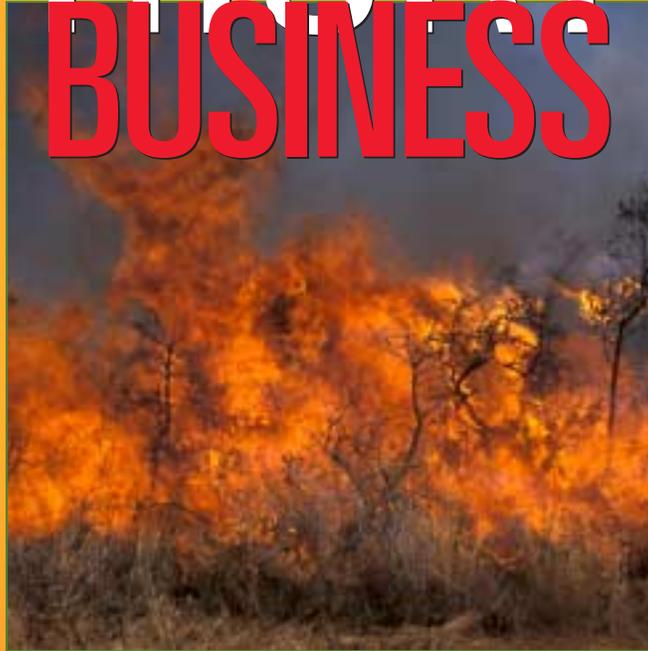


RISKY BUSINESS



How Canada is Avoiding
Kyoto Action with
Controversial Projects
in Developing Countries

Through the World Bank Prototype Carbon Fund, Canada is an investor in a Brazilian project proposed to generate “carbon credits” for its investors. The monoculture eucalyptus plantation established by Plantar in the state of Minas Gerais has displaced a mixed forest along with jobs and local people, and compromised water quality and accessibility. If Canada is successful in its campaign to get weak rules for carbon credits from forestry projects in developing countries under the Kyoto Protocol, there will be many similar projects, depressing the global price for carbon credits and undermining the objectives of the Kyoto Protocol.



FIGURE 1: Eucalyptus plantations establish ecosystems unable to support great biodiversity. These plantations are intended to provide charcoal for manufacturing pig iron and will be harvested in regular intervals.



FIGURE 2: The large tracts of mono-culture plantations across Minas Gerais have played a significant role in displacing local people and jobs. This out-of-business small oil factory in Curvelos, Minas Gerais illustrates the nature of these socio-economic impacts.

Risky Business

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Projects in Developing Countries**

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SOLUTIONS ARE IN OUR NATURE

Introduction

When Canada ratified the Kyoto Protocol last year, it marked a critical turning point in the protection of our global climate.

The agreement opens the door to technologies and standards – such as retrofitting buildings, creating new fuel efficiency standards for cars, and developing renewable energy sources - that reduce our reliance on polluting fossil fuels.

However, to meet its Kyoto obligations, Ottawa is pushing to weaken the rules for forest “carbon sinks” in developing countries. By investing in cheap, questionable projects overseas, this allows Canada’s largest polluters to avoid reducing their own greenhouse gas emissions. The federal government is effectively shifting responsibility for reductions in industry’s greenhouse gas emissions to Canadian taxpayers by investing in carbon sinks projects through special World Bank funds.

One such project is the Plantar eucalyptus tree plantation in Brazil. This project highlights the problems with Canada’s push to weaken the sinks rules at the next Kyoto negotiating session in December 2003. Partially funded by Canadian dollars, the Plantar project in Minas Gerais, Brazil, was historically home to a diverse savannah forest that supported local populations. But this forested region was clear-cut and the native forest replaced with eucalyptus plantations by companies such as Plantar in the 1960s and 1970s.¹ As a result, communities were displaced, jobs were lost and indigenous people were forced from their homes. Canada is funding Plantar through a \$15-million investment in the World Bank’s “Prototype Carbon Fund.”²

Today, Plantar is one of the first projects hoping to qualify for carbon credits as a sinks project in the developing world. If accepted, investors, such as Canada, will get credits from Plantar and use them towards their Kyoto targets.

