

**Testimony of Stephanie Meeks, Acting President and CEO**  
**The Nature Conservancy**  
**Before the House Select Committee on Energy Independence and Global Warming**  
**February 14, 2008, 2:00 PM**

**Summary**

Crediting activities to reduce emissions from deforestation and degradation (“REDD”) in tropical forests within U.S. cap-and-trade legislation offers Congress **the opportunity to ensure U.S. leadership in advancing a comprehensive, effective, and truly global solution to climate change**. Including incentives in U.S. legislation to sustain and increase carbon storage in tropical forests is **critical to reducing the approximately 20% of total global greenhouse gas emissions** that come from deforestation and forest degradation and thus to combating climate change effectively. Doing so would also offer four additional benefits:

- Efforts to reduce emissions from deforestation and forest degradation can **provide moderate cost emission reduction opportunities** that can be used by U.S. companies to comply with a U.S. carbon cap. This provides a **“green” way to contain the costs** of U.S. climate policy while supporting conservation activities
- Further, U.S. policy that credits activities to reduce emissions from deforestation will be **an essential part of forging a global agreement on climate change** that assures action from all major sources and emitting countries.
- U.S. policy to include emissions reductions from deforestation can **unleash the power of the market and provide tens of billions of dollars in carbon finance to save the world’s forests and all their biodiversity** from destruction. .
- Finally, it can **improve the quality of life for local people** by reducing the negative impacts of deforestation on communities while providing direct benefits in the form of new economic options.

**Among climate change solutions, REDD stands out as a mitigation tool that offers win-win-win solutions for economies, the environment, and poverty reduction.**

Through its work on the ground, **The Nature Conservancy has demonstrated that activities to reduce deforestation can provide real and verifiable emissions reductions**. The Conservancy’s on-the-ground conservation work includes five large-scale REDD projects in Belize, Bolivia and Brazil that have reduced and continue to reduce emissions from deforestation while also protecting almost 1.8 million acres of high biodiversity forest land. In addition to our project work, The Nature Conservancy has joined the World Bank’s Forest Carbon Partnership Facility in order to pilot a successful funding mechanism for REDD.

Lessons learned from these efforts help inform the development of **effective policies on REDD that can drive national scale programs, stimulate adequate levels of funding, respect the rights of local people, create added biodiversity benefits on the ground, and encourage early action.**

## Body of Testimony

Good afternoon, Mr. Chairman and members of the Committee, I am Stephanie Meeks, the acting President and CEO of The Nature Conservancy. Thank you for the opportunity to testify today on climate change and reducing emissions from deforestation and forest degradation (REDD). REDD is one of the most promising ways to reduce greenhouse gas emissions in the near-term, and it can and must play a significant role in an effective and comprehensive solution to climate change that involves all major sources of emissions and all major emitters. Strong U.S. leadership is needed on this issue to catalyze greater global efforts that involve all countries in solutions to climate change. I thank you for calling attention to this critical issue through today's hearing.

My comments today will begin with background on The Nature Conservancy's interest and involvement in climate change mitigation and will then focus on four main themes:

1. The critical role that reducing emissions from deforestation and degradation can play in comprehensive, cost-effective solutions to climate change;
2. How U.S. climate legislation can be used to foster policies to combat climate change and avoid deforestation internationally;
3. The Nature Conservancy's experience with forest carbon activities and financial mechanisms, and lessons learned from that experience that inform what a REDD mechanism might look like on the ground;
4. Policy options for REDD in an international climate policy framework;

In addition, as requested by the committee, I will provide information and views on the The World Bank's Forest Carbon Partnership Facility; and U.S. legislation to address illegal logging.

### The Nature Conservancy and Climate Change

The Nature Conservancy is an international, nonprofit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. Our on-the-ground conservation work is carried out in all 50 states and in more than 30 countries and is supported by approximately one million individual members. The Nature Conservancy has protected more than 117 million acres of land and 5,000 miles of river and more than 100 marine areas around the world.

Climate change is the greatest environmental challenge that our society faces today. Every acre of land and mile of coast protected by The Nature Conservancy will be affected by climate change. **Climate change is already stressing human and natural systems** in a way that menaces natural economies, human economies, people and biodiversity. **Prompt action to address this threat is essential to minimize future harm to nature and to the social and economic fabric of our communities.** Aware of this urgency, The Nature Conservancy has undertaken projects around the world to demonstrate effective solutions to climate change. Our on-the-ground conservation work

includes five large-scale REDD projects in Belize, Bolivia and Brazil that have reduced and continue to reduce emissions from deforestation while protecting almost 1.8 million acres of species-rich forest land while bringing benefits to local communities.

