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ENVIRONMENT

## Paying to pollute? It's not that simple

RICHARD BLACKWELL

When Thomas Homer-Dixon decided to "offset" the carbon emissions generated by the promotional tour for his new book, *The Upside of Down*, the University of Toronto professor carefully chose where to channel his money.

He selected Toronto green energy retailer **Bullfrog Power Inc.** to inject electricity from renewable sources into the energy grid to balance the power used in the tour. And he got offset firm **Zerofootprint Inc.** of Toronto to counteract greenhouse gas emissions from air and ground travel by putting money into the Kettles Hill wind farm in Alberta.

But like others who try to assuage their green guilt by sending money to carbon offset organizations, it was impossible for Prof. Homer-Dixon to ensure that the money was actually going to reduce the world's overall CO<sub>2</sub> emissions.

Take the Kettles Hill wind project -- a partly built wind farm in southern Alberta that is owned by Creststreet Kettles Hill Windpower LP, an arm of Toronto's **Creststreet Capital Corp.** While Zerofootprint's literature claims "the wind farm is only viable if it can market its carbon savings," it likely would have been built even without the prospect of selling offset credits.

### Print Edition - Section Front



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Income from credits is "a bit of a bonus" that can help a project generate better financial returns, acknowledged Derren Newell, chief financial officer of Creststreet Kettles Hill.

"We always factor [offset dollars] into the various projects, but you never want to count on them," he said.

"You never want to base projects solely on the fact that 'I need all this green [offset income] to make this thing work.' " The crux of the issue is whether a carbon-reducing project would have taken place anyway, even if its offset credits had not been sold.

This concept of "additionality" is key to the debate over offsets.

"Reductions from business-as-usual projects, no matter how well intentioned or environmentally beneficial, cannot neutralize anyone's [greenhouse gas] emissions," says a report on carbon offset markets prepared by New Hampshire-based environmental consulting firm Clear Air-Cool Planet.

Still, Prof. Homer-Dixon said, it's important that people begin to think about offsetting their carbon emissions, even if the process is still far from perfect.

"For me, as much as anything else, this is symbolic," he said. "I desperately want to be able to do more, and I want to make sure it works and it's right, but I figured I had to do my best to do something."

For now, however, buying credits to offset personal carbon emissions still amounts to an act of faith. When you click on the website of a carbon offset organization, calculate the greenhouse gases spewed by your car or your next plane trip and fill in a credit card number, you can't be assured you've balanced off those emissions with good works. And a good chunk of what you spend may go to pay the expenses -- and sometimes generate a profit -- at the offset organization.

While the first steps have been taken to regulate and audit the offset business, many firms in the game are vague in their promises and weak in providing any kind of audit trail showing exactly where the money is going.

"We're lacking certification that consumers can have confidence in," said Matthew Bramley, director of climate change at the Pembina Institute, an environmental think tank. "Somebody buying offsets now in Canada is really going to have to do their homework and really gain a level of confidence that these are real projects, beyond business as usual, and that the money is being appropriately used."

With few standards yet in place, "it is up to individual consumers to ask questions and get convincing answers," he said.

So far, the money at stake is still pretty tiny. Only a few hundred thousand dollars have flowed through offset organizations since the first ones were set up a year or so ago.

But with organizations such as Zerofootprint, CarbonZero, Cleanairpass, and Offsetters springing up across the country, the amount Canadians spend on offsets is growing exponentially.

**Baseline Emissions Management Inc.** of Calgary, which handles an air flight offset program for **Uniglobe Travel**, says contributions have gone up tenfold over the past few months as awareness of environmental issues has spiked.

The first steps toward accountability are now being put in place. The key player in this country is Environment Canada, through its Environmental Choice Program -- also known as EcoLogo.

EcoLogo's green stamp of approval has been added to all manner of products, ranging from office furniture to building materials. Many environmentally friendly energy projects -- using wind, solar, biomass -- also get the agency's certification.

But EcoLogo has now also developed standards for the organizations that sell offsets to the public, and they are tough. To get EcoLogo certification, the money collected has to be carefully tracked, documented and audited. Credits must be purchased within 45 days from a list of qualified projects that genuinely reduce carbon emissions, and credit sellers must put some effort into educating the public.

The problem is, almost nobody in the credit-selling business has yet qualified for the EcoLogo moniker. Only Baseline's "Green Flight" program, developed for Uniglobe, has met all the requirements.

"Administratively it's a lot more burdensome," acknowledges Keith Driver, Baseline's vice-president. "But we needed to make sure, as the market matures, that people have the assurance that what they're doing is defensible and real."

