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A Troubled Start for Cambodia's Carbon Credits

By [Zsombor Peter](#) and [Kuch Naren](#) - June 19, 2013

Since 2007, the NGO Pact has been working with the government to turn 68,000 hectares of forest in Oddar Meanchey province into a moneymaking venture for the state just by keeping trees in the area standing.

As part of the plan, Pact brought on board a U.S. brokerage, Terra Global Capital, to help sell the forest's carbon credits to environmentally conscious firms in the West. Together, after years of preparatory work, the pair were finally closing in on approval of the project and a few months ago had even lined up two private buyers ready to spend nearly \$1 million on the first batch of carbon credits from Oddar Meanchey.

But when the deciding moment came last month to put pen to paper, there was a glitch.

According to Pact, when the May 20 deadline they had set for the government to sign off on the carbon credit deal came and went without a signature, the two buyers Terra Global and Pact had spent so long nurturing simply walked away.

The loss of the carbon credit deal means more for Cambodia than simply missing out on the \$1 million.

Pact country director Sarah Sitts said the failure to sell the carbon credits could hurt the country's chances of attracting other buyers to a project that hopes to ultimately generate tens of millions of dollars over the next 30 years by protecting what is left of the country's forests.

"It's worrying...because if buyers start to see Cambodia can't sell those credits, buyers might stop coming to Cambodia," Ms. Sitts said.

Ms. Sitts said the two firms involved in the aborted deal had been waiting for at least a month and a half for the forestry administration to accept their offer to pay a combined \$911,000 for the credits, but pulled out when the May 20 deadline they had set passed without a commitment from the government.

"The understanding by Pact and Terra Global was that we had all the agreements in place" for the forestry administration to give approval for the deal, Ms. Sitts said. "It's only been in recent months that it's been brought to our attention that that might not be the case."

The government's lead on Cambodia's carbon trading projects is Keo Omaliss, deputy director of the forestry administration's department of wildlife and biodiversity.

"In addition to consulting with Omaliss, I asked Chheng Kim Sun, the director-general of the forestry administration, for an update during the Technical Working Group forest reform meeting on May 17," Ms. Sitts said. "He said that the [forestry administration] is not the decision maker and he needs to consult with [the Ministry of Agriculture, Forestry and Fisheries] and others."

Mr. Kim Sun could not be reached for comment and Sok Siphana, the government's legal counsel for the carbon trade project, referred questions back to Pact.

For his part, Mr. Omaliss claimed not to know about the missed deadline or about the two firms walking away from Cambodia as a

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result.

"I don't know about that, so I probably cannot help [you] with that," he said, declining to comment further.

Terra Global also declined to comment citing the sensitivity of its ongoing work with the government.

The carbon credits up for sale would have come from a network of 13 government-recognized community forests in Oddar Meanchey province covering a combined 68,000 hectares.

As part of a U.N.-backed and funded initiative called REDD, for reducing emissions from deforestation and forest degradation, the project aims to convince private international companies wanting to offset their carbon emissions to pay Cambodia for every ton of carbon those forests keep locked up in their trees.

Of the tens of millions of dollars the project aims to generate over the next 30 years, roughly half the money earned from selling the carbon credits would go back to the local communities to help them protect their forests and keep up their efforts to improve local living conditions with new schools, clinics, roads and the like.

But seeing the first two firms ready to buy some of those credits walk away could raise alarms among other firms thinking of buying carbon credits from Cambodia.

The fallout could prove even more immediate than that.

Until now, Pact has been paying the community forest groups patrolling the sprawling project area in Oddar Meanchey with funds from donors. But those funds are getting harder to come by the longer the project goes without commercial buyers, and that \$911,000 would have gone a long way toward keeping the forest patrols going.

"We were hoping the money would have been able to keep activities up there going," Ms. Sitts said. Now, she added, "we're at risk in the next month of not being able to pay for patrols and forest maintenance."

"Being able to pay my staff is also becoming a concern," she added.

Sa Thlai, who heads the 13 community forest groups that patrol the project area, heard about the missed deadline from Pact.

"I'm very sad about losing the buyers," he said. "I don't know why they missed it, but I believe it will affect Cambodia's reputation."

"The community forest groups working to protect the forest for carbon trading here have been facing budget problems, so we have reduced the forest patrols meant to prevent deforestation, logging and encroachment," he added.

Terra Global, Pact and the government have refused to release satellite images of the project area over time to show the extent of the deforestation. Though forest groups say logging has been extensive, they also say one of the 13 community forests has already had more than half its trees cleared.

"Logging and land encroachment inside the protected forest is getting worse day by day," Mr. Thlai said. "There are more common people from other provinces entering the carbon trading forest area to chop down trees and clear the land to plant and grow cassava."

More recently, the Royal Cambodian Armed Forces has been setting up a string of new bases and garrisons inside the project area, which lies along Cambodia's ill-defined and often contentious northern border with Thailand.

After a visit to the area in February from Scientific Certification Systems, a U.S. firm that independently assesses carbon trade schemes, it warned that the military bases could jeopardize the entire project's credibility, according to Pact.

The community forest groups were scheduled to sit down with military officials last month in hopes of convincing them to relocate the bases, but the government called the meeting off at the last minute claiming that the room reserved for the event had to be used for something else.

The government handing out land to agri-business firms in the area poses other risks. While there are no economic land concessions yet in Oddar Meanchey's 13 community forests, Mr. Thlai said he is concerned about a sugar cane plantation owned by Angkor Sugar that currently skirts the project area's borders. He said the firm has cleared most of the trees on its concession since moving in five years ago but planted little sugarcane in their place.

Angkor Sugar is also one of three subsidiaries of the Thai firm Mitr Pohl operating plantations in the province.

"I agree that the government can make a lot of money more quickly by granting economic land concessions, but they have a lot of negative effects on the environment, biodiversity...and climate change," Mr. Thlai said.

A 2010 study in Koh Kong province by the U.S.-based Center for Clean Air Policy calculated that carbon credits would have to sell for more than \$15 per ton to compete with the likely revenue from growing sugarcane on the land instead, even more if it were used to harvest rubber.

The going price for carbon credits these days, at roughly \$7 per ton, does not come close to the profit made possible from felling the forest.

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