This is made possible because the Kyoto Protocol includes what is called the “Clean Development Mechanism.” The Clean Development Mechanism’s original mandate was to reduce greenhouse gas emissions and promote sustainable development in developing countries.³ It is a way of helping industrialized countries, such as Canada, meet their greenhouse gas emissions reduction targets, while helping developing countries at the same time.

However, Plantar has drawn criticism from its inception as a potential Clean Development Mechanism project because of its failure to contribute to either clean development or the reduction of greenhouse gas emissions.⁴ Plantar claims it should qualify for credits under the Kyoto Protocol because its eucalyptus plantation acts as a carbon ‘sink’, and the charcoal produced from eucalyptus is less carbon-intensive than coal.⁵

At present, Canada is pushing for rules that weaken the requirement for environmental and social assessments of Clean Development Mechanism projects like Plantar. If this continues, more projects like Plantar will be allowed.

If the final rules do not contain environmental and social safeguards, the Kyoto Protocol could be turned into a subsidy system for large-scale, monoculture plantations – turning wide stretches of land into biological deserts.

Canada seems willing to compromise the environmental integrity of the Kyoto Protocol in order to avoid industrial emissions reductions at home by purchasing cheap carbon credits from developing countries. An overly strong emphasis on sinks will continue to divert resources away from actions that permanently reduce emissions from Canada's energy, industrial and transportation sectors.

Carbon Sinks

Because forests can absorb and store carbon dioxide from the atmosphere, they may be considered carbon sinks. Under the Kyoto Protocol, countries can use some of these sinks as credit towards their emission reduction goals.

Sinks are one of the most controversial sections of the Kyoto Protocol. If not properly designed, the sinks provision of the Kyoto Protocol could create loopholes that increase greenhouse gas pollution.

Because they are temporary, sinks are an inferior option to mitigate greenhouse gas emissions when compared to permanent reductions from fossil fuel emissions.

Sinks are not a permanent method of storing carbon. Carbon can be re-released into the atmosphere through natural respiration, fire, pests, logging or tillage. The time that carbon can be stored in sinks varies from the short-term to several centuries, unlike unused fossil fuels, which reside underground for millions of years.

Talks aimed at finalizing this section of the Kyoto agreement will happen at international negotiations in Milan, Italy, this December.

The Plantar Eucalyptus Plantation: A Bad Line of Carbon Credit

Plantar is responsible for the clear-cutting and burning of mixed native forests and replacing them with a large eucalyptus plantation in the state of Minas Gerais. The project covers 23,100 hectares – more than twice the size of the city of Vancouver.⁶ The project has displaced indigenous people who subsisted on the forest, and degraded water quality.

More than 70 Brazilian community, church, peasant and labour organizations have urged companies and governments investing in the World Bank Prototype Carbon Fund not to invest in the Plantar project.⁷

Plantar established itself in Brazil in the 1960s and 1970s during the military dictatorship, taking advantage of attractive government concessions.⁸ Since then, it has converted 280,000 hectares of former natural *cerrado* savannah forest to establish eucalyptus tree farms. These eucalyptus tree farms are used to produce charcoal for pig iron plants.

Local communities that were directly impacted by the actions of Plantar were never consulted about whether they wanted this type of development in their region.⁹ As a result, local people have been displaced from their lands. What followed was increased unemployment, exacerbated by increasing mechanization and outsourcing of labour at the Plantar tree farms.¹⁰

Recently, Plantar was put into the portfolio of the World Bank's Prototype Carbon Fund, which is involved in the "carbon market" under the Kyoto Protocol. Plantar's goal is to generate "carbon credits," from its eucalyptus plantation in the region of Curvelo, in the state of Minas Gerais.



The Plantar eucalyptus plantation is situated near the community of Curvelo in the state of Minas Gerais.

The corporation claims it has a right to these credits because it says the eucalyptus plantations are long-term carbon "sinks," and because charcoal used for pig iron production releases less carbon dioxide into the atmosphere than coal.

