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Forest carbon market already shows cracks

Reuters, 4 June 2009 - It could save the rainforests of Borneo, slow climate change and the international community backs it. But a plan to pay tropical countries not to chop down trees risks being discredited by opportunists even before it starts.



A forest carbon market is emerging in anticipation of a global, U.N. climate deal in December in Copenhagen, expected to allow rich countries to pay to protect rainforests as a cheap alternative to cutting their own greenhouse gases.

Officials in Papua New Guinea (PNG) have underlined how things may go awry.

Reuters has uncovered evidence of a multi-million-dollar offer of assistance from carbon brokers to a government agency, and confusion over whether offset sales were from valid projects.

There is growing interest from countries and companies in the developed world to buy the rights to the carbon stored in trees as they grow, to offset their own emissions of the greenhouse gas carbon dioxide.

But development and environment groups have long warned that suddenly placing a big value on rainforests could spur friction and even conflict in some developing nations, because of uncertain tenure rights, corruption and inadequate policing.

At a conference on the Indonesian island of Bali last week, Interpol environmental crime official Peter Younger told Reuters he expected fraudulent trading of carbon credits, as organised crime infiltrates the system of companies and countries in the developed world buying rights to the stored carbon.

Indonesia last month became the first country to set out some form of regulation for how its scheme will work, but stressed it has not yet developed a model for the most sensitive issue of revenue collection.

Papua New Guinea, which has some of the world's fastest-disappearing rainforest and has championed the forest carbon market, established its Office of Climate Change and Environmental Sustainability (OCCES) in 2008 to develop forest protection projects.

The agency suspended in January all plans to sell rights to the carbon stored in its rainforests after deals sparked land ownership disputes, a senior official told Reuters.

"All projects are suspended while we get some experience," said Theo Yasause, executive director of OCCES.

One such project included the department's own proposal to give exclusive rights to a large area of rainforest to two brokers which would in return donate A\$10 million (\$8 million) to fund the agency's creation.

Brokers develop projects for landowners to sell the carbon stored in their forests in return for a share of those rights.

ASSISTANCE

In government papers dated June 12 2008, seen by Reuters that Yasause signed and has authenticated, two brokers offered to help fund the OCCES agency. They were named in the memo as Earth Sky and Climate Assist PNG but could not be located for comment.

"That memo was in June, by January everything was stopped," said Yasause. "I said 'no, let's set a policy first.'"

In the memo Yasause asked PNG Prime Minister Michael Somare to counter-sign a certificate allowing the brokers to sell forest carbon offsets valued at \$500 million.

"The (two brokers are) prepared to put in 10 million Australian Dollars to assist the establishment of the Office of Climate Change," Yasause wrote in the June 2008 memo. The OCCES would also earn 20 percent of any proceeds from carbon sales.

When the OCCES was created, Prime Minister Somare said it should be self-sufficient through funds generated from forest projects.

When asked why he thought his agency should receive such a large sum, Yasause said: "Initially we thought we should get some of that. It wasn't meant to set it as a policy. When I started I thought (it) could come as a tax to government."

"It was only a proposal. Nothing came through," he added.

MESS

PNG is now crafting an "open tendering" policy to sell rights to the carbon stored in its rainforests, Yasause said. That would apply to one project initially, called April Salome, when the policy was up and running.

"We suspended all communications and dealings with the brokers at this stage. I put a notice up saying 'there's no dealings as of January.'"

However, another broker and project consultant, Swiss-based South Pole Carbon Asset Management, said it had rights to sell carbon credits from a certain portion of the April Salome project and would continue to do so.

"We have all kinds of letters of (government) support, approval and so on, including letters after January," said Christian Dannecker, principal at South Pole, who also referred to written authorisation for the project from 160 landowner groups in the region.

South Pole is already selling the carbon rights before the project is approved by a third party, called validation, a common practice in carbon markets. The timing of approval was unsure given it was "in an early phase", said Dannecker.

The company estimates April Salome will generate 1 million tonnes of avoided carbon dioxide emissions per year, but that was not formally audited. "We're still putting together data," said Dannecker. "It's not done, just estimates."

One buyer of the credits from South Pole was a Spanish environment group promoting ecological projects, CeroCO2, which in turn has sold the offsets to individuals, small companies and an event in Zaragoza, for example to offset travel.

The company has sold 660 tonnes at about 10 euros each. The buyers paid up-front but the group would replace the credits if the project was never approved, a group spokeswoman said.

CeroCO2 had told their clients that the project was at an early stage and that the carbon offsets were still hypothetical, she added.

CeroCO2's Web site said the offsets met a standard devised by U.S.-based auditors called the Climate, Community & Biodiversity Alliance (CCBA), but they did not.

"We have not received any documents about this project," said Joanna Durbin, a director at the CCBA.

"It was a mistake in our Web site," the CeroCO2 spokeswoman said. "We are human." CeroCO2 removed the project from its Web site after speaking to Reuters.

"It all goes to show what a horrible mess will ensue when there is neither a basic level of governance in the countries where the forestry credits are supposedly being generated, nor any regulation in the international markets where they are being traded," said Simon Counsell, director of the Rainforest Foundation UK.

Counsell urged much slower adoption of forest carbon rules, rather than rushing these in time for a December climate deal.

ELIGIBLE

Industrialised countries already pay developing nations to avoid greenhouse gas emissions, for example to build dams, wind farms or improve the efficiency of their factories, in a \$6.5 billion trade in carbon offsets.

They view such offsets as a cut-price way to meet their carbon caps under the Kyoto Protocol, instead of taking more costly action at home, for example imposing carbon taxes on industry or households.

Payments to conserve trees are not eligible under Kyoto, but there is enormous pressure to widen the scheme to include rainforests under the successor climate pact to be thrashed out in Copenhagen.

Papua New Guinea helped found the 40-nation Coalition for Rainforest Nations which wants support for the system, Reduced Emissions from Degradation and Deforestation (REDD), under a new treaty.

Most PNG rainforest is owned by communities and indigenous groups, but the government still hands out concessions, said Andy White at Washington-based Rights and Resources Initiative.

The head of the Office of Climate Change, Yasause, produced papers in a PNG court on Monday confirming that he had suspended a deal -- which he had originally approved -- involving another carbon fund, after complaints from landowners that they had not been consulted over sales of carbon rights in a forested area called Kamula Doso.

"I am not working with them until I get clarity in this landowner dispute, we cannot do REDD in those places if there is fighting between landowners, it will kill it," Yasause told Reuters. (Additional reporting by Daniel Fineren; Editing by Sara Ledwith)

Sourced from the [Thomson Reuters Carbon Markets Community](#) - a free, gated online network for carbon market and climate policy professionals.

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