

REDD benefit sharing between sub-national and national level

The Brazilian example *
June 2011

Two important questions remain unanswered with regard to the structure of an international REDD regime: how can secure REDD funding be guaranteed in the medium term, and how would “fair” benefit sharing between the national and local levels work?

Crucial progress was made at COP 16 in Cancún, when REDD was embedded in the Framework Convention on Climate Change. Nevertheless, vital decisions are still to be made on a binding and effective institutional framework. It seems clear that a new climate deal will owe a substantial element to REDD, which may account for a good third of overall emissions reductions. The fact that major industrialised nations, including the USA and Germany, see a prominent role for REDD in future climate policy is shown, amongst other things, in their commitment to REDD fast start financing. The donor community provided a total of USD 4 billion for this purpose up to 2012. Unresolved issues include secure medium-term funding and the form of collaboration between sub-national REDD activities and a national REDD monitoring and compensation regime. Brazil has put forward an interesting proposal for how this particular challenge can be met.

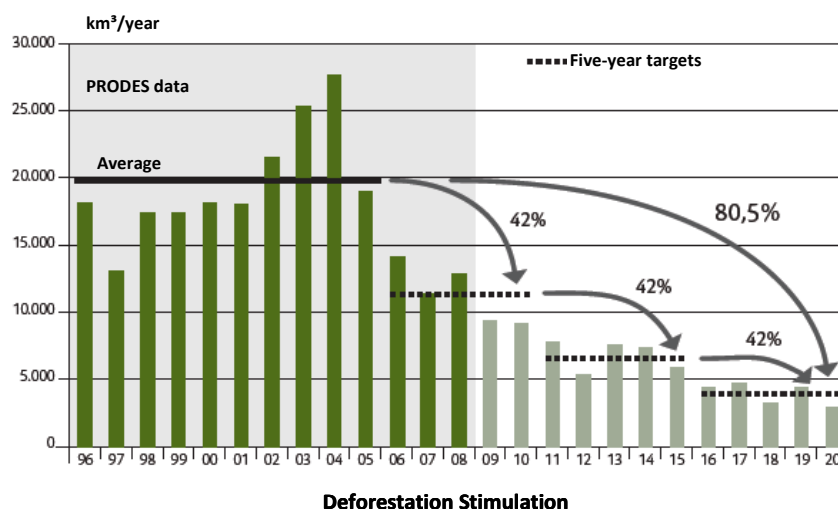
The Brazilian climate plan

In terms of REDD, Brazil today is at the same time causing the problem and providing a solution. The country has the highest greenhouse gas emissions caused by forest destruction and the largest forest stocks, which are threatened with conversion to agricultural use in the future. At the same time, Brazil is a trailblazer in the development of a successful REDD policy. This policy is underpinned by political and legal foundations (law) designed to reduce emissions by a sophisticated satellite system to monitor deforestation in the Amazon and by new instruments, such as the Amazon Fund, for the financing of REDD. In Copenhagen, Brazil unilaterally pledged to reduce its anticipated emissions until 2020 by 36-39%. With a reduction in emissions due to changes in land use of 80% for the Amazon region

and of 40% (compared to 2005 in each case) for the *Cerrado* dry savannah, REDD is to provide the lion’s share of this. As a voluntary yet binding commit-

implementation of REDD is vitally dependent on a “fair” balance of interests between the sub-national units and the central government.

Graphic 1: Five-year targets for avoided deforestation in the Amazon



ment, this pledge was formalised as “Nationally Appropriate Mitigation Action – NAMA” within the framework of the Copenhagen Accord. The “voluntary pledge” turned into law when the “National Plan on Climate Change – NPCC” (“Plano Nacional sobre Mudança do Clima” – PNMC) was passed. There is broad consensus among climate negotiators that REDD can only be fully effective as a national approach. This is due, amongst other things, to the lessons learned during the first Kyoto commitment period from 2008-2012 with project-based offsets within the framework of the CDM (Clean Development Mechanism). Although investments going into tens of billions were mobilised via CDM, it proved impossible to generate a sustainable impact on the emissions path of emerging economies in particular (on which CDM investments concentrated). While it is clear that a national approach cannot be achieved “off the cuff”, the key issue today is the development of instruments that allow an orderly transition from a project-based policy to national REDD policy. The intermediate level of regions and federal states plays an important role in this transition. It is important to address the drivers of deforestation and facilitate benefit sharing via this level. The political

National and federal climate plans¹

A concrete proposal has come from Brazil for how the interaction between these two levels might look like and how joint REDD emission reductions, integrated carbon accounting (to prevent leakage and double counting) and “fair” benefit sharing could be achieved. Within the framework of its “National Climate Change Plan” (PNMC), the Brazilian Government has developed a REDD emission reduction target of 80% by 2020 for the Amazon region, which consists of/includes several federal states.