Through the highly controversial Plantar project, investors, such as Canada, hope to achieve up to 12.9 million tonnes of carbon dioxide offsets during a 28-year crediting period.¹¹ About 4.5 million tonnes of this amount is from carbon sinks.

There are scientific concerns about the reliability, measurement and permanence of sinks.¹² Carbon can be re-released into the atmosphere through natural respiration, fire, pests, logging or tillage. The time that carbon can be stored in sinks varies from the short-term to several centuries - but it is dependent on the fate of the forest – unlike unused fossil fuels, which if untapped, reside underground for millions of years.

This means that if Canada is allowed to emit additional greenhouse gas emissions because it is getting credit for temporarily sequestering carbon in trees or soils, more total carbon may eventually be released into the atmosphere.

The Plantar Project: Key Concerns

- The environmental impacts of the eucalyptus plantations have been disastrous. Rivers have dried up; eucalyptus was planted in water sources like springs; and permanent preservation areas have not been respected.
- The short-cycle eucalyptus tree farms do not support many native animals, plants or birds leading to a weak biodiversity in the environment.
- Plantar does not have an environmental impact evaluation and report of its activities – a legal requirement in Brazil for any undertaking that potentially causes environmental impacts.
- Initially, companies like Plantar created employment. However, the development of these areas contributed greatly to a crisis in the local economy that was heavily dependent on the products of the native vegetation. In Curvelo, various food products factories closed because of a lack of raw material.
- An independent audit of the project stated that it “could not conclude as to whether the permanence of the carbon sequestration is sufficient to ensure long-term benefits related to the mitigation of climate change.”
- The majority of the lands owned by Plantar have not been given land title and belong to the state. According to Brazilian law only peasants, not corporations, can acquire this type of land. Yet Plantar succeeded in acquiring hundreds of thousands of hectares of this land, resulting in the displacement of local populations.
- Although eucalyptus trees can store carbon, the permanence of these sinks is temporary as carbon can be re-released through forest fire, insect infestation, clear-cutting or other disturbances.
- Plantar has been growing eucalyptus to make charcoal for years, calling into question whether this particular project is legitimately an “additional” effort to reduce carbon dioxide in the atmosphere, or a subsidy for a business-as-usual activity.

Canada's Campaign for Unsustainable Forestry Projects

For “sinks” projects to become part of the Clean Development Mechanism of the Kyoto Protocol, international negotiators will have to finalize the rules at an upcoming climate change negotiating meeting in December in Milan, Italy.

If Canada's current position on sinks is adopted in Milan, the Clean Development Mechanism rules will be seriously weakened, allowing for projects like Plantar to qualify for carbon credits.

Currently, Canada is opposed to requiring adequate environmental and social impact assessments tailored specifically for sinks under the Kyoto Protocol.¹³

Canada is also proposing to extend the ‘base year’ from 1989 to 1999 under the Clean Development Mechanism, allowing an extra ten years-worth of plantations to potentially qualify for credits.

Canada is proposing an “insurance approach” with short-term limited liability.¹⁴ This proposal requires that any sink project receiving credits from the Clean Development Mechanism must have insurance coverage until ten years after termination of the project.

Such weak rules could encourage poorly conceived projects that retain questionable credits after deforestation, changed land use, insect infestation or forest fire has occurred. Canada's strategy is seen by the EU and other countries as inadequate to address this important issue.¹⁵ Instead, many countries are supporting a system of temporary carbon credits.¹⁶

Canada's position, if adopted in Milan, may flood the market with cheap forestry credits, thereby diverting funds from genuine clean development such as renewable energy projects. Already the Plantar project is dominating the market, and could deliver approximately 26 per cent of Clean Development Mechanism credits for the first commitment period of the Kyoto Protocol.¹⁷

In 2000, Canada hurt its international reputation on climate change by aggressively pushing for a big loophole for forestry and agriculture sink credits. Canada's position, supported by Japan and the United States, was enough to shut down negotiations for months.

