



CERs costly, inefficient way of offsetting -report

by Reuters News on 07 December 2009, 12:40 PM Categories: Reuters News
<http://communities.thomsonreuters.com/Carbon/480508>

* U.N. approved carbon offsets marked-up by at least 200%

* Less than 30% invested in cutting carbon-report

LONDON, Dec 7 (Reuters) - U.N.-approved carbon offsets are marked-up by more than 200 percent, meaning less than 30 pence of every pound spent by environmentally-conscious consumers goes to cutting greenhouse gases, a report showed on Monday.

Under the Kyoto Protocol's Clean Development Mechanism (CDM), companies invest in clean energy projects in emerging countries like China or Brazil, and in return receive greenhouse gas offsets, called Certified Emissions Reductions (CERs), which can be sold to people looking to reduce their carbon footprint.

"Around 70 pence in every pound spent on offsetting through the CDM is lost in the complex supply chain. This is not good value for money," said Dan Lewer, a director at London-based Carbon Retirement and an author of the report.

Carbon Retirement randomly chose 10 projects registered under the CDM including two wind farms and four hydro dams.

It found that 34 percent of revenue goes to the firms that take on the risk that the project does get approved under the CDM or does not cut as much carbon as estimated, while another 19 percent goes to the project's equity owners.

The offsets can sometimes go through four or five middlemen, banks or brokers that charge transaction fees of a few percent each, before they end up in the hands of the consumer.

The project's host governments, lawyers and consultants also take a cut, as does the U.N. to support a climate change adaptation fund for the world's poorest countries.

Then a 15 percent UK sales tax is applied.

Observers say these fees pay for research to show the project would not be profitable without receiving CERs, for the cost of verifying the project's emissions cuts and for ensuring it meets legal and safety requirements.

Project delays and investment risks in emerging countries add much uncertainty so investors demand a higher return.

"It's not a profitability study and all these costs might be quite reasonable, but if we were giving money to charity we wouldn't expect 70 percent to go to transactional costs and admin fees," Lewer told Reuters.

"There must be a more efficient way to channel money into clean technology transfer and climate change mitigation."

The British government has recommended CERs for consumers looking to offset their emissions.

Carbon Retirement sells European Union permits as carbon offsets and argues that this is a more effective alternative to offsetting through the CDM.

Under the EU's \$92 billion cap-and-trade scheme, industrial emissions are capped and polluters are given a corresponding number of tradable carbon permits.



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Each permit is equivalent to one tonne of carbon dioxide, meaning every one purchased by consumers means one less tonne of carbon dioxide emitted by a coal plant or cement factory.

CERs can be used under the EU scheme so their price is also highly correlated to European carbon prices <CFI2Zc1>.

CERs <CER/RTR> currently trade at around 13 euros (\$19.34), a one euro discount to EU permit prices.

The CDM is under much scrutiny, with reform of the scheme expected to be proposed at U.N. climate talks beginning Monday in Copenhagen.

To download the report, go to www.carbonretirement.com

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