The historic baseline on which this target is based relates to the initial period from 1996-2005. The baseline is valid for 5 years and is then adjusted on the basis of average deforestation during the preceding period (cf. Graphic 1).

In addition to the National Climate Plan, some federal states have since passed their own climate plans. The federal state of Acre set itself the goal of reducing its deforestation by 75% from 2009-18,

¹ The following account is essentially based on the study “REDD no Brasil: um enfoque amazônico”, published in 2011.

* The second part of this report is essentially based on the “REDD no Brasil: um enfoque amazônico”, published in 2011. Source: P. Moutinho, O. Stella, A. Lima, M. Christovam, A. Alencar, I. Castro e D. Nepstad: REDD no Brasil: um enfoque amazônico, 2011. Brasília, DF, Centro de Gestão e Estudos Estratégicos (CGEE). The study was backed by the CGEE of the Brazilian Ministry of Science and Technology and the Secretaria de Assuntos Estratégicos da Presidência da República (SAE/PR) of the Presidential Office of Brazil.

based on the reference period from 1999-2008 (cf. Graphic 2).

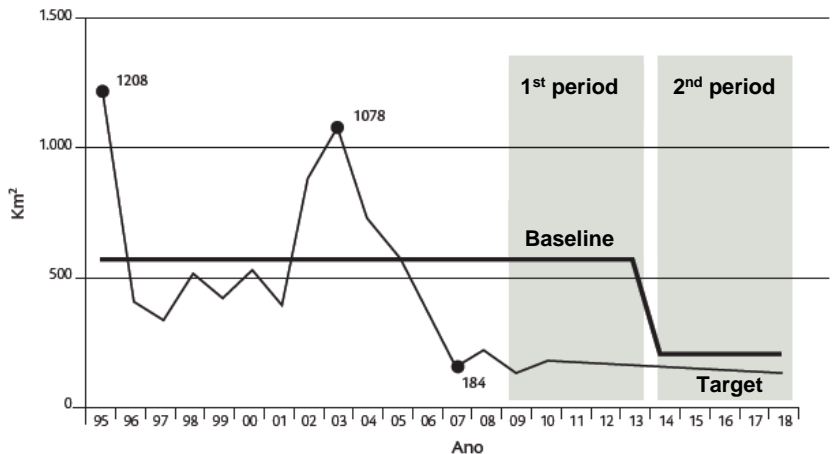
If a credit system for emission reductions was based solely on avoided deforestation, then the federal states with highest deforestation rates during the reference period would stand to gain the most. With its large expanses of pasture and soya fields aggressively devouring the ancient forests, the state of Mato Grosso alone would receive 50% of all the Amazon region's benefits. In contrast, the state of Amazonas, where the deforestation rate has been very slow, would only receive 10%. At the same time, it has to be recognized that the profitability of agricultural production in Mato Grosso is twice as high as in most other Amazonian states. Not only does this explain the higher deforestation rates in the past, it also highlights the comparably bigger efforts Mato Grosso has to make in order to achieve emission reduction targets.

Benefit sharing between federal states and national programmes

The aforementioned study on "REDD in Brazil" puts forward a concrete proposal for benefit sharing. This is to be done by balancing a) emission reductions (carbon flow); b) forest stocks (carbon stock) and c) the achievement or over-achievement of the stated targets. The weighting could be calculated on a ratio of 30:50:20. Returning to the example quoted above, the credits for the state of Mato Grosso (20%) and Amazonas (26%) would be levelled out as a result. The exact division would still be subject to political negotiation.

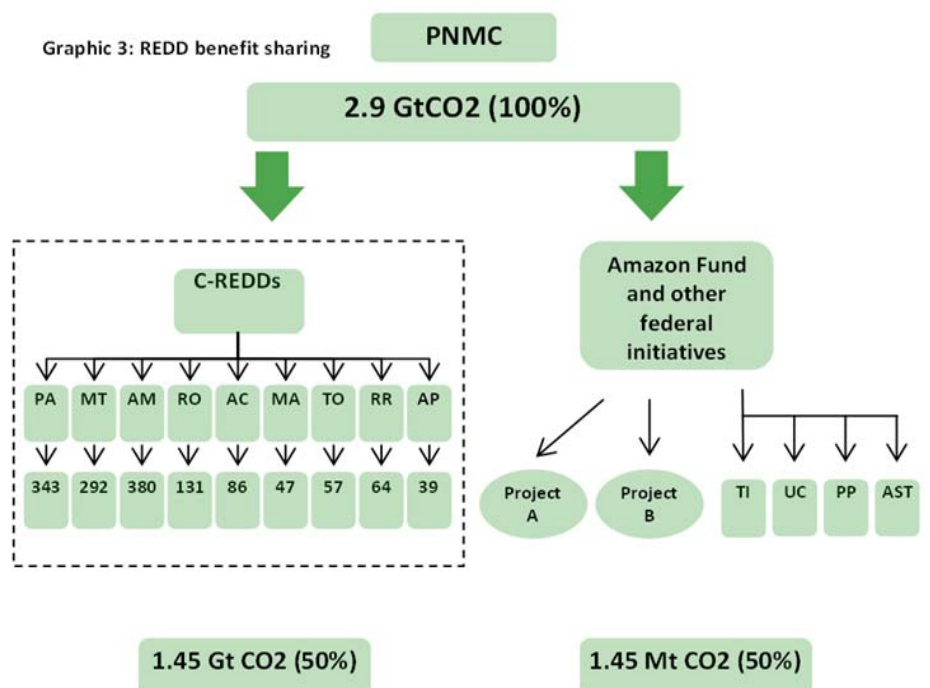
How could a national REDD regime in Brazil work that would also appeal to the sub-national level (especially the federal states)? The states would have access to REDD benefits on the basis of the weighting described above. The monitoring of deforestation would be carried out by the National Institute for Space Research (INPE). For the period of 2006-2010 this would now mean the following. If we take a historic reference scenario from 1996-2005 as a basis, the result would be a deforestation baseline of 19,533 km² a year. Thanks to the successful reduction of deforestation in the Amazon region, total emissions of 2.9 bn tCO₂e have been saved in Brazil (the calculation is based on the conservative assumption of 100 t C per ha). Half of this 2.9 bn tCO₂e could now be credited to the account of the federal states. The remaining 50% would be used for federal programmes such as the Amazon fund or for the develop-