### **A Comprehensive U.S. Climate Policy**

While the testimony provided today focuses on reducing emissions from deforestation and forest degradation, strong action to address all major causes of climate change across sectors is essential. The Nature Conservancy urges Congress to act quickly to address this mounting challenge. We advocate multi-sector climate change policies that include three paramount concepts:

1. *A strong cost-effective cap on emissions and a market-based program designed to stabilize atmospheric greenhouse gas concentrations at a level that ensures the well-being of human communities and ecosystems worldwide.* The core function of a climate change policy should be to set in motion and sustain a course of long-term reductions in greenhouse gas emissions that will be sufficient to stabilize the climate at a level that will protect human society and the natural world. A program should be designed to be cost-effective and to send appropriate long-term price signals to stimulate needed investment in emissions-reducing technologies. A mandatory cap on greenhouse gas emissions with opportunities for trading should be at the core of any policy approach to address this issue. The Conservancy is a member of the U.S. Climate Action Partnership and has endorsed USCAP's call for U.S. emissions reductions aimed at limiting global atmospheric greenhouse gas concentrations to a level that minimizes large-scale adverse climate change impacts to people and nature.<sup>1</sup>
  
2. *Incorporation of verified credits from reduction of emissions from forest and land-use practices.* A U.S. policy that includes forest carbon should:
  - ✓ Create strong incentives for national-scale efforts in developing countries;
  - ✓ Permit forest carbon credits to be fully fungible with credits from emission reductions activities in other sectors;
  - ✓ Allow trading of domestic and international forest carbon credits that represent real emissions reductions;
  - ✓ Assure early action credits for qualifying activities taken prior to the start date for any U.S. cap-and-trade program;

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<sup>1</sup> The US CAP's Call to Action states

“We recommend Congress establish a mandatory emission reduction pathway with specific targets that are: between 100–105% of today's levels within five years of rapid enactment; between 90–100% of today's levels within ten years of rapid enactment; between 70–90% of today's levels within fifteen years of rapid enactment. The short- and mid-term targets selected by Congress should be aimed at making it clear to the millions of actors in our economy and to other nations that we are committed to a pathway that will slow, stop and reverse the growth of U.S. emissions. Furthermore, Congress should specify an emission target zone aimed at reducing emissions by 60% to 80% from current levels by 2050.”

The Call to Action and more information on US CAP is available at [www.us-cap.org](http://www.us-cap.org).

- ✓ Encourage forest carbon activities to produce broad benefits for local communities and the environment, and promote sustainable development objectives; and
  - ✓ Assure that forest carbon credits are of high quality by requiring that such credits represent real, permanent, and verifiable emissions reductions, with reliable measuring and monitoring and appropriate accounting for *leakage*, or emissions that result from the shifting of deforestation activities outside the project area.
3. *Support for programs and activities designed to help ecosystems and people that rely on them to cope with the impacts of climate change.* U.S. policy should dedicate a share of allowance auction proceeds to supporting such adaptation programs both in the U.S. and abroad. The Lieberman-Warner Climate Security Act (S. 2191) provides a strong example of how the adaptation needs of natural systems, particularly those in the U.S., can be addressed in climate legislation. Enacting legislation that supports international adaptation efforts as well will help to assure a global deal on climate change, and if structured properly, can also advance international conservation objectives.

**U.S. leadership is essential to catalyze successful global efforts to adopt comprehensive climate policy that includes the above concepts.** A strong U.S. climate policy would open significant channels for international cooperation that can:

- Provide incentives and pathways for developing countries to participate in reducing greenhouse gas emissions;
- Create important opportunities for U.S. companies to engage in international carbon markets and to export U.S. clean technologies; and
- Help maximize efficiencies and thus control the costs of climate mitigation.

Among climate change solutions, REDD stands out as a mitigation tool that bridges country divides and offers win-win-win solutions for economies, the environment, and poverty reduction.

