The UNFCCC has agreed to consider emissions from deforestation in developing countries. A process ending in 2007 will provide conclusions on incentives to stimulate related actions, however, it is unlikely (and even not desirable) that an instrument be established until there is certainty on the future road of the UNFCCC and the Kyoto Protocol. This paper provides a brief review of the past, present and future of reducing emissions from deforestation in developing countries.

1. Introduction

The eleventh session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) has marked an important milestone for international forest policy. An agreement to consider incentives to reduce emissions from deforestation in developing countries could lead to the establishment of an international instrument to curb deforestation. It is likely that such an instrument be some sort of financial mechanism to directly support forest conservation or sustainable management.

The interest in combating forest cover loss within the UNFCCC derives from the fact that deforestation is a major source of emissions, particularly in the developing world (see figure 1). FAO estimates that about 12.9 million hectare of forests were lost annually during 2000-2005. Emissions from land use change are believed to have contributed to 20 – 25% of total anthropogenic emissions during the 1990s. Moreover, for some developing countries, deforestation itself constitutes more than 50% of total greenhouse gas emissions.

Figure 1. The global carbon budget

Source: adapted from XXXX
With this in mind, discussions on a future instrument will take place having as a starting point the objective of the UNFCCC: to stabilize greenhouse gases in the atmosphere. However, Parties have also recognized that the causes of deforestation as well as the benefits from reducing it go beyond carbon and forestry. This paper provides a brief review of the past, present and future of deforestation within the UNFCCC.

2. The past

The significance of the biosphere within the global carbon cycle leads to land use change and forestry activities playing an important role in the global greenhouse gas budget. For this reason, the UNFCCC itself includes several provisions relating to the protection and enhancement of carbon sinks and reservoirs (mostly forests). It does not explicitly specify, however, that deforestation should be addressed.

The first provisions on deforestation are contained within the Kyoto Protocol. Article 3.3, which sets the scope for land use change and forestry within the protocol, specifies that emissions from deforestation shall be accounted by developed countries toward meeting emission reduction commitments. In other words, developed countries are obliged to account emissions from deforestation as part of their efforts to reduce emissions.

Deforestation was proposed as an eligible activity under the CDM during negotiations on rules for the Kyoto Protocol, including for the clean developed mechanism (CDM). The idea of some delegates was that reduced deforestation could have been used to issue CERs equivalent to the amount of avoided emissions. The process face great controversy for several reasons. First, there were concerns on the amount and price of reducing deforestation displacing, first, technology alternatives within the CDM and, second, efforts by developed countries to reduce emissions in house. Some Latin American countries, supported by the United States and Canada primarily, faced the opposition of Brazil and China.

In the end, deforestation in developing countries was left out from Kyoto as the negotiation process could not agree on an approach that would satisfy all Parties. Eligible activities within the CDM were limited to afforestation and reforestation, with a cap of 1% of base year emissions of each developed countries (e.g. the market is limited because each Annex I party can only use forestry CERs up to 1% of its base year emissions). As part of the agreement, a window to finance deforestation was opened under financing adaptation through a language that included fragile ecosystems, but then again, without a direct reference to deforestation.

3. The present

The fact that tropical deforestation was left out from Kyoto represented a source of disappointment for many governments, NGOs and international organizations. On the one hand, a significant source of greenhouse gas emissions was not part of the efforts to combat climate change and, on the other, some developing countries were left out from mitigation as their potential to reduce greenhouse gas emissions largely lies in
the land use, land-use change and forestry sector. Figure 2 illustrates the contribution of deforestation to total greenhouse gas emissions of selected Parties.

Figure 2. Sectorial greenhouse gas emissions for selected countries, percentage.

Source: UNFCCC GHG database, latest available year for each country.

This disappointment has triggered a new process that has brought emissions from deforestation back to the UNFCCC table. This proposal has been primarily fueled by the rainforest coalition, who are seeking new international mechanisms to curb deforestation given the strength and success of the carbon market. The process has started in the form of “conclusions by the COP”, less formal than a COP decision but a mandate that needs to be addressed. Such a mandate has requested Parties to consider incentives to stimulate action to reduce emissions from deforestation and to report back to the COP by the end of 2007.

The above means that, although a process has started, it is yet unclear the road it will take. That is, there isn’t any specification on what alternatives shall be considered, for example, whether incentives refer to the carbon market, a new fund a new protocol with commitments or any other. Discussions are also taking place in the light of the consideration of future of the UNFCCC, which include a possible second commitment period of the Kyoto Protocol or an alternative. This means that any conclusions on incentives to reduce emissions from deforestation will likely be fed into the process for the future of the UNFCCC.

Before elaborating on available proposals to reduce emissions from deforestation, it is worth to glance at the state of discussions for the broader process. There are currently two paths that are evolving in parallel. One is the consideration of a second commitment period and, the second, is referred to as the “long term dialogue” and focuses on action under the Convention beyond Kyoto. With no doubt, the main political development will be the consideration of a second commitment period, as this will set the continuation of efforts that are already in place, against the need to start from scratch with a new instrument.
The process for the future is also unclear at this stage. It is marked by the fact that major emitters are not bound to reduce greenhouse gas emissions by Kyoto, including emerging economies from the developing world. Other issues that will form part of these discussions include whether the UNFCCC can go forward with a cap and trade system, equity with regards to the use of the atmosphere for polluting, the need to strengthen the CDM and the need to take into account national circumstances.

