Financial leaders call for investor-friendly forest-carbon market

Call marks turning point ahead of Durban climate change talks

**London, 6 May 2011** – Leading financial institutions upped the ante on their future role in mitigating climate change as they called for more effective forest-carbon regulations during a United Nations report launch in London Friday, just months ahead of an international climate change meeting to be held in South Africa.

Banking, insurance and investment representatives at the event welcomed the findings of the new study, *REDDy – Set – Grow: Opportunities and roles of financial institutions in forest-carbon markets*, which stresses that the financial sector must step up its engagement in the emerging green market, and makes the case for its improved regulation to facilitate this.

Offers of cooperation by financial representatives at the event to work with their national and international regulators mark a turning point in efforts to get the forest carbon market off the ground, only months ahead of United Nations Framework Convention on Climate Change (UNFCCC) climate change talks that will possibly lead to a new mechanism to reduce deforestation and forest degradation, known as REDD+.

“The market for forestry carbon has significant potential but will require concerted efforts in the design phase by policy-makers to ensure that it attracts flows of private capital. Because of the ability for sustainable forestry projects to deliver not just carbon but also biodiversity and community benefits, financial institutions stand ready to work with governments to help ensure the full potential is realised,” said Abyd Karmali, Managing Director and Global Head of Carbon Markets at the Bank of America Merrill Lynch, during the press conference, which was held at the banks’ European headquarters in London.

Governments successfully agreed in Cancun last December to making REDD+ a core component of the next global regime on climate change. To date, this has been carried forward by UNEP, the UN Development Programme and the Food and Agricultural Organization, with parallel and supportive work by the World Bank. However, the question of how this global mechanism will be implemented and financed remains unresolved, and will be a critical subject of future UN climate convention negotiations – including upcoming talks in Durban, South Africa.
The commitment of the private sector and financial institutions toward the implementation of REDD+ is crucial, the UNEP Finance Initiative (UNEP FI) study says, since the overall investment needed for implementation of REDD+ activities appears to exceed public capabilities and will thus largely hinge on action from the private sector.

Previous research has established that a 50 per cent reduction in deforestation is needed by 2030 if the forestry sector is to support global efforts aimed at holding the global temperature rise to below 2 degrees Celsius, the global climate target the world’s governments have set themselves in the international climate change agreements of the UNFCCC.

Achieving this reduction will require investment previously estimated at $17-$33 billion USD per year, according to UNEP.

The report stresses how private sector participation in REDD+ and deforestation activities can lead to a win-win scenario for the finance sector and governments, since such projects can translate into both lucrative investment opportunities and cost-effective strategies to abate carbon emissions and protect biodiversity and livelihoods.

The forestry-based carbon market’s value holds the potential to grow to $10+ billion USD by 2020, according to The Economics of Ecosystem and Biodiversity (TEEB), while that of total forest ecosystem goods and services is estimated at $5 trillion USD. This massive potential has, however, largely been left untapped so far, with low confidence levels from investors resulting from an insufficient and ineffective national and international regulatory framework.

Finance sector attendees at the event saluted the report as the first step of a critical learning process that will not only sharpen their competitive edge, but also boost their role in shaping tomorrow’s green economy.

“It is unwise in this day and age for companies that wish to remain competitive to turn a blind eye to emerging green markets such as the forest-carbon market. This is a rationale that makes sense from a sustainability perspective, but also from a profitability one,” said Richard Burrett, partner at Earth Capital Partners LLP and Co-chair of UNEP FI.

A follow-up report of REDDy – Set – Grow specifically geared for policy-makers and containing recommendations on the design of forest-carbon policies will be released in June.

Financial institutions at the event were gathered by UNEP FI, a public-private partnership that has set the sustainable finance and responsible investment agenda for more than two decades and counts close to 200 members on all continents in the fields of investment, banking and insurance.

Quotes from Partners and Experts

Achim Steiner, United Nations Under Secretary General and UNEP Executive Director, said: “Addressing deforestation and catalyzing sustainable forestry has been pinpointed by
UNEP’s Green Economy Initiative as a key sector for catalyzing a transition to a low carbon, resource efficient global economy. With the right and rigorous safeguards in place for local communities and indigenous peoples, forest-carbon markets can contribute to not only addressing climate change, but delivering multiple opportunities from maintaining water supplies and soils to decent employment in natural resource management.”

Christian del Valle, Director of Environmental Markets and Forestry, BNP Paribas, said: “It is critical to build a constructive dialogue between the public sector and the private sector so that private capital can be deployed efficiently and quickly into financing REDD+ activities. The UNEP FI report clearly shows the way to implement this.”

Armin Sandhoevel, CEO, Allianz Climate Solutions, said: “Allianz believes in the utmost relevance of forest-related projects such as REDD+, alongside with Programme of Activity (PoA) and small scale renewable energy projects, because they offer an outstanding value to the protection of biodiversity and to climate change mitigation by combining a wide array of activities into one project. But in order for the private investors to fully mobilize around REDD+ activities, we feel that some issues must be addressed. Credits derived from avoided deforestation projects need to be part of compliance schemes, and the projects need a robust domestic legal framework that allows investors to get involved with a long term perspective. Moreover reliable and rigorous standards for carbon credits derived from avoided deforestation are a pre-condition for long term price estimates, which are crucial for investors. We think UNEP FI is the adequate platform to talk to decision makers on how the REDD+ mechanisms can potentially be improved and, by extension, how future growth of investments in forest-related projects can be encouraged.”

For further information, please contact: Sebastien Malo, UNEP FI Communications, at +41 22 917 8465 / Mobile: +41 78 686 7022, or by email: sebastien.malo@unep.org.


You can read more on UNEP FI at www.unepfi.org, and on UNEP’s Green Economy Initiative at www.unep.org/greeneconomy.

The United Nations Environment Program Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Program (UNEP) and the global financial sector. UNEP FI works closely with nearly 200 financial institutions who are Signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.