Still seeing REDD+
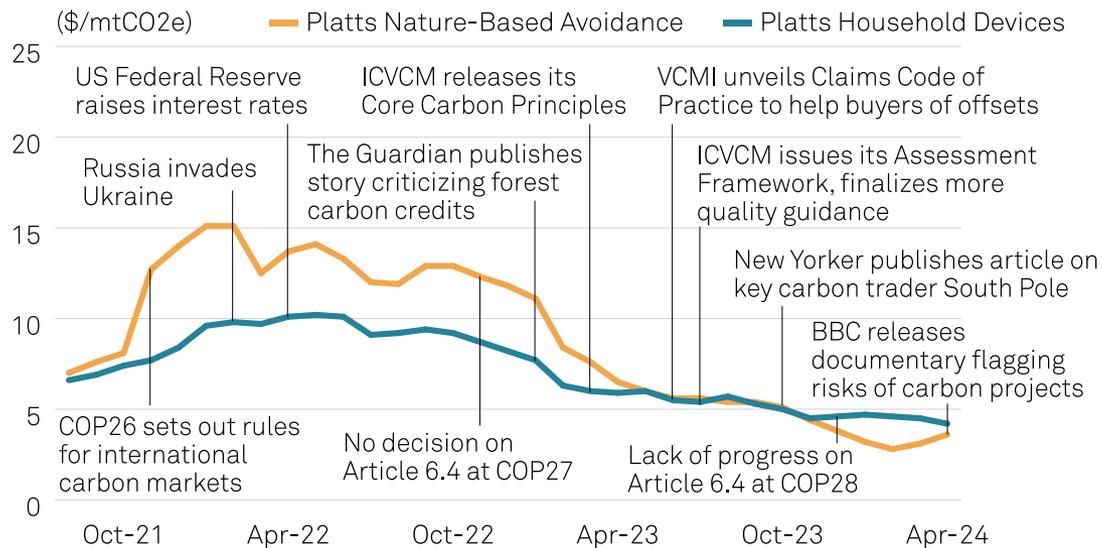
Lessons from avoided deforestation projects and initiatives

Integrity concerns continue to weigh on carbon credits

($/mtCO2e)   — Platts Nature-Based Avoidance   — Platts Household Devices

US Federal Reserve raises interest rates

ICVCM releases its Core Carbon Principles

VCMI unveils Claims Code of Practice to help buyers of offsets

Russia invades Ukraine

The Guardian publishes story criticizing forest carbon credits

ICVCM issues its Assessment Framework, finalizes more quality guidance

New Yorker publishes article on key carbon trader South Pole

BBC releases documentary flagging risks of carbon projects

COP26 sets out rules for international carbon markets

No decision on Article 6.4 at COP27

Lack of progress on Article 6.4 at COP28

y-axis: 0, 5, 10, 15, 20, 25

x-axis: Oct-21, Apr-22, Oct-22, Apr-23, Oct-23, Apr-24

Source: S&P Global Commodity Insights

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ILR — Institut für Lebensmittel- und Ressourcenökonomik

zef — Center for Development Research, University of Bonn

The (early 2000s) promise

(Forest) Carbon markets:

- Put a price on emissions in industrialized countries

- Finance conservation & development in lower income countries (REDD+)

- Are more efficient than centralized tax collection & redistribution
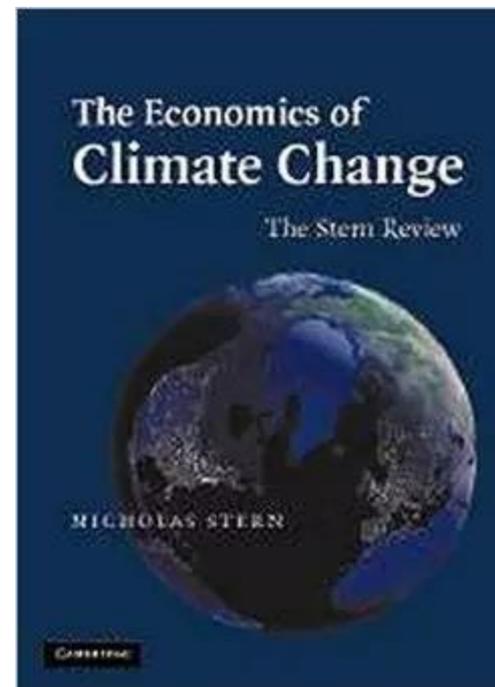
Stern (2006)

The (early 2000s) critique

(Forest) Carbon markets:

- Serve like "abolition letters" for the fossil-based industry

- Result in "hot air" rather than avoided deforestation

- Imply new risks for landholders without formal property rights

"Offsets are an imaginary commodity created by deducting what you hope happens from what you guess would have happened."