Coming back to discussions on deforestation, parties have acknowledged that deforestation is a very complex process resulting from social, environmental and economic factors that interact at many levels. Given the political and technical difficulties linked to deforestation, Parties have indicated that:

- National circumstances need to be taken into account and, thus, flexibility is required in the design of the instrument
- Principles of equity, sustainable development, poverty alleviation, sovereignty and synergies need to be incorporated in the design and development of the instrument.
- There will be a need to ensure the long-term effectiveness of the instrument, which implies long-term and certain source of funding.
- ODA could be used to create an enabling environment
- Action that has been taken in the past by some countries should be recognized

Despite uncertainties of the outcome, there are several proposals on the table. Most interested Parties are looking for a financial solution that strengthens current efforts in place, aside from capacity building. Actual proposals vary but can be grouped into the use of the carbon market and the establishment of a transfer payment instrument. Options for the first include making “avoiding emissions from deforestation” an eligible activity under the CDM, where the incentives would be the proceedings resulting from the purchase of CERs. A second alternative is that developing countries take on voluntary commitments to reduce national deforestation relative to a baseline, in a similar way that emission reduction commitments work for developed countries; incentives would be the ability to trade allowances, analogous to emissions trading or joint implementation. On the other hand, transfer payments could include a commitment to increase ODA or the establishment of a fund specifically to curb emissions from deforestation.

The above-referred options have advantages and disadvantages. The use of the market has the potential to offer a secure and long-term source of funding to reduce deforestation. It also provides a direct channel to compensate or reward those who deforest. On the negative side, the consideration of the carbon market will be controversial and it is highly unlikely that an unrestricted mechanism be agreed (e.g. similar to what happened to afforestation and reforestation under the CDM). Furthermore, there will be limitations with regards to what deforestation can be reduced as well as who could be compensated: some deforestation results from large scale agriculture whose benefits are larger than what the carbon market can pay and, second, another portion of deforestation is the result of squatting and illegal logging, undertaken by unidentified people.

Regarding transfer payments, although there they could trigger lower controversy and be less demanding in terms of technical requirements, they have the disadvantage of
offering a less secure and longer-term source of funding, as they would depend on public funding.

Agreeing on the most adequate instrument will be the result of negotiations. Parties will not only take into account the advantages and disadvantages of available alternatives, but also how these would affect their interests, including implications for the carbon market, for the overall accounting of emissions and, ultimately, the effectiveness on reducing greenhouse gas concentrations in the atmosphere. The consideration of the issue starts with an inherited controversy: the use of forests to offset greenhouse gas emissions, a factor that complicated negotiations in the past and left avoided deforestation out from the CDM. The bad news are that deforestation is difficult to deal with, both politically and technically; that most concerns with deforestation still remain among big UNFCCC players; and that views on how deforestation should be addressed are diverging.

But there are also good news bringing an optimistic air for the future. First, there is great interest among all negotiating Parties in arriving at a solution, including some Parties that had a negative attitude in the past; second, there is a mandate which needs to be addressed, meaning that Parties need to make an effort to agree; third, there are new players and new constituencies, which brings more energy and negotiating power to those interested in the process moving forward; and, finally, the willingness from a group of developing countries to take on commitments to reduce deforestation and bare part of the costs.

4. The future

Setting incentives for deforestation within the UNFCCC will likely occur in several stages and depend, first, on how the process until 2007 evolves and, second, what are the outcomes of the long term dialogue for the future of the UNFCCC. If both processes are successful, it is likely that discussions on incentives to reduce deforestation will feed their conclusions to the longer term process, specifying the option (or options) which would fit into a future broader arrangement.

In the shorter term, aside from exchanging views on the effectiveness of several incentives and policy approaches, Parties will discuss two main elements. First, what sort of instrument will be established and how will it be incorporated within the UNFCCC? More specifically, this means that discussions will consider whether the reduction of emissions from deforestation can made equivalent to reducing emissions from in other sectors; and whether an instrument that issues credits that could be used to reduce overall greenhouse gas emissions will be allowed.

The second issue is who will pay for the reduction of emissions. In the case of transfer payments, this means that governments will agree to increase ODA or provide resources to a fund; and in the case of the carbon market this means that, under governments commitments to reduce emissions, the private sector would purchase credits from reduced deforestation. This is likely to bring several complications as it is highly unlikely that developed countries will agree to bare the costs alone.
In conclusion, at this stage it is indeed difficult to look at a crystal ball, be able to predict the future. There are uncertainties regarding the process on deforestation itself as well as the on the future of the UNFCCC, thus, it is almost impossible to state whether deforestation will be part of an overall future arrangement under the UNFCCC either within the carbon market or as a new fund. What is certain is that there is substantive interest in finding a way forward and that past negotiations have left an amount of lessons learned. The UNFCCC has demonstrated that agreements are possible and that it is also possible to establish international mechanisms that are effective in addressing environmental problems.