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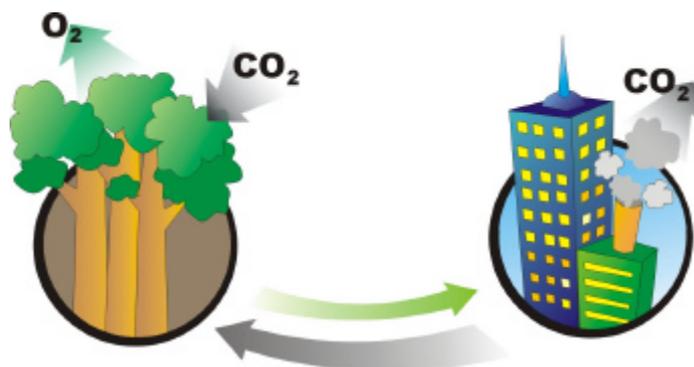
***CARBON TRADING, CLIMATE CHANGE, AND THE KYOTO PROTOCOL:
New Report Discovers Carbon Trading to Be Win-Win Proposition for Poor Villagers,
Big Business, and for Slowing Climate Change***

Jakarta 22 October 2002—As the next major meeting on global climate change opens in New Delhi next week, a potentially controversial report concludes that deals to counteract the carbon emissions of the smokestack industry could benefit more than the environment. It reveals that carbon-trading deals in forestry could sharply reduce poverty among the rural poor, while also providing businesses with an inexpensive way to “off-set” their carbon emissions. The research counters the view that most carbon-trading deals between industry and tree growers in developing countries will have negative environmental and social consequences.

Carbon trading allows industries in developed countries to off-set their emissions of carbon dioxide by investing in reforestation and clean energy projects in developing countries.

The report's authors are seeking major changes to the carbon-trading rules to be debated in next week's Eighth Session of the Conference of the Parties to the Climate Change Convention under the Kyoto Protocol. In particular, the report suggests these changes will ensure that poor countries become “real players” in the climate change negotiations.

This is the first report to examine whether community tree planting projects are viable contenders for the emerging market in carbon trading. Released by two of the world's leading forestry organizations, the research pools evidence from more than 20 studies of actual forest carbon projects on the ground. The report was authored by researchers at the Bogor, Indonesia-based Center for International Forestry Research (CIFOR), a Future Harvest Center of the Consultative Group on International Agricultural Research, and Washington, D.C.-based Forest Trends.



The report argues that carbon projects could potentially recover habitat on millions of hectares of heavily populated forest and farmlands. "This would bring social, economic, and local environmental benefits to hundreds of thousands, and potentially millions, of poor rural people in the developing world," said David Kaimowitz, Director General of CIFOR. "For example, in Indonesia, if communities and industry in Indonesia could work together to restore the millions of hectares of damaged forest lands they could make money from the sale of carbon credits while also helping to off-set carbon emissions. This would be good for the environment and, most significantly, would reduce rural poverty. With reduced rural poverty and properly managed reforestation projects, there are likely to be many flow-on benefits, such as less conflict over limited natural resources, less illegal logging and less use of fire to clear land."

"Our report shows for the first time that deals between industry and community tree growers may be one of the least expensive ways for companies to off-set their carbon emissions," said Sara Scherr, Senior Policy Analyst at the Washington, D.C.-based Forest Trends and co-author of the report. "If companies invested in such deals, this could mean a huge number of private sector dollars being invested in poor rural areas."

For example, in the Handia Forest range of Madhya Pradesh, India, 95 very poor rural villages would jointly earn at least US\$300,000 every year from carbon payments by restoring 10,000 hectares (24,700 acres) of degraded community forests, if their project succeeds. "Healthy forests bring all kinds of other benefits too," said Scherr. "In this situation, they would help to protect endangered leopards and monkeys and improve local water supplies. At the same time, villagers—many of whom own no cropland—would earn money from the sale of fuel wood, high-value timber, and *tendu* leaves used for wrapping cigars."

"Community tree planting efforts have always been thought of as too costly and risky for businesses," said Joyotee Smith, co-author of the report. "However, our report shows that many community-based projects can sell carbon credits at the expected global market price of US\$15 to \$20 per ton of sequestered carbon."

Forests can reduce greenhouse gases in the atmosphere by sequestering carbon, but many fear carbon-trading deals will spawn vast tree plantations with monocultures of non-native tree species on lands already claimed by local people. *Forest Carbon and Local Livelihoods: Assessment and Policy Recommendations* contends that community tree-planting projects can offer investors the same carbon benefits as industrial tree plantations and at lower risk. Many industries will prefer to buy "socially responsible" carbon credits, as long as the cost is competitive.

