

Integrating ASEAN forest-based communities into voluntary carbon markets: Are we there yet?

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We commend the FAO for launching their project entitled “Linking communities in Southeast Asia to forestry-related voluntary carbon markets.” Various projects have supported communities in carbon enhancement and monitoring activities, related capacity building and readiness (e.g., Skutsch, 2009). Few have considered community integration into Voluntary Carbon Markets (VCMs), although it is already occurring and has significant potential. However, this engagement requires careful planning, and may even be premature within the ASEAN context. “Are we there yet?”

This FAO initiative acknowledges and attempts to address some of the remaining gaps, though the challenges and time requirements of this readiness process are easy to underestimate. Prior to market integration, we need to ensure adequate preparation—beyond carbon monitoring methodologies and protocols—for local-level stakeholders responsible for and dependent on forest management. We need improved understanding of how market integration can affect communities. This includes concerns related to:

- a) the repercussions of exposing communities to new, market-linked risks;
- b) the lack of defined community rights and roles in the carbon marketplace;
- c) the absence of voluntary carbon market regulation, and
- d) the need to enhance governments support for communities in gaining tenure, building capacity and engaging in the forest carbon sector.

We challenge policy makers to fully consider the implications of market-linked forest-based carbon initiatives for communities, and to meaningfully involve communities in the process. This integration also provides incentives to accelerate the processing of community forestry, indigenous forestry and village forestry schemes to reduce greenhouse gas emissions, enhance rural livelihoods and improve forest management. This will require reform and investment to establish enabling policy environments, but is central to long-term emissions reductions and rural livelihoods.

Markets may expose communities to novel risks

The State of Forest Carbon Markets paints a rosy picture, and Dr. Durst mentions great potential for communities to engage with VCMs. These markets move faster than regulated markets, are innovative, fast-growing, and have demonstrated confidence in forestry sector projects, which represented 24% of the market share in 2009 (Hamilton et al., 2010a). However, there is also a need to consider the risks associated with markets and community exposure to novel risks. These have not been fully identified or adequately mitigated within the forest carbon sector, including within the abstract of the proposed FAO project. Potential risks include: inability of markets to

¹Paper prepared in response to presentation by Dr. Patrick Durst of FAO entitled “Linking communities in Southeast Asia to forestry-related voluntary carbon markets”

deliver funds according to expectations, market instability, and emergence of community financial dependency on the carbon sector. Responsible community-market integration must address these issues and ensure long-term community financial resilience.

VCMs remain a small fraction (<1%) of the size of regulated markets. Despite growth potential, it is uncertain whether VCMs will recruit sufficient and consistent funds to effectively incentivize forest carbon conservation at the local level, while providing communities with benefits and sustainable livelihoods, radically improving forest governance, catalyzing policy reform and ensuring measured, reported and verified emissions reductions. Engaging communities in the carbon marketplace with the promise of benefits will raise considerable expectations. It is important that markets be able to deliver promised financial resources.

However, to date, emissions trading markets have experienced significant volatility: over the past 20 years forest carbon prices have ranged from \$0.65 to more than \$50/tCO₂ (Hamilton et al., 2010b). Similarly, REDD credits peaked in value in 2006 at \$17/tCO₂, but have since experienced a downturn; the weighted average price was \$11.43/tCO₂ in 2008 and \$9.43/tCO₂ in the first half of 2009 (Win, 2010).

