Cashing In On `Carbon Trade'

Abuse Possible In Rich Nations' Swap Of Emissions Credits With Poorer Nations'

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As the world grows warmer, poorer nations are helping the rich by reining in heat-trapping gases in a multibillion-dollar "carbon trade" that is outrunning its U.N. overseers and founding principles, and spawning conflicts of interest and possible abuse.

Even pig manure has gone from a hot commodity to a controversial one in the 2-year-old "CDM" market, in which industrial countries obliged by treaty to cut greenhouse-gas emissions can get credit for reductions in the developing world. Less is achieved than is asserted, critics say.

Under the Clean Development Mechanism, a Japanese utility benefits from a hydroelectric dam in Vietnam, a British broker collects credits from a "green" cement plant in China, and Canada buys emission reductions from Brazilian farms where methane from pig waste is now burned instead of left to rise into the atmosphere.

From 40 approved projects last December, this gas exchange has grown to 299 projects today, in 35 countries. The deals totaled $4 billion in the first half of 2006, even before the biggest yet was announced Aug. 29 - a European-Asian consortium's contract to buy $1 billion worth of emission credits from two Chinese chemical plants.

From London to Tokyo, hundreds of financiers, traders, lawyers and consultants are cashing in on a market seen as essential to combating climate change.

Some believe it's a boon to the poor, too. CDM is a "most promising instrument to promote sustainable development," Indian CDM official Shri Naresh Dayal said.

But others note that many projects do little to create jobs, encourage energy efficiency or protect the local environment and say the exploding market is ripe for abuse.

The 1997 Kyoto Protocol requires 36 industrial nations to reduce emissions of carbon dioxide, methane and other transportation, industrial and agricultural gases blamed by scientists for atmospheric warming. The protocol, rejected by the United States, requires an average 5 percent reduction below 1990 emission levels by 2012.

Kyoto's Clean Development Mechanism is an alternative for northern companies that deem it too costly to reduce emissions at home.

The European Union runs a system for trading emission allowances within the EU. Oversight of the north-south CDM trading, meanwhile, fell to an underfunded U.N. climate treaty secretariat in Bonn, Germany, and its part-time CDM Executive Board.

As entrepreneurs rushed in, a backlog of project proposals built up. More than 850 now await approval, and developers complain of slow-moving, "Kafkaesque" scrutiny by the board.

The secretariat's CDM manager, Kai-Uwe B. Schmidt, said his expanding staff should number 43 by next year, double the size a year ago, and may take on additional duties to aid in board decision-making.

The U.N. body relies on private accounting and inspection firms to validate that projects will cut emissions and enhance economic development and the environment, and to verify later that gases are being reduced - all the while being paid by project participants. Specialist firms can act as developers for some projects and validators or verifiers for others. Critics see conflicts of interest.

"You're creating all kinds of incentives for corruption," said Daphne Wysham, a CDM expert at Washington's Institute for Policy Studies.

The secretariat's Schmidt said the CDM Executive Board requires combined developer-validator firms to segregate the functions. But "the board is concerned about the perceived conflict of interest," he said. "It's clear this is a very difficult issue."