

UNFCCC REDD+ Rainforest Finance Day 2023

Meeting of REDD+ Focal Points for the Coordination of Support for the Implementation of Activities related to Mitigation Actions in the Forest Sector

(Decision 10/CP.19)

BONN CLIMATE CHANGE CONFERENCE 2023

Time: Friday 9 June, 2023 - 11.30-18.00

Venue: Steigenberger Grand Hotel - Bonn, Germany

Objectives:

- Update by countries on UNFCCC REDD+ implementation under Article 5 of the Paris Agreement
- Updates on progress of the Sovereign Carbon markets of REDD+ and ITMOs
- Network and learning about Sovereign Carbon and capital markets

Description:

The **UNFCCC** is mandated to organize a formal meeting annually to consider the coordination of support for the implementation of **REDD+** actions under Article 5 of the Paris Agreement.

The reversal of global deforestation can only be achieved through the leadership of developing countries implementing the REDD+ Mechanism under the **Paris Agreement**. This will be driven by predictable finance at a sufficient scale and underpinned by national legislation and policy.

According to the most recent **IPCC** report, gigaton-scale reductions annually must begin this year. Sovereign carbon has already outpaced the voluntary standards by a factor of 10.

Article 6 of the Paris Agreement has changed the game. Moratoriums on voluntary standards are expanding and stranded carbon assets are growing.

Speakers: Corporates and governments.

Programme

Workshop

- **11.30-12.00 MORNING ARRIVAL** - Networking
- **12.00-13.00 WORKSHOP** - Sovereign Carbon market updates and progress on REDD+ & ITMOs
 - **12.00-12.15:** What is Sovereign Carbon and what is needed to issue it?
 - **12.15-12.30:** Sovereign Carbon Ecosystem: How can it be traded & who can buy it?
 - **12.30-12.45:** Platform showcase
 - **12.45-13.00:** Q&A
- **13.00-14.00 LUNCH**

Roundtable

- **14.00-14.30 AFTERNOON ARRIVAL** of Country Representatives and networking
- **14.30-14.45 WELCOME** and Introduction (CfRN)
- **14.45-15.00 Carbon Markets:** Creating the Sovereign Carbon market
- **15.00-15.15 Source, Structure, Sell:** ITMO-the only integrated model reducing conflicts of interest & access to capital markets
- **15.15-15.30 Market Distribution:** How the ITMO market will jump start and how long will it take to create liquidity?
- **15.30-15.45 Regulation & Legal:** What are the legal hurdles to a functioning market and is regulation required? (**Clifford Chance**)
- **15.45-16.00 Carbon Pricing:** fair pricing RRUs and length of process
- **16.00-16.15 BREAK** Coffee Break
- **16.15-16.45 Country Panel**
- **16.45-17.15 Country Presentations**
- **17.15-18.00 Q&A**

Overview

CfRN hosted the Rainforest Finance Day as part of the official UNFCCC Bonn Climate Change Conference June 2023. The Coalition welcomed more than 14 rainforest countries and many market delegates from the private sector, totaling over 50 participants.

The day was divided into two sessions:

1. Private sector to explain the current and future carbon markets and how to access the capital markets.
2. Focus on countries and creating a dialogue between them and the private sector.

This led to a very constructive and positive dialogue between the countries and the private sector on developing proper sovereign carbon and developing it for the capital markets

Private Market Sessions

During the morning session the audience heard leading financial experts from ex-bankers, and ex-investors including former ABN Amro, Credit Suisse, JP Morgan, HSBC and Deutsche Bank executives, CRX (Singapore), Clifford Chance (UK), and EEX (EU/Germany). From the capital markets, financial and carbon experts discussed:

3. Developing the Carbon market
4. Legal and regulatory issues
5. Building a platform and registry to sell Sovereign Carbon
6. Market distribution strategy for countries to follow
7. Carbon pricing
8. EEX Presentation

1. Sovereign Carbon Market Development

Ian Robinson, Ph.D Law, former Managing Director, Nomura

Robinson addressed the issue of developing new financial markets, including for Sovereign Carbon. As such, he provided a comparison to the creation of totally new markets, and indicated how difficult and time consuming this has been. Robinson delineated the following stages to go through a proper Sovereign Carbon Market:

