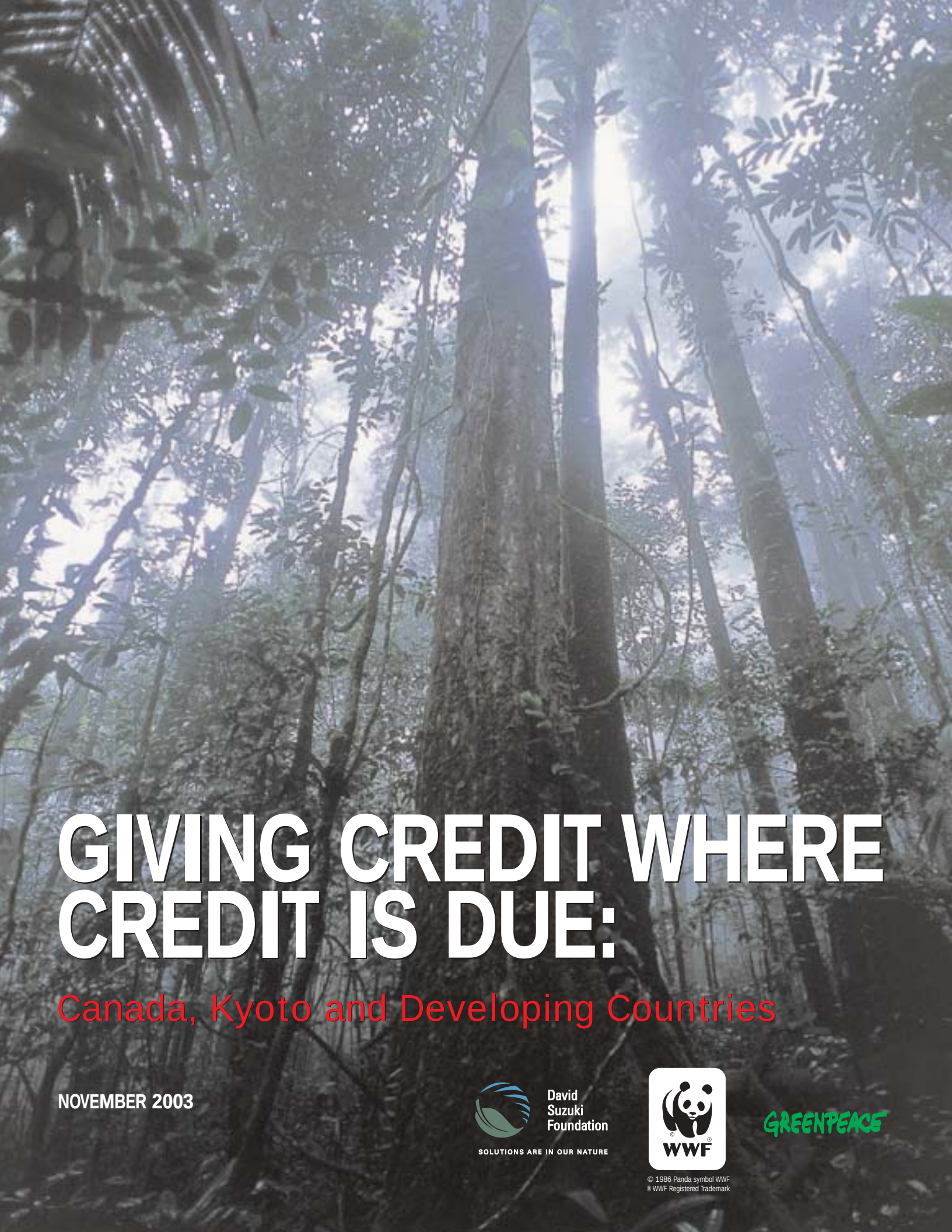

GIVING CREDIT WHERE CREDIT IS DUE:

Canada, Kyoto and Developing Countries

NOVEMBER 2003

David Suzuki Foundation

SOLUTIONS ARE IN OUR NATURE

WWF

GREENPEACE

The upcoming Kyoto Protocol negotiations will set the rules for ‘Carbon Sinks’

“Rigorous rules are needed to ensure that so-called 'sinks' projects provide benefits for biodiversity and are socially responsible. Canada's current position is inconsistent with our signature on the Kyoto Protocol and support for sustainable development.”

