World Bank Carbon Finance in Brazil: New funding source for industrial tree plantations

The World Bank Prototype Carbon Fund's (PCF) Plantar project has been heavily criticized by NGOs and civil society movements ever since it first emerged as the first industrial eucalyptus tree plantation to claim carbon sink credits from the Kyoto Protocol's Clean Development Mechanism. The Plantar project involves 23,100 hectares of monoculture eucalyptus plantations for the production of charcoal, which will be used in pig iron production. The project is one of the largest in the PCF, claiming 12.8 million credits over 21 years, more than the total amount being claimed by all 13 renewable energy projects currently listed on the PCF website. Plantar argues that without additional income from carbon credits charcoal production would be uneconomical and the company would have to switch to using imported coal. In addition to this "avoided fuel-switch" component, the project also claims credits for the carbon that will be taken up by the new plantations. According to the project documents, the revenue from these carbon sink credits are essential to securing the necessary bank loans to finance replanting.

The grounds for concern about the project are manifold, and include the negative environmental and social impacts of the project as well as the project's seeming ability to shape-shift to meet changing rules of the Clean Development Mechanism. The environmental and social problems associated with the project have been highlighted in several previous bulletin articles (WRM Bulletin 74, 63). In this article we will explore some of the deeper layers that emerge from underneath the surface of this PCF project:

The World Bank support for the Minas Gerais plantation industry predates the PCF and its prototype Plantar project. Between 1987 and 1996 the Bank provided US$48.5 million of the US$100 million Minas Gerais Forestry Development Project, which aimed to increase industrial wood and charcoal production. In as late as 2000 this fund provided a small loan to Plantar. Only three years after the formal closure of the Forest Development Project the Bank established the PCF, the Bank's vehicle to develop projects under the CDM. Plantar was one of the first projects developed, and according to the Plantar Project Appraisal Document (PAD) of April 2002 (www.prototypecarbonfund.org), the Bank hopes that it will open the door for other pig iron producers in Minais Gerais to make similar use of carbon finance. This raises the question about financial sustainability of a plantations sector that appears to be financially viable only when provided with subsidies: until mid 1980s, plantation establishment was subsidized heavily through state subsidies in Brazil. When subsidies were discontinued, some pig iron producers switched to coal and those who did not, argue that only the prospect of additional carbon credit income made them hold on to charcoal. Many question the credibility of this claim but if this is indeed the case, then economic viability, assumed when Forest Stewardship Council certificates for well-managed plantations are issued, is not ensured. This in turn casts further doubt on the long-term storage of carbon in the plantations used for charcoal production: what will happen to the stored carbon when subsidies dry up?

The reality of the Plantar project is in sharp contrast to the World Bank's rhetoric about the social and environmental benefits of sinks projects. The World Bank claims that "carbon sequestration offers the greatest convergence between the carbon market and sustainable development, and between climate change, adaptation, and poverty reduction". Yet Plantar - the PCF's only current carbon sink project - is promoting unsustainable development that does nothing to combat climate change while exacerbating local environmental problems and the social inequalities, local tensions and access to land problems already existing in the region.

A comparison of the Plantar project with the World Bank's dedicated carbon sinks fund – the BioCarbon Fund – also illustrates how supposedly high-quality sinks projects are merely "greenwash" and that any significant use of carbon sinks will inevitably involve industrial tree plantations. The World Bank has been at the forefront of selling carbon sinks and has tried to counter concerns about the carbon market being flooded by plantation-derived credits. PCF Fund Manager Ken Newcombe's presentation at a Paris workshop in April 2003 specifically addressed the later concern, arguing that plantations would not be widespread because they would be unable to satisfy additionality requirements – ironic given that the PCF is the only player in the market currently developing a non-additional plantation sink project - Plantar. Yet the Plantar-BioCarbon Fund comparison is telling: the entire BioCarbon Fund – CDM, Joint Implementation and non-Kyoto projects combined - will generate less credits that Plantar's plantation component alone.

Moreover, by developing the first plantation sinks project the World Bank is making it easier for similar projects to be developed in the future by showing how it is done. And despite the World Banks' recent public assurances that plantation projects would not be commonplace in the CDM, it always saw the Plantar project as a template that would encourage others to be developed. The 2002 Project Appraisal Document for Plantar is explicit: "The project is expected to prepare the ground for similar projects in the future". That is, projects based on industrial monoculture tree plantations whose credit generation would dwarf the carefully packaged public relations efforts of the BioCarbon Fund and similar greenwash funds.

The CDM Executive Board's Methodologies Panel has recently warned that approval of a methodology that Plantar uses to make a case for its CDM registration – the so called baseline methodology - represents a "moral hazard". The Panel was commenting on the similar V&M do Brazil project, also in Minas Gerais, which uses the same line of argument that without carbon credits the company would have to switch to using coal instead of charcoal in the pig iron production process. Given the projects use the same methodology to make this point, the comment is directly applicable to Plantar.

Despite all this, the project is still seeking CDM registration and, surprisingly, retains the support of its supposedly anti-sinks European governmental investors. Public withdrawal from the Plantar project is overdue and failing to do so will support a prototype that is set to turn the Clean Development Mechanism into a Mechanism for Continued Devastation.

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