

**Testimony of Stuart E. Eizenstat
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Good afternoon, Mr. Chairman and members of the Select Committee. I am Stuart Eizenstat, a partner at Covington & Burling LLP. Thank you very much for the opportunity to testify today on deforestation and climate policy. I believe that this is one of the most important aspects of the climate change problem and I commend you for your attention to it. During my tenure as Under Secretary of State in the Clinton Administration, I led the U.S. delegation in the negotiation of the Kyoto Protocol. Forests were a major source of contention in those negotiations, and emissions from deforestation were ultimately excluded from the Kyoto Regime. But much has changed since Kyoto was negotiated, and today we have an opportunity to fill the gap left open by Kyoto by bringing deforestation into the international climate regime. I believe that the United States has a significant opportunity to lead on this issue. I currently serve on the advisory board of Sustainable Forestry Management and we have been working with Environmental Defense, the Nature Conservancy, Conservation International, Defenders of Wildlife, and the Wildlife Conservation Society as well as a number of major companies, including Shell, AIG, PG&E, AEP, and Duke Energy, to develop a Forest Carbon Dialogue that seeks to include domestic and international forest carbon provisions in U.S. climate legislation.

I. Deforestation and Climate Policy

There are two important observations that must be kept in mind as we explore options for including deforestation in international and domestic climate policy.

1. The forest sector is a key part of the climate change problem. As some of you may know and as you will hear more about today, deforestation -- almost all of which occurs in the tropics -- accounts for about 20% of global greenhouse gas emissions. That is more than the entire global transportation sector. Deforestation is the largest source of emissions in many developing countries, and some of the world's top emitters, such as Indonesia and Brazil, have achieved their rank largely because of emissions associated with deforestation.
2. We cannot solve the climate problem if we do not include forests. Despite its massive contribution to global climate change, deforestation in developing countries is currently excluded from the international climate regime by the rules governing the first commitment period (2008-2012) under the Kyoto Protocol. This makes no sense scientifically, and it makes no sense politically or economically.

The recent reports by Sir Nicholas Stern of the U.K. Government and the Intergovernmental Panel on Climate Change, among others, have identified reduced emissions from deforestation as a key low-cost mitigation option that is available now. In addition to the obvious climate protection benefits that come from reducing emissions from deforestation, protection of tropical and sub-tropical forests also generates significant social and environmental co-benefits,

including the conservation of biodiversity (tropical forests are home to half of the world's terrestrial species), the maintenance of critical ecosystem services, and the protection of livelihoods for many of the world's rural poor.

Finding a way to bring deforestation and forest restoration into the climate regime offers the only meaningful path for many developing countries to participate in international efforts to deal with climate change. And without developing country participation, there will not be an effective post-2012 international climate regime.

Because this is a low-cost mitigation option that is available now, we should be developing mechanisms to take advantage of these reductions as we work toward the fundamental transformation of our energy system. Put another way, recognizing credits for reduced emissions from deforestation in a U.S. cap-and-trade system will provide significant cost-control benefits and much needed flexibility to regulated entities in the U.S.

Simply put, we believe that reduced emissions from deforestation, together with efforts to plant new trees and restore forests, must be part of the solution to global climate change. It is certainly not the solution by itself, but we cannot even hope to stabilize the composition of the atmosphere at a level that avoids dangerous climate change without including forests.

II. Policy Options at the International Level for Financing Efforts to Prevent Deforestation

The current international policy debate has identified two main options for financing efforts to reduce emissions from deforestation:

1. An international fund (or collection of funds) that channels money to developing countries in order to finance forest protection efforts. This money could come from a variety of sources, including Overseas Development Assistance (ODA), carbon taxes, emissions allowance auction revenues, or debt-for-nature transactions. The important point is that this would depend on public sector, government-to-government financing.
2. Market-based mechanisms that channel private sector capital to developing countries in order to fund forest protection efforts. The basic idea here is that existing and emerging cap-and-trade systems could be designed to recognize credits for efforts to reduce emissions from deforestation and thereby leverage potentially significant flows of private sector capital for efforts to reduce emissions from deforestation.