— Monte Hummel

PRESIDENT, WORLD WILDLIFE FUND CANADA

www.wwf.ca

“If Canada is successful, forestry projects in developing countries could undermine efforts to protect the climate, and also damage the environments and livelihoods of local people. Weak rules will enable Canada to buy cheap carbon credits from questionable projects overseas, allowing the largest polluters to avoid reducing greenhouse gases at home.”

— David Suzuki

CHAIR, DAVID SUZUKI FOUNDATION

www.davidsuzuki.org

“The threat posed by climate change demands solutions that enable real emission reductions. Quick-fix approaches only appear to address the problem. We can't take this irresponsible route and leave a legacy of crisis to future generations.”

— Peter Tabuns

EXECUTIVE DIRECTOR, GREENPEACE

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An important meeting will be held in Milan to set rules under the Kyoto Protocol for forestry projects in developing countries. These projects could assist Canada and other industrialized countries to obtain credits towards their Kyoto targets using forestry 'sinks' that absorb carbon from the atmosphere.

World Wildlife Fund Canada, the David Suzuki Foundation and Greenpeace Canada urge Canada to support effective rules for the Clean Development Mechanism (CDM) carbon sinks that include:

1 **A requirement that all projects be subject to a standard environmental and socio-economic impact analysis and monitoring.** This will put all forestry carbon sink projects, credits and countries on a level playing field. Canada proposes to rely on whatever assessment process the host country may – or may not – have. This position runs contrary to international development standards and expectations.

2 **Verification methods to ensure carbon credits for CDM Sinks are real and 'additional'.** This would ensure that projects are new, real commitments to net greenhouse gas reductions, not 'business as usual'; and are funded outside of existing foreign development aid commitments.

3 **A system for temporary credits because carbon stored in forests is not permanent when they are destroyed by fire, insect infestation or clear cutting.** Canada is proposing a complex and speculative 'insurance' scheme that does not properly address the issue of 'permanence' of sink carbon credits.

4 **Maintaining 1990 as the base year for sink projects as currently proposed.** Canada's proposal to move the base year from 1990 and 2000 would, on the one hand, allow forestry projects to be credited while they provide no climate benefit (business as usual) and on the other hand, allow areas that have been logged between 1990 and 2000 to be eligible as sinks projects, while no debits are taken into account.

Introduction

IF THE GLOBAL COMMUNITY IS TO REACH MEANINGFUL greenhouse gas (GHG) reductions as required by the Kyoto Protocol, and stop the harmful effects of climate change, the rules must effectively protect the integrity of the Protocol. One area where the details have yet to be agreed upon is the rules governing the Clean Development Mechanism (CDM) for forestry sinks that sequester carbon from the atmosphere. By investing in CDM sinks projects, companies and countries in the industrialized world can obtain 'carbon credits' to use in lieu of making actual GHG emission reductions at home, or to trade on the international market.

The rules to govern the use of CDM sinks will be the focus of discussions at the 9th Conference of Parties (COP9) in Milan, Italy from December 1-12, 2003. COP9 provides the opportunity to set high and consistent international standards for CDM sinks that meet the ecological and sustainable principles espoused in the Kyoto Protocol.

In this brief, we urge that Canada abandon its current advocacy of weak rules, and instead champion high international standards so sinks projects achieve their intended benefits under the Protocol – to absorb greenhouse gas emissions while promoting sustainable social and economic development in developing countries.

The Clean Development Mechanism

The CDM was proposed by industrialized countries as a means of meeting their overall Kyoto Protocol obligations with greater flexibility. The additional co-benefit was that they would provide opportunities for technology transfer, capacity building, environmental remediation and socio-economic development. In essence, industrialized countries would earn 'credits' for their investments in developing countries which would be offset against their domestic emission obligations. The general rules to guide implementation of the CDM were agreed to in what is known as the Marrakesh Accords. But carbon sinks are controversial and complex, and a final decision on the rules for sinks projects was delayed until COP9. The decision that Canada and all other parties agreed to is as follows:

> *"to develop definitions and modalities for including [forestry] project activities under the Clean Development Mechanism...taking into account the issues of non-permanence, additionality, leakage, uncertainties and socio-economic and environmental impacts including impacts on biodiversity and natural ecosystems."*[1]

The Kyoto Protocol and Carbon Sinks

The Kyoto Protocol recognizes the ability of forests to play a role in the reduction of greenhouse gas emissions because they can absorb and retain carbon dioxide. These are called 'carbon sinks'.