### **The Importance of REDD in Preventing Dangerous Levels of Climate Change**

**To slow, stop, and reverse the growth in greenhouse gas emissions and safely stabilize the earth's climate, the world must reduce deforestation.** While emissions from energy and industry capture significant attention, deforestation accounts for about 20 percent of global greenhouse gas emissions – *more than the entire global transportation sector* – as carbon dioxide is released into the atmosphere when forests are cut and burned or left to decay. More than 37 million acres of tropical forest – an area larger than New York State - are lost each year. For many developing countries, deforestation is the largest source of emissions. This is why Indonesia and Brazil are among the largest greenhouse gas emitters, just behind the U.S. and China, and ahead of other industrialized economies, and land use change accounts for 70-90 percent of their total emissions.

The value of tropical forests to plants, animals and people is well understood and often not properly valued. Beyond their species richness, forests provide life-sustaining services such as food, fuel, shelter, water regulation and climate stabilization. Several studies, including the Stern Review on the economics of climate change, affirm that *slowing deforestation can be one of the most cost-effective options for combating climate change quickly* and that it can contribute significantly both to biodiversity protection and, with appropriate institutional arrangements, to improving livelihoods.

However, in the global efforts to tackle climate change, the role of conserving forests has not been sufficiently addressed to date. Existing climate policies, including the Kyoto Protocol, do not recognize the protection of standing forests as a source for carbon emissions reductions. As a result, the protection of tropical forests is not valued in today's carbon marketplace. Through domestic climate legislation, the U.S. can lead the way toward a comprehensive international solution to climate change that addresses the significant emissions from deforestation and forest degradation.

### **Including REDD in U.S. Climate Legislation**

The inclusion of REDD in the Bali Action Plan is a welcome sign that the substantial role that forests can play as a cost-effective mitigation tool has been recognized and that all governments are committed to a more prominent role for forest conservation through the sustainable use of forests in a post-2012 climate change agreement. The U.S. has an opportunity to take the lead on informing on-going international negotiations through our domestic climate policies. **Reducing deforestation outside the U.S. must be part of U.S. legislation as well as any future international agreement to address climate change.** This opportunity has not been fully realized in most climate legislation submitted to date. **Crediting efforts to reduce deforestation and forest degradation within U.S. climate legislation will offer an array of benefits:**

- It is **critical to reducing the roughly 20% of emissions** that come from deforestation and degradation and thus to **effectively combating climate change**;
- Efforts to reduce emissions from deforestation and forest degradation can **provide moderate cost emission reduction opportunities that can be used by U.S. companies to comply with a U.S. carbon cap.** This provides a “green” way to contain the costs of U.S. climate policy while supporting forest conservation.
- Establishing a U.S. policy that credits activities to reduce emissions from deforestation will be **an essential step in forging a global agreement on climate change** that assures comparable action from all major emitting countries; and
- It will unleash tens of billions of dollars in carbon finance to **save the world's forests and all their biodiversity from destruction**;
- It will **improve the quality of life for local people** by reducing the negative impacts of deforestation and providing direct economic benefits in the form of new livelihood options and financial compensation;

**To achieve these benefits, U.S. legislation should:**

**1) Authorize U.S. emitters to tender for compliance forest carbon tons from nations that have adopted a national forestry sector program meeting certain criteria.**

Participating national forestry sector programs would be expected to:

- Establish a national baseline based on historical data on land cover change and associated carbon emissions, taking into account national circumstances;
- Obtain reliable measurement of reductions through a combined nation-wide program of remote sensing and rigorous field measurement and verification;
- Put infrastructure and institutions in place to measure, monitor, and track emissions from deforestation and forest degradation, and to implement and enforce forest conservation measures; and
- Assure permanence by, for example, holding a portion of their carbon credits in reserve.

2) Encourage countries that have not developed the capacity for a national program to reduce their deforestation emissions by authorizing U.S. emitters to tender for compliance offset credits from forest carbon projects in these countries. In order to encourage countries to establish national forestry sector programs, this program could be phased out after a number of years.

Including such provisions in federal legislation at a meaningful scale would establish the U.S. as a leader on this emerging issue, and set the stage for an agreement at Copenhagen in 2009 that includes developing countries. At the same time, it would help to address cost containment issues that are a dominant feature of the current domestic policy discussion.

