Carbon Markets
Financing Forest Conservation

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Quick History

• Around 2008...a split emerged between donor-driven REDD+ initiatives and market-based “voluntary” approaches.
  – Market-based approaches rapidly advanced technical and methodological knowledge
  – Donor initiatives focused on readiness (institutions, capacities and policy)
  – By 2009 and 2010, two visions of REDD+ emerged grew increasingly isolated from one another.

• What has emerged is a split in the REDD+ sector between fund-based REDD+ and voluntary market-based REDD+
Relevant Developments on REDD+

2008...until today

Donor Supported and Fund-based REDD+

FPIC
Methods
Technical Guidance
Benefit Sharing
Safeguards

Market Oriented REDD +

Policies
Laws
Demand Institutions
Technical Capacities

2008...until today
Relevant Developments on REDD+

Donor Supported and Fund-based REDD+

Bridging

Market Oriented REDD +

The Market Today

• Today we are in this early bridging phase.
• Donor finance is filling the financial risk of REDD+ Readiness development:
  – REDD+ governance and policy are being drafted
  – General methodological guidance
  – Safeguards
• Subnational REDD+ and green growth strategies

• This is good, but it is also the reason why markets are still slow to take off:
  – International policy uncertainty
  – National policies undeveloped (producer side)
  – National regulations requiring reductions (demand side)
...yet something else is missing.

• Private Sector
  – Drives land use and land use change faster and on a scale larger than any other sector.
  – Technical knowledge, resources and flexibility
  – Can drive markets

• Yet donor/private collaboration in REDD+ is rare...why?

• Is it possible that we are inefficient in REDD+ because we are fostering a market failure by overly focusing REDD+ on development objectives...and inadvertently leaving out the sector that is able to adjust it?
The Market Today

- The answer is probably both “Yes” and “No”.
- 2014 REDD Marketplace\(^1\)
  - 31.4 MtCO2e traded in 2014 on voluntary basis within AFOLU
  - 25 MtCO2e transacted
  - $115 million (2014 alone)
  - $442 million from 2007-2014
  - VCS\(^2\)
    - 161,000,000+ VCU Issued (all sectors)
    - 1,234 Projects

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Figure 5: Transacted Volume by Project Category and Type, 2014

Notes: Based on 764 transactions representing 61.7 MtCO₂e.
Figure 2: Historical Market-Wide Average Price

Notes: Based on 931.2 MtCO$_2$e in transacted volume over time.
Figure 6: Value Transacted by Project Type, 2014

Notes: Based on 764 transactions representing 61.7 MtCO$_2$e. The area of each project type rectangle reflects market value, with the vertical axis representing projects by average price transacted and the horizontal axis representing the total volume transacted.

The Market Today

• Buyers and Demand
  – 89% of offsets sold were forest carbon offsets to private sector:
    • Energy Companies
    • Food and Beverage Companies

• Suppliers are waiting for higher prices...

“Respondents...described a buyers’ market in which supply exceeds demand and prices are dropping across nearly all project types. Though purely voluntary suppliers contracted 76 MtCO2e last year, nearly that amount – 63 MtCO2e – remained in their portfolios unsold. The majority (more than 80%) of these tonnes were forestry or land-use offsets.”

Figure 15: Examples of Carbon Offset Buyers by Region

NORTH AMERICA
- General Motors
- The Walt Disney Company
- Bombardier Inc.
- Delta Airlines
- Microsoft Corporation
- Interface Inc.
- Entergy Corporation
- Goldman Sachs Group

EUROPE
- Danone
- Barclays
- Marks & Spencer
- Allianz SE
- Deutsche Post AG
- TUI
- Aviva
- PUMA SE
- Heineken

ASIA
- AU Optronics
- Mitsubishi Heavy Industries
- Sony Corporation
- Olam International
- Noble Group

LATIN AMERICA
- Natura Cosméticos
- Banco Santander Brasil
- Grupo Televisa S.A.
- SURA Peru

AFRICA
- Nedbank
- Absa Group
- Sappi
- Barloworld
- Sanlam

OCEANIA
- Australia and New Zealand Banking Group
- Qantas Airways
- Insurance Australia Group
- AMP
- Telstra Corporation

Notes: Based on 214 voluntary offset buyers reporting to CDP in 2013 and 2014.
What prevents markets?