Although achieving a one-tonne emission reduction by reducing fossil fuel combustion might appear to be equivalent to removing one tonne of CO_2 from the atmosphere and storing it as organic carbon in a tree plantation, they are fundamentally different. Avoiding the combustion of a unit of fossil fuel allows it to remain deep underground where its geological carbon may never be released. The CO_2 sequestered as organic carbon in trees, however, may soon be released back into the atmosphere through natural respiration, fire or insect infestation, or clear cutting.

The Clean Development Mechanism was established to allow industrialized countries to cost-effectively meet their Kyoto targets by investing in energy efficiency and forestry sinks projects.

Although the Protocol will not enter into force until ratified by Russia, some CDM sink pilot projects are underway. Early results highlight the potential for negative results – and, importantly, the need for strong standards and protocols.

Investors in sink projects prefer plantations over forest conservation due to the financial benefits from the sale of timber in addition to carbon credits. Monoculture tree plantations, often comprised of non-native species, are at greater risk of destruction due to fire or infestation than natural forests. They fail to meet the test of contributing to biodiversity and sustainable use of natural resources.

If well designed, forestry projects have the potential to generate valuable co-benefits such as protecting biological diversity, promoting the quality of life for local communities, and providing civil society an opportunity to participate in land use decisions. For example, such projects can regenerate forests to stabilize soils and protect watersheds, increase the availability of needed products for communities such as fuel wood and animal fodder, restore forest corridors to facilitate species migrations, regenerate ecosystem services and buffer against the impacts of climate change to maintain biodiversity. Such agroforestry activities, which may be eligible, have the potential to generate household income and contribute to sustainable livelihoods.

Unfortunately, Canada's negotiating position undermines the CDM for forestry carbon sinks to deliver on one of its main purposes, which is to assist developing countries to achieve sustainable development. Canada's position to adopt weak rules would allow CDM sink projects to go forward that could cause negative social and economic impacts in host developing countries.[2] Canadian negotiators have been arguing against guidelines that would require environmental and social impact assessments to be part of the project development process. In short, Canada could obtain cheap carbon credits without protecting the environment, biodiversity and promoting sustainable development.

In reference to ratification of the Kyoto Protocol during his farewell speech, Prime Minister Chretien stated:

"When it comes to a decision as important as the very preservation of our planet, you don't look over your shoulder to see what your neighbour is doing. You don't wait for others to decide first. You don't duck your head. You do the right thing. For today, and above all the right thing for the future... for our kids, for their kids for this planet."

— PRIME MINISTER CHRETIEN, NOVEMBER 13, 2003

This promise should not be undermined by abusing the Protocol's flexibility principles by turning compliance activities into a mere illusion of action.

The time has come for groups such as ours to point out the challenges and encourage the decision-makers to adopt sound and effective rules.

Key among them are the co-benefits and hence **the need for environmental and socio-economic impact assessment;** the temporary nature of forests (referred to as **permanence**), and the requirement that sinks be truly **additional** to 'business as usual'. This also raises the issue of the choice of a **base year** for the accumulation of credits. Canada proposes a base year of 2000. The Canadian proposal creates perverse incentives to clear native forests and make lands eligible for reforestation to gain carbon credits in future years.[2]

Our analysis includes reviews of several CDM projects. These projects indicate the fundamental flaws of Canada's position relative to the established principles of the Protocol. We believe that Canada should abandon its weak rule proposals and support those which will ensure the CDM meets its expected environmental and socio-economic objectives.

What is Canada's Position?

Canada is a strong proponent of the Kyoto Protocol. However, Canada faces a real challenge to meet its targets by reducing GHGs to six per cent below 1990 levels, considering that emissions have increased by 20 per cent above our objective.

The federal government has provided generous concessions to some of the country's biggest polluters. The government will cover the cost of emission reductions over $15 per tonne, which means that tax payers foot the bill. Additional concessions have been made to the oil and gas industry and through proposals to move to an energy intensity standard rather than an absolute reduction target.