Graphic 2: Targets for avoided deforestation ACRE



ment of public and private national and international investments (donor funds). These could be targeted at specific federal programmes for the forestry sector or indigenous communities. This could also be done – as proposed in Graphic 3 – via specific funds or development programmes for indigenous territories (TI), protected areas (UC), private forest owners (PP) and agrarian reform settlements (AST). Alternatively, the Brazilian government could allocate a part of the emission reductions to be its own voluntary contribution to climate conservation without financial compensation. The industrialised nations are generally expecting Brazil to make its own substantial contribution. The 1.45 bn t CO₂e for the Amazonian states would be allocated as C-REDD credits and turn ex-post, after verification, into tradeable emission certificates.

The total value of the certificates for the period up to 2020 would probably be between USD 7-21 billion, assuming a price of USD 5-15 per tCO₂e. It can, therefore, be assumed that substantially higher sums could be moved than the Amazon Fund would be able to accommodate. There would in turn be plenty of room for further credit systems, with beneficiaries on several levels, but with integrated carbon accounting. The C-REDDs would be distributed on the basis of the weighting described above - 30% carbon flow, 50% carbon stock and 20% target achievement. This would result in the distribution illustrated in Graphic 3 (in millions of tCO₂e).



Benefit sharing between federal states, projects and programmes

If the C-REDDs are allocated to the federal states on the basis of the formula illustrated here, then these must in turn use a state registration agency (Agência Estadual de Registro – AER) to ensure the onward transfer of at least a portion of the benefits to the projects and programmes at local level. These projects would register for this with the AER. The federal government in turn would set up a separate agency for the federal REDD regime which, with the involvement of civil society and representatives of the states, would establish principles and guidelines for the integration of the sub-national programmes into the National Climate Change Plan (PNMC). Every state in the Amazon region would establish a “state REDD system”, each one provided with the aforementioned registration agency (AER). Each AER would act as an integral part of a “federal REDD regime” and would also be overseen by a federal body with regard to the implementation of the targets set by the National Climate Plan. The registration of projects and programmes would comprise two stages.

Pre-registration: In the envisioned REDD system the sub-national projects and programmes submit documentation on expected emission reductions for a given reference period. The information is checked for consistent methodology and compliance with the requirements of the individual state climate plan.

At the same time, the projects and programmes compete with each other within the

framework that the states stipulate as an emissions corridor. If the programmes are registered in advance, they can look for investors on this basis.

Final registration: This takes place after an ex-post verification of the actual emission reductions and includes an independent external audit. Only after this has been done, C-REDDs can be issued and converted into carbon credits (complete process cf. Graphic 4).

The proposed system as a whole combines the levels and instruments required for successful REDD policy in a kind of federal pact. The system is underpinned by: a) an institutional REDD structure; b) appropriate economic incentive systems; c) payment for sub-national emission reductions with simultaneous acknowledgement and validation within national climate policy; and finally d) a “fair” system of distribution between the sub-

national and national levels.

At the same time, the system provides a series of political nuts and bolts that need tweaking in the negotiating process between the sub-national (federal states and local authorities) and national levels.

Only time will tell whether this leads to “fair” benefit sharing. It will also tell us how much the international community would actually like to see climate change mitigation happening via the relatively “low-cost” option of forest protection, and who is ultimately willing to pay for it. Initially, public funds will mainly be used to pay for it: how and whether private companies will then become involved via the carbon market, still remains to be seen.

Graphic 4: The REDD process

