Testimony of Stuart E. Eizenstat
Covington & Burling LLP
"Forest Credits in U.S. Climate Legislation: A High-return Investment in U.S. Environmental Goals and Security"
Before the House Committee on Energy and Commerce
Thursday, March 5, 2009, 9:30 am
Rayburn 2322

Good morning, Mr. Chairman and members of the Committee. Thank you very much for holding this hearing and for taking such a strong interest in the critical role that sustainable forest management can play in delivering results on climate change. I am here today on behalf of the Forest Carbon Dialogue members to detail for you our perspective on these issues and to share our thoughts on the way forward. The FCD is a unique environmental-corporate coalition that includes SFM, Environmental Defense Fund, American Electric Power, Shell, The Nature Conservancy, Wildlife Conservation Society, PG&E, The Woods Hole Research Center, John Deere, Conservation International, Duke Energy, and Defenders of Wildlife. We are consulting with other stakeholders, members of Congress and the Administration to urge that robust domestic and international forest carbon provisions be included in U.S. climate legislation.

I was the lead U.S. climate change negotiator during President Clinton's administration, and I am a vocal proponent for U.S. leadership to include forests in U.S. domestic climate change legislation. The forest sector is key to climate change. We cannot solve climate change without forests. Deforestation now contributes some twenty percent of all greenhouse gas emissions, more than all the transportation modes in the world--cars, trucks, trains, airplanes. It is deforestation that accounts for the fact that Brazil and Indonesia are the fourth and fifth largest CO_2 emitters. Forests also have the potential to address cost-effectively up to half of all human carbon emissions (IPCC Fourth Report, 2007). Let me be even more emphatic. Today, in the midst of a global economic crisis, we have the opportunity by appropriate use of forest credits in climate change legislation to accomplish two goals in one. First, we can provide a way for American regulated entities to find cost-effective approaches to meet these emission targets. One need only to look at the debate last year in the Senate on the Boxer-Lieberman-Waxman bill to recognize that the greatest threat to passage of the kind of ambitious cap-and-trade legislation President Obama, Chairman Waxman, and Chairman Markey champion is concern about cost, even more so now at a time of economic weakness. And there is a second benefit. We have the imperative and the opportunity to tangibly reward developing countries for taking action that not only will enable us to act faster and more vigorously on climate change, but will make the world a far safer and more hospitable place for us all. Avoided deforestation can be the contribution that many in the developing world make to addressing climate change. This, in turn, can allow many developing countries to break from the phalanx of united opposition to action on climate change I confronted at Kyoto. Though we face technical requirements and challenges, they are already being met with resolve and creativity.

Current efforts have absorbed, reflected and addressed the serious mistakes of the flawed model of the Clean Development Mechanism, or CDM, which has done almost nothing to incentivize forest-related efforts. U.S. domestic legislation can provide strong incentives for the success of far more market-oriented and tested approaches. In this case, the stakes are simply too high, and the downside of inaction far too great, to let the perfect be the enemy of the good.

Forests, Climate Change and Global Security: If Congress includes robust forest provisions in U.S. climate change legislation, you will be leading the way towards a global partnership to fight climate change cost-effectively and cooperatively. In addition, you will help to generate multiple co-benefits, to biodiversity, to global security and to sustainable development around the world. This will be an historic contribution to preserving global biodiversity and the fragile ecosystems and watersheds upon which people, especially some eighty percent of the rural poor, depend for their livelihoods and well-being. You will help to avert specific devastating climate change impacts -- including deadly crop failures and drought conditions -- likely to leave half of the world's population to face acute food shortages by 2100. Please bear in mind as well that two-thirds of the world's population live near vulnerable coastlines. Senior U.S. military experts have stressed that as resources collapse and vulnerable areas are affected, fragile societies will become far more unstable and, along with mass movement of "eco-migrants," will bring instability -- and its economic and human costs -- to our doorstep.

