

CARBON MARKET FEASIBILITY ASSESSMENT: POTENTIAL FOR ESP TO ENTER THE CARBON MARKETS



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COMMONLY USED ACRONYMS

A/R	Afforestation/Reforestation climate change mitigation project activities
CCX	Chicago Climate Exchange
CDM	Clean Development Mechanism of the UNFCCC
CERs	Certified Emissions Reduction Units – traded in the Kyoto regulatory market
CFCs	ChloroflouroCarbons
CIFOR	Center for International Forestry Research
DNA	Designated National Authority – Ministry of Environment under the Kyoto protocol
ERUs	Emissions Reduction Units – traded in the EU ETS market
ESP	USAID’s Environmental Services Program
EU ETS	European Union Emissions Trading Scheme
FAMS	Community Watershed Forum, a participant organization of the ESP project in the Aceh Bessar District
FFI	Flora and Fauna International
FORSAKA	Community Watershed Forum, a participant organization of the ESP project in the Aceh Bessar District
GHGs	Greenhouse Gases
GOI	Government of Indonesia
JI	Joint Implementation
LULUCF	Land Use, Land Use Change and Forestry - a sector of projects in the carbon credit marketplace
MARN	Ministerio de Ambiente y Recursos Naturales
OCSP	USAID’s Orangutan Conservation Service Program
OTC	Over the Counter sale of voluntary credits – retail sales
PES	Payment for Environmental Services
REDD	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
VERs	Verified or Voluntary Emissions Reduction Units – traded in the voluntary market

EXECUTIVE SUMMARY

The purpose of the Carbon Market Assessment was to determine the feasibility of developing a strategy for one or more Pilot Payment for Environmental Service schemes using carbon credits as the commodity of trade. The consultancy focused on the opportunities to design projects that link to ongoing Environmental Services Program (ESP) activities and leverage the strengths of ESPs community mobilization activities throughout Indonesia.

Specifically, the Assessment explored the potential to develop carbon credit (a “carbon credit” or “credit” is one metric ton of CO₂ equivalent) projects from the Land Use, Land Use Change and Forestry (LULUCF) Sector. LULUCF projects for ESP would focus on the amount of biomass stored, or sequestered, in forests. The biomass is easily converted to carbon credits that can be either brokered or sold. The forestry credits would come from the conservation and reforestation activities undertaken by communities and community watershed forums, who are the key constituents of ESP. Broadly, the assessment looked most carefully at the possibility of entering the voluntary market with these forestry credits but also tried to understand the regulatory carbon market opportunities via the Kyoto Protocol’s Clean Development Mechanism (CDM) or the Reducing Emissions from Deforestation and Forest Degradation in developing countries (REDD) frameworks. There are numerous precedents for carbon market projects in Indonesia, and there are operational projects in the country – that can serve as potential models.

Whether USAID is interested in: 1) coordinating with the REDD Ulu Masen Ecosystem Project in Aceh Province, or 2) developing a Bundled Afforestation/Reforestation and REDD Carbon Credit Pilot Project within ESP, or 3) facilitating a Pilot REDD Carbon Credit Project with the Orangutan Conservation Services Program (OCSP) as a smaller and more easily controlled activity, it will be taking an important step towards integrating climate change mitigation into its programming.

Based upon the findings presented in this report, the Team believes that coordinating with the Ulu Masen Ecosystem Project is unlikely to be a satisfactory activity for the ESP project. This determination stems from the belief that institutionally, the implementing entities of the Ulu Masen Ecosystem Project are currently not looking for assistance from outside entities, and view these offers as potential competition. The very high profile public relations that this project has undertaken, and its direct links to the Governor of Papua, make it likely that they will receive the assistance necessary to achieve part of the implementation of goals for their project. To that end, USAID should be encouraged to invest in other activities where it will obtain greater value and be able to generate positive results during the timeframe of the ESP project and mitigate any potential downsides from association.

A Bundled Afforestation/Reforestation and REDD Pilot Project with the ESP community forums is more likely to be a satisfactory ESP Pilot Project. This is true for a number of reasons: it would be possible to manage the process, to determine the appropriate scale of events, to enter into the agreements with all parties at the beginning, as well as to assure the transparency of the process. Additionally, the great strength of the ESP project is the community mobilization work, by using the forums to advance a forest PES in addition to protecting their water supplies it provides the opportunity to dovetail benefits for Indonesia’s communities. If it can be done without diluting or confusing the importance of the watershed protection message, the addition of carbon forestry will add great financial

value to the work of the numerous community watershed forums. An additional benefit of the bundled Afforestation/Reforestation & REDD Pilot Project is the coordination with the District Governments that have well established land ownership regimes that are not linked to the national government. The intimate association with District Government reduces a number of the fundamental questions about Indonesian LULUCF carbon credits.

Lastly, given broad license by ESP to look at the options, the Carbon Market Feasibility Team also explored possibilities with the OCSP project. A REDD activity that linked to orangutan habitat surrounded by logging concessions, oil palm conversion lands and mining concessions could be an attractive way to compensate concessionaires for conservation instead of extraction.

Of the three options, it is the opinion of the Team that working with the existing ESP forums on a bundled Afforestation/Reforestation and REDD Pilot Project has the greatest potential to be a satisfactory pilot activity for ESP project support. The timeline that remains for the ESP project make it a close judgment as to whether there could be actual sales of carbon credits prior to the end of the ESP project. Depending upon the sophistication of the FORSAKA and FAMS forums, the ESP Pilot Project could be selling credits to the market – or presenting credits to a broker by that point, or at least be well on its way. There are a number of advantages to working on the ESP Pilot Project: the beneficiaries are motivated, have clear title to their lands, are used to working the land and have the capacity to do so, and are likely to be technically capable. In the expert opinion of the Team, there is a better than average chance for this project to achieve carbon credit sales prior to project close out, if it is fully supported from the beginning.