In evaluating these two options, several key points should be kept in mind:

First, in order to have a meaningful impact on the problem, significant and sustainable flows of capital must be mobilized. The Stern Review, for example, estimates that it would take between \$5 and \$10 billion per year to significantly reduce deforestation in developing countries. We need to seriously question whether ODA or some other type of public financing could realistically provide this level of investment on a consistent and sustainable basis over time. My

view is that it cannot. Although multilateral and bilateral funding sources have an important role to play in this effort, we should also be looking for ways to harness the carbon market -- which doubled in size in 2007 to \$60 billion -- as a vehicle for delivering capital on the scale needed to have an impact on the problem. Having a fund should not be considered inconsistent with using market-based mechanisms. Both can play a role, but market-based mechanisms are far more powerful in leveraging private sector investment.

Second, regardless of which policy instrument (or combination of instruments) is put in place to deal with the problem, careful attention must be given to monitoring and quantifying changes in forest cover and forest carbon and to the development of appropriate accounting frameworks for measuring progress and ensuring that the whole effort has environmental integrity. Without environmental integrity, the whole effort will collapse. In contrast to the situation prevailing a decade ago, significant progress has been made, particularly in the development of remote sensing capabilities and accounting methodologies, in our ability to quantify changes in land cover and forest carbon stocks with confidence.

Third, deforestation cannot be considered in a vacuum and there is no one-size-fits-all recipe for solving the problem. Regardless of how the financing for reduced emissions from deforestation is ultimately designed, careful attention must be given to the promotion of policies and projects that will address the fundamental drivers of deforestation -- drivers that vary within and among countries. Integrated approaches will be necessary to provide meaningful and economically rational alternatives to deforestation, which means that we must look at afforestation and reforestation projects in addition to and as complements of avoided deforestation efforts.

III. The Current State of International Negotiations to Create Mechanisms to Prevent Deforestation

The 13th Conference of the Parties to the United Nations Framework Convention on Climate Change, held last December in Bali, Indonesia (COP-13), produced three major outcomes:

First, COP-13 defined a path forward for the negotiation of a comprehensive agreement to take effect when the Kyoto Protocol's first commitment period ends in 2012. This is the so-called "Bali Action Plan." Notably, the United States joined the global consensus to launch this negotiation process.

Second, the developing countries assumed at least some qualified responsibility for reducing their own greenhouse gas emissions, within the context of their own economic development and with the assistance of wealthier countries. This is a significant development. It opens the door to an eventual agreement that will in some manner address the critical role of China, India and certain other G-77 countries that will be major contributors to climate change in the decades to come.

Third, and most significant for our purposes here, was the recognition by all countries that whatever climate change regime emerges in the next round of negotiations, it should include provisions for Reduced Emissions from Deforestation and forest Degradation (known as "REDD"). To that effect, the Bali Action Plan specifically references the importance of

addressing, in the context of the post-2012 agreement, “policy approaches and positive incentives on . . . reducing emissions from deforestation and forest degradation in developing countries.” This represents a very important step in the direction of filling the gap left open by Kyoto and including deforestation in international climate policy.

Concurrently with the Bali Action Plan, COP-13 adopted a decision specifically on REDD, focusing on “approaches to stimulate action.” This additional decision, which I will refer to as the “REDD Decision,” calls for countries to undertake immediate efforts, including demonstration activities, to begin to address the drivers of deforestation and to determine the efficacy of various different approaches. Those early efforts are meant to be taken into consideration - and, presumably, credited in a post-2012 regime - when the eventual framework on “policy approaches and positive incentives” is ultimately agreed.

Attached to the REDD decision is a set of principles meant to provide “indicative guidance” with respect to the nature and goal of these demonstration activities. Of particular interest is the question of precisely how these demonstration activities, if conducted at a subnational level, will contribute ultimately to the development of “national approaches, reference levels and estimates [of deforestation].” This, like many other methodological issues, will be addressed over the course of the next two years.