Contrast that apocalyptic vision with a very different and yet feasible path on which the world's forests would be managed so as to counterbalance as much as forty or fifty percent of the world's human carbon emissions, and to provide development resources, environmental services and livelihoods for a wide swath of humanity. The Fourth report of the Nobel-winning Intergovermental Panel on Climate Change (IPCC) makes clear that action to promote sustainable forestry is critical and that forests have this enormous natural potential as a carbon sink. The contrast is real, the stakes are incredibly high, and choices must be made now.

An Economic Green Revolution, Sustainable Development and Low-Carbon Growth: Path breaking economic analyses by Sir Nicholas Stern for the UK government; by the McKinsey Global Institute, in the Eliasch report; and by U.S. research institutes such as EPA-funded Lawrence Berkeley Laboratory, sets forth in detail the critical role forests and land use can play in fighting climate change cost-effectively while generating enormous resources and flexibility for needed change. The McKinsey study stresses that to achieve needed emissions reductions will require hundreds of billions of dollars in new global investments for decades, and involve economic change equivalent to another industrial revolution, but ten times faster than the original. The Stern report suggests $5 to $10 billion annually will be necessary to provide incentives against cutting down tropical and sub-tropical forests. The recent Eliasch report estimates that just to cut in half current deforestation through 2030 will take $20 to $30 billion per year. Change and investment on this scale cannot be accomplished with small, aid-based efforts. They require the power and discipline of markets.

Meanwhile, the UN Food and Agriculture Organization, the International Food Policy Research Institute, World Bank and other development experts urge us to recognize that billions of people worldwide currently rely upon forests for income and basic needs. Forests provide cocoa, coffee, fruits, nuts, medicinal plants, fuel for heating and cooking, as well as habitat for insects, birds and animals which pollinate crops and provide food to local people. Forests also generate billions of dollars in raw materials for timber, paper, building supplies and furniture as well as pharmaceuticals. Forests help to regulate water quality, prevent soil erosion and currently are home to perhaps 90 percent of the world's terrestrial biodiversity though they now cover just six percent of our planet.

It is extremely important to recognize that many developing countries, including some of the poorest in Africa and elsewhere, want to take action today on climate change and sustainable development. This was not the case at Kyoto. African countries in the Common Market for Eastern and Southern Africa (COMESA) want to protect their forests and have incentives for good land use and agricultural practices. The Coalition for Rainforest Nations wants incentives to avoid the pressures of deforestation, and pressed this issue vigorously at the 2007 negotiations in Bali. And, those pressures are enormous.

There are strong commercial incentives to cut down trees--which will never come back--to make way for the production of agricultural products for exports--like soybeans. Rewarding sustainable forest and land use management realistically offers developing countries the only way to fight these pressures. Inefficient energy and agriculture, poor land tenure and enforcement, and a lack of clear and widely-recognized economic incentives to value forests are major drivers of deforestation and poor forest management. By including robust credits for international action on forests in U.S. domestic climate change legislation, we can generate concrete incentives for developing countries to improve land tenure, and to provide access to extension and financial services, education and training, and rural infrastructure, among other things.

If the United States will lead by bringing sustainable forestry and land use together with strong domestic climate action, the potential direct human impact alone is enormous. Millions of women may not have to walk miles alone and vulnerable to find and haul water and firewood, but instead find food, hospitable environments and income-producing work closer to their homes and families. Pro-active U.S. steps to credit and support action on tropical and sub-tropical forests will also bolster myriad efforts underway to ensure that the emissions reduction results of forest efforts are real, that the rural poor and indigenous people benefit both directly and indirectly, and that those efforts drive a faster transition to low carbon growth.

Incentivizing and supporting investment in forests that recognizes their value in place, far exceeds most alternatives and makes sense environmentally, politically and economically. It also generates shared development resources for innovation, green jobs and more productive and sustainable agriculture and land use. Action on forests can be a major source of incentives and funding for investments in another green revolution in agriculture, for example, in Africa where poverty, drought, desertification, disinvestment, conflict and capacity have kept many of the rural poor in impoverished conditions. If forests become more valued for the full range of their services, and signals are clear that sustainable land use will follow in time, agriculture and food production will be driven towards greater productivity.