As a result, Canada needs a way to achieve its Kyoto obligations from outside the country and is proposing rules which would undermine previously agreed principles achieved in the Marrakesh Accords.[4] Specifically:

Canada proposes reliance upon socio-economic and environmental impact assessment laws of 'host' governments, rather than using a universal standard impact assessment process. If standards and requirements for impact assessment are not mandatory and consistent in host countries, there is a real risk that projects undertaken to supposedly protect climate could damage the environment and livelihoods of local people. The Brazilian Plantar project, supported by the World Bank Prototype Carbon Project Fund presented in this paper, demonstrates that host governments rules cannot be relied upon.

After arguing for years that there was no difference between energy projects aimed at reducing emissions and carbon sink projects, the Canadian government now recognizes that one of the problems with sinks projects is the issue of permanence, or lack thereof. To address this problem, it proposes establishing an 'insurance mechanism' to guarantee, for a limited time, the validity of credits from sinks projects.

Canada's proposal is based on the expectation that private insurance companies will guarantee that sink projects generate carbon credits for a limited period of time and against loss due to fire, infestation or harvest. To our knowledge, no insurance company has confirmed its willingness to participate nor has the government provided the practical details of its proposal. A system of temporary credits is needed so that in the event that a forest sink under the Protocol is lost, the carbon credits are eliminated.

These significant potential difficulties mean the Kyoto Protocol needs clear and specific rules to ensure that investments will bring socio-economic, environmental and other benefits to the host country and protect the climate over the long term. Canada's support for impact assessment requirements for projects in developing countries should be no less rigorous than its own.

Inadequate rules would allow a flood of cheap projects that would depress the price of carbon credits for CDM projects, crowding out more effective and desirable renewable energy, energy efficiency or forestry projects which include a diversity of species and are good for local people.

Case 1 Ugandan Carbon Credit Plantations

Over the past few years, Norwegian companies have acquired huge land areas in East Africa where they are planting, or planning to plant, fast-growing non-native eucalyptus and pine trees. When the trees mature, the plantations could yield income through the sale of timber. Against the backdrop of the Kyoto Protocol however, Norwegian companies envisage another and potentially greater source of income: selling carbon credits based on the temporary storage of carbon in tree plantations.

According to information from NorWatch, a Norwegian NGO which has visited several of these projects in Uganda, over 23 Norwegian companies have established themselves in Uganda and sold shares largely based on the objective of earning revenues through the sale of carbon credits earned from plantations.[5]

These plantations have been criticized due to the low lease prices paid to the Ugandan government forest authorities. These Authorities are recognized as having inadequate capacity to negotiate contracts beneficial to the country since they had little knowledge of the potential revenues to be earned from carbon credits. In addition, residents in the Iganga District have been evicted, crops were burned and houses torn down and have thus been deprived of their livelihoods increasing poverty and the risk of social unrest. NorWatch asks the obvious question: Will the Norwegian tree-planting projects in Uganda contribute to a better climate, globally and locally – or is this Kyoto opportunism?

Case 2 Brazil's Plantar Plantations: The Risk of Bad Rules

The Plantar project in Brazil demonstrates the risks of weak rules. These eucalyptus plantations have been developed since the early 1970s on land that had been natural forest used communally by local residents. The non-native eucalyptus trees are harvested every seven years and used to produce charcoal for iron smelting. Plantar is arguing that it should earn credits for carbon sequestered in its plantations, and because the charcoal would displace coal for the company's production of pig iron. However, because the plantations are harvested, the carbon sink is not permanent and the company has never used coal a major part of its production process. This raises questions about the legitimacy of the project from a climate perspective. This project is being supported in part through a $15 million Government of Canada contribution to the World Bank's Prototype Carbon Fund. The project does not have an environmental and socio-economic impact evaluation, which is a federal requirement.