What is critical here is that the international community, as represented by the Parties to the Framework Convention, now clearly recognizes that efforts to conserve the world’s tropical and subtropical forests must be part of any long-term global framework for climate change mitigation. This is due in no small part to the remarkable efforts of the Coalition for Rainforest Nations and their allies in putting this issue on the agenda. It is now clear that the developing countries that are the stewards of these tropical and subtropical forests are offering to take real and measurable action to reduce deforestation, provided that the international regime is designed to offer the right incentives for action.

With regard to specific policy instruments, the REDD Decision does not expressly endorse any particular approach and certain countries have thus far insisted that this decision be pushed to future meetings. It is also important to recognize that different countries and blocks of countries have endorsed different instruments for dealing with REDD. In our view, market-based approaches offer the most realistic opportunity for generating the scale of capital flows needed to make a significant dent in the rate of deforestation - let alone the amounts required to actually reverse the overall trends and eventually to halt deforestation altogether. And the Bali Action Plan expressly calls for considering “[v]arious approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions.” Many participants in the negotiations have noted that the term “positive incentives” is generally viewed as encompassing market mechanisms. My view is that markets must play a fundamental role in developing an effective policy for reducing emissions from deforestation.

For the reasons that I have outlined, the Parties to the Framework Convention will almost certainly include efforts to reduce emissions from deforestation in the global climate change strategy that emerges over the next couple of years. I submit to you that this will be a very good thing, for at least the following reasons:

First, the enormous environmental significance of preserving the world's forests, from the standpoint of the avoided carbon emissions and the protection of the Earth's climate system as well as the conservation of irreplaceable biological diversity and protection of vital ecosystem services;

Second, the importance of having the active participation by developing countries, such as those of the Coalition for Rainforest Nations, in the global effort to mitigate climate change;

Third, the importance of an avoided deforestation regime as a model for other developing countries to take targets in other sectors, such as electric power or transportation, rather than Kyoto-like, economy-wide commitments, which are unrealistic in the near term;

Fourth, the contribution that this will make to the willingness of the United States and other developed countries to take on ambitious targets or goals - knowing that all cost-effective alternatives are being explored and will eventually be available so long as they have environmental integrity; and

Last, but decidedly not least, the opportunities created by such an effort, if properly designed and implemented, for developing countries to forge an economic development path that is sustainable and consistent with the preservation of these vital natural assets.

IV. Opportunities for U.S. Leadership

The US has a real opportunity -- in its domestic climate legislation -- to lead on the deforestation issue by including provisions that recognize credits for reduced emissions from deforestation in developing countries. Such forest carbon credits would provide much-needed flexibility and cost control for regulated entities under a U.S. cap and trade system, while incentivizing developing countries to take action to reduce emissions from the forest sector.

And this does not have to wait -- indeed it should not wait -- until a post-2012 agreement is negotiated and in place. My view is that Congress can design legislation that allows credits for reduced emissions from deforestation and other forest carbon activities into a U.S. cap-and-trade system in a manner that ensures environmental integrity without imposing massive transactions costs on the whole effort.

To that effect, we are encouraged by the provisions in the current version of the Lieberman-Warner bill which allocate 2.5% of total emissions allowances to international forest carbon activities. We would like to see that percentage increase, but we also believe that the current provision that allows regulated entities to satisfy 15% of their compliance obligations with credits from international trading systems should be opened up to include credits for international forest carbon activities. This would allow regulated entities to tap into the cost-control benefits of these activities, thereby reducing the overall costs of a cap-and-trade program to the U.S. economy. All of this, of course, would also give a huge boost to the whole effort to protect and restore tropical forests in developing countries and encourage those countries to participate in a global climate protection effort.

We hope, therefore, that the House will also recognize the importance of incorporating reduced emissions from deforestation in its own cap-and-trade legislation, and we would urge that any such provisions be built on a robust market-based approach.