In March 2000, Environment Minister David Anderson announced \$15 million worth of federal funding for the World Bank's Prototype Carbon Fund. Funding from the Prototype Carbon Fund is providing approximately 26 per cent of the current financing for the Plantar project in Brazil.¹⁸

Canada is undermining the integrity of the Kyoto Protocol. It is advancing rules that could allow for dubious climate protection projects that displace jobs, damage the local environment and do nothing to reduce greenhouse gas emissions.

Canada's Concessions to Industry

Under the terms of the Kyoto Protocol, Canada agreed to reduce its greenhouse gas emissions to six percent of 1990 levels by 2012. Today, our emissions are estimated to be about 20 percent above our Kyoto commitment.

Canada is interested in projects outside the country that will help to reduce greenhouse gas emissions because so many large concessions have been made to Canada's biggest industrial polluters. Canada needs a way to achieve its target outside of the country because Canadian industry is being given a free ride.

For example, the Canadian government announced it would cover the cost of any emission reductions above \$15 per tonne for large industry, making Canadian taxpayers liable for the most pollution-intensive industries in the country.

Canada also announced it will establish a target to reduce emissions intensity for the oil and gas sector. This approach will allow unrestrained growth in greenhouse gas emissions in Canada, without penalizing our largest polluters.

By moving to emissions intensity versus absolute ceilings, federal funding is subsidizing research on expensive technological fixes, such as carbon storage, that will continue our dependence on fossil fuels, rather than investing money in technologies that will reduce greenhouse gas emissions.

Recommendations for Climate Protection & Clean Development

- Canada should support only those Clean Development Mechanism projects that tangibly reduce greenhouse gas emissions in the long-term, and contribute to sustainable development.
- Canada should withdraw its investment in Plantar, which typifies the type of project that could be subsidized if Canada's rules are put in place. The Plantar project is not clean and sustainable development and Canada should not be investing in it.
- Canada should support specific environmental and social impact assessments for sinks projects. To date, Canada has opposed criteria being recommended to safeguard the livelihoods and environments of local people.
- Canada should screen out of the Clean Development Mechanism large monoculture plantations that adversely affect local people and ecosystems.
- Canada should promote projects that reduce greenhouse gas emissions and are additional to those that are already planned, and not business-as-usual projects in search of subsidies.

- Canada should press for a system of temporary carbon credits to ensure that if sinks disappear as a result of forest fire, insect infestation or clear-cutting, the credit is revoked.
- Carbon credits that Canada buys in developing countries should be invested in meaningful renewable energy and energy-efficiency projects that contribute to the original aims of the Clean Development Mechanism in order to protect the climate and promote sustainable development.
- Canada must keep its commitment to reducing greenhouse gas emissions at home and ensure that industry is obliged to accept its fair share of the burden.

Further Reading

CDM Watch report The Plantar CDM project: Why it must be rejected by the CDM Board and PCF investors www.cdmwatch.org

Climate Action Network International. (2003). CAN Position on sinks in the CDM. www.climateactionnetwork.org/pages/publications.html

David Suzuki Foundation (2001) Taking Credit: Canada and the role of sinks in international climate negotiations. www.davidsuzuki.org

Pembina Institute (2003). A Users' Guide to the CDM. Pembina: Ottawa. www.pembina.org/international_eco.asp

Prototype Carbon Fund website www.carbonfinance.org

World Rainforest Movement. (2003). Certifying the Uncertifiable: FSC certification of Tree Plantations in Thailand and Brazil. WRM: Montevideo, www.wrm.org.uy

WRM Bulletins No. 74, 71 www.wrm.org.uy

WWF Gold Standard www.panda.org/climate/goldstandard

Endnotes

¹ World Rainforest Movement. 2003. 'Certifying the Uncertifiable' – FSC Certification of Tree Plantations in Thailand and Brazil. pp.173.

² 'Canada joins World Bank, developing countries and economies in transition to combat climate change'. Environment Canada News Release. March 24, 2000 http://www.ec.gc.ca/press/globe00/000324-2_n_e.htm

³ 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>.

⁴ Over 70 Brazilian NGOs and other groups have publicly opposed the plantation due to its lack of social and environmental benefits. The letter from the NGOs and other groups is available at:

<http://www.fern.org/pubs/ngostats/Planteng.htm>.