Why We Cannot Wait to Act Boldly: In the developing world, near-term growth now competes with sustainable development, as it apparently does even here. That need not be the case. We must change the incentives and structures that keep us all bound into that straitjacket. As we address the technical and measurement issues and governance concerns -- and those challenges are being addressed vigorously and effectively -- we simply must bear in mind that climate change mitigation and adaptation cannot and will not be achieved without action by developing countries, and specifically not without action on forests, their biggest source of emissions. It will take time to build up and integrate capacities and information, and to ensure against risks of reversal, leakage and impermanence. But we simply cannot and should not let the perfect be the enemy of the good.

Action on forests (and ultimately on land use) is <u>not</u> a way out of getting results or taking domestic action. It is a means to do so aggressively, while also taking aggressive action on fossil fuel and other emission sources. If we want climate change legislation to work, we need to treat forest-related efforts as serious and very important. There must be room and support in these early years to experiment, innovate and learn as countries -- and communities, companies and organizations -- further develop and improve the infrastructure to achieve the goal of full and credible national accounting for real emission reductions. But it must be done on a scale and at pace sufficient to drive a revolution, and that requires strong signals and incentives. And, to energize countries and companies to act, early action credits should be provided.

<u>Including Forests Will Speed Up and Enable Action in the United States and Worldwide</u>: A commitment to practical efforts by the poorest developing countries, supported by the United States and the international community, can and should enable both the developed countries, and the major emerging economy emitters such as China, Brazil, India to move forward on a post-2012 global deal with more aggressive commitments than would otherwise be possible.   In fact, this is happening already. In December 2008 in Poznan at the UN climate change negotiations, Brazil announced its first-ever target to cut the massive rate of deforestation of the Amazon by seventy percent over the next decade. Clearly, they would not have taken this bold and welcome step if they did not believe it would be rewarded, both in terms of their own environment but also under the post-2012 framework for carbon markets.

In addition to Brazil, the African regional organization COMESA launched its African Bio-Carbon initiative in Poznan. COMESA’s nineteen members seek to take on voluntary commitments related to forests and land use (and they are eager to ensure that their efforts be assessed and credited).   And the Rainforest Nations -- tropical forested nations from regions around the world -- continue the successful push they made in Bali in 2007 to put forestry on the post-2012 climate change agenda.

<u>Recent Developments on Forests, Land Use and Climate Policy Internationally:</u>
One of the breakthroughs at climate negotiations in Poland in December 2008 was that key policy issues, including funding sources, for Reducing Emissions from Deforestation and Degradation (REDD for short) will formally be examined in-depth this year. Up until Poznan, the REDD discussions were held under a technical committee under the UN Framework Convention on Climate Change. Member States pushed to raise the policy profile of these issues and accelerate in-depth work on forest and land use issues, including how REDD credits will be part of post-2012 emissions budgets for countries with mandatory caps. During 2009, a two-track parallel approach will continue to look at the scientific and technical issues, as well as

policy issues related to the post-2012 framework. One of the major decisions of the COP in Poland was the give an increased role to "the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries." This language solidifies agreement reached in Bali and clearly allows for the inclusion of conservation, sustainable management of forests and enhancement of forest carbon stocks in any possible future REDD mechanism.

Making Action on Forests Practical and Effective:

I recognize that there are real questions about how action on forests, and ultimately on land use, can be undertaken within a framework that leads to credible emissions reductions. We must address national baselines and ongoing measurements needed to ensure credibility. We also have to describe how to transition to national baselines, and how projects and sub-national activities can contribute to such a transition. Permanence of the emission reductions and leakages also are of understandable concern to many. And finally, I know that there is genuine concern about the risk that development benefits will not be shared with the rural poor and indigenous people who depend on forests for their livelihoods. I will address all of these. Let me assure you that the Forest Carbon Dialogue is committed to only support forest-based credits that have integrity and that make real reductions in greenhouse gas emissions.

