Can a new forest alliance change nature finance for the better?

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Chopped trees in a forest. Credit: Andre Moura via Pexels

Conserving tropical forests is not cheap. Even though studies have shown that every $1 spent protecting or restoring tropical forests can return up

to $7 in economic benefits, deforestation continues in most tropical rainforest countries.

In Brazil, the Democratic Republic of Congo (DRC), and Indonesia, which together hold over 50% of the world's tropical rainforests, financial incentives still drive agricultural and extractive industry-related deforestation. While it will be necessary to firmly enforce existing laws to control this problem, designing novel economic initiatives to encourage forest conservation and restoration will also be paramount.

A new alliance from these three countries is being touted as an "OPEC (Organization of the Petroleum Exporting Countries) for forests," given the potential power it could have in setting the prices and limiting the supply of credits from forest conservation and restoration systems. If successful, this type of agreement and coordinating body could be a game-changer for the DRC, Brazil, and Indonesia. However, there are no real specifics for how this system would work, and the rules for what will emerge from this alliance have yet to be written. It is vital, not just for these three countries, but for the whole world, that this system be equitable and effective at reducing deforestation.

Building on previous deforestation mitigation initiatives

Over the past few years, there have been extensive efforts to pay landholders and countries to reduce and avoid deforestation. The funding sources for these programs vary, from government programs to NGO-driven conservation campaigns, and more recently, carbon credit systems that allow polluters to "offset" their emissions by paying for conservation and carbon sequestration elsewhere. Many of these credits are traded through mandatory programs run by governments, but others are issued on voluntary markets, which have been beset with scandals and

verification challenges in recent years.

One major funding source for reducing deforestation in tropical countries has been Reducing Emissions from Deforestation and Degradation programs, also known as REDD+. Emerging in the mid-2000s as a way for wealthy countries and corporations to fund forest conservation and reduce deforestation, REDD+ systems have been increasingly formalized through international treaties like the Paris Agreement, with the focus moving from individual project-based financing to broader countrywide agreements, known as jurisdictional REDD+. REDD+ systems are viewed as important in preventing climate change and nature loss, but they have faced issues in the past with actually ensuring forest integrity over time and protecting the rights of local communities in and around forests.

As voluntary carbon markets struggle and international bodies look to continue formalizing REDD+ structures, a new alliance between Indonesia, the DRC, and Brazil, aims to be a game-changer in the field of forest funding. The three countries, who finalized over a decade of negotiations this past November, have agreed to coordinate on conserving forests within their borders and limiting potential leakage between them. While other organizations of forest states, such as the Coalition for Rainforest Nations, have tried such arrangements before, the inclusion of Brazil in this agreement would ensure immense bargaining power for this new forest alliance when it comes to selling carbon credits. This could further impact existing voluntary carbon markets' viability, and accelerate the trend of tropical forest countries taking direct control or an ownership stake in carbon credit projects as exemplified by recent action in Zimbabwe. But exactly what might happen as this alliance moves forward is still unknown.

Rewriting the power balance

Ruben Lubowski, an adjunct professor at Columbia University's School of International and Public Affairs and the chief carbon and environmental markets strategist at Lombard Odier Investment Managers, has extensive experience researching and advising on REDD+ initiatives. He believes that this agreement could be potentially transformative, with the chance to rewrite the power balance in deforestation-reduction funding.

"The idea that these governments think of this as an economic opportunity is positive. For a long time, many people have argued that both Indonesia and Brazil could become 'green superpowers' with a comparative advantage for producing green commodities, not to mention carbon sequestration credits. Thinking of this as a green development strategy and as a strategic option for the countries makes a lot of sense," he said. As the major players in this space, he added, these countries "have real leverage politically in this emerging carbon market and net-zero world."

Right now, buyers are dictating terms to setting the prices when it comes to carbon payments and other incentives for reducing deforestation and nature-based services. But it's entirely possible that countries like these could use their influence to hold richer countries to more ambitious climate goals, and things like loss and damage.

This power, however, could potentially create issues if used for rent seeking, or exploiting the system for financial gain at the expense of smaller actors.

"When I think of OPEC, I think of monopolies and manipulating the price of a commodity, and that could be problematic," Lubowski said. OPEC's price manipulation of oil is legendary and has hardly had a positive effect, either on environmental outcomes or on the stability of many OPEC countries. In a worst-case scenario, the three forest alliance

nations could use their leverage to disadvantage other carbon credit producers through strategic increases and decreases in prices, which could reduce stable funding for conservation and restoration in smaller countries.

But with some experts estimating that a carbon price of around $100 per metric ton is required to meet net-zero targets, and with volatility and issues with maintaining credit quality, supply-side pressure could be useful for achieving this goal. By coordinating, these countries can potentially issue carbon credits on a truly massive scale. But how the projects that account for these credits would work is another story. One popular option is a jurisdictional, or "sovereign credit" framework, for issuing deforestation reduction credits, due to its lower possibility of leakage and individual project problems. Organizations like the Coalition for Rainforest Nations are already driving wider adoption of sovereign credits, which is already beginning to impact existing carbon credit markets. Lubowski suggested such a framework would likely be applied to the forest alliance, since coordination will be occurring on a national level.

"The jurisdictional approach solves many problems around leakage and permanence, and would be very in line with a jurisdictional strategy," he said. But while this approach would be more effective at reducing emissions on a large scale and measuring performance across the whole forest area, "Indigenous groups are rightly skeptical of offers and agreements from the government," Lubowski noted.

Indeed, building a system that also accounts for Indigenous and local land rights is perhaps the most contentious matter when it comes to successful implementation of a forest alliance. Agricultural and extractive deforestation have devastating effects on Indigenous communities and others who live in and around the forests, as the recent attempted genocide of the Yanomami at the hands of gold miners in the

Brazilian Amazon demonstrates. But conservation efforts, and especially payment for reduced deforestation schemes, have their own history of sidelining, under-paying, or even displacing Indigenous groups. Brazil, Indonesia, and the DRC have all had issues in this regard, with ruling politicians often serving as the determining factor for how deforestation reduction and respect for Indigenous rights are handled. If the new forest alliance is to be successful in reversing deforestation, it will have to ensure that the Indigenous communities are active participants.

Finally, to be successful, the new forest alliance will need to create transparent guidelines for tracking and crediting carbon sequestration and other forest ecosystem services, transparently manage prices in order to support the overall market, and move the world in a direction of higher carbon prices and clearer pathways for issuing high quality credits. Then it could potentially transform the wider carbon market and REDD+ systems for the better. Doing this will require deliberate planning, international buy-in, and above all, careful consultation with the Indigenous groups that live in the forests targeted for conservation.

The stakes are high, and the outcome of this agreement could help define the legacies of these three countries and their political leaders on a global level. As the alliance becomes further formalized, international organizations committed to reducing deforestation and all players in the existing carbon market should pay attention. If it is successful, the forest alliance could shape the global landscape of carbon conservation for decades to come.

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