emissions related to alternative livelihoods etc. aside – provide only a fraction of the money needed for forest dependent subsistence farmers to

⁸ See also 'The Missing Instrument: Dirty Input Limits' by D. Driessen and A. Sinden. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1102299

⁹ See also 'An Exchange of Souls' by George Monbiot. Published in the Guardian 19 February 2007. <http://www.monbiot.com/archives/2008/02/19/an-exchange-of-souls/>

find alternative livelihoods. Cost estimates derived from these methodologies must therefore be considered with great caution as they risk creating the false impression that addressing emissions linked to subsistence farming is a cheap option, or a 'low-hanging fruit' in the spectrum of action to avoid emissions from forest loss.

FERN is not aware of any methodologies that would provide reliable and meaningful data on the costs associated with reducing emissions from forest loss. For the reasons outlined above, any such methodology would have to include the cost of subsistence living, which is prevalent in many countries with high forest cover. In Liberia for example, 85% of the population are unemployed and depend on forests for their livelihood. Methodologies would further have to consider the 'political economy' of avoided deforestation, including realities such as the lack of payment of royalties and taxes by the logging industry in many countries.

International mitigation frameworks

1. What do you believe is the appropriate balance between public and private finance of forestry activities for reducing emissions?

This would depend very much on circumstances and the approaches taken.

For example, one of the proven and most effective means of preventing deforestation has been to ensure that local people have secure tenure rights and economic incentives to manage and benefit from their local forest resources in perpetuity. Securing of tenure rights and associated training, capacity strengthening etc. can, in most cases, only be financed through public sources. However, subsequent investment in, for example, small-scale community-based forest enterprises is something that can probably often be delivered through private investment sources (e.g. commercial micro-finance facilities), provided these sources are designed to priorities community needs over short-term economic investment gains.

2. The negotiating remit agreed at Bali in December 2007 envisages a coordinated approach to global efforts to tackle deforestation. In your view is there scope for different countries to move at different speeds, or would that risk fragmentation (and possibly leakage of carbon effort to areas outside the scope of pioneering initiatives)?

There is probably scope for different countries to move at different speeds, and 'leakage' is of particular relevance only if the approach chosen is that of carbon trading where savings in emissions from forests justify extra fossil carbon emissions and thus delay the swift switch to zero-carbon economies.

The risk of merely displacing deforestation would further be significantly reduced if industrialized countries committed to simultaneous action to remove the drivers of deforestation that are in their control. These would include, among others, unsustainable demand for agrofuels which is driving e.g. conversion of tropical forests to oil palm plantations.

3. Although the scope for forestry projects in the existing global mitigation framework (i.e. Kyoto) is limited, the experience of how its mechanisms have been used to drive abatement in other sectors will influence the design of mechanisms in a post-Kyoto

framework. To what extent do existing flexible mechanisms¹⁰ provide robust and efficient models for the certification of abatement activities involving:

- Afforestation and reforestation
- Deforestation and degradation?

The main lesson from existing flexible mechanisms is that they have failed to reduce greenhouse gas emissions verifiably and that their contribution to sustainable development – a key objective in the case of the Clean Development Mechanism (CDM) – has been negligible at best. Analysis published in the August 2007 issue of *Climatic Change*¹¹ documents the structural flaws that have led to this failure¹².

It should further be stressed that by definition the project-based flexible mechanisms CDM and Joint Implementation **do not reduce emissions**. Even in the best-case classroom theory scenario, they only prevent an increase in global emissions. In reality, however, global emissions are believed to have increased because of these flexible mechanisms because many projects that have been registered and justify additional emissions in industrialized countries with emission targets do not deliver extra emissions reductions. Instead, these are reductions that would have happened anyway. Furthermore, the experience with the CDM has shown that it has failed to trigger the switch to zero-carbon economies in either industrialized or developing countries. Given the need to have drastically reductions to the order of 90% or more by 2050 in industrialized countries, this inherent flaw makes **offsets a dangerous distraction** from the task at hand: reducing greenhouse gas emissions drastically and moving to zero-carbon economies over the coming decades.

Such failings are likely to be exacerbated if forest related projects were to be included in such a carbon trading framework because this instrument has already shown that it is not designed to deal with key issues relevant to forests, such as permanence of carbon storage, complex land-use change patterns, land tenure, poverty alleviation, indigenous peoples' rights and corruption etc. Case studies documenting these structural flaws, and analysis that suggests that these are not design flaws but rather **in the case of offsets, the design is the flaw**, are available in 'Carbon Trading. Critical Conversations on Climate Change, Privatisation and Power'.¹³

4. If a new flexible mechanism were required to allow certification of abatement of emissions from deforestation, what are the principal design constraints? (For example, are there particular features of the Kyoto mechanisms that should be emulated or avoided?).