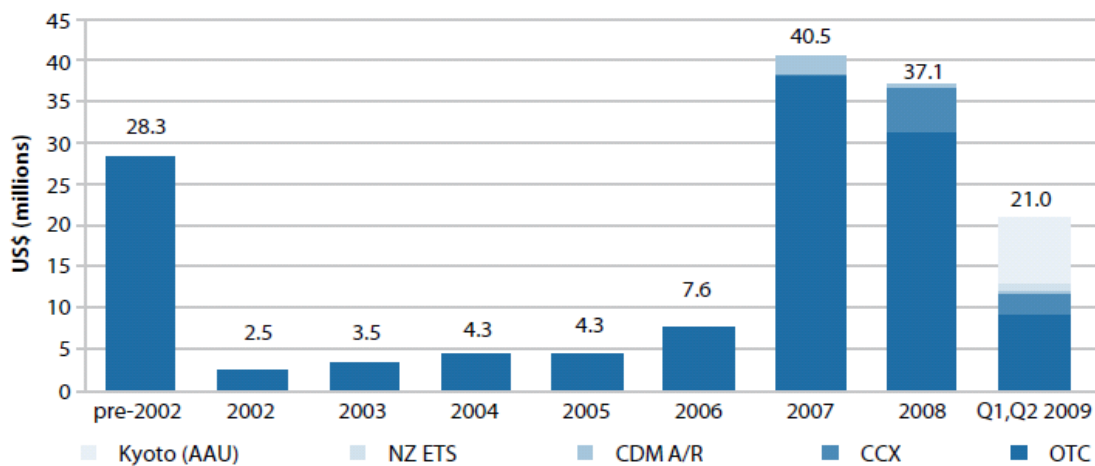


Figure 1. Historical values in the forest carbon markets (From Hamilton et al., 2010a)

The 2009 economic recession exemplifies concerns regarding volatility (Fig. 1), as the VCM contracted 26% and values decreased by 47% from the year before (Hamilton et al 2010a). This decline is likely the result of reduced discretionary funding for corporate social responsibility initiatives, including offsetting emissions (Kosoy and Ambrosi, 2010). Given the optional nature of commitments within VCMs (when compared with compliance markets), these may be especially prone to economic cycles, and price and demand volatility. However, new compliance markets also stagnated during the recession² (Hamilton et al., 2010a). Exposure to such financial uncertainty and fluctuation could be debilitating for communities.

Similar financial risks may emerge if forestry sector emissions reductions (notably REDD+) prove short-term approaches to emissions mitigation. REDD+ is often referred to as a “bridge mechanism” (of 10-15 years duration) to help Annex I countries transition to low-emissions

² A US climate bill stagnated in Senate in late 2009, there was uncertainty over the Australia Carbon Pollution Scheme, and UNFCCC is still to further detail the REDD+ financing mechanism (Hamilton et al).

economies and technologies; an ensuing end to funding for local forest management could prove financially devastating (Phelps et al., 2010a).

Financial risks could be especially great if communities become dependent on forest carbon income and/or services supported by resources from emissions markets (see Pesket and Harkin, 2007). In fact, there may be an incentive for participating communities to depend heavily on these new resources. Not only are prospective participants often limited in their alternate livelihood options, but compliance with carbon markets (conditionality) can require participants to commit to limited use or non-use of the forest resources upon which their traditional livelihoods may depend. This may reduce household resilience and increase financial dependence on emissions trading. Communities need to be insulated from these types of financial risks.

Voluntary markets lack regulation

Credit buyers are increasing demands for social and environmental accountability and demonstrable co-benefits. Both regulated and voluntary markets have responded by adopting external standards; 23% of all offsets validated by 3rd parties complied with Climate, Community and Biodiversity Alliance (CCBA) Standards for social and environmental co-benefits (Kossoy and Ambrosi, 2010).

External standards are particularly important within VCMs, as they otherwise lack regulation. Many developing tropical countries also lack adequate domestic regulations. There are, for example, a number of alleged regional cases of community exploitation by other market actors, notably carbon speculators. In Papua New Guinea (PNG), an Australian firm allegedly used fake carbon certificates to persuade landowners to commit to carbon agreements (Wilkinson and Cubby, 2009). Another company has come under fire with the Australian Competition and Consumer Commission (ACCC) for making misleading representations about the National Environment Registry and Australian Stock Exchange to consumers (AAP, 2009). According to Jakarta Post, there are over 20 foreign carbon brokers active in Indonesia, including spurious operators seeking to convince landholders and local governments of the riches brought by forest carbon projects (Jakarta Post, 2009). In the Philippines, Australian brokers have signed agreements with indigenous communities that are now under scrutiny by the National Commission on Indigenous Peoples (NCIP), given a lack of transparency and the lack of national and institutional protocols on carbon trading (NTFP-EP, 2010)³. There is a clear need for safeguards and support to provide basic social and environmental protections and demonstrable co-benefits. As highlighted by this example, however, safeguards must also be complemented by adequate technical support. In this example, communities require support to ensure that they understand emissions trading agreements, conditions and benefits to enable informed decision-making and negotiation. Such “free, prior and informed consent” should be made standard within VCMs.

