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World Bank Targets Forest Preservation-Climate Link

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JAKARTA, Indonesia -- The global effort to stem climate change could soon include paying countries in the tropical belt to not cut down their rain forests, beginning with a World Bank pilot project.

The World Bank is planning to start a \$250 million investment fund to reward countries such as Indonesia, Brazil and Congo for "avoided deforestation."

Until now, efforts under the Kyoto Protocol, the international agreement to cut greenhouse gases that contribute to global warming, have centered on reducing emissions from industries.

The Group of Eight leading nations, after meeting last week in Germany, concluded that stopping deforestation could provide a "significant and cost-effective contribution toward mitigating greenhouse-gas emissions" and encouraged the development of the World Bank's project.

Deforestation accounts for some 20% of global carbon emissions, mainly from fires set in forests to clear land. It is the major cause of greenhouse gases in some developing nations such as Indonesia. The World Bank says forested areas equivalent to the size of Portugal are being cleared each year.

Environmental organizations have long sought to stem logging because of its impact, but, until now, tackling the problem has largely been overlooked by governments seeking to reduce global warming.

The prospect of addressing global warming by preserving trees is alluring. Amid intensifying global-warming regulations, it could give developed countries -- and companies based there -- a cheap way to offset their obligation to curb their own energy-related emissions at home. On the flip side, it could provide a source of foreign investment for developing countries, which don't face emission caps. But whether the World Bank's fund will draw much investment is unclear. Under the Kyoto Protocol, saving existing trees doesn't qualify as a means of generating emission "credits" on the international carbon market.

Several years ago, many companies invested in projects to protect existing forests, thinking they would get cheap carbon credits for their efforts, but then saw their investments wasted when global regulators decided not to allow avoided deforestation as a source of emission credits.

Today, companies and governments aren't likely to put much money into the fund unless they sense that prohibition is likely to be lifted. Benoit Bosquet, a senior natural-resources management specialist at the World Bank who is leading efforts to develop the pilot project, said policy makers in developed nations have realized they can't ignore the effect of deforestation on climate change. "It is the first time there's such high-level recognition of the need to include [compensation] for avoided deforestation," he said.

Many details of the project remain to be ironed out. The World Bank hopes Group of Eight nations will supply most of the \$250 million, Mr. Bosquet said.

The bank will work with governments, local communities and nongovernmental organizations to set guidelines on how to monitor projects and make sure money will be channeled only to those that strictly protect forested areas. To qualify, governments also will have to sign up to nationwide-action plans combating issues such as illegal logging.

If the World Bank's approach is to work and be adopted more widely as a weapon in fighting global warming, it will take involvement of private companies and the emerging carbon-trading system. Under Kyoto rules, companies that exceed caps on emissions of greenhouse gases can buy carbon credits directly from other firms that are short of their caps and use them to reduce their levels below legal limits. Or credits can be

bought on a number of emerging exchanges. Companies also are allowed to invest in projects in poorer countries that reduce emissions, including reforestation projects, which create carbon credits.

The omission of avoided deforestation from the treaty was the result of concerns about the environmental effectiveness of the process -- particularly since it would be difficult to enforce agreements by developing nations. Some environmentalists fear nations might sign up to secure one area, shifting deforestation elsewhere, but bringing no net gain. Mr. Bosquet said the World Bank's project is an attempt to overcome these concerns as nations debate whether to overhaul Kyoto, which runs out in 2012.

A number of recent studies have helped reduce concerns that focusing on deforestation will shift the debate away from finding more efficient ways to use energy. The Stern Review on the Economics of Climate Change, commissioned by the British government, last year highlighted the urgent need to bring deforestation into efforts to fight global warming. In March, a report by the World Bank and Britain's Department for International Development found that Indonesia was the world's third-largest emitter of greenhouse gases after the U.S. and China. That conclusion -- Indonesia's economy is relatively small -- stems from rampant deforestation caused by forest fires that sometimes envelop much of Southeast Asia in haze, emitting huge amounts of carbon dioxide.

Developing countries are becoming more strident in demanding compensation for protecting their primary forests. The Coalition for Rainforest Nations, a group led by Papua New Guinea and Costa Rica, tabled a proposal demanding payment for preserving forests at the United Nation's annual meeting on climate change in Kenya in November. It remains unclear whether private investors will be interested in participating in the World Bank's project, given that Kyoto doesn't yet sanction avoided deforestation. "I don't think the big banks are going to invest without clarity they are going to get returns on the risk," Mr. Bosquet said.

Jeffrey Ball contributed to this article.

Top Emitters					
Emissions by source in 2003, in million tons of carbon-dioxide equivalent					
Countries	Energy	Agriculture	Forestry	Waste	Total
U.S.	5,752	442	-403	213	6,005
China	3,720	1,171	-47	174	5,017
Indonesia	275	141	2,563	35	3,014
Brazil	303	598	1,372	43	2,316
Russia	1,527	118	54	46	1,745
India	1,051	442	-40	124	1,577

Note: Excludes European Union; negative figures mean positive contribution, i.e., by adding forest
Sources: World Bank; Britain's Department for International Development

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