Let me first be very clear: these issues are real but manageable. Many practical pilot efforts are underway. Major international organizations such as the World Bank and IFC are working intensively to refine templates and methodologies, to help African and other governments get market-ready, and to ensure that carbon markets will function. As we speak, universities, development organizations (for example, UNEP, FAO and the World Bank), research groups -- such as the Consultative Group on International Agricultural Research (CGIAR), the World Agroforestry Center (ICRAF) and the agriculture and natural resources policy network FANRPAN are working with major donors (including the Gates and Rockefeller foundations and major bilateral contributors and environmental groups) to help developing countries learn to implement the right policies, monitor and assess protocols and to develop accountability frameworks to get the job done well. Unlike CDM projects, current efforts aim at inclusion, verifiability and crediting in a system where activities are expected to contribute to global emissions reductions. The incentives, players and approaches are diverse, motivated and much evolved from the poor example of the CDM. They offer strong insights into the concerns you have raised.

For many developing countries, forests and land use account not only for the vast majority of their emissions, but also embody their opportunity to help to address global climate change while continuing to grow and improve lives at home. Forest credits offer hope where the global crisis has made it more scarce than ever.

<u>Baselines, measurement and sub-national efforts</u>: We believe that is essential for countries seeking forest credits to move towards a full national accounting framework of sources and sinks in their forest sector. Developing countries are aware of the issue of national baselines, and have urged the UN and others to help them accelerate this process, and to disseminate and build capacity based on the good work that has been done already. In projects well underway, for example, satellite telemetry is ground-truthed and field tested intensively, and the analytical

results evaluated, shared and compiled into databases that researchers increasingly can access worldwide. The IPCC Best Practices methodologies have been translated into numerous concrete practice manuals and templates used in projects worldwide, and subsequently improved and shared as a result of this field testing. International organizations and research groups are working to ensure that these experiences converge in global best practices.

In addition, serious attention is being given to insurance products and services, and other mechanisms to address issues of permanence and leakage and the risks of policy changes by specific governments once activities are underway, for example, by the International Finance Corporation at the World Bank. The IFC is experienced with insuring risks and activities in developing countries. The UN pays close attention to these efforts and at each meeting of the UNFCCC bodies to prepare for Copenhagen, both the technical and the policy issues are discussed with a view to including forests in the post-Kyoto framework in a workable, effective manner.

For some forest nations, developing national baselines will require both time, capacity building and resources. Yet there is great urgency to begin immediately to reduce deforestation and significant value in lowering the cost of real reductions under cap and trade systems. In that light, we recommend that for a limited period forest sector activities related to emission reductions in countries that have not yet established national accounting frameworks be eligible for credits. For countries which do not progress towards national accounting as required, these credits should be discounted after a period of time, and simply eliminated if progress remains stalled. The key is to support and incentivize best practices, high quality standards and a workable, effective system which makes clear that we want developing countries, including the poorest, to contribute as they are able to climate change mitigation and adaptation. If it also spurs sustainable development more deeply, that is all to the good. Moreover, including as many countries as possible in a workable but rigorous framework actually reduces the likelihood of international leakage.

Let us also be clear that sub-national activities provide a much-needed incentive to build capacity in countries so that they can move to national accounting approaches. Sub-national activities also enable us to refine global best practices. I should note too that sub-national does not refer only to projects. It can, and should, include state or province level activities with jurisdiction-wide accounting that are comparable to national-level approaches. As some of you may know, our own States of California, Illinois and Wisconsin are already working actively to promote effective sub-national activities in developing countries.

