The risks of REDD in California's cap and trade

The State of California is poised to become the first cap and trade market to accept REDD (Reducing Emissions from Deforestation and Degradation) forest carbon offset credits for compliance purposes. The European Union Emissions Trading System has not accepted REDD credits because of many of the problems described below.

REDD credits are carbon offsets generated from avoiding deforestation or degradation in tropical countries. While these regulations are still limited in scope at this stage, the current approach towards REDD will undermine both environmental and financial market integrity of California's climate policy. REDD credits are at very high risk for corruption, fraud, manipulation, and failing to reduce carbon dioxide. The regulations also ignore the fundamental importance of good governance and protecting the rights of indigenous peoples and local communities.

REDD Offsets Pose High Risks to Financial Market Integrity

The Legislative Analyst's Office (LAO) found that the complexity of ARB's cap and trade system (e.g., free allocations, offsets, offset reserves) opens it up to gaming and that California lacks authority to effectively regulate markets arising from a cap and trade system.[1] The heavy reliance on offsets in the proposed ARB cap and trade system increases the opportunities for gaming and fraud. The Government Accountability Office stated, "The use of offsets can compromise the integrity of programs designed to reduce greenhouse gas emissions. . . it is nearly impossible to demonstrate project additionality with certainty."[2] If offset providers and traders cannot show that their projects are additional (would not have happened anyway), then they will not profit from the transaction – a dynamic that opens up the risk of fraud and corruption. REDD offsets are particularly at risk for fraud, corruption, land grabbing and violations of indigenous rights because they are sourced from countries where governance and legal systems, including land tenure, are weak. California currently has signed agreements to potentially source REDD credits from provinces/states in Indonesia, Brazil, Nigeria and Mexico.

Forest Carbon Accounting is Inaccurate, Unreliable and Prone to Gaming

In order to generate offset credits, it is critical to accurately and precisely determine how many tons of carbon emissions were avoided due to a forest protection project. Without such measurements, California runs the risk of allowing a polluter to continue emitting in state, while an equivalent amount of emissions is not sequestered abroad.

However, the science of measuring carbon stocks and fluxes from land based emissions is, to date, far from rigorous and verifiable. The use of default values in offset project calculations is widespread and estimates of carbon volumes stored in the respective forest areas vary considerably, with error margins often in excess of 50%. Even in the European Union, the average uncertainty range when measuring land-use change emissions is 30-40%.[3] Another study similarly found that assessing forest carbon stocks in a developing country resulted in uncertainty in excess of 40% and none of the scenarios tested achieve emission reductions outside the error margins."[4]

Leakage Poses Serious Threat to Environmental Integrity Even in Sectoral Crediting

The "nested sectoral crediting" approach proposed by ARB poses significant risks to the environmental integrity of California's cap and trade program. The current regulations allow for sector-based offsets to be generated by reductions across an entire sector at the national or state level. However, ARB is proposing to preserve the traditional, project-based offsets crediting infrastructure program (where companies or entrepreneurs can

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develop their own offset projects) within a sector-based accounting program. Project level crediting significantly increases the risk of emissions leakage, when REDD efforts simply prompt deforesting or degrading activities to shift elsewhere. The Noel Kempff Climate Action Project in Bolivia has failed to protect against leakage, despite promises by the NKCAP sponsors. Project sponsors avoided rigorous, expensive monitoring of leakage, favoring elaborate models which depended on significant guesswork. A report released last year shows leakage from the project could be as high as 44%.[5]

Current Forest Offset Protocols Lead to Clearcutting

ARB has already approved protocols developed by the Climate Action Reserve (CAR) for domestic forest offsets; the protocols for these domestic forest offsets are likely to set influential precedents for any international forest offsets that might enter California through REDD projects. ARB's proposed cap-and-trade rule currently not only explicitly invites forest clearcutting as a carbon offset project, but also incentivizes the conversion of natural forests into tree farms. CAR, which developed the forest protocol, similarly acknowledged concerns regarding the environmental impacts of forest clearcutting, but has repeatedly and indefinitely postponed any action to address those concerns. CAR is also developing a Forest Project Protocol for use throughout Mexico, one of the Governors' Forest and Climate Task Force countries, and presumed early provider of REDD credits to California. The repeated failure of CAR to address the perverse incentive to clearcut sets a damaging and alarming precedent for international offsets.

No Protection of Rights for Indigenous Peoples and Local Communities

California cap and trade regulations have ignored the vital importance of protecting the rights of indigenous peoples and local communities. Other REDD policy-making bodies including the World Bank, UN-REDD and the UN Framework Convention on Climate Change, have all recognized that ensuring the rights of indigenous peoples and local communities is essential the success of REDD policies. Indigenous peoples and forest-dependent communities are critical actors in maintaining forest cover and carbon stocks, and they will provide even greater climate benefits to the world when their tenure rights to land, territories and resources are secure. REDD financing can also lead to increased conflict over resources, social exclusion and "land-grabbing," if rights are not recognized. California's cap and trade rules lack clear commitment and guidance requiring the full protection of the rights of indigenous peoples and local communities, sending a dangerous signal.

Conclusion

Due to the significant challenges associated with ensuring environmental and financial market integrity, ARB should not include REDD offset credits in its cap and trade program.

(Endnotes)

1 *Legislative Analyst's Office. "Cap-and-Trade Market Issues" Presented to: Senate Select Committee on the Environment, the Economy, and Climate Change Hon. Fran Pavley, Chair. June 29, 2011. Accessed July 28, 2011:* http://www.lao.ca.gov/handouts/resources/2011/Cap_and_Trade_Market_Issues_062911.pdf.

2 *Government Accountability Office, "Observations on the Potential Role of Carbon Offsets in Climate Change Legislation," Testimony of John Stephenson, Director, Natural Resources & Environment, Government Accountability Office, before the Subcommittee on Energy and Environment, Committee on Energy and Commerce, House of Representatives, March 5, 2009 at* http://www.gao.gov/new.items/d09456t.pdf.

3 *European Commission, Directorate-General Climate Action. Summary Report on the work carried out by European Climate Change Programme group on Climate Policy for Land Use, Land Use Change and Forestry Draft 3, Sept. 2010.*

4 *Pelletier J., et al. "Diagnosing the uncertainty and detectability of emission reductions for REDD+ under current capabilities: an example for Panama." Environmental Resources Letters 6 (2011) p. 7.*

5 *Ariana Densham, et. al. "Carbon Scam: Noel Kempff Climate Action Project and the Push for Sub-national Forest Offsets." 2009. Amsterdam, Greenpeace International.*

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