Dan Welch

Fast forward: 2023

- Counterfactual-based studies find voluntary carbon markets (VCM) to trade lots of "hot air"

- Main cause: exaggerated reference scenarios/baselines

- VCM prices drop / credibility crisis

- New baseline (MRV) methods are being developed


The Guardian

Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows

Investigation into Verra carbon standard finds most are 'phantom credits' and may worsen global heating

- 'Nowhere else to go': Alto Mayo, Peru, at centre of conservation row
- Greenwashing or a net zero necessity? Scientists on carbon offsetting
- Carbon offsets flawed but we are in a climate emergency

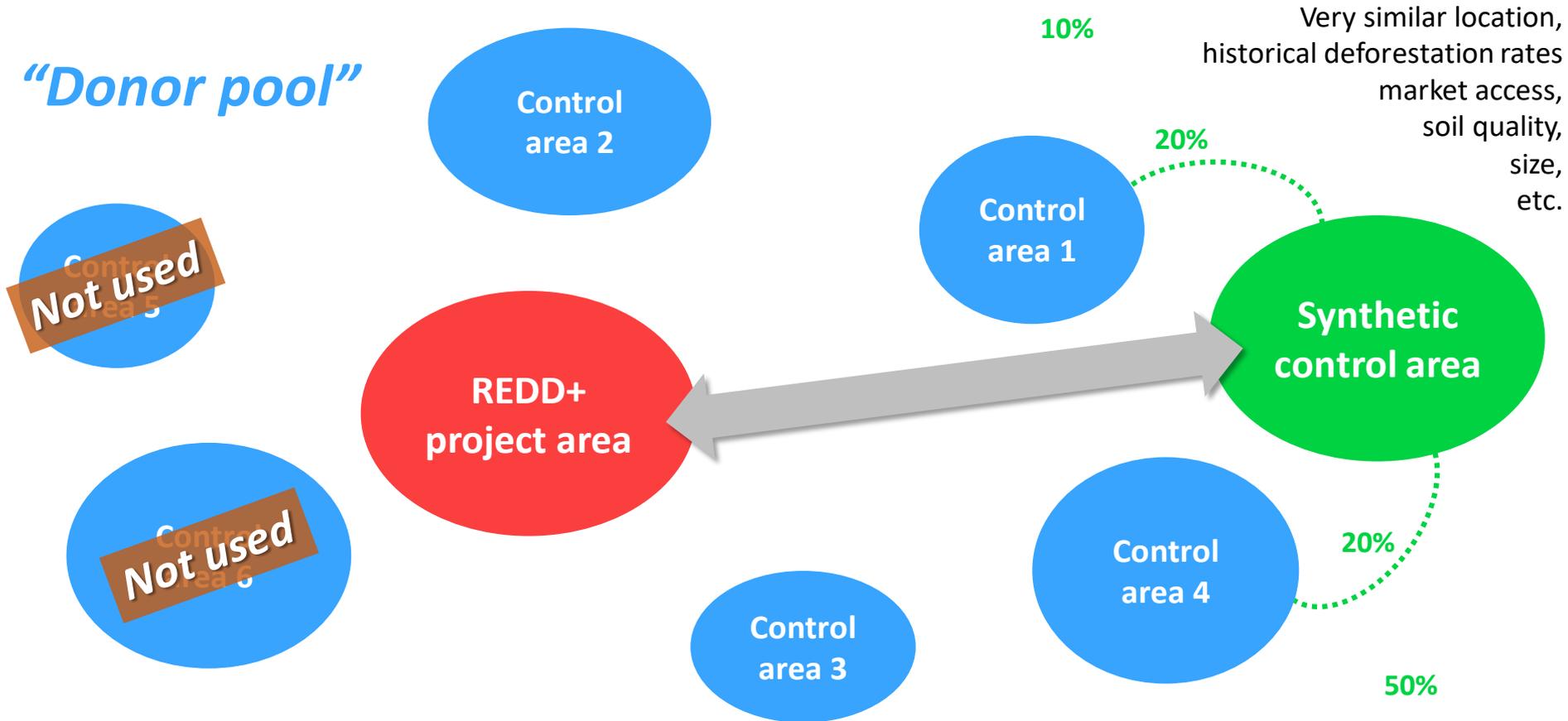# Guessing „what would have happened"