The evidence to date of the Plantar plantations underscores the need for strong rules for CDM sinks projects.[6] The environmental impacts have been severe. Rivers and wetlands have dried up because eucalyptus plantations consume large volumes of water. In addition, workers and families have been displaced from traditional communal lands, and unemployment has increased as the company has illegally subcontracted work and increasingly uses machinery to replace its employees. A report by the World Rainforest Movement states that "forest management ... has clearly and constantly infringed Brazilian laws and some of the international treaties signed by Brazil." [7]

This project demonstrates that the weak existing requirements are not always respected. Over 70 Brazilian groups have opposed the Plantar project and written to Prime Minister Chretien requesting Canada withdraw its support.[8]

Case 3 CDM can Work with the Right Approach: Energy Projects in India

There is good news about CDM projects, despite the lack of good rules, as some parties are moving forward with *Gold Standard* energy projects which meet standards far above those set in the Kyoto rules. The *Gold Standard* (see page 8) developed by a worldwide standards advisory board and supported by many NGOs, demonstrates how significant environmental and socio-economic co-benefits can be obtained. Small-scale CDM energy projects in India provide some valuable lessons.

Eight small community-based CDM energy projects were developed under the Canadian Government-financed and Pembina Institute-managed Canada Small Projects Facility.[9] The objectives were to:

- promote small community-based renewable energy and other GHG reduction;
- support communities, NGOs, small and medium-sized businesses and other potential project hosts to prepare submissions for, and successfully implement small CDM energy projects; and
- link Canadian CDM investors with viable community-based projects in developing countries.

The projects, when funded, are designed to contribute significantly to the development of their communities through improved services (lighting and hot water), income generation (small businesses), household savings (fuel etc), as well as local environmental and health benefits. The following are two examples.

- One supports the manufacturing and distribution of solar lighting products e.g. lanterns to the rural poor throughout India. The lanterns will displace the use of kerosene, batteries, and temporary electricity grid connections. Solar-powered lanterns and home lighting systems will provide co-benefits as a source of zero-emission lighting as well as income generation through rural cooperatives.
- Another project replaces electrical boilers that depend on grid electricity with domestic solar water heaters. The project will reduce household electricity costs and environmental impacts from coal combustion.

What is the Gold Standard for CDM?

To meet the challenge of improving the environmental integrity of CDM projects through a consistent and universal set of rules, WWF has worked with other NGOs, academics and businesses to develop a 'Gold Standard' for CDM energy projects.[10] A central part of the standard was to meet the tests of additionality, and ensure a rigorous environmental and socio-economic assessment and monitoring process to ensure that the credits are real and co-benefits can be realized. **However, the standard is voluntary and does not replace the need for strong, legally-binding rules under the Protocol.**

The principles set out in the Gold Standard for energy projects can and should be used as a reference to develop for carbon sink projects. The challenge however, is to approve, monitor and verify that carbon credits are earned under clear and transparent rules for additionality, permanence and sustainability. If used, such rules would provide investors and communities with increased certainty of environmental protection and contributions to sustainable development.

Conclusions

Canada is preparing its position for the upcoming meetings of COP9 in Milan, Italy in December, where CDM rules for carbon sinks will be finalized. It is imperative for the effectiveness of the Kyoto Protocol in the air – as opposed to "on paper" – that Canada support strong rules for the design, implementation and monitoring of carbon sink projects. These rules must include:

- **Minimizing adverse impacts and maximizing co-benefits by requiring strong international rules for environmental and socio-economic impact assessments.**
- **A means to ensure transparency and verifiability so that carbon credits are only earned by projects that are over and above business as usual and current development aid.**
- **Maintenance of the 1990 base year so that projects already on the books are not eligible for carbon credits.**
- **Effective permanence safeguards that recognize loss of credits due to fires and other causes.**

Endnotes

1. UNFCCC (2001), decision 17/CoP7/Article 10.b, Marrakesh. Accords Document available online: *http://unfccc.int/sessions/workshop/070402/17cp7.pdf*. The official text on the CDM can be found in Article 12 of the Kyoto Protocol, available at: *http://unfccc.int/resource/docs/convkp/kpeng.pdf*.

2. CLIMATE ACTION NETWORK (CAN), SUBMISSION BY CAN ON ISSUES RELATED TO MODALITIES FOR INCLUDING AFFORESTATION AND REFORESTATION UNDER ARTICLE 12, August 20, 2002, available at: *http://www.climatenetwork.org./docs/CAN_sink_submission_FINAL_new.pdf*

3. For a copy of Canada's Position Paper on forestry sinks & the CDM refer to FCCC/SBSTA/2003/MISC.5. pp. 52-59, available at: *http://unfccc.int/resource/docs/2003/sbsta/misc05.pdf*.