See response to question 3, above and detailed case studies and analysis of the compliance and voluntary offset market at www.sinkswatch.org. As documented extensively by FERN and others, and as increasingly acknowledged even by carbon trading advocates, **the issue with the CDM is that the design is the flaw**: The principal design constraint is the impossibility to verify the additionality claim of any individual offset project. Strategies serious about halting climate change and reducing deforestation must consider mechanisms outside the Kyoto Protocol's carbon trading framework.

¹⁰ International Emissions Trading, Joint Implementation, and the Clean Development Mechanism. Background to these mechanisms is available on the UNFCCC website: http://unfccc.int/kyoto_protocol/mechanisms/items/1673.php

¹¹ Climatic Change (2007) 84:1–110; Various articles; DOI 10.1007/s10584-007-9266-z

¹² See also D. Driessen and A. Sinden: 'The Missing Instrument. Dirty Input Limits' for an explanation of why carbon trading is failing to trigger structural innovation. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1102299

¹³ Available at www.thecornerhouse.co.uk/subject/climate

5. How would countries participate in a mechanism for generating credits from deforestation abatement activities? What models for host country participation should be considered? For example;
- Should the mechanism allow participating countries to host credit-generating deforestation offset projects;
 - Alternatively, should the mechanism involve a transfer of emissions rights to participation countries (with the right to gain compensation for or sell any surplus allowances)?

The assumption here appears to be that avoided deforestation payments would necessarily be in the form of tradable carbon credits. As outlined above, it is FERN's assessment that this would be an economically inefficient, technically extremely difficult, and possibly counter-productive route to embark on.

Additional technical questions arise from the need to regulate the flow of credits into the existing carbon market at a level that would prevent a price crash due to oversupply (or lack of demand due to insufficient reduction targets by industrialized countries) while facilitating sufficient revenue generation to finance a significant dent in deforestation rates. The impossibility of striking this balance is set out in the report 'Carbon Sunk: The Potential Impacts of Avoided Deforestation Credits on Emissions Trading Mechanisms'.¹⁴

Finally, forthcoming analysis by economists Alain Karsenty and Roman Pirard¹⁵ further support the conclusion that the existing carbon trading framework of the Kyoto Protocol is ill-suited to accommodate an effective approach to reducing emissions from forest loss.

6. What role do you see for bilateral and multilateral funding of forestry activities?
- Should it be used to fund forestry activities directly, or indirectly by purchasing credits generated from forestry activities?
 - Are there any institutional prerequisites for such a fund to stimulate a supply of credits through the mechanism?

As mentioned above, forest-based carbon trading is probably a very inefficient, and possibly counter-productive way of dealing with underlying causes of deforestation, such as inequitable land tenure – and indeed may tend to reinforce such problems rather than help generate the funds to resolve them. There is much scope for bilateral and multilateral funding to continue to directly support appropriate forest management and forest restoration programmes, in cost effective ways, such as through financing land reform programmes or community forest initiatives.

The EU FLEGT programme also seems to be an effective way to contribute to forest governance reform and the potential to discuss activities to avoid deforestation in the context of forest governance initiatives should be considered.

We are however seriously concerned about the central role the World Bank seems to have taken on in the current discourse on 'REDD'. For details on the serious shortcomings of the Bank's approach, and its failure, for example, to consult with indigenous peoples over the design of the Forest Carbon Partnership Facility, see the Forest Peoples Programme reports, available at www.sinkswatch.org and www.forestpeoples.org.

¹⁴ Available at <http://www.rainforestfoundationuk.org/s-Carbon%20Sunk%20-%20The%20Potential%20Impacts%20of%20Avoided%20Deforestation%20Credits%20on%20Emissions%20Trading%20Mechanisms>

¹⁵ Available on request from the author.

The Bank also has a very poor track record in implementing forest management programmes, and there is little indication that the institution is learning from past mistakes. The World Bank Inspection Panel website provides further information on Bank interventions in the forestry sector and the problems arising from this involvement. These two recent reports are highly relevant:

<http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/FINALINVREPwhole.pdf>
<http://siteresourcesqa.worldbank.org/EXTINSPECTIONPANEL/Resources/CAMBODIAFINAL.pdf>

So far the World Bank interest has been mainly in establishing a carbon market for REDD credits. In the context of discussions about an international fund from which activities to reduce deforestation would be financed, the World Bank should at present not be considered as capable of providing an effective role in managing any avoided deforestation fund.