Others who have dived into the offset business admit they, too, will have to make a swift move to more accountability.

"We need to be audited," acknowledges Howie Chong, who runs **CarbonZero**, a Toronto-based offset organization that set up shop in mid-2006. He promises those financial controls will be in place by the end of 2007. "The trust issue is absolutely important to us because consumers expect us to do the job properly."

CarbonZero sends most of its funds to the Cowley wind power project being developed by **Canadian Hydro Developers Inc.** in Alberta. It also plans to help with a project to replace incandescent light bulbs with compact fluorescents in low-income homes in Ontario. But details of both are sketchy on its website, and Mr. Chong acknowledges that his firm absorbs as much as 25 per cent of the money it receives to pay expenses and generate a profit.

**Cleanairpass**, one of the first organizations in Canada to offset car usage by individuals and companies, initially kept as much as 70 per cent of the contributed funds for administration costs. Now, 70 per cent goes to projects, said president Bryce Conacher. Most is channelled into buying offset credits on the Chicago Climate Exchange (CCX).

"2006 was the year of commercialization of retail offsets," Mr. Conacher said. "In 2007 what you're going to see is standards emerging. Like any other financial market, it all comes down to auditing."

While Toronto-based Cleanairpass is not yet fully audited, the CCX credits are registered and verified, and Mr. Conacher promises that by this summer Cleanairpass's website will disclose where credits have been sourced, and specify exactly how much has been purchased.

In the meantime, it's important that Canada gain some experience in carbon trading, even if the system isn't perfect, he said. "Let's get it going. We'll improve on it. Doing something is way better than doing nothing."

Prof. Homer-Dixon agrees. "We're in the very early part of a transition process," he insists. The next big step will take place when formal markets for

carbon credits are set up in Canada, making the entire process much more transparent, he said.

Meanwhile, there are many subsidiary debates under way about offsets. For example: Should Prairie farmers be able to sell carbon credits when they indulge in low-impact practices that help plants remove carbon from the air? Those credits are already being traded on the Chicago Climate Exchange. But would farmers have continued their environmentally friendly practices anyway, even without the credit sales?

And there's also disagreement on whether planting trees amounts to a valuable -- and saleable -- carbon offset. The activity is useless in cutting CO<sub>2</sub> if the trees die or are cut down after the credits are sold, critics say. And while live trees soak up carbon, they release it when they die and rot.

Others say well-planned and managed tree-planting projects are still valuable, and a legitimate offset to carbon-producing activities.

### **Canadian offset organizations**

Cleanairpass.com

What it offsets: car travel.

Credit sources: the Chicago Climate Exchange (from a U.S. hog and dairy farm that captures methane to reduce emissions); tree-planting programs from Tree Canada Foundation.

Structure: Private, for-profit.

Expense ratio: About 30 per cent goes to expenses and profit.

Carbonzero.ca What it offsets: car and airplane travel, home heating and power.

Credit source: Canadian Hydro Developers' Cowley wind project in Alberta; lighting retrofits for low-income families in Ontario.

Structure: Private, for-profit.

Expense ratio: About 25 per cent goes to expenses and profit.

Zerofootprint.net What it offsets: car travel, plane travel, home energy use, book publishing, corporate events.

Credit source: tree-planting projects in B.C.; Creststreet Kettles Hill wind project in Alberta.

Structure: Not-for-profit.

Expense ratio: undisclosed.

Offsetters.ca What it offsets: airplane flights.

Credit source: Through Britain's Climate Care organization, which funds international projects ranging from biogas digesters in India and efficient lighting in South Africa to rain forest restoration in Uganda. Soon will add B.C.-based geothermal heat-pump projects.

Structure: Not-for-profit.

Expense ratio: About 20 per cent goes to administration.

Cooldrivepass.com What it offsets: car usage.

Credit source: same as for Offsetters. (It is run by the same group based at the University of British Columbia.)

Structure: For-profit.

Expense ratio: About 30 per cent goes to administration and profit.

Greenmyflight.com What it offsets: plane travel (and runs Uniglobe Travel's green flight program).

Credit source: Creststreet Kettles Hill wind project in Alberta.

Structure: Owned by Baseline Emissions Management Inc., a for-profit emissions reduction marketing firm.

Expense ratio: 10 per cent goes to administration.

You can also buy offset credits directly from a number of companies and organizations including Canadian Hydro Developers, Tree Canada Foundation, Uniglobe Travel and WestJet.

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Phillip Crawley, Publisher