Executive Summary

This report challenges the widely held assumption that carbon sequestration projects – so called "sinks" – are environmentally advantageous. The evidence presented shows instead that sinks projects can lead to significant negative environmental impacts. The report outlines how Tokyo Electric Power Company (TEPCO), Japan's largest power utility and a pace-setter in the use of carbon sequestration, is implicated in native forest destruction in the Australian state of Tasmania through plantation investments designed to obtain "carbon credits" under the Kyoto Protocol. These native forests are areas of high conservation value. Some are old-growth forest, others represent significant habitats for threatened species.

TEPCO, along with Mitsubishi, has invested Aus$10 million in a $90 million plantations joint venture with Australian company North Forest Products (NFP) in the Australian state of Tasmania. The main product from the plantations will be pulp for Mitsubishi, but TEPCO's investment will also yield an estimated 130,000 tonnes of "carbon credits". Areas of land that will be cleared for North Forest Products' plantations include areas of native forest (interview with NFP CEO Mike Beardsell 1/9/00 – see p10). TEPCO's sequestration-related investment is an integral part of the joint venture's overall capitalisation, and is therefore associated with this native forest destruction.

NFP may seek to distinguish between pulp production for Mitsubishi on cleared native forest, and previously cleared land for TEPCO's carbon sinks. Yet there has been no disaggregation in terms of land ownership between NFP and TEPCO. Furthermore, making such a distinction is academic, as both forestry land uses are occurring on the same properties. TEPCO's carbon plantation investment is inseparable from ecologically destructive management practices of NFP.

In addition, post-hoc attempts to pick and choose "previously cleared land" across NFP's plantation holdings and delineate them as TEPCO sinks is both an unethical and potentially unauditable approach. Existing vegetation data sets are not always accurate and frequently conflict, further complicating attempts to independently assess land use history.

The TEPCO case is not an isolated example. This report also documents the attempts by Australian company Gunns Ltd to attract investment in their plantations by claiming that they are potentially eligible for "carbon credits" under Federal Government guidelines. An examination of Gunns plantations acquired from the Australian company BORAL and groundtruthing of available data on the Private Timber Reserve database reveals that many of Gunns' plantations are on recently cleared native forest. This is the clearest evidence yet that carbon credits may become an economic driver for native forest destruction.

Furthermore, the clearance of native forest for plantations is an inevitable ramification of the Tasmanian Government's plantations agenda. Forestry Tasmania states clearly:

> *"The objective is estimated to require around 100,000 hectares of new eucalypt plantation Of the total area needed for plantation, both eucalypt and softwood, approximately 70% will come from native forest conversion..." [emphasis added].*

Tasmania is obligated to maintain only 80% of its native forest estate under current policies (Tasmanian State Government, State of the Forests Report, p. 13). This means that as much as 20% of Tasmania's native forest cover, including areas of high conservation value with threatened species habitat, could be converted to plantations over the next few years. This report provides evidence that some in both industry and government would like to use carbon credits to help finance plantation expansion investments that include native forest clearance.

This November the Parties to the Climate Change Convention will meet in The Hague in The Netherlands to continue negotiations on the Kyoto Protocol. One of the most contentious issues will be whether sinks projects can be included in the Clean Development Mechanism (CDM) of the Kyoto Protocol. This mechanism is designed to promote greenhouse gas projects in developing countries while assisting them to achieve sustainable development. The question must be asked: if carbon credits are enhancing investments that may encourage native forest destruction in industrialised, first world countries, then surely there is an even greater risk that in poorer countries with less-developed institutional controls and civil society oversight, the potential for perverse outcomes is even higher? Another question is whether industrialised countries can include more sinks in their countries to meet their Kyoto targets. Thus far, no government advocating for this expansion has made a proposal with any environmental standards to prevent this type of project from occurring. The inescapable conclusion from this report is that not only are sinks projects a questionable method of addressing climate change, but they may also lead to negative environmental outcomes.