

Comments on “Carbon prices and reforestation in tropical forests”

By Jose A. Scheinkman

Reforestation of Amazon

- Huge environmental opportunity
- Seems so simple – low hanging fruit
- Why don't these things get done?

The contract

“The planner would agree to sign an agreement to receive (pay) $b = 25$ dollars for each ton of CO₂ captured (emitted)...”

- Who are the parties to the transaction? Brazilian govt and ?? (MDBs? A fund? A bank?)
- And then Brazil pays landholders not to produce cattle? Or buys their land?
- And does Brazil do the reforestation? Does that occur naturally?

The contract 2

To avoid defection... “a carrot would involve buyers establishing a fund with a value of M (8.2 billion for the case of \$25/ton transfers)...payable to Brazil if planned deforestation did not deviate substantially from the target up to $t= 50$.”

- Who are the buyers? Who creates the fund?
- Are these straight transfers or is Brazil borrowing these funds?
Competing priorities for politicians/govt?
- Are financial incentives enough? If govt changes hands, couldn't it be worth more to politicians (in terms of votes, patronage, etc.) to defect?

The Cascade

“[C]ountries maximize their development resources by drawing on private financing and sustainable private sector solutions to provide value for money and meet the highest environmental, social, and fiscal responsibility standards” (2017 WB Development Committee Paper)

Ask: “Is there a sustainable private sector solution that limits public debt and contingent liabilities?”

- If the answer is “Yes” – promote such private solutions.
 - If the answer is “No” – ask whether it is because of:
 - o Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
 - o Risks? If so, assess the risks and see whether WBG instruments can address them.
- If you conclude that the project requires public funding, pursue that option.

Where would carbon pricing, transfers, reforestation fit into this framework?