4. RISKY BUSINESS: HOW CANADA IS AVOIDING KYOTO ACTION WITH CONTROVERSIAL PROJECTS IN DEVELOPING COUNTRIES, David Suzuki Foundation, October 2003. See: *http://davidsuzuki.org/files/Climate/Plantarreportwith cover.pdf*.

5. CO_2OLONIALISM: NORWEGIAN TREE PLANTATIONS, CARBON CREDITS AND LAND CONFLICTS IN UGANDA, Harald Eraker, NorWatch, April 2000.

6. See note 4 above.

7. World Rainforest Movement, several reports. See: World Rainforest Movement, 2003, CERTIFYING THE UNCERTIFIABLE – FSC CERTIFICATION OF TREE PLANTATIONS IN THAILAND AND BRAZIL; AND THE BRAZILIAN CASE STUDY: EVALUATION REPORT OF V&M FORESTAL LTDA. AND PLANTAR S.A. REFLORESTAMENTOS, both certified by the Forest Stewarsdhip Council, Antonio Soares dos Santos Andre, Rosa Roldan, Fabio Martins Villas, Maria Diana de Oliviera, Jose Augusto de Castro Tosato, Winnifred Overbeek and Marcelo Calazans Soares, written for the World Rainforest Movement available at: *http://www.wrm.org.uy/countries/Brazil/fsc.html*.

8. The letter is available at: *http://www.fern.org/pubs/ngostats/Planteng.ht*.

9. The Pembina Institute website is: *http://www.pembina.org*.

10. The Gold Standard can be found at: *www.panda.org/climate/goldstandard*. For succinct analysis see: "THE CLEAN DEVELOPMENT MECHANISM: KYOTO COMES HOME TO ROOST", ENDS REPORT 344, September 2003.

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WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature by:
• conserving the world's biological diversity;
• ensuring that the use of renewable natural resources is sustainable;
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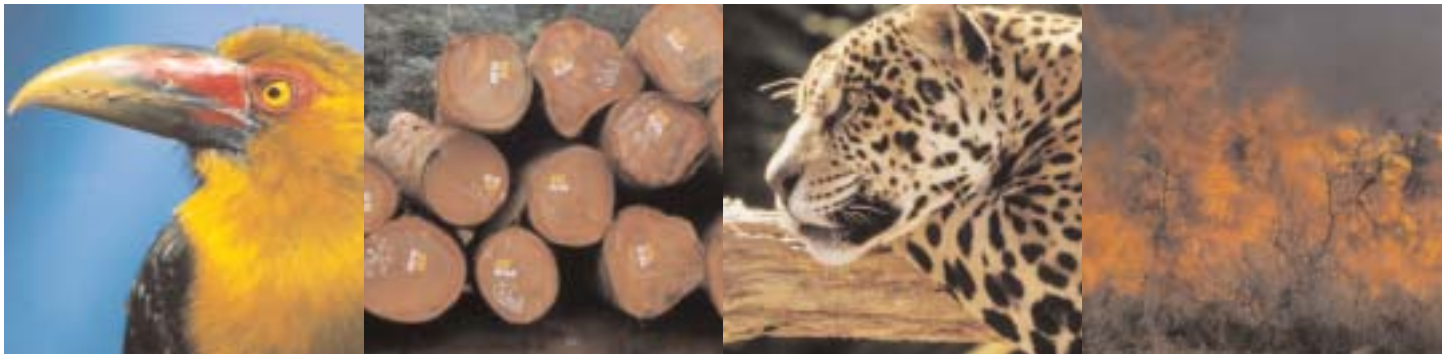
Greenpeace is an independent campaigning organization that uses non-violent,creative confrontation to expose global environmental problems and to work toward solutions that are essential to a green and peaceful future.



An important meeting will be held in Milan in December 2003 to set rules under which forestry projects can be counted against industrialized countries' Kyoto Protocol obligations. For the integrity of the Kyoto Protocol and Canada's international credibility it is essential that that the Government of Canada agrees to strong rules for forestry 'sinks' projects to deal with climate change, support sustainable development in developing countries and ensure protection of the environment and biodiversity.

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