⁵ For details on the Plantar project, see the Prototype Carbon Fund document library, available at:

<http://prototypecarbonfund.org/router.cfm?Page=DocLib&Dtype=1>, or the Sinkswatch website, available at:

<http://www.sinkswatch.org/>.

⁶ The city of Vancouver is 11,467 hectares. Source: Statistics Canada.

⁷ The letter from the NGOs and other groups is available at: <http://www.fern.org/pubs/ngostats/Planteng.htm>.

⁸ World Rainforest Movement. 2003. 'Certifying the Uncertifiable' – FSC Certification of Tree Plantations in Thailand and Brazil.

⁹ Refer to the second letter from over 60 Brazilian NGOs and groups to PCF investors, available at:

<http://www.sinkswatch.org/actX.html>.

¹⁰ The Brazilian Case Study: Evaluation report of V & M Forestal Ltda. And Plantar S.A. Reflorestamentos, both certified by the Forest Stewardship Council, pp. 15. Marco Antonio Soares dos Santos Andre, Rosa Roldan, Fabio Martins Villas, Maria Diana de Oliveira, Jose Augusto de Castro Tosato, Winifred Overbeek, and Marcelo Calazans Soares, written for the World Rainforest Movement available at

<http://www.wrm.org.uy/countries/Brazil/fsc.html>

¹¹ Plantar Project Design Document. 2002. p.3. Prototype Carbon Fund document library, available at:

<http://prototypecarbonfund.org/>

¹² For a discussion on the permanence of sinks, refer to Chapter 2 of the IPCC Special Report on Land Use, Land Use Change and Forestry, available at: http://www.grida.no/climate/ipcc/land_use/073.htm, and 'Taking Credit: Canada and the role of sinks in international climate negotiations', available at:

http://www.davidsuzuki.org/Publications/Climate_Change_Reports/default.asp#Taking.

¹³ For a copy of Canada's position paper on forestry sinks in the CDM, refer to FCCC/SBSTA/2003/MISC.5. pp. 52-59. Available at: <http://unfccc.int/resource/docs/2003/sbsta/misc05.pdf>.

¹⁴ Ibid.

¹⁵ "The EU said that Canada's insurance policies approach does not fully address non-permanence because insurance can expire as early as ten years after the end of the crediting period". IISD Earth Negotiations Bulletin. SB-18 Highlights. Thursday, 5 June 2003. Available at:

<http://www.iisd.ca/linkages/vol12/enb12213e.html>

¹⁶ Can International for more information see <http://www.climatenetwork.org/docs/CANSinksSB18.pdf>

¹⁷ Malte Meinshausen, Greenpeace International. CDM sink projects: Outstanding issues – an NGO perspective. EU Strategy Workshop, Florence, 12th September 2003.

¹⁸ Calculations sourced from the Plantar Project Idea Note (PIN), September 2000. Available at:

<http://prototypecarbonfund.org>.



FIGURE 3: Local people are already experiencing a significant decrease in water levels within the Plantar project area where original pasture was substituted with eucalyptus plantations that consume large quantities of water.



FIGURE 4: The sign indicates that this area is being rehabilitated with forest (as required by law) but a field inspection by a team of researchers discovered that only eucalyptus are planted in the area.



FIGURE 5: This detour on a rural road was made by Plantar to protect the seedlings in one of their nurseries. This large detour was done without any consultation and provoked a lot of anger and protest within the neighbouring communities that rely on the road.

Inside front and back cover photographs courtesy World Rainforest Movement



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Risky Business is a background paper describing how Canada is funding a controversial eucalyptus plantation in Brazil to meet its Kyoto Protocol commitments, rather than pressure industry to cut greenhouse gas emissions at home. The paper outlines the federal government's campaign to weaken the rules for forest "carbon sinks" in developing countries so that large Canadian industries can continue to pollute. It also contains a list of recommendations for Canada to make meaningful, permanent greenhouse gas emission reductions domestically and in developing countries.



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