7. What should the role of the following types of carbon market be in financing forestry activities?
- Mainstream (compliance) carbon markets;
 - A closed compliance market for forest carbon credits;
 - Voluntary carbon markets.

See above. The assumption that carbon offset trading is an appropriate approach to addressing deforestation needs to be challenged. Evidence to date suggests that building a climate change strategy aimed at avoiding deforestation on carbon trading is very likely doomed to fail – and this is a failure that can, and should, be avoided through careful, thorough, and unprejudiced analysis of the record of carbon trading.

Perhaps the more appropriate question here might be ‘what funding mechanisms for Avoiding Deforestation can be envisaged as alternatives to carbon markets in order to avoid the kinds of problems associated with forest carbon trading?’ One answer to this question might be ‘fund-based mechanisms’ where the funds are derived from a variety of sources, including a levy on internationally traded oil and coal, a percentage of revenue derived from auctioning carbon permits, e.g. under the EU Emissions Trading Scheme, a percentage from taxing carbon and the trade in it. A variety of suggestions have already been tabled that deserve consideration.

8. Should compliance buyers be allowed to surrender forestry credits in order to meet their legal obligations?
- Should countries with compliance obligations under Kyoto (or a successor agreement) be allowed to use the credits?
 - Should companies with compliance obligations under regional or sectoral compliance schemes be allowed to use the credits?

No would be our reply in all three cases. See responses above for justification.

9. In January 2008 the European Commission published a draft legislative proposal for the reform of the EU Emissions Trading Scheme following expiry of the current legislation in 2012. The accompanying Regulatory Impact Assessment¹⁶ concluded that easing the current exemption of credits derived from forestry would be problematic. Do you agree with this analysis? If not, please explain your rationale.

Yes, FERN fully agrees with this analysis.

¹⁶ See section 3.7 of the Impact Assessment which is published at the European Commission website: http://ec.europa.eu/environment/climat/emission/pdf/com_2008_16_ia_en.pdf

Poverty reduction and capacity building

- 1) Should an international mitigation framework that includes forestry be designed to have the maximum possible impact on poverty reduction, or should the focus be do-no-harm mitigation?

As set out above, any successful framework must put peoples' needs at its core. Poverty reduction will therefore have to be a core component of any sustainable approaches to prevent deforestation.

We have learned from the EU FLEGT process that it is essential to establish who owns the right to the forest and respect forest peoples' rights before any partnership agreement can be put in place. The same would apply to any agreement to avoid deforestation. To be able to clarify these rights, a participatory domestic process including all stakeholders and right holders is a necessary pre-condition. Other governance initiatives, for example the nationally led process in Brazil, have also recognized the importance of participatory processes for addressing governance issues. In the context of avoided deforestation, it may be useful for countries to consider similar processes. In any case, there is growing evidence that forest governance and avoided deforestation initiatives will have significant overlaps. From the outset, therefore, it may be useful to share experience, information, data and institutional capacity across governments and civil society groups in order to achieve greater effectiveness and policy coherence.

- 2) What do you consider are (national and local) governance pre-requisites for participation in an international mitigation framework including forestry at
 - national level
 - project level?

Again, the minimum governance requirements will depend to a large extent on the approach chosen and on the accuracy required in the carbon accounting. Irrespective of these minimum requirements (which will depend on the approach chosen to leverage financing), governance pre-requisites will include a commitment to free and prior informed consent and the development of action plans that are based on participatory analysis of the drivers of deforestation in a given location. Minimum requirements for meaningful consultation developed in the context of negotiating Voluntary Partnership Agreements under EU FLEGT processes may provide valuable guidance.

Additionally, obvious governance pre-requisites that arise from analysis of previous initiatives to address deforestation suggest that where such initiatives have been successful it is because they have addressed land rights issues and recognized indigenous peoples land and customary use rights.

- 3) What can be done in the short term to preserve forests in very weak governance situations?