- A. **Pre-product stage:** the stage all countries have been through for more than 20 years by creating robust products with the right level of verification
- B. **Slow and bespoke stage:** having to create deals from scratch, structuring legal documents as bespoke, trade by appointment- i.e. no liquidity, very little price reference
- C. **Consolidation phase:** larger trades are possible with more market participants. Documentation starting to be standard. Still trades by appointment, no two-way levels shown, no exchange/ settlement standards.
- D. **Increased liquidity:** two-way levels shown, various market makers, creation of index product. Able to trade 3 billions notional in average 10 million clips using standard documents in 4 days. At this point an exchange becomes relevant.

2. Regulation & Legal:

Nigel Howorth, Partner, Clifford Chance

What are the legal hurdles to a functioning market and is regulation required? Howorth highlighted the need to:

- A. **Create** standard documents
- B. **Legal opinion** regarding Article 6 and REDD+ (soon to be published)
- C. **Regulation.** When/how is it coming with the corresponding regulators e.g. FCA, SEC, etc. Howorth focused on the expectations of regulation and what is needed to prepare for it.

3. Platform and Registry*Charles Longden, former CEO, CDS Clear*

Longden presented how to create a platform for new sovereign carbon credits from rainforest nations, which will be the GO-TO/MUST HAVE platform for all market participants, educating and facilitating trades to mitigate climate change. Longden discussed the following points:

- A. National Registries – a Two-Layer Platform
- B. National Registry Platform Participants
- C. National Registry Platform Attributes
- D. Partnership with Large Investment Bank
- E. National Registries
- F. Example of a country registry

4. Market Distribution:*Nicky Candler, former Co-Head of Rates Sales, HSBC*

Candler discussed the new ITMO market and how long will it take to create liquidity.

- A. **Focus on top down** - who are the buyers and where is the demand?
- B. **Transaction lifecycle** - education, establish demand, due diligence and execution
- C. **Broaden buyer base** - ratings, gradual establishment of liquidity and further product development

Candler indicated the following target markets:

- Big emitters
- Target sectors: scope 1 to 3 and their BAU

He provided a few examples from the financial sector:

- **Banks** how could sovereign carbon ease polluters funding
- **Asset Managers/Insurance/Pension Funds** how could sovereign carbon be incorporated within their portfolios or when writing new business

5. Carbon Pricing:*Ian Robinson, Ph.D Law, former Managing Director, Nomura*

Robinson discussed fair pricing RRUs and length of process. The following points were mentioned:

- A. **Price Curve:** No price curve for sovereign carbon is currently available. Nearest equivalent is compliance market but with much slower start point. Currently, active discussions are in the 25-30\$ range.
- B. **Early stage:** Likely to be primarily market driven, given supply currently outweighs demand. Need to be careful not to flood the market which will push prices too low. Also, Robinson warned to be cautious not to list on exchange and have inventory stuck there for months and identified the following steps:
 - release in small tranches over time
 - sell them down then release the next tranche
 - try to start the market with a slow upward price trajectory
 - too much volatility reduces demand.
- C. **Standards for documents:** countries need to get everything set to attract more buyers and start to see secondary market trades. Also, bigger differences between countries in terms of price may be seen in the short run. Countries need also to be actively engaged with rating agencies to help investors understand risks, hence build understanding and demand.

- D. **More liquidity:** prices will be more public if available on exchange and transparency will be ensured. Indices possible which allows investors to hedge their positions and creates much more demand and comfort in trading. Expect sovereign market to move up towards compliance levels over time. Currently projecting is above 75\$ within 5 years but only if countries help create the market at 25/30\$ now.

6. EEX Presentation

André Tzschoppe, Expert Environmental Markets Business Development Gas & Environmental Markets

Tzschoppe presented EEX's capabilities to help trade Sovereign Carbon. This included:

- A. Operating commodity markets worldwide
- B. Experience in facilitating markets for low-carbon transition and in acting on behalf of governments
- C. Develop and operate market infrastructure (auctions, secondary market, clearing, registry), with proven track-record of successful cooperation with governments and clients alike
- D. Broad Client Base
- E. Wide Reaching Sales and Marketing
- F. Fit for purpose and proven technical solutions

Country sessions

There was a panel with rainforest countries who presented their progress toward REDD+ (Article 5.2) implementation and their needs capital.