Similarly, there is a need to establish safeguards within carbon markets that will allow, if not favour, community participation in the marketplace, as there is potential for market capture by elite, government agencies and industry. For example, many countries in the region have defined monoculture plantations as forests, which could allow industry to dominate the forestry carbon sector⁴ and deliver limited co-benefits. While recognizing that the market demands low-cost

³ Since then NCIP has since released a memorandum to halt all carbon trading deals under further review and until guidelines are made.

⁴ For example, conflicting statements between forestry leaders in Indonesia on defining oil palm plantations as forests lead one to believe that the government is also interested in incentivizing oil palm through REDD

emissions mitigation, there is a need to strengthen market regulations to ensure that communities are able to participate and that credits also deliver social and environmental benefits.

Such safeguards, however, remain optional within voluntary markets, largely undefined within compliance markets and UNFCCC proposals, and often contested within participating developing countries (Phelps et al., 2010b). The UNFCCC has yet to approve the latest position presented by its Ad Hoc Working Group on Long-term Cooperative Action calling for social and environmental safeguards. The associated risks for communities are significant, and there is a need for robust standards prior to significant community integration into the marketplace.

Community rights define community roles in the marketplace

Immediate opportunities for communities to engage with VCMs remain small, but significant. In the Philippines, for example, at least 6 million hectares are under community forestry management and 4.7 have been issued tenure instruments (Lasco et al 2009) etc. In Cambodia, a forestry law and a community forestry subdecree are in place. In Indonesia, the 2009 Ministry of Forestry Regulation 30 states that communities with utilization rights, forest use rights, and customary forest rights holders of “hutan adat” may apply directly as REDD project holders / developers to the Ministry of Forestry (MOF). These examples of community rights to use and manage forests also represent opportunities for communities to engage with forestry carbon projects. However, tenure efforts remain incomplete and there is little clarity over how communities (even those with land tenure) might engage with carbon markets.

In many ASEAN countries, the vast majority of communities lack clear, legal access and rights to land and forest resources, which is a pre-condition for community engagement with forest carbon initiatives (Cotula and Myers, 2009). In Indonesia, for example, only 10,310 hectares of the targeted 500,000 hectares of village forest have been granted, and only 44,587 hectares out of the 2M hectares targeted for community forest had been granted (San Afri Awang, 2010). In Cambodia, 126 community forestry (CF) sites have been legally recognized covering 145,036 has (Forestry Administration of Cambodia 2010). Over 200 community forest sites are awaiting recognition, though the process is long, complex and has no defined timeline (Win, 2010)

However, there is an opportunity to link forest carbon initiatives with both community forestry programmes and initiatives to allocate tenure instruments. Communities will have more interest in market engagement if they see the long-term benefits and increased recognition of their rights. ASEAN governments have the opportunity to promote the goals of social forestry through securing tenure for communities in preparation for REDD+ projects.

Even where land tenure is secure, the keystone issue of carbon ownership can remain a barrier to community engagement with the marketplace and to ensuring community benefits from forest-based emissions reductions (Cotula and Myers, 2009). Furthermore, there is a need to consider rights to carbon sales as it relates to market integration. For example, Cambodia’s Community Forestry REDD is a joint project between the Forestry Administration, PACT, Terra Global Capital and 13 community forestry groups, which have recognized land and carbon tenure. However, the Forestry Administration is the official seller of the forest carbon credits⁵. Under this type of arrangement, however, the role of communities in market engagement remains unclear. There is a need to clarify community rights, as these will largely determine community roles within the marketplace.

⁵ Government Decision No 699

Recommendations

The Non-Timber Forest Products-Exchange Programme (NTFP-EP) is part of a civil society network known as CoDe REDD that is working on REDD+ development in the Philippines (www.ntfp.org/coderedd). It specifically promotes REDD+ efforts that can also deliver community empowerment, social justice, sustainable livelihoods, ecosystem services and biodiversity conservation. CoDe REDD has been active in engaging the Philippine Government, particularly the Forest Management Bureau and other related Bureaus of Department of Environment and Natural Resources (DENR) in extending REDD+ consultations across the country and in developing a Philippine National REDD- plus Strategy (PNRPS). Based on these experiences, we offer some preliminary recommendations regarding community engagement with VCMs in the ASEAN community.

