

Investing in REDD Projects: Advantages and Considerations

The Nature Conservancy

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Agenda

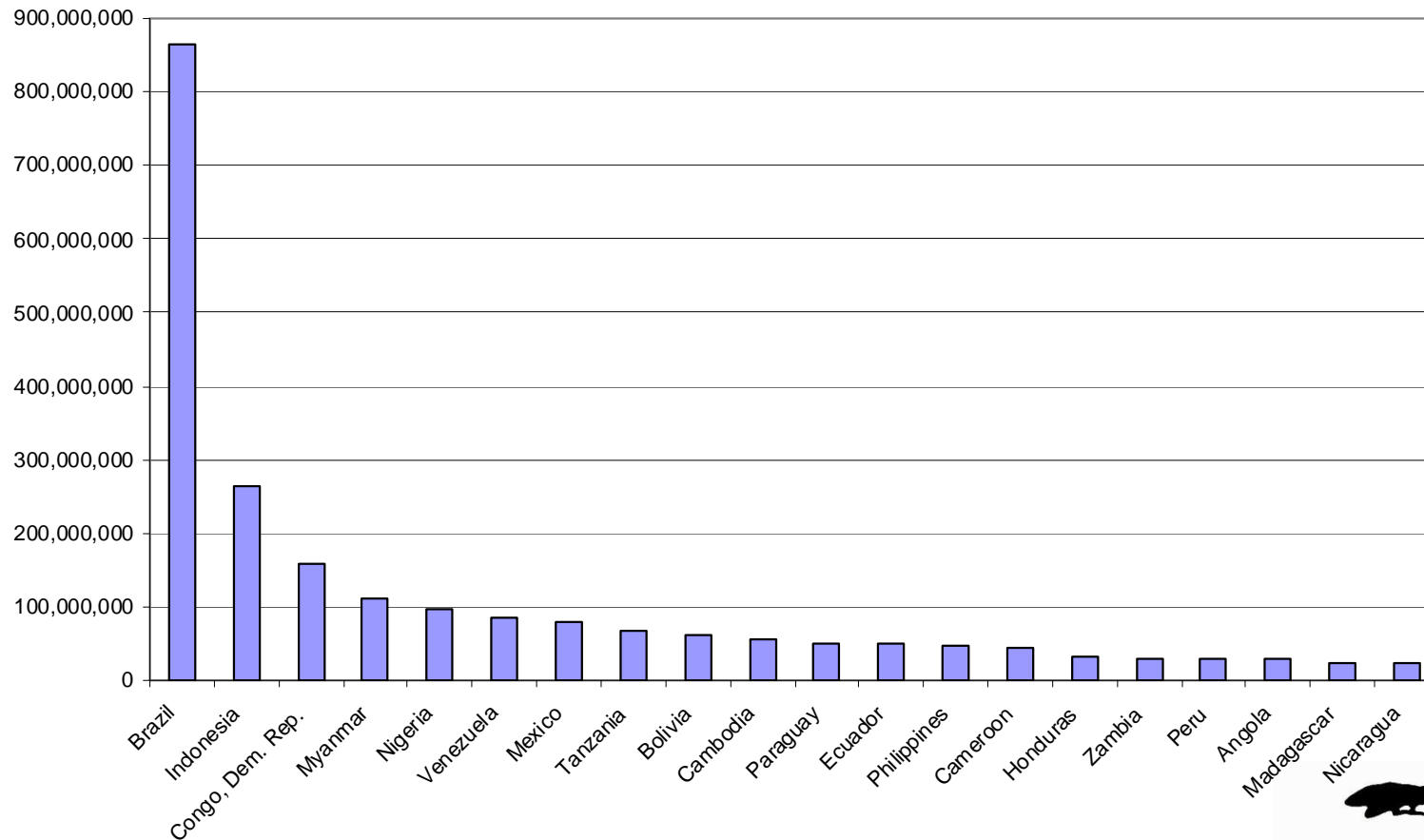
- Why should U.S. companies invest in REDD projects?
- Where is the REDD potential located?
- How to evaluate potential REDD projects?
- How to manage REDD project risks?

Why should U.S. companies invest in REDD?

- Provide flexibility on amount and timing of internal emission reductions
- Hedge long-term carbon liabilities with long-term carbon assets
- Diversify offset portfolio (reduce policy and performance risk)
- Generate public relations/marketing co-benefits
- Access lower cost reductions (not available to EU competitors)

Where is the REDD potential located?

Estimated Annual Emissions from Deforestation
2013-2020



Source: TerraCarbon estimates; based on historical forest loss from 2000-2005 and average carbon values for above ground biomass per FAO 2005 Global Forest Resource Assessment Report



How to evaluate REDD projects?

- Drivers of deforestation
 - Small scale agriculture, conversion to grazing, fuel wood collection, illegal logging, large scale agriculture
- Activities to reduce deforestation
 - Protection, payments to landowners, participatory forest management
- Baseline rate of deforestation
 - Historical rates, modeled rates based on likely development
- Project boundary
 - Size of the area, adjacent areas and land uses, legal ownership
- Estimated emission reductions
 - Based on area, avg. carbon stocks, reduction in rate of deforestation v. baseline, leakage, non-permanence

How to evaluate REDD projects?

- Community involvement
 - Projects not likely to work without community buy-in
- Implementing organizations
 - Size, experience, relationships with other key actors (gov't, community leaders)
- Host country support/national plans
 - Is the host country developing a national plan? What is its position towards sub-national projects?
- Financial proposal
 - Investment structure: credit purchase (forward purchase, options) vs. debt or equity investment (common, preferred)
 - Payment structure: Upfront, future (e.g., on delivery), or combination

Risk management

- Project design
 - Plausible implementation plan, adequate incentives for key actors
- Contractual provisions
 - E.g., contingent on registration by a specified date; contingent on recognition of project by host country in national accounting of REDD (will factor out to avoid double counting)
- Payment structure
 - Aligning payments with investment needs of the project; consider milestone payments
- Scenario analysis
 - Sensitivity of key assumptions- e.g, leakage, non-permanence, decrease in deforestation rates
- Pooled approaches (funds)?

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About TerraCarbon

- TerraCarbon LLC was established in 2006 as a carbon markets advisory firm specialized in the agriculture, forestry, and other land use (“AFOLU”) sector.
- We provide a range of technical, transaction, and strategic advisory services to project developers and investors in the carbon market.
- We operate across all AFOLU project types and all carbon markets.
- For more information, www.terraCarbon.com.