Countries who intervened were:

- Belize
- Dominican Republic
- Kenya
- Honduras
- Liberia
- Papua New Guinea

In this session, countries presented their current REDD+ results, including their biodiversity and co-benefits.

In total, delegates from around 15 tropical countries took part in the REDD+ Finance Day. From these countries, 1/3 have already presented REDD+ results to the UNFCCC. The rest are actively working to finalize the different reports and estimations. The message from these countries was clear. Tropical countries have been engaged under REDD+ for the last 15 years and are only now seeing the results of this hard work. They have been patient and have implemented strong structures at the national level to comply with UNFCCC decisions. They have protected and restored part of their forested areas and are planning to continue to do so under their Nationally Determined Contributions (NDCs). To achieve these targets, they will need financial support and they are waiting for the private sector to engage and support on this aspect.

For many countries, climate change is a reality. Islands on the hurricane path, need to install alert systems and restoration programs after events to avoid affected areas to be converted to other land uses.

Some countries have expressed confusion with the proliferation of different standards on REDD+ and the many big promises that never materialize. Several countries indicated that the REDD+ mechanism under UNFCCC is the only mechanism that is Paris Agreement compliant.

Other countries have taken the lead and already incorporating market rules into their climate change legislation to make sure they are ready to engage with the potential buyers under the Article 6 of the Paris Agreement and ensure that countries have the control of the credits sold to be compliant with their NDC.

In particular, countries have indicated the following points:

- **Belize**
 - Finance urgently needed
 - New legislative framework under definition, working hard to set up proper legislation as well as national set up to incorporate climate change and carbon market
- **Dominican Republic**
 - UNFCCC REDD+ reporting process under completion
 - Legislation process to be completed
- **Kenya**
 - Revising the legal framework to include the carbon market and trading
 - Progress on REDD+
 - Overview forest cover in Kenya
 - Biodiversity aspects
 - Status UNFCCC REDD+ process

- **Honduras**
 - Current status REDD+ implementation
- **Liberia**
 - Forest cover and land use
 - Update REDD+ process
- **Papua New Guinea**
 - REDD+ transition, implementation and results
 - Update legislative framework
- **Dominica**
 - Hurricane problem, need funding to help protect and restore after adverse events
- **Mozambique**
 - Need support and assistance to fulfil MRV requirements
 - Difficulty to manage the different standards (WB-FCPF)
- **Côte D'Ivoire**
 - Agriculture impact on the forest is still relevant
 - 2011 REDD+ started and projects to reforest the country
 - Some partnerships with private sector are ongoing to implement agro-forestry and reforested.

In addition, other topics included:

- Carbon pricing of Sovereign Carbon credits
- Article 6.2 and how it will impact Sovereign Carbon
- How to incentivize countries to be more patient
- How to fulfil their NDC and issue Sovereign carbon credits
- How to include and incorporate biodiversity and other co-benefits
- How to implement National Registries

Quotes from Countries

“RRUs are Carbon Credits”

“Our results are real, we are waiting for buyers”

“We cannot put climate change on hold – so, how can we be patient?”

“We need long-term agreements otherwise we will cut our wood to cook and feed our kids.”

“REDD+ is regulated and that is the truth.”

“We need to educate our ministries about the carbon and financial markets.”

Conclusion

Actors in both the public and the private sector are ready to scale up the Carbon Markets for the Paris Agreement and bring in the capital markets to finance it.

Several conclusions came out of the rainforest finance day. Including:

- Ecosystem to issue, structure and sell sovereign carbon is in place
- Countries may need to have more patience until sovereign carbon is sold
- More education and information for the countries on capital markets is needed and viceversa
- More involvement of the finance ministers, giving more trust to the capital markets
- Make sure the right legal process and regulatory framework is set