In November 2008, the Governors of California, Illinois, and Wisconsin signed a series of Memoranda of Understanding (MOUs) with four Brazilian states and two Indonesian provinces that expressly recognize the importance of REDD and international forest carbon. This MOU calls for cooperation in the development of “rules to ensure that forest-sector emissions reductions and sequestrations, from activities undertaken at the sub-national level, will be real, measurable, verifiable and permanent, and capable of being recognized in compliance mechanisms.” As a result, the Brazilian state of Matto Grosso, several times the size of Costa Rica, is interested in moving ahead on REDD through the California MOU process. We absolutely should not discourage that.

This effort by U.S. States represents the first effort to move into what might be called the "proof of concept" stage in the ongoing effort to bring REDD and international forest carbon activities into existing and emerging compliance regimes. As such, the effort carries global significance as a signal to other governmental entities and to the broader climate policy community that this is achievable and that there is and will be a meaningful process of transnational cooperation among the MOU states. This cooperation will develop workable frameworks and mechanisms to generate compliance-grade assets from REDD and other forest carbon activities in Brazil and Indonesia and to bring such assets into existing and emerging compliance regimes in the United States (and elsewhere).

Precluding sub-national activities from eligibility for credits would undermine or destroy these efforts and undermine rather than advance participation by major emitters like Brazil and Indonesia, as well as support and progress towards national level efforts. No one seems to suggest that U.S. sub-national efforts to reduce green house gas emissions are just a distraction or that they undermine the effort to move toward national level reductions with a federal cap-and-trade bill. It is imperative that Congress recognize that climate policy which seeks to address forest-related emissions must support important sub-national work along with that undertaken by national governments.

<u>Addressing Reversals</u>: As with other emission reductions, the objective of including forest-related activities is to reduce carbon emissions from those activities over time. The most powerful way to ensure that emissions related to forests are reduced -- and those gains valued in ways that incentivize against reversals -- is to signal clear support for an international policy architecture which rewards the reductions, commits relevant parties to maintain the reductions overall, and regulates activities such that intentional reversals are unlikely and unintentional ones are addressed.

A number of concrete proposals and mechanisms can reinforce the role of national baselines and measurements in this regard. They include requiring countries to establish "reverse funds" with a portion of their forest credits or to retain a portion of their forest credits in reserve, without selling them, as a de facto insurance policy, as well as liability rules built into agreements, and the development of specialized insurance products. These and other approaches are already being developed and analyzed. I should highlight as well that many of the drivers of such "reversals" -- whether it be fires, land-clearing or illegal logging -- will occur far less where national and local governments and other stakeholders, set policy and act upon the powerful incentives created by a system of credits within a framework of binding cap and trade approaches, national accounting standards and robust compliance regimes.

Just yesterday, for example, Indonesia announced that it has applied to join a World Bank program that supports developing nations' efforts to fight deforestation and help them earn cash through the sale of tradable carbon credits. The Bank's Forest Carbon Partnership Facility supports countries to design and create high quality projects, and Indonesia already has several, to enable them to be ready to tap substantial resources from carbon markets by protecting their forests. Slash-and-burn farming and clearing for oil palm and other plantations have triggered vast fires in Indonesia, particularly on peat land, accelerating the amount of carbon dioxide in the atmosphere, scientists say. Regarding forest carbon credits, Indonesia's submission explains that, "such an investment could result in alternative and sustainable livelihoods for many of Indonesia's 10 million lowest income families who currently survive on uncontrolled harvesting of forest and expansion of slash and burn agriculture." Clearly, Indonesia believes that the market will provide strong incentives to enable behaviors to change, and those changes would support real emissions reductions and act to reduce man-made activities that cause "reversals."

Minimizing Leakage: The first line of defense against leakage is to bring together as many countries as possible -- both by incentives and by commitments -- effectively into a system that rewards shared, ongoing, long-term action. That is the fundamental reason we need to give developing countries -- all of them -- a reason to support action on climate change. Our legislation and the post-2012 framework should also help us to enlist developing countries in holding accountable both the developed countries who take on specific, binding, economy-wide emission reduction commitments; the emerging economies who take sectoral and energy efficiency targets; and the poorest countries which choose to make voluntary commitments, for example, with respect to their forest sectors. Forest-related activities are actually less likely than many others to displace emissions-producing activities to another country or site, especially if they include robust sub-national arrangements, a clear transition to national accounting, and a large number of forested countries.