**The Conservancy's On-the-Ground Forest Carbon Project Experience**

On-the-ground experience with implementing REDD projects is crucial to informing effective policies that maximize the benefits that crediting such forest carbon activities in a U.S. market can bring. The Nature Conservancy has considerable experience with avoided deforestation, forest management, and reforestation projects on the ground in developing countries and the U.S. Since 1996, The Nature Conservancy and our partner organizations have developed forest carbon projects in Belize, Bolivia, and Brazil, and within the U.S.

Five large-scale REDD projects in Belize, Bolivia and Brazil have reduced and continue to reduce emissions from deforestation while also protecting almost 1.8 million acres of forest land. The on-the-ground experience gained through these projects is directly relevant to the policy options under discussion in international negotiations. The largest of these projects, **the Noël Kempff Mercado Climate Action Project, demonstrates that activities to reduce deforestation can provide real, verifiable emissions reductions.**

The Noël Kempff project in Bolivia included the formal expansion of the Noël Kempff Mercado National Park, ending logging in concessions within the park expansion area, and stopping conversion of forest to marginal ranchland and row crops through assistance in land titling for indigenous communities located adjacent to the project area, a sustainable development program for local communities, and strengthened park protection. The local communities benefitted significantly from these activities. The project included a community component designed to support the sustainable development goals of local communities while avoiding or minimizing forest conversion outside the project area. Legal assistance for gaining land tenure for indigenous communities, revolving funds for micro-enterprises such as agroforestry and sustainable heart-of-palm operations, improved health care and education facilities, infrastructure for ecotourism, and jobs as park guards and carbon monitoring technicians are among the benefits the project has offered the local communities.

The Noël Kempff project provides lessons on some of the key challenges in developing a REDD mechanism. The project pioneered methods needed to reduce deforestation and to measure the associated emissions reductions. The approaches used included use of long-standing scientific and forest-inventory principles, as well as new remote-sensing technology and other innovations. Some of this innovation was supported by the U.S. Agency for International Development and the Department of Energy through grants to The Nature Conservancy and our partners.

**As part of the project, the emission reductions, baseline, and leakage assessment were measured, validated and verified by a third party Designated Operational Entity accredited by the Clean Development Mechanism Executive Board for projects under the Kyoto Protocol.** The investments in methodologies and technologies, and their validation in this project, provide a foundation for increasing the scale of the work beyond projects to entire countries.

The project revealed that, while leakage from reduced deforestation projects can be significant, it can be accounted for and addressed. In the project, leakage was significantly reduced by providing local communities with economic opportunities that avoided forest removal or degradation. The leakage that The Nature Conservancy was unable to reduce was quantified and deducted from the project's total emissions reduction benefits. This deduction for leakage reduced the total emissions reduction benefits from the project by about 15%

### **Scaling up to the National Level – A REDD Mechanism On-the-Ground**

Experience with Noël Kempff and The Nature Conservancy's forest carbon projects in Belize and Brazil's Atlantic Forest has revealed relatively high transaction costs related to credibly measuring emissions reductions and leakage at the project scale. One lesson that can be drawn from this experience, therefore, is the importance of **national-scale approaches** to REDD. National or sub-national REDD activities offer significant advantages in establishing common and comparable techniques across large areas, reducing detection and monitoring costs related to leakage, and creating further

economies of scale. Statistical sampling for forest carbon measurement and monitoring, for example, becomes more cost-effective at progressively larger scales like countries and regions.

Perhaps more importantly, national-scale REDD approaches would serve to engage governments that have the power to affect program and policy changes aimed at addressing the root causes of deforestation. For example, activities like improving tenure security, strengthening protected area management, controlling fires, incentivizing intensification of agriculture, strategic planning of road improvements, and reducing illegal logging are all strategies for reducing deforestation that require government involvement to solve. Expanding REDD activities to the national or sub-national scale would facilitate the use of national-level policies to address these wide-ranging drivers of deforestation while not precluding complementary project approaches such as creating protected areas.