Pursue public before private funding

Considering VCM volatility, current limited scale and some questionable aspects regarding community agreements with carbon speculators, it is important to first access donor financing. Government grants are an important financing option throughout the readiness phase that can prioritize community engagement, safeguard development, improved tenure and policy reform— issues beyond those of immediate interest to the carbon marketplace. Additionally, fund-based financing based on mandated payments by Annex 1 countries and polluting industries can generate significant funds without risks of volatility. Existing compliance markets, notably New Zealand’s Emissions Trading Scheme, whose prices and shares⁶ are higher than VCM and which has established progressive regulations for including forestry sector emissions reductions, should also be explored. As discussed, compliance emissions markets may offer greater reliability and represent larger investments than VCMs. However, they must also form part of a programme to meaningfully reduce domestic reductions in Annex I countries. While VCMs present opportunities, they must be compared against alternative funding mechanisms, including assessing relative risks and regulations.

Establish regulations before pursuing community-market integration

Although a growing number of forest carbon projects are subjecting themselves to CCBA standards, reports of questionable deals abound. The VCM is characterized by few rules and regulations, though robust safeguards are needed for transparency and to ensure genuine “free, prior and informed consent” and equitable benefit sharing. Voluntary standards are insufficient. Because voluntary markets are unlikely to be externally regulated, participating countries will need to establish national safeguards. Efforts at pro-community regulation, however, have struggled. Indonesia, for example, proposed a revolutionary regulation by which a maximum of 70% of carbon-related revenues would go to community landholders, though this was later deemed unconstitutional (Ministry of Forestry, 2009).

Provide communities with assistance before they engage with markets

As discussed, safeguards alone are insufficient. Participating communities require the full benefits of legal advice and market analysis in order to understand better the opportunities, risks and challenges associated with carbon markets. Each ASEAN country will require informed lawyers and market analysts to aid the communities so that they can fairly engage with markets.

⁶ The voluntary carbon market, though holding most transactions in forest carbon globally, the percentage in VCM dropped 23% points (from 95% to 72%) in the first quarter of 2009 as compared to 2008. Such compliance markets have commanded the highest prices overall 21% higher than voluntary OTC (Hamilton et al, 2010b)

Define community rights before defining their market roles

ASEAN governments are poised to advance the region's social forestry⁷ goals by catalyzing REDD+ readiness funds. As discussed, this includes fairly addressing local land and carbon tenure as well as sale rights. These issues must be addressed upfront in order to clarify the ways in which communities can engage with markets. Lacking this definition of rights, capture by elite, industry and government agencies threaten community roles in the marketplace.

Bolster representation mechanisms before pursuing domestic reforms

Prior to large-scale market engagement, each ASEAN state will require a National Multi-stakeholder REDD+ Council of some sort. As discussed, the need for domestic regulation, tenure reform and support for communities will require not only extensive consultations, but participatory decision-making. A multi-stakeholder body that includes participant communities could prepare protocols, facilitate technical assistance to communities, address grievances and advise the national-level climate change mitigation strategies.

Conclusion

Carbon market engagement represents significant opportunities, yet will require significant commitments, preparation, reforms and protections. This response paper suggests the level of complexity involved in effectively and fairly integrating communities into VCMs.

Neither communities nor ASEAN country members are currently prepared for this integration. However, there is considerable pressure to quickly catalyze their readiness—carbon brokers are approaching communities across the region, Annex I countries are pressing for forestry sector emissions reductions, developing countries and conservationists are hurried to attract international funds. The repercussions of rushing through preparation are significant.

ASEAN leaders have reason to approach carbon market integration with optimism. In particular, REDD+ creates opportunities for progressive climate change mitigation while increasing revenues for forestry departments, protected areas and local forest managers, notably communities interested in protecting and sustainably managing forests. There are further opportunities for ASEAN states to use this opportunity to promote and accelerate community forestry tenure systems to maximize the benefits to communities from the emerging climate mitigation strategies. However, cautious and participatory planning is essential early in these discussions, long prior to any attempts at large-scale community-market integration.

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⁷ In 2005 the ASEAN Senior Officials in Forestry (ASOF) established the ASEAN Social Forestry Network (ASFN) to promote policies and practices on social forestry in the member states.

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