Weak governance situations at central government level do not automatically mean that forests will be lost. Similarly, relatively strong governance at central government institutions (like e.g. in Malaysia) can lead to rapid liquidation of forest resources. It is becoming abundantly clear that one of the most effective (as well as the most morally just) ways to achieve both poverty reduction and control deforestation lies in recognizing existing customary rights systems and translating them into statutory law, thereby giving local communities the rights to own and manage the forests they depend on. This has led to effective 'resguardos' in Colombia, and more recently, changes in forest legislation

in Tanzania and Mozambique. The FLEGT process is envisaged to stimulate similar changes in Ghana, Cameroon and Liberia. In all these cases, forest governance at all levels has improved dramatically, as has forest conservation and sustainable forest use. In contrast, in countries like Indonesia (weak central forest authority governance) and Malaysia (strong central forest authority governance), where these rights have not been recognized, both legal and illegal forest destruction continue unabated.

The most effective short-term, as well as long-term solution to prevent forest destruction has often been to attribute greater rights to indigenous peoples and local forest communities.

In the current context, removing new drivers of deforestation, such as unsustainable EU agrofuel targets would also be an important contribution to avoiding deforestation. This action can be taken in the short-term and is not dependent on governance situations in the Global South but on the political will to ensure policy coherence in the EU and prioritise greenhouse gas abatement over spurious energy security considerations.

- 4) How can participation by and benefits for forest communities and indigenous peoples best be secured in forest protection programmes? Including what kinds of local delivery mechanisms are most likely to benefit the poor?

As mentioned by Sir Nicholas Stern and many others, no scheme to avoid deforestation will work before property rights are clarified and forest peoples' rights and customary laws are secured. Hence an essential first step is to clarify ownership rights and then ensure these ownership rights are enforced. Giving (or in many cases returning) ownership rights to local communities is the best way to reduce poverty, increase forest protection, and promote sustainable forest use. Furthermore, any national plans or programmes should be developed in a proper consultative way including all stakeholders and right holders. The EU FLEGT programme provides a process worth considering in this regard. At international level, any strategy must specify that transfer of resources for 'Avoiding Deforestation' must include requirements for communities to exert free prior and informed consent.

- 5) Is an influx of carbon finance into forest communities likely? And, if so, what are the risks of this?

Given the very long record of national and regional authorities capturing forest revenues, the chances of any financing mechanisms operating through these authorities actually reaching communities on the ground is probably not very high. This is also confirmed by the reality of carbon offset projects involving forests that are in operation to date¹⁷.

Despite my regular enquiries to carbon offset proponents about where to go to see a carbon offset project that involves trees or forests, and which demonstrably reduces global emissions, provides benefits to the local community, is financed primarily through carbon finance, does not unduly restrict future local land use decisions in response to climatic changes and has the potential to address deforestation in the long-term because underlying causes are addressed, no such example has been identified to date.

- 6) How should multilateral and bilateral support for capacity building best be targeted, and what is your view on support currently being planned e.g. Forest Carbon Partnership facility?

¹⁷ For examples, see www.sinkswatch.org and www.zembla.tara.nl

Most tropical forest administrations are biased towards large-scale industrial forest exploitation, and associated central government capture of revenues. As a consequence, they are therefore very poorly adapted to a more community-based, pro-poor approach which would involve *distribution* of benefits to forest peoples. There is an urgent need for re-structuring of such forest administrations, and for approaches that provide a strong incentive for putting community rights and community-led development at the heart of their mission, not as co-benefits at the margins.

For FERN's views on the Forest Carbon Partnership Facility, see, among others, the letter calling for the World Bank to postpone the launch of the facility until a series of significant shortcomings had been addressed.¹⁸ These shortcomings remain and yet the facility was launched in Bali, despite the omission of any consultation by the Bank with indigenous peoples. The continuous World Bank promise to approach the carbon market through 'learning-by-doing' is in sharp contrast to the reality, which is more accurately described as 'doing-without-learning'. Such 'doing-without-learning' appears to be the guiding principle of the World Bank's Forest Carbon Partnership Facility, which aspires to provide a blueprint for carbon trading in the context of avoided deforestation.

7) What is the role of civil society (locally, nationally and internationally) for ensuring that protecting forests contributes to poverty reduction?

Civil society needs to play an active role in developing and designing any national and international agreement. As stated above, the EU FLEGT process could be a model for national level activities.

Civil society also needs to hold governments to account, especially in circumstances where democratic/judicial processes are weak or non-existent. However, in those cases where forest peoples or forest dependent communities equate 'civil society', their role must go beyond that of holding government to account and include their active involvement and participation in designing and implementing action plans to address deforestation.

8) How can multilateral and bilateral donors ensure that support for forest conservation that contributes to poverty reduction is integrated into their wider programmes?