Establishing local control over forest resources, as has been done by the Government of Madagascar in the Makira Forest Project, can both reduce leakage and help to ensure that benefits are shared. Under this project, which is supported by the Wildlife Conservation Society, the national government transferred management responsibility for the forest to elected communal bodies (COBA). The government compensates communities through the COBA for access to and authority over the forests, and carries out the function of monitoring to ensure the project adds to emissions reductions. The COBA, meanwhile, act against illegal deforestation and to promote sustainable land use and livelihoods from the forests. This is but one example among many.

Compliance also matters and projects such as Makira(and there are many of them worldwide), help build the data and the capacity needed to ensure environmental effectiveness. But as President Reagan once said, it also important to verify as we trust. On Tuesday of this week, NASA and Cisco launched a joint partnership involving the Ames Research Center to develop a global platform to measure and analyze climate change, with a specific focus on forest carbon. Nancy Birdsall of the Center for Global Development called it, "an absolutely critical tool." It is one of many tools evolving to help weave together action on the ground with a much higher level of understanding of sources and changes in global emissions.

Promoting Shared Development Benefits: Poverty and a lack of capacity and other resources characterize the rural poor in many parts of the world. We understand concerns that even with up to $50 billion annually in new development resources generated by including forest credits in U.S. and international climate policy frameworks, the poorest may not be empowered to overcome all of these obstacles. As a practical matter, we may not be able to address this fully with climate change policy instruments. I have spent many years of my life working to promote accountable governance, shared growth and investments in people in developing countries.

Poor governance, a lack of inclusion and low capacity are among those things which actually drive deforestation and eco-system destruction. The World Bank recently issued a new climate change strategy which recognizes the need to incorporate policy considerations fully into country strategies, including the programs, policies and investments designed to address poverty and marginalization. Many developing countries recognize that without property rights and shared benefits among all those affected by action on forests, they will not achieve and secure the benefits of forest carbon credits. Many, such as the COMESA countries in Africa, see clearly the inter-related nature of agriculture, land use and forests, as well as the links to property rights, financial service access, and education and training. They are prepared to reshape policies and investments accordingly, and to address governance concerns.

Indonesia's application to the World Bank to join its Forest Carbon Partnership Facility illustrates the power of incentives, both their level and the direction in which they push. Between 1997 and 2000, Indonesia's deforestation rate was 2.8 million hectares per year, falling to 1.2 million hectares in 2000 to 2005. The main drivers are described as extensive forest harvesting by pulp, paper and palm oil firms, expansion into rainforests and peat land by agriculture and forest plantations as well as encroachment by low-income communities into forest lands. At the same time, the Indonesian government's submission recognizes that REDD could change those incentives and be a major, counterbalancing driver for investment. "REDD-related incomes could also support a substantial investment in peat land restoration and broadly-based, rural and village level forest enterprises," according to Indonesia's application. The submission also explores the cost competitiveness of REDD versus palm oil and timber plantations, and finds that at very realistic carbon credit prices, REDD would be competitive in Indonesia.

I would simply caution against trying to legislate detailed remedies through climate change policy. Climate change policy can establish strong incentives for inclusive, sustainable development and could also articulate aims and best practices for use of carbon credit resources in a manner which benefits rural poor and indigenous people. The most powerful thing climate policy can do is to give value to and improve the enabling environment for sustainable development. Without that, the poor -- including indigenous people who are poor -- will suffer dramatically and disproportionately.