REDD projects can be a useful stepping-stone toward a national program. While Noël Kempff was created as a REDD project, many of the techniques and approaches used are applicable to national approaches. For example, the monitoring methods used could also be applied to measure emissions reductions from sector-wide approaches to reduce national deforestation rates, and the leakage assessment was performed at a national-scale. **The Government of Bolivia is in the process of developing a national-scale REDD program built upon foundations developed for the Noël Kempff project.**

Though developing national REDD programs in developing countries will be challenging, it is important to point out that base of experience for REDD program implementation is not limited to the few projects implemented explicitly as emissions reductions projects. While these projects provide some of the best examples of the procedures for measuring changes in forest carbon and developing the payment distribution mechanisms required for sharing benefits of carbon finance, **institutions like the Nature Conservancy have spent decades refining strategies for reducing forest loss and degradation that protect biodiversity and create benefits for local communities. These efforts have yielded many successes and many useful lessons, yet they have failed to create incentives that address the forces of deforestation and forest degradation at the required scale.** Without an economic rationale for sustainability, neither the private sector nor governments have had the will to act. REDD is a potential financing mechanism that can channel unprecedented incentives and fundamentally change the approach to land management within developing countries.

**Many developing countries have indicated that they are ready to make that change, if the appropriate financing mechanisms are put in place.** REDD was introduced to the UN climate negotiations by the Coalition of Rainforest Nations, led by Costa Rica and Papua New Guinea, as a promising mechanism to mobilize the financing needed to really change land-use practices. In 2007, Indonesia took a leadership role in the global dialogue on REDD when it convened leaders of other forest-rich countries for a joint statement on the topic, and also launched a national REDD strategy development process. Following a clear endorsement of demonstration activities in the Bali REDD decision

document, the Government of Indonesia is anticipating a demonstration phase including a range of initiatives throughout the country. Likewise, Brazil has indicated the intent to develop an Amazon-wide REDD program, and has reached out to others for partnership.

Brazil and Indonesia have led the world in deforestation and forest degradation because there has been an overwhelming economic rationale for clearing forest. Soybeans and cattle in Brazil and timber and oil palm in Indonesia have been big businesses, while sustainable forest management, and protection of global environmental services has not.

**The Nature Conservancy believes that making the protection of global environmental services an appealing financial proposition for developing countries is one of the most important near-term opportunities for mitigating climate change.** We are currently engaged in directly supporting a range of countries where we work, including Brazil and Indonesia. In each country, we are supporting REDD program development at the national, state (province), and local levels, working with public sector, private sector, and communities. To be successful, REDD programs must align incentives across the full range of stakeholders.

### **Options for an International Policy Framework to Reduce Emissions from Deforestation and Forest Degradation**

While a concrete policy framework has not yet been developed for how a REDD mechanism would operate, the current state of international and U.S. policy discussions on REDD issues have highlighted a number of options for the structure of a REDD mechanism. It will be important for the United States to have a clear understanding of these choices to ensure that an international REDD mechanism results in effective forest protection on the ground that makes a measurable difference for the climate, for local communities, and for biodiversity. The principal policy options are laid out below.

#### ***Scale***

**To effectively combat deforestation and degradation at a scale sufficient to meaningfully impact climate change, it will be essential to scale up from existing, project-level forest carbon activities.** Policies on REDD should therefore encourage national-scale efforts to reduce deforestation. Such a national-level mechanism would achieve emissions reductions at significant scale, with lower transaction costs and reduced concerns about leakage. Accounting of emissions reductions would be measured and reported at a national scale, while implementation could proceed both through national programs and policies, and through project-level activities.

While the primary emphasis of a REDD mechanism should be on national-level activities, some developing countries may not be prepared to begin national-level activities in the short-term. Policies on REDD could thus create transitional pathways to assist those countries that currently do not have the capacity for national-level accounting; these would allow credits from project-level activities from such countries to be eligible for crediting.

In both national-level and project-level programs, governments will need to find ways to encourage private investment in REDD. Under a national-level program, one approach would allow either government entities or private investors to undertake projects that would also account for reductions at the project level. A linking mechanism between the projects and the overall emissions of the country could be designed to eliminate risks of double-counting. This type of hybrid mechanism may better account for leakage while still fostering private investment in projects.

### ***Financing***

Two main avenues have been proposed for financing REDD: a market-based approach and a non-market based approach.

Proponents of a market-based REDD mechanism emphasize the huge potential revenue generation of the carbon markets. A market-based mechanism is considered by many to be the only means of raising sufficient and sustainable funding to achieve large-scale reductions in deforestation in developing countries.

A non-market-based approach to REDD could include a number of funding sources, such as increased official development assistance (ODA), debt-for-nature swaps, taxes on carbon intensive commodities or services, taxes on revenues from the other Kyoto mechanisms, and/or multilateral donor funds. Proponents of non-market financing are concerned that including REDD credits in a market system may cause significant disruptions due to unpredictable volumes of credits or substantially lower prices, or may reduce the incentives for Annex-I countries to meet their commitments domestically.