**What?**

Commodity fragmentation, uncertainty and risk.

**Who?**

Piloting which results in capacity building but not the reliable and replicable production of a commodity.

**How**

Inefficiency due to inconsistency in methods and onerous standards.

**Why**

Lack of any reason why a commodity should be produced.

**Where?**

Uncertainty about where commodities end up, at what price and for how long they can continue to be sold.
Potential Roles of Private Sector

**Role 1 - Financing REDD+ Activities**
1. As Corporate Social Responsibility (CSR)
2. As investors
3. As buyers of offsets for a compliance market

**Role 2 - Development of REDD+ Activities**
1. As primary business model
2. As added value to business activities
3. As a contribution to national performance
Development of REDD+ Activities

1. As primary business model
2. As added value to modified business activities
3. As a contribution to national performance
Somewhere in the tropics...
Circa 2008

I ❤️ Carbon
The Cowboy Legacy

1. As primary business model
2. As added value to modified business activities
3. As a contribution to national performance

Tested many systems in the real world.
Gained awareness that we still had a lot to learn

Early Private Sector Movers

“Speculators”

Damaged the image of the private sector in REDD+

International NGOs

Government Involvement

Sustainable Entrepreneurship Following Standards

- Kasigau Corridor, Kenya
- Rimba Raya, Indonesia
- Rimba Makmur Utama, Indonesia
- Seima, Cambodia
- Others...
Development of REDD+ Activities

1. As primary business model
2. As added value to modified business activities
3. As a contribution to national performance
REDD+ as added value to business

- Some companies have been exploring ways of adding value to existing activities.
  - e.g. Sustainable commodity supply chains in agro-industry

- This is good...but difficult or impossible through carbon alone:
  - Both “stick” and “carrot” are missing.
  - Little or no visibility on market for the value-add product (i.e. carbon)
  - Stigmatized as adding risk and uncertainty
What a Market Environment Need

**What?**
Certainty

An understood commodity. Convergence of methods, not fragmentation into different carbon commodities.

**Who?**
Accountable Producers

Producers which are operationally and financially accountable for the production of a commodity.

**How?**
Efficient Process

Clear regulations, user ownership and standards.

**Why?**
Incentives

Private sector producers need a policy or business reason to participate if markets are to be mainstream.

**Where?**
Market Demand

A clear pathway towards the sale of the commodity.
Development of REDD+ Activities

1. As primary business model
2. As added value to modified business activities
3. As a contribution to national performance
As a Contribution to National Performance

• If we look at REDD+ as only single development driven activities, we limit ourselves to the local stakeholders and government actors that fall within project activities. Often these are:
  – Key technical line Ministries
  – NGO partners
  – Villages
  – National Protected Area Mangers

• Proposition:
  – To get business to engage in REDD...don’t engage through REDD+.
  – In a jurisdictional/landscape context, all actors are potential participants in REDD+, even private sector. They just haven’t been engaged.
As a Contribution to National Performance

• How to get the priority actors engaged?
• How to incentivize businesses that contribute to national performance and indirectly pressure those that do not?

• Rather than carbon, green growth oriented business practices can be engaged through:
  – Tax incentives for contributing to performance
  – International and domestic market incentives for commodity suppliers meeting no-deforestation pledges or low emission/sustainable agriculture certification
  – Later, consider constraints on market access for commodity producers making large cuts in sub-national/jurisdictional performance.
Observations

1. Private sector drives the largest area of land use change in the world, yet it is not actively involved in REDD+.

2. Carbon financing from markets is still a potentially significant source of finance,

3. Currently the necessary market environment is constraint by policy,

4. Markets will remain a place of high potential, but small-scale testing, until:
   
   1. International policy is ready,
   
   2. Domestic economic and tax policy creates incentives for private sector to be part of contributing to national performance.
Thank You

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Sources: Ecosystem Marketplace
www.ecosystemmarketplace.com