What is Needed In U.S. Legislation: The Forest Carbon Dialogue sees four key goals as you consider language to ensure that domestic and international action on forests can be credited under U.S. legislation: (1) ensuring the overall environmental integrity of the program and maximizing its climate and biodiversity benefits; (2) delivering cost savings to a domestic cap-and-trade program that result from access to international forest carbon crediting; (3) creating mechanisms for developing nations to participate in global emissions reduction efforts; and (4) recognizing the urgency with which action must take place.

As a practical matter, we believe that markets will be most likely to provide the greatest opportunity to direct urgently-needed carbon finance to developing countries to protect their forests, but there are also essential roles for direct funding. They should not be seen as operating at cross-purposes. Both market-based incentives and development assistance funding are needed together to get results. The three critical elements contained in the legislative language that we have proposed—market-readiness funding, credits for forest carbon activities, and direct support for other important forest carbon conservation activities—are integral parts of a complete package that will meet these goals.

Market-readiness: There is an urgent need for a dedicated funding stream to support efforts to build capacity in developing countries that will be essential for them to have in place before they are ready to participate in a national-level program. A dedicated stream of funding during the first several years of the program will be essential to develop monitoring networks, create working national institutions and programs that will form the foundational elements of national-level strategies to conserve forests, and reduce emissions from deforestation. We believe this funding duration could be limited to several years. We are working to develop more precise estimates of the need and will provide those to you as soon as they are available.

Credits for forest carbon activities: For many rainforest nations, emissions from deforestation are the vast majority of their national emissions and are a major source of global greenhouse gas emissions. We believe that it is essential for these nations to quickly move towards a full national-level accounting framework of sources and sinks in their forest sector that includes development of a measurable baseline against which to measure progress. Nations would only earn credits for reductions below an emissions baseline that would decline over time. Credits are only provided after nations have made progress, not before. Because of the scale of investment needed—estimated by some at tens of billions of dollars globally—public funding is likely to be insufficient to the task, and therefore carbon markets, enabled by supportive foreign assistance, are likely to be our best hope for achieving the bulk of the conservation needed. Moreover, curbing deforestation is a relatively low-cost emissions reduction opportunity, so including international forest crediting within a domestic climate program can significantly reduce the costs of a domestic program--one essential ingredient if we are to have meaningful legislation at a time of economic fragility.

For some developing forest nations, establishing a satisfactory national emissions accounting framework will require both time and considerable resources. Yet there is great urgency to immediately begin reducing deforestation, as well as significant value in lowering a cap-and-trade program's overall costs. We would recommend that for a limited period of time, activities in nations that have not yet established their national accounting frameworks be eligible for emissions crediting when they reduce emissions from the forest sector. Only activities that meet high quality standards established by the EPA would receive any crediting. While the end goal remains national-level strategies, sub-national projects may in some contexts allow the local drivers of deforestation to be more directly addressed and involve simpler institutional arrangements. Nevertheless, to provide incentives for nations to establish national-level accounting for the forest sector, credits for activities in nations with significant emissions that have not shown adequate progress toward a national emissions accounting framework should be discounted and ultimately eliminated if the country's progress remains stalled, as I have said.

Direct support for other important forest carbon conservation activities: A comprehensive international forest carbon conservation package must also address the needs of countries that currently have low rates of deforestation but may be "next on the chopping block." Pervasive activities such as illegal logging also pose widespread threats to global forest conservation. Our proposal would dedicate additional allowance value from within a domestic emissions cap to address these and other threats, to support early action, and to support other low-cost opportunities.

The FCD believes that our proposed framework, taken as a package, represents an environmentally responsible and realistic framework, within the context of cap-and-trade legislation, for rapidly and dramatically reducing global emissions from the forest sector.

I look forward to working with you to answer questions, and stand ready to address any concerns you may have. I applaud your foresight in holding this hearing, and I urge you to consider the full range of issues I have raised here with you today. There is no time to waste. The UN believes that each second, an area the size of a football field is lost forever. There are issues that need work, but we must provide incentives against deforestation now or we will have lost an incalculable resource for all time while we try to develop a perfect system.

Thank you.

* * * * *