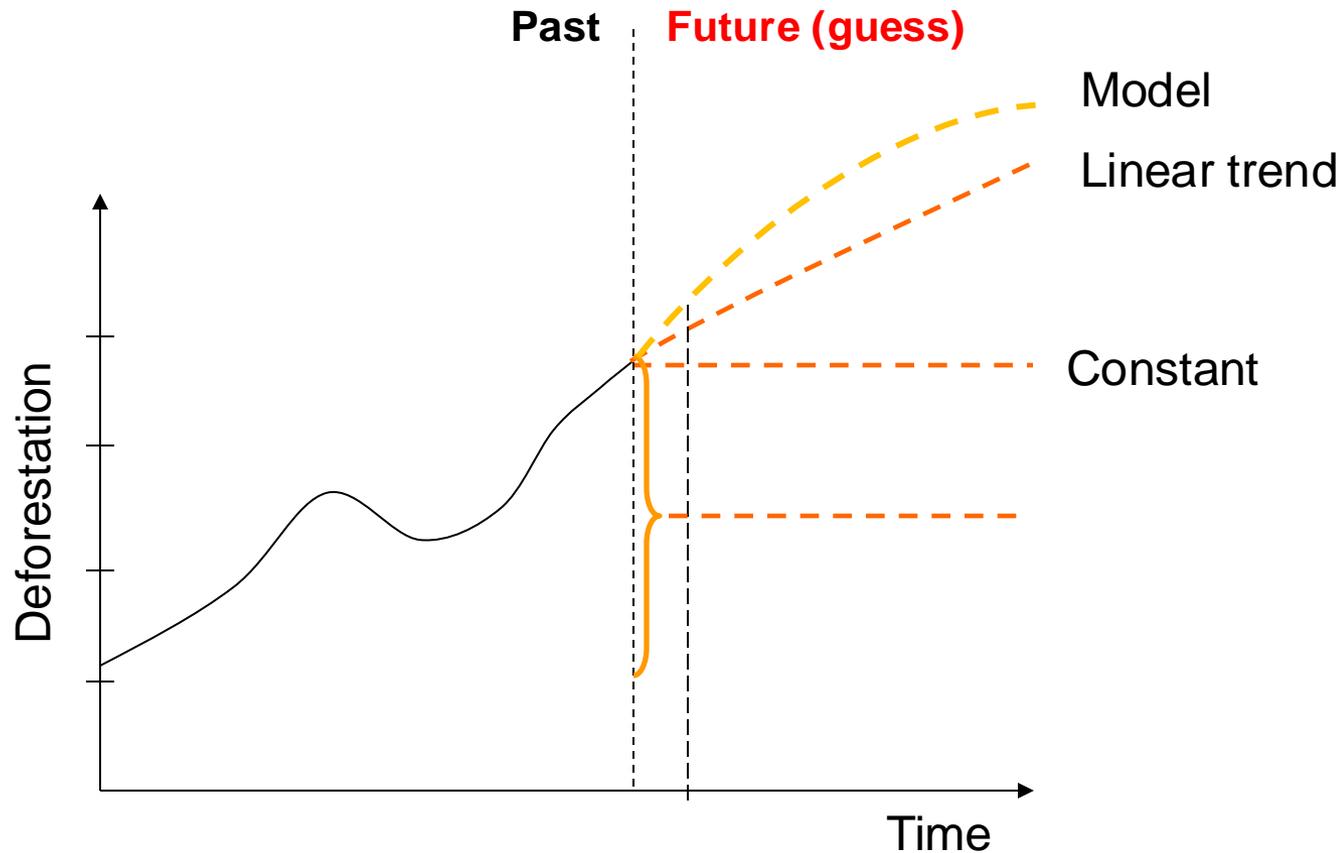
Offsets are a function of the difference between <u>actual emissions</u> and <u>baseline (guessed) emissions</u>
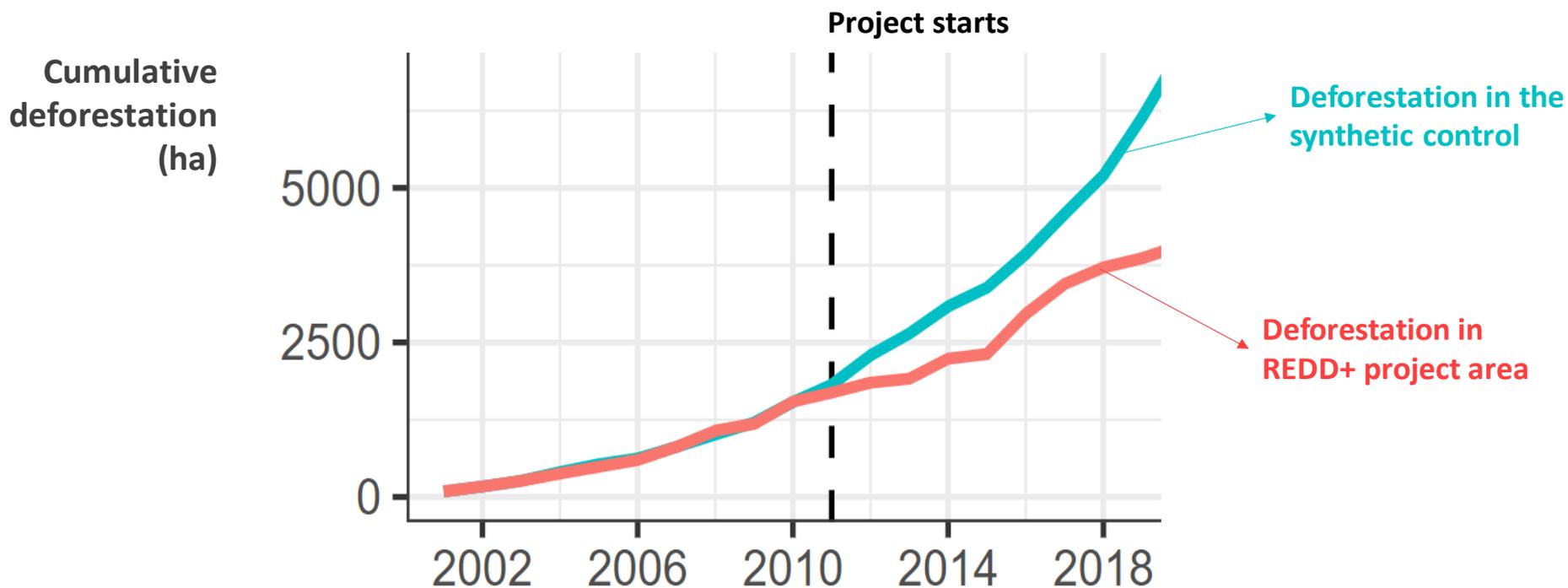
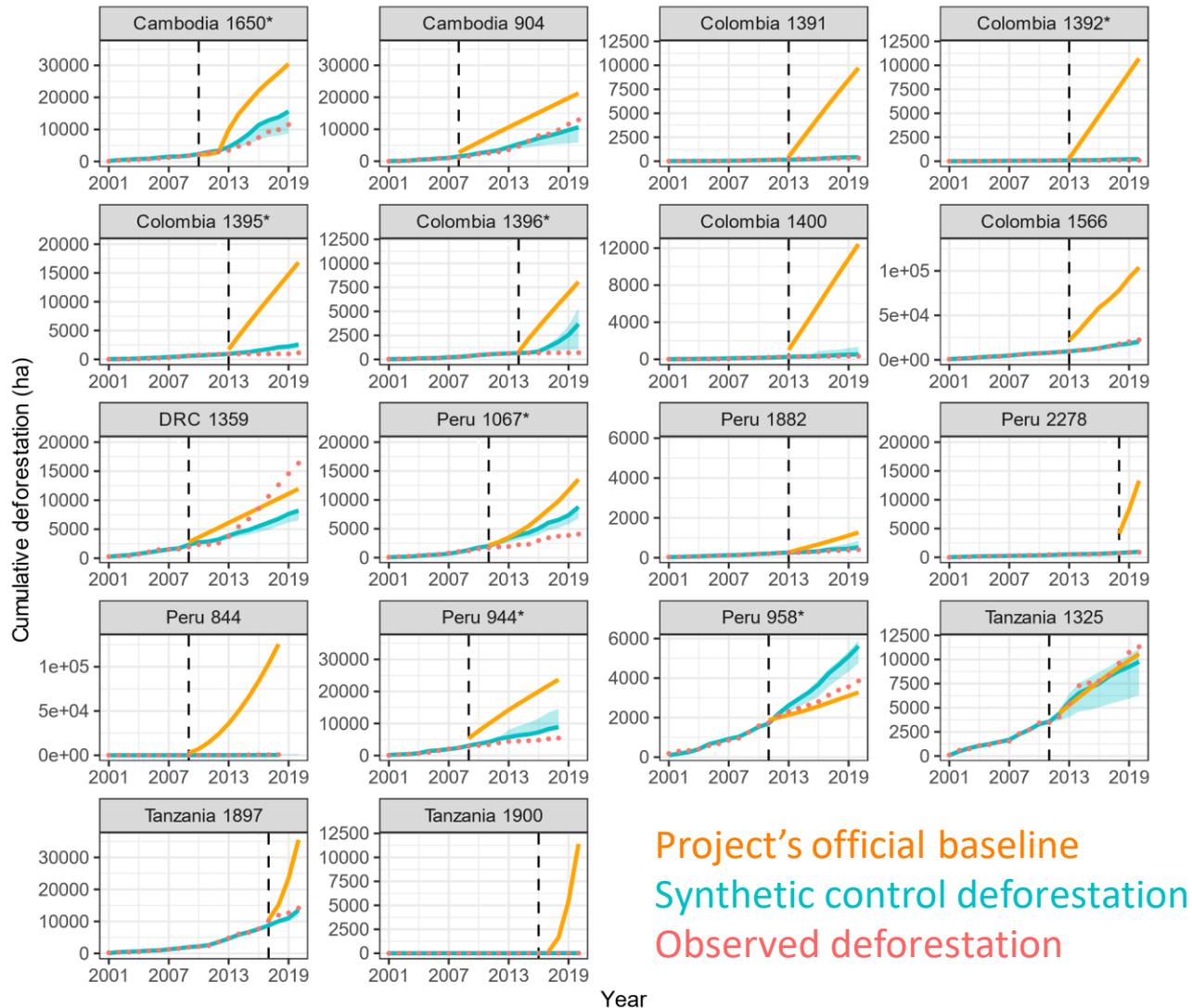# Evaluation approach (summary)