**The two approaches are not mutually exclusive. A mixture of market and non-market funding could be feasible,** such as donor funds for readiness activities and up-front implementation financing, combined with a market for verified reductions.

### ***Social and Environmental Benefits***

REDD activities have the potential to create a number of benefits beyond reducing emissions, including environmental benefits such as biodiversity conservation, water regulation, and reduced erosion, and social benefits such as increased employment and formal recognition of indigenous lands. A REDD mechanism should seek to complement and promote these environmental and social objectives, while “doing no harm” as well. **The Nature Conservancy and others have developed the Climate, Community and Biodiversity Standards to guide the design of forest carbon activities** to ensure multiple concurrent benefits. These standards were recently applied to assist in the design of REDD activities in Aceh, Indonesia. Furthermore, a REDD mechanism should strive to maintain consistency with other international agreements such as the Convention on Biological Diversity, in order to ensure efficiency, coordination, and synergies in seeking comprehensive approaches to global problems.

### ***Early Action***

In light of the urgency of climate change and the rapid loss of tropical forests, **establishing a strong signal that emissions reductions from REDD activities**

**undertaken now will be credited in the post-2012 commitment periods has become an important issue.** Doing so would encourage countries to undertake readiness activities and begin to make real reductions between now and 2012. Readiness activities and pilot projects are, however, learning processes and some early activities may not meet necessary standards for environmental integrity due to inexperience. Therefore, some advocate that early activities should be encouraged through other funding, and not through creditable emissions reductions destined for the carbon market. **One way to encourage early activities, while still maintaining environmental integrity, would be to credit only those activities whose reductions can be verified by an accredited third party.**

### *Essential Elements of a REDD Mechanism*

In summary, the specific criteria for a future REDD mechanism are still being worked out in international and U.S. policy discussions and will need to be guided by lessons learned on the ground during the incipient demonstration phase. Policy flexibility is therefore important at this stage, but a few key conditions should be included. The Nature Conservancy believes that a REDD mechanism:

- Should encourage development of national-scale accounting programs to reduce deforestation as quickly as possible, and create transitional pathways to assist those countries that currently do not have the capacity for national-level accounting;
- Should allow countries flexibility in determining the desired scale of action, whether project, sub-national, national, or a combination, and implementing the institutional arrangements necessary;
- Needs to mobilize sufficient and stable levels of funding through appropriate combinations of market and non-market approaches;
- Must respect, protect, and build upon the rights and needs of indigenous peoples and local communities and should support activities that contribute additional environmental benefits; and
- Should encourage pre-2012 action.

### **The World Bank's Forest Carbon Partnership Facility**

The Conservancy has joined the Forest Carbon Partnership Facility (FCPF) to develop a model for assisting developing countries in their efforts to reduce emissions from deforestation and forest degradation. The Facility's objectives are to: (1) build developing country capacity for activities that reduce emissions from deforestation; and (2) test - on a modest scale - a program of performance-based incentive payments in pilot countries.

The strategic goal of the Facility is to set the stage for a much larger system of positive incentives and financing flows in the future. Such financing needs to counter the intense and growing pressures on global forests. The Stern Review estimated that halting deforestation would require more than \$5 billion a year to compensate activities currently driving this trend. Clearly new funding sources are needed, and the private sector finance will be fundamental.

The FCPF consists of two mechanisms, for which the World Bank will act as Trustee:

- **The Readiness Mechanism** (target size: US\$100 million) will assist approximately 20 countries in preparing themselves to participate in a future, large-scale, system of positive incentives for REDD. This will include some basic “infrastructure capacity building” for these countries such as preparing a national REDD strategy, establishing a baseline (i.e., reference scenario) and putting in place a monitoring system. Indigenous groups and other forest dwellers will participate in the process so they can benefit from future carbon finance flows.
- **The Carbon Finance Mechanism** (target size: US\$200 million) will enable an initial group of these countries that will have successfully participated in the Readiness Mechanism to pilot incentive payments for REDD. The Carbon Fund will remunerate the selected countries or actors within the selected countries, in accordance with negotiated contracts, for verified emissions reductions.