"All these opportunities will be lost unless villager-owned tree growing efforts are explicitly supported in the international carbon-trading rules," said Scherr.

Industrial countries can only use deals in lower-income countries to offset a limited portion of their carbon obligations. This still represents a potential private financial flow of US\$300 million per year to some of the world's poorest people, however. According to the researchers, this share of investment could more than match current annual flows of official overseas aid for forestry development in poor communities.

The potential environmental benefits of the deals discussed in the report are enormous. According to the researchers, there are 126 million hectares (311 million acres) of low-yielding crop and pastureland. Converting some of these areas to higher-yielding agroforestry would sequester five to 50 tons of carbon per hectare per year. Rehabilitating dry forests in India could double sequestration from 27 to 55 tons of carbon yearly for every hectare of dry forest improved. Using carbon finance to reforest critical wildlife habitat, The Nature Conservancy's project in the unique Atlantic Forest of Brazil, could sequester 60 tons of carbon yearly for every hectare of land converted. In the process, this particular effort will secure water supplies and generate local income from ecotourism as well.

"Problems with forest carbon arise when trees are being grown solely for their carbon," said Scherr. If there are other economic uses of the reforested land, such as producing fuel wood, rubber, fruits, and food crops, then the cost of carbon sequestration is lower. "Communities can use carbon payments to finance sustainable tree-growing investments that produce these non-carbon benefits," added Scherr.

Kyoto Protocol Clean Development Mechanism Rule Changes Needed

The authors warn that community-friendly forest carbon projects are unlikely to take root without proactive changes in the Kyoto Protocol's Clean Development Mechanism rules, and in the approaches that developing countries and project designers are taking. The report seeks action in four main areas.

- *Make all types of forestry and agroforestry projects with significant benefits for local communities eligible for the Clean Development Mechanism* (as long as they also meet rigorous requirements for carbon benefits). For example, draft rules omit forest rehabilitation as an approved activity despite its enormous social benefits and significant carbon-sequestration potential.
- *Reduce risks for local communities.* The rules should require assessments of the social impact of projects to ascertain how local people have benefited or been harmed. National governments will need to protect and formalize land tenure rights of communities, or carbon deals will be riddled with conflict, increasing their financial risk for investors.
- *Reduce the cost of managing community projects.* Private businesses and NGOs can act as intermediaries to combine the carbon offsets produced by multiple farmers or communities and sell them jointly to buyers. For example, in Mexico, a local environmental organization helped to organize 400 small-scale farmers in 20 communities to sequester carbon by planting trees around their crop fields. With the NGO acting as the intermediary, the farmers sold carbon credits equal to 17,000 tons of carbon to the International Federation of Automobiles for between US\$10 and \$12 per ton of carbon. The CDM rules should make all community-based forestry projects eligible for the low-cost "fast-track" approval process.
- *Reduce risks and costs for investors.* The report notes that there are new players in the carbon-trading field who can simplify deal making and reduce the costs of organizing and marketing community tree-growing projects. For example, industry buyers are now able to purchase carbon offsets from investors who have portfolios of projects, which spreads risk. The independent, non-profit Face Foundation has developed a portfolio of five projects in five countries, affecting 135,000 hectares (333,450 acres) that sequester 21 million tons of carbon.

The Eighth Session of the Conference of the Parties (COP8) to the Climate Change Convention takes place from 23 October through 1 November in New Delhi. The Kyoto Protocol of the United Nations Treaty on Climate Changes legally commits countries to reduce their greenhouse gas emissions by an average of 5.2 percent relative to 1990 levels. It is expected to be ratified soon. The most recent countries to commit to the treaty are Japan and Russia. They announced their support at the United Nations World Summit on Sustainable Development.

Future Harvest (<http://www.futureharvest.org>) is a foundation that builds awareness of global public issues related to food security, health, poverty, and the environment. Future Harvest promotes agricultural research through offices and partnerships extending across the world. Future Harvest is an initiative of 16 food and environmental research centers supported by the Consultative Group on International Agricultural Research.

Forest Trends, a Washington, D.C.-based nonprofit organization, (<http://www.forest-trends.org>) advocates market-based approaches to conserving forests outside of protected areas, by moving beyond an exclusive focus on lumber and fiber to a broader range of products and environmental services.

Headquartered in Indonesia, the Center for International Forestry Research (CIFOR) (<http://www.cifor.cgiar.org>) is a leading international forestry research organization established in response to global concerns about the social, environmental, and economic consequences of forest loss and degradation.

The Consultative Group on International Agricultural Research (CGIAR) is a strategic alliance of 58 members and 16 Future Harvest Centers that mobilizes cutting-edge science to promote sustainable development by reducing hunger and poverty, improving human nutrition and health, and protecting the environment. For more information visit: <http://www.cgiar.org/>.