See above as per questions 3 and 4. Furthermore multilateral and bilateral donors should be tested on the consistency of their various policies and programmes. All policies should be tested on whether they actively contribute to poverty alleviation and sustainable forest use.

¹⁸ Available at www.forestpeoples.org

Lessons learned

1. What do you consider are the most successful examples of projects/programmes that have preserved forests and contributed to improving livelihoods? To what extent are these best practice examples transferable from one forest economy/type to another?

There are few good examples, and most of these have not arisen as a result of governmental or development co-operation programmes, but as a result of local struggles by communities to assert control over local land use decision making that affects their livelihoods, supported by governments and / or donors, such as the creation of the resguardos in Colombia and the Saramaka court case in Surinam. The EU FLEGT programme is the first international programme as far as we are aware, which seems to have *the potential* to really address the underlying causes that lead to forest loss. It is too early to judge its effectiveness as no partnership agreements have yet been signed, let alone implemented, but the potential to reform existing legislation and to develop a legal framework and monitoring system that will contribute to improving livelihoods and improved forest management is certainly there. In Indonesia, Ghana and Liberia concrete results in terms of steps towards improved forest governance are already visible. Any avoided deforestation initiatives need to take heed of lessons learned by the FLEGT programme and ensure that progress made in these initiatives is not jeopardized through poorly-thought through strategies on climate change and avoided deforestation.

2. If you are a forestry project developer or investor, we would be grateful if you could provide details of the projects you manage/support. E.g.
 - objectives
 - description
 - measuring and monitoring methodologies
 - certification
 - financing
 - mitigation impact
 - livelihoods impacts etc.

FERN's annual report 2006 is attached. More detail is also available at www.sinkswatch.org

FERN has been actively involved in both the design and the implementation of the EU FLEGT programme by first developing, together with the Royal Institute of International Affairs, a blueprint for the EU FLEGT Action Plan and second, by developing close partnerships with civil society groups in all timber exporting countries that are negotiating a FLEGT agreement with the EU. FERN has also worked to ensure that there is an effective information exchange among these partners and between these partners and the EU. It has been FERN's role to demand that our partners in these countries have a seat at the table when these agreements are negotiated and that issues like community rights to land and forests and equal benefit sharing are addressed. See www.fern.org and www.loggingoff.info

FERN has also been actively involved in monitoring carbon sinks projects and providing evidence to the CDM Board regarding the failings of such projects. Documentation of these

failings has included visits to communities affected by ill-conceived carbon offset projects. See www.sinkswatch.org and www.fern.org

3. What could be the role of existing sustainable forestry schemes e.g. certification, EU Forest Law Enforcement, Governance and Trade (FLEGT) etc in helping the forest sector contribute to tackling climate change?

See responses to earlier questions. As stated above, the EU FLEGT process could provide a useful example of how to reform forest laws and address issues such as community rights. It could also provide a model of how to conduct a participatory process dealing with complicated issues like avoiding deforestation by getting all stakeholders around the table. It is imperative to take guidance from the 'good examples' such as Ghana and Liberia and understand the dynamics of negative examples such as Malaysia. By looking at positive and negative examples of the EU FLEGT process, one can also develop an indication about which countries are willing to seriously address deforestation and which countries might be mainly interested in gaining cash without fulfilling the required changes needed to use the forests sustainably. Last, in terms of independent monitoring and developing legality verification systems, the EU FLEGT system could also provide useful information, although these systems are, at the moment, all under development. It also should be noted that in our view, shared by the European Council, the FLEGT process is firstly about forest governance, including recognition of tenure rights, (the 'G' in FLEGT). Only once good governance is in place can one start addressing law enforcement (LE in FLEGT). Some forces in timber producing countries and the forestry industry prefer to see the FLEGT process first and foremost as a mechanism for law enforcement, thereby denying the need for improved forest governance that ensures avoiding enforcement of unjust or unclear laws.

4. What features must an international crediting system for forest carbon have to maximise benefits for poor people? What lessons can be learned from experience of CDM and JI?

See responses to questions above. FERN firmly believes that any carbon credit system will be ill-suited to addressing the challenge at hand. The clear lesson from the CDM is that it has failed to provide any meaningful benefits for people living in poverty. On the contrary, in an increasing number of cases, CDM projects have exacerbated the plight of poor people by providing additional finance to polluting industries whose activities are a considerable risk to local livelihoods. For examples of such projects, see the documentation of industrial CDM projects e.g. in India or tree plantation offsets as energy projects in Brasil. Information on these is available at www.sinkswatch.org and www.carbonradewatch.org