©Thales West

Example

©Thales West

Result (example)

Project starts

Cumulative deforestation (ha)

Deforestation in the synthetic control

Deforestation in REDD+ project area

©Thales West

Effective only if red line under blue line!

Results for sample of REDD+ projects

Project's official baseline
Synthetic control deforestation
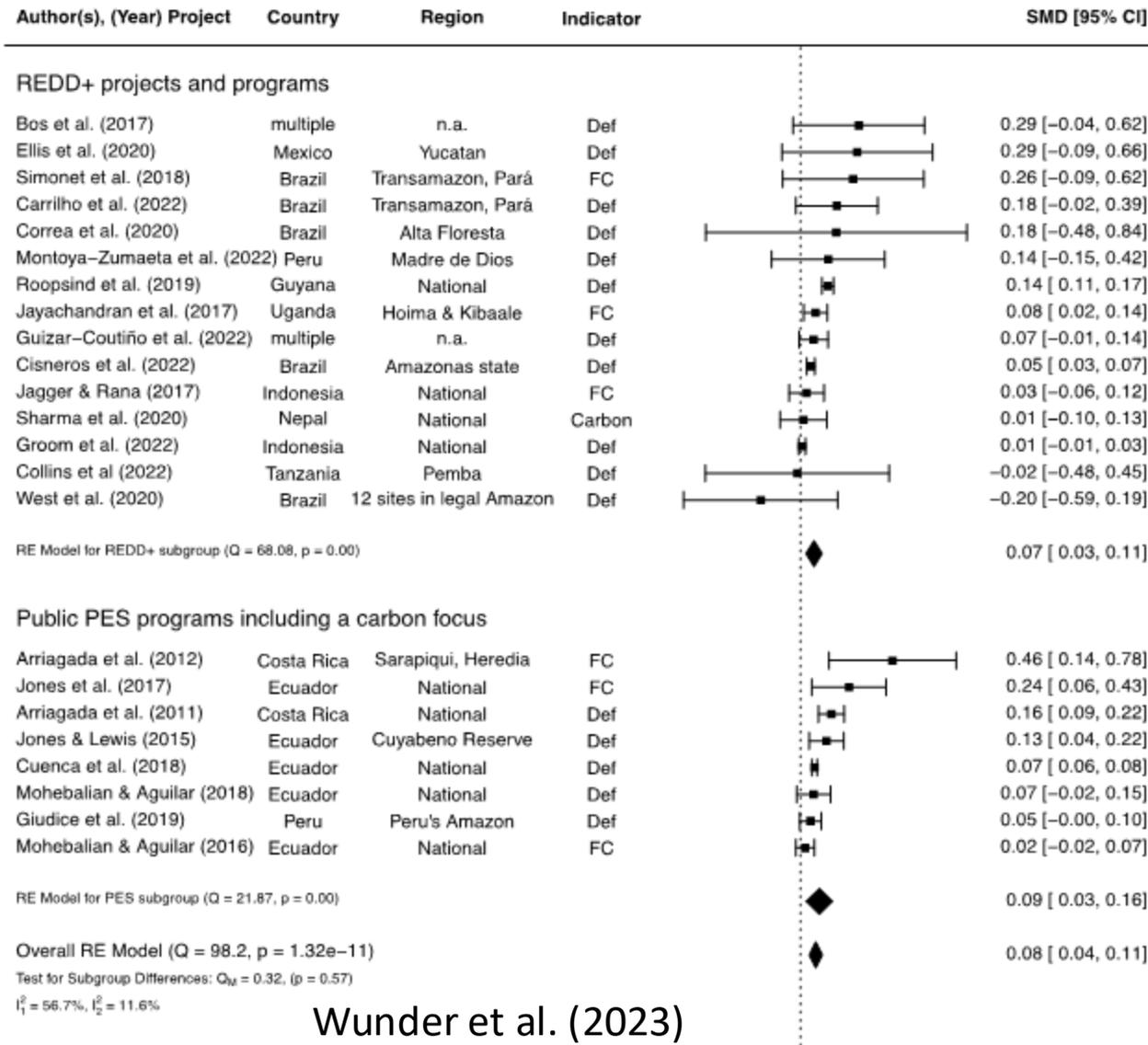Observed deforestation

West et al. (2023)

Were the critics right?

- VCM is a self-organized business-driven institution
  - orders of magnitude smaller than compliance markets
- VCM performance issues can hardly serve as evidence for proof-of-concept failure
- We need to look at the bigger picture and learn our lessons

Meta-Analysis of REDD+ initiatives

1. Most REDD+ initiatives reduce deforestation

2. Welfare effects small but positive on average

Wunder et al. (2023)

Some lessons

- Early REDD+ critics anticipated VCM failure
  - Classic phenomenon of moral hazard due to asymmetric information in the VCM's MRV system

- This can be partially fixed:
  - Needs better regulation and more independent MRV (e.g. dynamic baselines with ex-post evaluation components)
  - Carbon price stabilization (e.g. MSR in ETS)
  - Social safeguards to minimize abuse under REDD+

- Forest conservation needs finance
  - Tamed market mechanisms can be one source
  - Hard to imagine without multi-laterally supported governance mechanisms though