The FCPF was launched at the 13th session of the Conference of the Parties to the UNFCCC in Bali. The FCPF will become operational once the minimum contributions have been received, which is expected to be in the first half of 2008. During this time, FCPF planning is continuing, in consultation with key international stakeholders. The Facility is currently supported by 10 country governments (Germany, Denmark, France, Norway, Switzerland, Japan, the Netherlands, Australia, the United Kingdom and Finland) and The Nature Conservancy. The total amount pledged is \$165 million<sup>2</sup> thus far, with additional contributions under consideration from other countries, the private sector, foundations and NGOs.

### **Illegal Logging and Deforestation**

Illegal logging contributes substantially to deforestation worldwide. Approximately 30-32% of wood export products from China, 15-30% of exports from Russia, 100% of log exports and 55% of plywood exports from Indonesia, and 15% of export products from Brazil are from suspicious sources or are illegal. Approximately 10% of the forest products import stream into the U.S is estimated to be illegal.

Illegal logging encompasses a wide range of practices associated with the harvest, processing, transport and export of timber and timber products in violation of established laws and operational policies. Timber operators deviate from approved management plans for a number of reasons and then tree species valued in the international market are extracted beyond permitted levels, areas designated for harvest in subsequent years are exploited prematurely, and/or operations move outside of permitted areas into

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<sup>2</sup> This consists of pledges from Germany (US\$59 million), the United Kingdom (US\$30 million), the Netherlands (US\$22 million), Australia and Japan (US\$10 million each), France and Switzerland (US\$7 million each), Denmark, Norway and Finland (US\$5 million each). The Nature Conservancy has committed US\$5 million.

neighboring concessions and/or protected areas. Once this happens, the concessions rapidly lose their viability, and timber operators move on, often turning land over to settlers who convert it to subsistence and light commercial agriculture, and eventually industrial-scale agriculture. In other instances, the timber operations are merely a pretense to prepare the land for industrial-scale agriculture to meet the growing global demand for crops such as soy, sugar, and palm oil. Unintentionally or by design, virgin forest is eventually transformed to agricultural lands or lands sought out for other economic purposes. This scenario plays out on a daily basis throughout the tropics, in Russia, and in other important forested nations.

Illegal logging persists because of the ability to sell these products into a global marketplace that does not discriminate between legal and illegal timber. While millions of dollars have been invested over the years in “supply-side” efforts to improve forest sector governance in producing countries and to build institutional and technical capacity to manage forests and enforce the rule of law, little has been done to address the demand side of the equation. **The single most important element in reducing the demand for products derived from illegally harvested timber is to make it illegal to knowingly import, market, distribute and/or sell such products in the U.S. market.** This is the basis of the efforts underway in both the Senate and the House to amend the Lacey Act to include the provisions for the import of illegal timber and timber products.

**Amending the Lacey Act would send a very strong signal to U.S. importers,** often responsible enterprises, that they must do the fundamental due diligence to fully understand their supply chains and track imports back to the source. This, in turn, would build U.S. market demand for legal wood and create an incentive for timber operators to comply with national laws and operational policies. Legislation prohibiting the importation of illegally logged timber and timber products into the United States would create the enabling policy framework required to transform the operations of the forest products industry. Such legislation would further support and be supported by an effective REDD mechanism.

## **Conclusion**

Emissions from deforestation are a major source of global greenhouse gases and any solution to address climate change must reduce these emissions. The U.S. is a global leader, and our leadership is essential to achieving a solution to climate change that includes all major economies around the world that contribute to the problem. Congress needs to ensure that U.S. legislation includes mechanisms that will engage the power of carbon markets to address this problem. REDD should be a critical component of such legislation because it can reduce emissions quickly, it is cost-competitive with other mitigation options, and it brings developing countries into mitigation efforts. Through our on-the-ground work in developing countries, The Nature Conservancy has demonstrated that credits generated from reducing deforestation can represent real, permanent, and verifiable emissions reductions with reliable measuring and monitoring and appropriate accounting for leakage. The major obstacles to a successful REDD mechanism that harnesses the power of carbon markets to conserve vast repositories of biodiversity,

improve local livelihoods in developing countries, and help mitigate climate change are no longer technical, but rather political and financial. The U.S. can lead the way in overcoming those obstacles and bridging international divides in the path toward a comprehensive and effective global solution to climate change.